

# Fukuoka Financial Group Corporate Governance Guidelines

## Chapter 1 General Principles

### Article 1 (Purpose)

These guidelines are intended to serve Fukuoka Financial Group companies (hereinafter referred to as "the Group") in its attempt to achieve sustainable growth and to create higher mid to long-term corporate value through the realization of the Group's management principles, and set forth the basic views and operational policies regarding the corporate governance of Fukuoka Financial Group, Inc. (hereinafter referred to as "the Company").

### Article 2 (Basic Views on Corporate Governance)

The Group's management principles state the Group's goal to become a financial group that creates value for all stakeholders, including shareholders, customers, local communities and our employees, and the Group's basic management policy is based on the same view.

<Group Management Principles>

**Fukuoka Financial Group aims to become a financial group that creates value for all stakeholders by:**

**Enhancing perception and taking action without fear of failure,**

**Pursuing high quality for future progress, and**

**Bolstering people's optimum choice.**

#### **Enhancing perception and taking action without fear of failure**

With an inquisitive "antenna" raised at all times for a wide variety of information and current global trends, as well as a sensitivity that allows us to be responsive, we are constantly refining our determination to take action in various situations without fear of failure.

#### **Pursuing high quality for future progress**

We will evolve steadily by always placing some of our focus on the future. FFG's mission is to offer, with the best manners possible, products and services that are genuinely valuable to people.

#### **Bolstering people's optimum choice**

Becoming a supporter capable of working together with our customers and partners to come up with ideas, handle problems and make choices is FFG's objective and the reason behind our existence.

Under these Group management principles, the Company, as a holding company to govern the Group, mainly consists of the core subsidiary banks (hereinafter collectively referred to as "the subsidiary banks"), shall adopt these guidelines to realize highly effective corporate governance, for the purpose of optimizing the management resources of the Group and administering the Group as a whole in a sound and appropriate manner.

## **Chapter 2 Corporate Governance System and Responsibilities of the Board of Directors, etc.**

### **Section 1 Overview of Corporate Governance System**

#### **Article 3 (Framework of Corporate Governance System)**

The Board of Directors shall make decisions on important issues regarding group management and oversee the business operations of the Company. The Board shall also elect External Directors who are highly independent from the Company in order to provide advice and enhance oversight functions from an external point of view.

2. As a company with an audit & supervisory committee, the Audit & Supervisory Committee, which includes external directors, shall examine the Directors' performance, as well as legal compliance and appropriateness of the business operation of the Group as a whole.
3. An Executive Officer system shall be adopted for quick management decision-making and strengthening business execution function.
4. The Group Management Conference shall be set up as a body based on basic guidelines stipulated and matters entrusted by the Board of Directors, the committee shall discuss important matters related to business and affairs of the Group, including group management and operational planning.
5. The Group Risk Management Committee (consisting of Group ALM Committee, Group Operational Risk Management Committee and Group Compliance Committee) shall be set up as a body to discuss each of the risk management systems of the Group as a whole and the compliance system.
6. The Group IT Special Committee shall be set up to strengthen IT governance and discuss matters related to the Group's IT strategy, more effective risk controls on IT systems, as well as investments therein.
7. In order to enhance transparency and fairness of the management, the Group Nominating Advisory Committee and the Group Compensation Advisory Committee shall be set up as an advisory body to the Board of Directors in matters related to compensation, and election and dismissal of Directors, etc.

## **Section 2 Roles and Responsibilities of the Board of Directors, etc.**

### **Article 4 (Roles and Responsibilities of the Board of Directors)**

The Board of Directors shall make decisions on matters related to business and affairs and oversee the job performance of Directors and Executive Officers.

2. The Board of Directors shall make decision on basic guidelines related to Group management as stipulated in the Board of Directors Regulations, as well as matters stipulated by laws, ordinances and the Articles of Incorporation. The Board shall also make decisions on important matters concerning business management of subsidiary banks, business and affairs of the Group and so on.
3. For more effective business operations to enhance efficiency, the Board of Directors shall, by its own decision, delegate the execution of business and affairs to Directors (excluding the Representative Director) and to Executive Officers.
4. The Board of Directors shall define the powers and functions of the committees that are composed of senior management other than the Board of Directors, and the operational authority of Directors and Executive Officers for business and affairs in the application standard for authorization.
5. For the integrative risk controls of the Group as a whole, the Board of Directors shall establish a necessary system, such as to establish a commanding department for risk controls, based on the internal rules, to secure an integrated risk control function and mutual supervision function, and to set up basic policies on crisis management.
6. The Board of Directors shall consider compliance as one of the top priorities in management, and shall establish a Compliance Charter, which shows the compliance-related basic values, spirit and code of conduct in common among Group companies. The Board of Directors shall also establish a necessary system, such as to set up a commanding department for compliance based on the internal rules, and define basic policies on compliance.

### **Article 5 (Views on Composition of the Board of Directors)**

The number of members of the Board of Directors shall be 15 or less (including 5 or less Directors serving as Audit & Supervisory Committee Members) for the purpose of ensuring the effectiveness of the Board. The Board members shall include more than one highly independent External Director.

2. For the Board of Directors to effectively fulfill its roles and responsibilities, the composition of the Board shall be well balanced as a whole, in terms of the knowledge, experience and ability of the Board members.
3. The Board of Directors shall include Directors who co-assume the office of Director at a subsidiary bank, so that the Group management policies and strategies shall be effectively reflected in the operation of subsidiary banks.

#### **Article 6 (Roles and Responsibilities of Directors)**

Directors, as a Board member, shall oversee the job performance of Directors and Executive Officers.

2. Directors shall be aware of their fiduciary duty to shareholders, ensure appropriate cooperation with stakeholders and take action for the benefit of the Company and for the common interests of the shareholders.
3. To effectively fulfill their roles and responsibilities, Directors shall spend sufficient time on their duties and demonstrate their expected abilities.
4. To effectively fulfill their roles and responsibilities, Directors shall obtain necessary and sufficient information, ask for explanations at the Board meeting, and actively participate in the exchange of opinions for thorough discussions.

#### **Article 7 (Policies on Nominating Candidates for Directors (excluding Directors serving as Audit & Supervisory Committee Members))**

Candidates for Director (excluding Directors serving as Audit & Supervisory Committee Members) within the Group shall possess affluent practical experience in the Group's management and business administration with excellent competence, qualification to contribute to the mid to long term creation of higher corporate value through their insight, and high ethical standards.

2. Candidates for External Directors (excluding Directors serving as Audit & Supervisory Committee Members) shall fully understand the Group's management principles, share the Group's social responsibilities and mission as a regional financial group, be capable of discussing matters on an equal footing with senior management, and meet the following descriptions:
  - (1) An individual with affluent practical experience and professional knowledge in any of the following fields of, but not limited to, corporate management, economics, legal affairs, finance, tax accounting, or business consulting.
  - (2) An individual, based on his/her knowledge and experience, capable of supervising Directors and management from an independent and objective position, and capable of giving opinions, guidance and advice to management in a timely and appropriate manner.
  - (3) An individual who meets the Company's Criteria for Independence (see appendix).
3. The Group Nominating Advisory Committee shall, in response to the consultation from the Board of Directors, deliberate on candidates for Directors (excluding Directors serving as Audit & Supervisory Committee Members) based on the policies set forth in this Article, and the Board of Directors shall nominate candidates with full respect for the Committee's deliberation.

#### **Article 8 (Roles and Responsibilities of Audit & Supervisory Board and its Members)**

Based on the basic policies and audit plan for the Group-wide audit, the Audit & Supervisory Committee shall audit Directors' job performance and examine the status, etc. of business conditions and assets of the Group as a whole.

2. As an independent body entrusted by shareholders with auditing and supervising Directors' job performance, the Audit & Supervisory Committee shall be responsible for securing the Company's sound and sustainable growth and establishing good corporate governance leading to the social confidence.
3. In order to discharge the responsibilities described in the preceding item, Audit & Supervisory Committee or its members shall take necessary measures at appropriate timing, such as attending the Board of Directors meeting and other important meetings, examining the reports obtained from Directors, employees, accounting auditors, etc., investigating status of business conditions and assets of the Company, giving advice to Directors and employees, making a recommendations, and suspending Director's acts.
4. Full time Audit & Supervisory Committee Members shall, in light of their full time nature, actively endeavor to create a good audit environment and gather internal information, while routinely overseeing and verifying the status of development and operation of the internal control system, and shall make every effort to share the information that may have come to their knowledge in the course of their duties with other Audit & Supervisory Committee Members.
5. To effectively fulfill their roles and responsibilities, Audit & Supervisory Committee Members shall obtain necessary and sufficient information by communicating with Directors and accounting auditors as well as through cooperation with other Audit & Supervisory Committee Members and relevant departments in charge of internal audits and internal controls, and seek advice from external specialists as needed.

**Article 9 (Policies on Nominating Candidates for Directors serving as Audit & Supervisory Committee Members)**

Candidates for Directors serving as Audit & Supervisory Committee Members shall be capable of performing audits from a neutral and objective perspective with a fair and unbiased attitude while ensuring independence from Executive Officers.

2. Candidates for Directors serving as Audit & Supervisory Committee Members from within the Group shall possess affluent practical experience in the financial business with excellent competence and insight.
3. Candidates for External Directors serving as Audit & Supervisory Committee Members shall meet the following descriptions, in addition to Item 1:
  - (1) An individual with affluent practical experience and professional knowledge in any of the following fields of, but not limited to, corporate management, economics, legal affairs, finance,

tax accounting, or business consulting.

(2) An individual who meets the Company's independence criteria (see appendix).

4. The Group Nominating Advisory Committee shall, in response to the consultation from the Board of Directors, deliberate on candidates for Directors serving as Audit & Supervisory Committee Members based on the policies set forth in this Article, and the Board of Directors shall nominate candidates with full respect for the Committee's deliberation and upon the consent of the Audit & Supervisory Committee.

#### **Article 10 (Policies on Determining Compensation for Directors, etc.)**

A system of compensation for Directors and Executive Officers of the Company and of the subsidiary banks (hereinafter referred to as "Compensation for Directors") shall be set appropriately so that it serves as a healthy incentive for Directors and Executive Officers, which would eventually lead to the sustainable growth of the Group.

2. Compensation for Directors shall be determined in overall consideration of the roles and responsibilities of each Director and Executive Officer, in addition to considering the Company's mid to long-term business performance and economic and social conditions.

3. The Group Compensation Advisory Committee shall, in response to the consultation from the Board of Directors, deliberate on Compensation for Directors based on the policies set forth in this Article, and the Board of Directors shall make final decisions with full respect for the Committee's deliberation.

#### **Section 3 Approach to Increase Effectiveness of the Board of Directors, etc.**

##### **Article 11 (Evaluation of Effectiveness of the Board of Directors)**

The Board of Directors shall analyze and evaluate the effectiveness of the Board as a whole on an annual basis and disclose the summary of the evaluation.

##### **Article 12 (System of Assisting Directors and Training Policies)**

The Board of Directors shall set up a necessary and sufficient internal system so that Directors effectively discharge their roles and responsibilities.

2. The Corporate Planning Division, as a secretariat office, shall provide assistance to External Directors in obtaining information on management. External Directors should be given materials prior to the Board Meeting, and explanations as needed, so that they have sufficient time to review the agenda.

3. For External Directors serving as Audit & Supervisory Committee Members, the Office of Audit & Supervisory Committee shall be set up with designated staff. Full time Audit & Supervisory Committee Members shall share information on management with External Directors serving as

Audit & Supervisory Committee Members.

4. Directors shall be given training opportunities deemed necessary for their roles and responsibilities, including training regarding the business environment (economic conditions and industry trends, etc.) and rules and regulatory systems (legal affairs and finance, etc.). The Company shall explain the Group management policy, systems and structures to External Directors at an appropriate time after they have assumed office, in order to facilitate their understanding of such matters.
5. Directors may seek advice from external specialists at the Company's expense, if they need such advice to carry out their duties.

#### **Section 4 Establishment of Group Compensation & Nominating Advisory Committee**

##### **Article 13 (Establishment of Group Compensation & Nominating Advisory Committee)**

The Board of Directors shall set up the Group Nominating Advisory Committee and the Group Compensation Advisory Committee (collectively referred to as “the Group Compensation & Nominating Advisory Committee”, hereinafter referred to as “Advisory Committee”) as an optional advisory body to deliberate on the compensation and election/dismissal of Directors of the Company and of the subsidiary banks.

2. The Advisory Committee shall be an advisory body of the Company's Board of Directors.

##### **Article 14 (Composition of Advisory Committee, etc.)**

The number of members of the Group Nominating Advisory Committee and the Group Compensation Advisory Committee (hereinafter referred to as “Advisory Member”) shall be 7 or less for each, and the Advisory Members shall be elected from among Directors of the Company by a resolution of the Board of Directors. The majority of Advisory Members shall be External Directors.

2. A Chairperson of the Advisory Committee shall be appointed from among Advisory Members by a resolution of the Board of Directors.

##### **Article 15 (Roles of Advisory Committee)**

For the following matters, the Board of Directors may seek advice from the Advisory Committee and the Advisory Committee shall respond to the Board of Directors:

- ① Consultation matters at the Group Nominating Advisory Committee
  - (1) Matters related to the election and dismissal of Directors, and Executive Officers of the Company and of the subsidiary banks.
  - (2) Matters related to the appointment and removal of Representative Directors, Managing Directors and Managing Executive Officers of the Company and of the subsidiary banks.

(3) Other matters deemed necessary by the Board of Directors.

② Consultation matters at the Group Compensation Advisory Committee

(1) Matters related to the compensation of Directors and Executive Officers of the Company and of the subsidiary banks.

(2) Other matters deemed necessary by the Board of Directors.

For matters related to the subsidiary banks and those related to Directors serving as Audit & Supervisory Committee Members, responses from the Advisory Committee shall be forwarded to the Board of Directors and Audit & Supervisory Committee of the subsidiary banks.

2. Final responses to advisory matters set forth in the preceding item shall be valid with the majority vote of the Advisory Committee attended by the majority of Advisory Members.

3. Notwithstanding the provision of the preceding item, if Advisory Members propose a draft on a response to the advisory matters set forth under Item 1, and all Advisory Members show agreement to the proposal either in writing or by electromagnetic record, that would suffice for the resolution by the Advisory Committee and that proposal should be deemed final.

## **Chapter 3 Relationship with Stakeholders, such as Shareholders**

### **Section 1 Relationship with Shareholders**

#### **Article 16 (Protecting and Securing the Rights and Equal Treatment of Shareholders)**

The Company shall take appropriate measures as follows, in order to substantially secure shareholders' rights so that their rights are duly exercised, and make consideration to the equal treatment of all shareholders, including minority shareholders and foreign shareholders:

(1) The Company shall properly provide information necessary for the shareholders to make appropriate decisions at the Shareholders Meeting.

(2) The Company shall conduct early distribution of notice of convocation for the Shareholders Meeting, and the notice of convocation shall be posted on the Company's website no later than the day before the distribution date, to secure sufficient time for the shareholders to review the content of the notice of convocation.

(3) The Company shall create an appropriate environment with respect to exercising voting rights, such as participating in an electronic voting platform and releasing the notice of convocation in English, so that every shareholder can appropriately exercise his/her voting rights.

(4) The Company shall provide full explanation on matters that significantly affect shareholder interests, such as a change in policy on its capital strategy.

#### **Article 17 (Transactions with Related Parties)**

Transactions between the Company or its subsidiary banks and its Directors, Executive Officers or principal shareholders of the Company shall be taken care not to harm the interests of the Company

and the common interests of shareholders. Unless such transactions are at arm's length, in which the business terms are similar to ordinary transactions in general, advance approval from the Board of Directors of the Company or of its subsidiary banks shall be obtained.

#### **Article 18 (Dialogue with Shareholders)**

The Company shall set policies on IR activities as below. The Company shall place importance on constructive dialogue with shareholders, and shall take measures to promote dialogue with shareholders.

- (1) The Corporate Planning Division shall be in charge of IR activities and a persons in charge shall be assigned. The Director/ Executive Officer in charge of the Corporate Planning Division shall oversee the overall IR activities.
- (2) Dialogue with shareholders, mainly held by top management, shall be encouraged through various opportunities, as part of IR activities. The Corporate Planning Division shall lead and cooperate with other relevant departments to conduct effective IR activities.
- (3) In principle, the Company shall hold a financial result briefing following the end of a fiscal year and the release of half-year interim financial results, to explain the outline of the Company's financial results, business environment, management strategy and planning. In addition, in order to improve the means to carry out dialogue with shareholders, one-on-one visits and briefings (such as briefings targeted for foreign investors and individual personal investors) shall be held occasionally.
- (4) Opinions from shareholders and other feedback that perceived through IR activities shall be reported in a timely manner to Directors and other relevant parties.
- (5) Undisclosed significant facts shall be kept confidential with the utmost care and controlled appropriately in accordance with the internal rules.

#### **Section 2 Relationship with Stakeholders Other than Shareholders**

##### **Article 19 (Building Appropriate Relationship with Stakeholders Other than Shareholders)**

For enhancing corporate value and for building appropriate relationships with all stakeholders, including customers, local communities, our employees, etc., the Company shall establish a Compliance Charter, which states our fundamental values, spirit and code of conduct in common among the Group companies, based on the Group Management Principles. The Company shall take measures to familiarize all employees and Directors of the Group with the Charter.

2. The Board of Directors shall establish an appropriate system with regard to whistle blowing by the Group's employees and Directors, and oversee how the system is functioning.
3. The Group shall consider that its business activities in itself are indeed Group Management Principles put into practice, and thus constitute CSR. In order to achieve a sustainable society, the

Group shall make the most of its role and characteristics as a regional financial group, in addition to social responsibilities, and develop activities that lead to various changes and value creation in its most advantageous field.

## **Chapter 4 Appropriate Information Disclosure**

### **Article 20 (Basic Views on Information Disclosure)**

The Group shall endeavor sincerely toward prompt, accurate and fair information disclosure, by enhancing its system for information disclosure.

2. The Group shall comply with rules and regulations related to appropriate and timely information disclosure, which are required for regional financial institutions and a securities issuer.
3. In the case of an event that could lead to significant risk to the Group, customers, shareholders and other stakeholders, the Group shall disclose information voluntarily and promptly in order to minimize the risk.
4. The Company shall facilitate stakeholders' understanding of the Group for fair evaluation, and be proactively involved in disclosure activities for realizing highly transparent management.

### **Article 21 (Independent Auditor)**

The Company shall be well aware of the fact that independent auditor has responsibilities toward shareholders and investors, and therefore, shall take appropriate measures for establishing a system so that independent auditor performs appropriate audits.

(Appendix)

## Fukuoka Financial Group Criteria for Independence

To be deemed to have independence from the Company, the External Directors of the Company must fulfill the following requirements.

1. One cannot be a person or an entity whose principal customer is the Company or its subsidiary bank (Note 1) (hereinafter referred to as the Company or its subsidiaries) (Note 2) or cannot be an operating officer of such person or entity
2. One cannot be a principal customer of the Company or its subsidiaries (Note 3) or cannot be an operating officer of such customer.
3. One cannot be a legal professional, accounting professional or consultant who receives a significant amount of cash or other form of asset (Note 4) other than directors' compensation from the Company (in the case a recipient is an entity, such as a corporation or partnership, one cannot be an individual belonging to such entity).
4. One cannot be a principal shareholder of the Company (holding 10% or more of the total shareholder voting rights) or cannot be an operating officer of such shareholder.
5. One cannot be a relative within the third degree of kinship of persons described below (unless insignificant (Note 5)).
  - (1) Any person who does not meet the requirements listed in the items from 1 to 4 above.
  - (2) Director or an operating officer such as Executive Officer, etc. of the Company or its subsidiaries.
6. The Company may determine a person not meeting the requirements of items 1 through 5 above as being appropriately independent and elect that person as an External Director on condition that the Company provides reasons for the appropriateness.

(Notes)

1. "Subsidiary bank"  
Banks that are the subsidiaries of Fukuoka Financial Group, Inc.
2. "A person or an entity whose principal customer is the Company or its subsidiaries"  
Judgment shall be determined by either of the following criteria:
  - Annual transaction amount between such person or entity and the Company or its subsidiaries exceeds 2% of the annual consolidated sales of that person or entity
  - When such person or entity is dependent on the Company or its subsidiaries in terms of

financing to the extent that the person or entity has no alternative sources, such as a case where that person or entity has difficulty in borrowing funds from financial institutions other than the Company or its subsidiaries.

3. "A principal customer of the Company or its subsidiaries"

Judgment shall be made based on whether annual operating gross profit resulting from transactions with such customer exceeds 2% of the annual consolidated operating gross profit of the Company

4. "Significant amount of cash or other form of asset"

Judgment shall be made based on the average for the past three fiscal years whether an individual recipient receives 10 million yen or more per annum or an entity recipient receives the amount equal to 2% or more of its annual sales.

5. "Insignificant"

An individual below the rank of Director, Executive Officer, Audit & Supervisory Board Members, or departmental head (for an individual from an entity such as a law firm or audit firm, an individual without a professional license such as an attorney at law or public accountant).