

# Corporate Governance

The Bank of Kyoto is working to ensure that its corporate governance structure is founded on sound, transparent management practices by monitoring directors' execution of business through surveillance by the Board of Directors and auditors and through the use of an auditing system.

The Bank has built a structure for quick management decision making, under which decision-making authority is delegated appropriately, with the Board of Directors acting as the highest ranking decision-making body. Moreover, the Bank is strengthening its auditing functions through internal audits based on risk analysis and through external auditing of its financial statements and internal management system.

To ensure the soundness and propriety of operations, based on sound business management (governance), we have established a set of Business Management (Governance) Regulations, to better position us to offer financial intermediary services, comply with laws and regulations, rigorously protect customer privacy, and duly manage all kinds of risk. The Business Management (Governance) Regulations have the role of bringing together our stances on finance facilitation management system, legal compliance system, customer protection management system and internal management system.

## **Board of Directors**

The Board of Directors comprises 11 directors (among whom two are outside directors) and has decision-making responsibility for basic policies and important matters related to the execution of the Bank's business. Members of the Board of Directors also engage in reciprocal surveillance and monitoring.

## **Executive Committee**

The Executive Committee is a structure designed to facilitate streamlined decision-making by representative directors and managing directors, who have been delegated decision-making authority by the Board of Directors, on important matters related to daily bank operations.

## **Audit & Supervisory Board**

The Audit & Supervisory Board consists of four auditors, including two external auditors. Appropriate auditing is implemented in accordance with auditing policies and plans approved by the Audit & Supervisory Board.

## **Election of Corporate Officers and Terms of Office**

Directors and auditors are elected at the General Meeting of Shareholders after deliberations by the Nomination and Compensation Committee, which is an advisory organization used at the discretion of the Board of Directors, and after being approved as candidates by resolution of the Board of Directors or approved by the Audit & Supervisory Board, respectively.

To further invigorate the Board of Directors and to flexibly build an optimal management structure capable of responding effectively to changes in the business environment, the term of office for directors is one year.

The Bank has adopted an audit & supervisory board member system in which at least half of the audit & supervisory board members are external audit & supervisory board members who have no potential conflicts of interests with general shareholders. Audit & supervisory board members attend meetings of the Board of Directors; standing audit & supervisory board members also attend meetings of the Executive Committee. Audit & supervisory board members attend these meetings to monitor decision-making processes and the execution of bank business. Internal bank rules have clearly provided that the audit & supervisory board members/Audit & Supervisory Board establish and maintain an audit environment that ensures objectivity and independence in management audits. Accordingly the current structure supports a strict audit control function.

## **Adoption of Employee Stock Options (ESO) System**

The Bank has introduced an ESO (employee stock options) system for directors to reward themselves more concretely for their contribution to improving business performance and raising the enterprise value of the Bank. We believe this system will make the Bank's management more strongly focused on shareholder value.

### **Stance on Internal Control Systems**

1. Structures to ensure that the execution of business by the directors, the directors of the Bank's Group companies, and employees conforms to laws and the articles of incorporation of Kyoto Bank
2. Structures related to the storage and management of information about the execution of business by the Bank's directors
3. Guidelines and other structures related to managing the risk of losses of the Bank and the Bank's Group companies
4. Structures to ensure that the directors of the Bank and the Bank's Group companies execute business efficiently
5. Structures to ensure the appropriateness of financial reporting of the Bank and the Bank's Group companies
6. Structures to ensure the appropriateness of operations in the corporate group comprised of the Bank and the Bank's Group companies and structures for reporting to the Bank on the business execution of the directors of the Bank's Group companies
7. Structures related to employees who are appointed by request from the Bank's auditors to assist them with their business
8. Matters related to the independence from the directors of employees assisting the business of the Bank's auditors and to the effectiveness of auditors' instructions to said employees
9. Structures for reporting to the Bank's auditors by directors and employees of the Bank, directors or employees of the Bank's Group companies, or those who receive the reports from these people, as well as other structures related to reporting to other auditors, and structures to ensure that those making reports are not subject to adverse treatment by reason of what they reported
10. Matters related to policies on processing prepayments or refunds of expenses incurred concerning the business execution of the Bank's auditors, or policies on processing expenses or debt incurred for the execution of other businesses
11. Other structures to ensure effective auditing by the Bank's auditors