

Corporate Governance

Basic Approach to Corporate Governance

The Bank's management policy is to improve management efficiency and transparency to receive high evaluation from and build unshakable bonds of trust with our stakeholders, including both customers and shareholders. To attain this goal, we have positioned more stringent corporate governance as a top management priority, and are working to raise standards through a range of measures.

1. Outline of corporate governance structure

The Bank has adopted an Audit & Supervisory Board system as part of its efforts to strengthen corporate governance for the following reasons and purposes:

- For responding promptly and accurately to changes in the management environment and ensuring the appropriateness of the Bank's business operations, it is important to have a system in which internal Bank directors, who have a wealth of expert knowledge and experience in the banking business and bank management and a deep understanding of the operation and execution of the Bank's business, oversee as members of the Board of Directors the management's decision-making and the execution of duties by the other directors;
- Having the Audit & Supervisory Board whose members, including external Audit & Supervisory Board members, audit the execution of duties by the directors is effective and serves as a management monitoring function; and
- The highly independent external directors and external Audit & Supervisory Board members provide their supervising and auditing functions in a fair and objective manner from a neutral perspective and give appropriate suggestions and advice on the execution of the duties by the directors and on the status of the operation of internal controls, thereby ensuring an adequate management supervisory system.

The Bank's Board of Directors consists of 10 members, including 3 external directors, as of June 29, 2017.

The board convenes once a month, in principle, and is responsible for making management decisions and overseeing business execution. The Bank has established the Management Board under the Board of Directors as a body for discussing and determining important matters relating to overall management based on the basic policy determined

by the Board of Directors. The members of the committee are the Chairman, President and directors in charge of the respective divisions, and the committee convenes once a week, in principle. In addition, the Bank has established the Directors' Loan Evaluation Board as a body to discuss and determine important loan projects based on the basic policy formulated by the Board of Directors. The members of the committee are the Chairman, President, Senior Managing Directors, and directors in charge of the respective divisions, and the committee convenes once a week, in principle. The Articles of Incorporation of the Bank prescribe that the number of directors of the Bank does not exceed 15 and that terms of office are for one year, to clarify management responsibility and build a management framework to respond rapidly to changes in the management environment.

The Bank has also introduced an executive officer system. Under the supervision of the Board of Directors, the system has duties executed by the President and Chief Division Officers, as well as Chief Area Officers. The decision-making functions related to important management items that directors should carry out and duties that directors and executive officers conduct in each role are divided, thereby appropriately ensuring operations and enhancing sustainable corporate value.

The external directors receive reports on the results of internal audits, Audit & Supervisory Board members' audits, and accounting audits as well as reports on the state of internal control from the division in charge of internal control during meetings of the Board of Directors as part of their roles of providing management supervisory functions in a fair and objective manner from a neutral and external perspective. In particular, the external directors receive detailed explanations of the agendas for the meetings of the Board of Directors and reporting materials in advance from the divisions in charge of internal audit and internal control, respectively, and provide appropriate suggestions and advice during such advanced explanation or meetings of the Board of Directors, thereby endeavoring to raise the effectiveness of their management supervisory functions.

In addition, for the purpose of conducting investigations, research, or discussions and coordination about specific matters, the Bank has established various other committees, including the Long-Term Management Planning Committee, the Sales Strategy Committee, the ALM Strategy Committee, the IT Strategy Committee, the Comprehensive Risk Management Committee, the Strategic Equity Holdings Verification Committee, the Compliance Committee, the Award Reprimand Committee and the

Pleasant Workplaces Promotion Committee, whose members consist mainly of the directors and general managers in charge of the respective divisions. These committees convene periodically or as required and make efforts to address major management issues and review cross-sectional measures and issues. Matters agreed or discussed by the committees are submitted for deliberation or reported at the meetings of the Board of Directors, Management Board, etc., thereby contributing to strengthening the Bank's corporate governance and enhancing the soundness and appropriateness of its business operations.

The Audit & Supervisory Board consists of five members, including three external Audit & Supervisory Board members, as of June 29, 2017. It convenes once a month and as required. The Audit & Supervisory Board members participate in meetings of the Board of Directors and provide appropriate suggestions and advice on management decision-making. The Audit & Supervisory Board members, including external Audit & Supervisory Board members, are striving to implement efficient audits by maintaining close coordination with the division in charge of internal audits and accounting auditors through the active exchange of opinions and information and by attending audits of branches by the division in charge of internal audits and on-site audits by accounting auditors. In addition, the Audit & Supervisory Board members receive reports on the progress of the tasks of developing sub-systems in the internal control system and important matters that affect the effectiveness of the sub-systems from the division in charge of internal control, including the status of the response to such matters, periodically or as required. The Audit & Supervisory Board members are endeavoring to develop and strengthen the internal control system from their standpoint as Audit & Supervisory Board members by requesting explanations and providing suggestions and advice as required on such occasions.

One of the Bank's external directors has been a Bank of Japan branch manager and worked as an executive manager of a regional financial institution. The director is expected to use that abundant experience, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities of an external director from a neutral standpoint and with fairness in places including Board of Directors meetings. The other two external directors have abundant experience in academia and as a company manager. They are expected to use that abundant experience, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities

of an external director from a neutral standpoint and with fairness in places including Board of Directors meetings. One of the Company's external Audit & Supervisory Board members uses their abundant experience as a lawyer, broad knowledge and perceptive insight to offer objective opinions and the like, fulfilling the responsibilities of an external Audit & Supervisory Board member from a neutral standpoint and with fairness in places including Board of Directors meetings. The Bank appointed the other two external Audit & Supervisory Board members as it was judged that they could be expected to use their abundant experience as a certified public accountant and a company executive, and their broad knowledge and perceptive insight to offer fair and objective opinions from a neutral standpoint in places including Board of Directors meetings and the like, fulfilling the responsibilities of external Audit & Supervisory Board members.

The Bank has not stipulated original standards regarding the appointment of external directors and external Audit & Supervisory Board members, but moves ahead with appointing external directors and Audit & Supervisory Board members with the objective of strengthening supervisory and monitoring functions of management and has the policy of using as a reference for the appointment of external directors and external Audit & Supervisory Board members the guidelines laid out for independent officers as stipulated by the Tokyo Stock Exchange, Inc. The Bank has notified the Tokyo Stock Exchange that there is no risk of a conflict of interest between the three external directors and two of the three external Audit & Supervisory Board members and general shareholders and judged their appointments to be appropriate.

2. Status of internal audits, Audit & Supervisory Board members' audits and accounting audits

With respect to internal auditing, the Board of Directors is engaged in building an effective internal audit framework according to types and degree of each risk in order to realize compliance. Based on internal audit regulations—which were formulated with the aim of contributing to sound and appropriate operations of the business—the internal audit department (61 staff members as of the end of the fiscal year under review), which is independent from the audited departments, conducts internal audits on items related to compliance, risk management and internal control associated with financial reporting, among other areas, for each department and branch, subsidiary, and affiliated company,

as well as outsourced contractors. Specifically, these audits are conducted by conforming to the basic internal audit plan established by the Board of Directors every half fiscal year. The results of the audits are reported every month to the Board of Directors. Also, the internal audit department notifies the audited departments of the internal audit results in writing, requests improvement or recommends correction regarding items necessary to be improved or corrected, and reports the status of these actions on a regular basis to the Board of Directors.

Regarding Audit & Supervisory Board members' audits, each Audit & Supervisory Board member conducts audits on the status of duties executed by directors. Specific means include verifying attendance at the meetings of the Board of Directors and other important meetings, listening to directors regarding the status of their performance in executing their duties, accessing important approval documents and other documents, investigating the status of operations and assets of each department and branch, and monitoring and verifying the status of the internal control system. These audits are implemented based on Audit & Supervisory Board members' audit standards established by the Audit & Supervisory Board, auditing standards associated with the internal control system, the Audit & Supervisory Board members' audit plan, which is formulated every fiscal year, and division of duties. The results of these audits are reported to the Board of Directors every month, and in addition, Audit & Supervisory Board members exchange views with the President on a regular basis to provide appropriate suggestions, advice or requests, thereby implementing effective audits.

One of the external Audit & Supervisory Board members has qualifications as a certified public accountant and is highly knowledgeable about financial affairs and accounting.

Regarding accounting audits, KPMG AZSA LLC conducts audits on financial statements as well as internal control audits associated with financial reporting. As for accounting audits, they are executed in a reciprocal manner with the internal audit department which is in charge of audit administration, such as by exchanging information and opinions at meetings held regularly or as necessary or conducting branch audits in the presence of the internal audit department.

3. Status of the internal control system and the risk management framework

The Bank, based on a management vision of building a reliable Hiroshima Bank Group united by trusting relations with the regional community and the five acts comprising the Corporate Philosophy, aims at sound and transparent management to secure the sincere trust of all its stakeholders, including customers, the regional community, shareholders, the market and its employees.

In addition, the Bank is continuously working on strengthening its corporate governance and the internal control system, such as by appointing external directors who meet the standards of independent officers stipulated by Tokyo Stock Exchange, Inc.

(1) System for ensuring that actions taken by directors and/or their agents are in keeping with laws and regulations and the Articles of Incorporation

The Bank has formulated Ethics Regulations, Service Regulations and Compliance Regulations to clarify the code of conduct and other standards expected of its employees. At the same time, the Bank has positioned rigorous compliance as one of its utmost management priorities, and strives to ensure that its business activities are sincere and in strict compliance with all relevant laws, regulations and rules. In addition to legal compliance, the Bank has established Customer Protection Management Regulations to serve as a guideline to secure a structure aimed at protecting and enhancing convenience for customers. The Bank strives to execute its business—such as providing information to customers or responding to their requests for advice or customers lodging a complaint—in a sincere and fair manner from the customers' perspective, with all employees being fully aware of the Bank's social responsibility and public mission. To this end, as a rigorous and specific action plan for compliance with laws and regulations and the protection of customers, the Board of Directors approves an updated Compliance Program every six months. In addition, for problems that may arise in our efforts to comply with the law, cases where circumstances prevent decisions from being reached at the department level, or where reports or consultations are not properly carried out, we have established a hotline system, allowing employees to report or consult directly with the Compliance Management Division and/or outside legal counsel.

Furthermore, through Ethics Regulations, the Bank has built a structure that blocks all relations with anti-social

elements. The basic policy of Ethics Regulations states that the Bank will prevent any and all connections to anti-social elements that might threaten the order and safety of civil society, including transactions that involve offering financial services via other companies (such as consumer credit companies). In the unlikely event the Bank becomes a target of extortion, it will contact and coordinate with police authorities, and employ all necessary legal measures to resolutely fight such demands.

Moreover, as part of Ethics Regulations, the Bank makes every effort to disclose business information fully and fairly and to ensure the transparency of its business operations, so that management can reflect the opinions of a broad range of concerned parties. We have also established accounting regulations and internal regulations on financial reports to ensure that we report financial information in a timely and appropriate manner.

As for the Bank's response to facilitating seamless financial operations or responding to Guidelines on Management Guarantees, it has formulated Basic Principles and Regulations on Credit and Basic Policies on the Management of Facilitating Seamless Financial Activities. By such means, the Bank has a structure in place that enables an appropriate response, such as offering funds to customers in a seamless manner in addition to providing support for management consultations and improvements.

Status of implementation

The Board of Directors receives various reports, such as the compliance program execution report, to confirm that business operations are adhering closely and appropriately to all management policy guidelines and regulations. Where improvement is needed, we take the necessary steps including improvements and corrections. To ensure rigorous compliance with laws and regulations and uphold corporate ethics, we have also established a Compliance Committee to deliberate and review compliance-related matters and prevent the occurrence of legal violations.

All employees have received a copy of the Compliance Manual, which gives simple descriptions of Ethics Regulations and other regulations mentioned above, as well as the Compliance Committee and the hotline system. We also conduct study sessions to discuss this manual, to ensure that all employees are familiar with its contents.

(2) System for the preservation and management of information used by members of the Board of Directors in the execution of their duties

The Bank's rules for the Board of Directors stipulate that minutes of board meetings be preserved for 10 years.

In addition, important information, such as minutes of the Management Board and the Directors' Loan Evaluation Board, is also preserved and managed appropriately in accordance with the Bank's internal regulations.

Status of implementation

Minutes of Board of Directors meetings have been preserved and managed appropriately as important information concerning the directors and the execution of their duties.

Other important pieces of information have also been preserved and managed appropriately by the relevant departments and branches.

(3) System for managing the danger of losses and other systems

To respond appropriately to various risks that surround its operations, the Bank has formulated the Comprehensive Risk Management Regulations and analyzes and accurately gauges the overall magnitude of each risk it faces. In doing so, the Bank strives to prevent the emergence or escalation of losses that could have a severe impact on its management. Every six months, the Bank approves an updated Comprehensive Risk Management Policy and strives to exercise a suitable level of balanced risk management to maintain its financial health and profitability.

The Bank is also appropriately managing its capital, including its adherence to capital adequacy regulations as set by Basel III, by establishing the Capital Management Regulations with an aim of securing an adequate level of capital that is in line with the Bank's risks and maintaining sound management.

In addition, in the Emergency Management Regulations, the Bank has set forth a Business Continuity Plan (BCP) prioritizing the continuity of important operations to ensure that it is able to respond appropriately to earthquakes or other natural disasters that might disrupt its continuous operation.

Status of implementation

By receiving various reports including the comprehensive risk management report, the Board of Directors has confirmed that risks have been managed appropriately and that the Bank has adequate capital for responding to risks.

At the same time, meetings of the Comprehensive Risk Management Committee have been held as required to monitor the risks as well as discuss and examine the Bank's responses.

Furthermore, the Bank has built an appropriate crisis response framework by holding regular drills in preparation for disasters.

(4) Ensuring efficiency in performance of duties by directors

The Bank has established a Management Board and Directors' Loan Evaluation Board. The Board of Directors decides the Bank's basic management policy and, based on this, delegates important decisions regarding the Bank's management in general to the Management Board. Likewise, important loan assessments are delegated to the Directors' Loan Evaluation Board.

To streamline the execution of business duties approved by the Board of Directors, regulations have also been developed to clarify the separation of duties and the delegation of duties and authorities within the Bank.

Status of implementation

The Management Board has made important decisions on management in general and the Directors' Loan Evaluation Board has made important loan assessments. In addition, reports have been submitted to the Management Board and Directors' Loan Evaluation Board according to internal regulations. In these ways, the Bank conducts efficient operational management.

Business duties have been separated to ensure that effective checks and balances are in place, with the Bank's divisions executing their respective duties in coordination with one another.

At the same time, the Bank has established a system of Chief Division Officers, as well as a system of Chief Area Officers. Under these systems, the Board of Directors appoints directors and executive officers in charge of planning and supervising the business operations of respective divisions, and also executive officers who devote themselves to specializing in managing the operation of branches in certain geographical areas. By clearly separating the roles and responsibilities of the executive officers, the systems enhance the sound and appropriate management of business operations and strengthen the earnings capability of the Bank.

(5) Ensuring appropriate business operation by the Bank and the Hiroshima Bank Group

To promote sound and smooth Group management in an integrated way, the Bank has formulated the Group Company Operations and Management Regulations, clarifying Group firm operations and management policy as well as the organizational structure of management and internal control divisions.

a. System for reporting the execution of business duties by the directors and officers of subsidiaries to the Bank
Group companies are reporting to and consulting with the Bank on a regular basis, and as the need arises, in accordance with the Group Company Operations and Management Regulations, enabling the Bank to respond in an appropriate and timely manner.

b. Regulations and other systems for managing risks of losses at subsidiaries

The Bank's guidance and management of risk management and crisis management activities at Group companies are conducted in accordance with the Comprehensive Risk Management Regulations and Crisis Management Regulations.

c. System for ensuring the efficient execution of duties by the directors and officers of subsidiaries

The Bank's guidance and management of business operations at Group companies are conducted as a coordinated operation between the administration departments and business departments of all Group companies.

d. System for ensuring that the business duties executed by the directors, officers, and employees of subsidiaries comply with laws and regulations and the Articles of Incorporation

The Bank's guidance and administration regarding compliance with laws and regulations at Group companies are conducted in accordance with the Compliance Regulations.

Status of implementation

The Board of Directors has established a Group Company Summit Meeting for discussion and reporting on important items related to the overall management of Group companies, receiving a report every six months on the state of operations at Group companies and confirming the results

and status of each of these companies.

Divisions engaged in operational duties of Group companies conduct operations for those Group companies efficiently and provide guidance and management, while the Bank also monitors and supervises operations and execution of operations of Group companies by dispatching directors, department heads, or others who are in charge of divisions overseeing respective Group companies, to serve as the directors and auditors of those Group companies.

In addition, the Bank has built an appropriate framework for operating and managing the Group companies. As a part of this framework, the Bank's internal audit department conducts audits of the Group companies and reports the findings to the Bank's Board of Directors.

(6) Matters related to personnel when an Audit & Supervisory Board member requests assigning personnel to assist their duties and matters related to the independence of the personnel from corporate directors, and matters concerning ensuring the validity of instructions given to the personnel by the Audit & Supervisory Board member

The Bank set up the Audit & Supervisory Board Office in April 2006 as an organization aimed at assisting Audit & Supervisory Board members and to be supervised directly by the Audit & Supervisory Board.

Status of implementation

Under the Bank's Employment Regulations, the manager of the Audit & Supervisory Board Office follows the orders of the Audit & Supervisory Board members to assist them in their duties. Moreover, the Bank's Personnel & General Affairs Division must consult the Audit & Supervisory Board members on personnel matters regarding the manager of the Audit & Supervisory Board Office, including transfer, compensation and disciplinary action.

(7) System for reporting to Audit & Supervisory Board members

- a. System enabling the Bank's director and employees to report to the Audit & Supervisory Board members and other systems relating to reports to the Audit & Supervisory Board members

The Bank has established rules for reporting to the Audit & Supervisory Board members in its Service Employment Regulations and Compliance Regulations. These rules stipulate that in the event of activities in violation of laws or regulations, the Bank has built a system where the head of

the Compliance Management Division reports promptly to the Audit & Supervisory Board members.

- b. System enabling the directors, Audit & Supervisory Board members, executive officers and employees of Group subsidiaries, as well as those receiving reports therefrom, to report to the Audit & Supervisory Board members
The Bank has established a Group-wide hotline system, along with the rules for reporting acts in violation of laws and regulations to the Audit & Supervisory Board members, in its Group Company Operation and Management Regulations. This system enables the Bank's directors, officers and employees involved with Group companies to directly report and consult with the Bank's Compliance Management Division and/or outside legal counsel in the event of problems that may arise in the Group company's efforts to comply with the law, cases where circumstances prevent decisions from being reached at the Group company level, or where reports or consultations are not properly carried out. Furthermore, when such a situation is indeed found to be in violation of laws and regulations, the head of the Compliance Management Division is held responsible for reporting it promptly to the Bank's Audit & Supervisory Board members.

Status of implementation

Rules for reporting to the Audit & Supervisory Board members have been established in the Bank's internal regulations. Furthermore, each branch and department provides necessary reports or explanations on the status of operations based on requests or demands by the Audit & Supervisory Board members.

(8) System for ensuring that people making reports as described above are not subjected to disadvantageous treatment for having done so

The Bank has established rules for protecting people reporting (or requesting consultation) on compliance and other issues in its Service Employment Regulations, Compliance Regulations and Group Company Operation and Management Regulations.

Status of implementation

The Bank has set forth the necessary provisions for protecting the anonymity of people making reports or requesting consultations and preventing their disadvantageous treatment, along with making the provisions public to all employees.

(9) Policy on the reimbursement of expenses and other financial obligations incurred by the Audit & Supervisory Board members in executing their duties

The Bank’s policies on budgets submitted and expenses incurred by the Audit & Supervisory Board members in executing their duties are set out in the Head Office Settlement Authorization Regulations.

Status of implementation

In compliance with the Companies Act of Japan, each fiscal year the Board of Directors hold discussions with the Audit & Supervisory Board members to form a budget for covering the projected expenses for their activities. The Bank also promptly reimburses the Audit & Supervisory Board members for the expenses and other financial obligations they incur, or the prepayment invoices they submit, in executing their duties.

(10) Other systems for assuring that audits are performed effectively by the Audit & Supervisory Board members

The Bank’s Board of Directors Regulations and other internal rules stipulate that the Board of Directors must request the attendance of Audit & Supervisory Board members when they convene a meeting, and that the Audit & Supervisory Board members are also entitled to attend the meetings of the Management Board and Directors’ Loan Evaluation Board.

Status of implementation

The Audit & Supervisory Board members have attended important meetings such as those of the Board of Directors, Management Board, and Directors’ Loan Evaluation Board. They also have attended important meetings of committees such as the Comprehensive Risk Management Committee. Furthermore, the Audit & Supervisory Board members have met regularly with the President to exchange information and opinions related to key audit issues, and have actively exchanged information with the accounting auditor at regular meetings. The Audit & Supervisory Board members have also maintained a sound auditing environment by holding regular meetings with other directors and employees.

In addition, the Audit & Supervisory Board members strive to conduct efficient audits and improve the effectiveness of audits by coordinating closely with the internal Audit Division by regularly exchanging opinions and information with the division, while also attending audits of branches by the internal Audit Division as needed and requesting audit results.

Compliance system

