Three years on: assessing the effectiveness of our audit and supervisory committee

— Effectiveness assessment and evolution toward enhanced governance, including the strengths and challenges it revealed —

How can we increase the effectiveness of the Audit and Supervisory Committee and leverage its strengths to improve the Nanto Bank Group's corporate governance?
Outside Directors Yoshihiko Kasuya and Tomoyuki Fukumoto joined Director Koushi Okamoto to mark the completion of three years since the Bank's transition to a company with an Audit and Supervisory Committee, of which they are members, with an exchange of views on the current situation and future challenges facing the Bank under the new format.



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Tomoyuki Fukumoto

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The significance of conducting an effectiveness evaluation
— Avoiding "evaluation for its own sake" —

Okamoto: As of June 2026, it had been three years since the Bank completed its transition from a Company with a Board of Auditors to a Company with an Audit and Supervisory Committee. At a time when effectiveness assessments by boards of directors have become widely practiced, the Audit and Supervisory Committee—an independent body—decided to conduct one for the first time itself to review its past activities and further enhance its corporate governance.
For the Bank, conducting this effectiveness evaluation was not an end in itself; rather, we consider it a critical process enabling the Audit and Supervisory Committee to reassess its own activities objectively and to translate any insights that emerge into improvements. We determined that simply conducting a superficial evaluation would be meaningless; only any meaningful insights we gained and our response to them would give it value.
With this in mind, I look forward to having a frank exchange of views today regarding the results of the effectiveness assessment conducted by our Audit and Supervisory Committee, with a focus on the challenges the various Committee members identified and the strategies they recommend to remedy them.

Kasuya: Rather than employ the effectiveness evaluation simply to assess the various evaluation items, we delved deeper to articulate such factors as the following: "Why was an evaluation called for?" "What issues of concern were uncovered?" and "Where was the Committee found lacking?"

We conducted this process meticulously to prevent the Audit and Supervisory Committee from becoming complacent and to encourage more substantive discussions and other improvements. I find significant value in the fact that bringing together the perspectives and concerns of the various Committee members can cast light on issues that any single individual might overlook.

Fukumoto: Most notably, I became aware that when Committee members with different experiences and backgrounds exchange candid opinions from their personal perspectives, it can contribute to the Audit and Supervisory Committee's maturation. I believe that continuing this process will be, in itself, a crucial mechanism supporting the organization's expertise and evolution.

I became increasingly aware that the Audit and Supervisory Committee itself grew in maturity as committee members with different experiences and backgrounds continued to exchange candid opinions from their respective perspectives. I am convinced that this process must be maintained as a crucial mechanism promoting the organization's continued learning and evolution.

Approaches to independence and structure
— Balancing form and substance —



Okamoto: Assessment of the independence and composition of the Audit and Supervisory Committee: Issues such as the proportions of outside and female directors and the skills matrix applied are of particular interest to external stakeholders from a governance perspective and are therefore factors requiring special consideration.

Kasuya: Ensuring compliance with established requirements is clearly highly important in light of the Corporate Governance Code and market expectations. Considering the Bank's size and the nature of our business, however, there is a risk that meeting these formal requirements could become an end in itself.

If we expend too much energy on achieving numerical targets for the proportion of outside directors or degree of diversity we achieve, we might end up putting the cart before the horse and undervaluing the "quality of substantive discussions" and "effectiveness of the audit function"—which should be our highest priorities. I consider maintaining a balance between form and substance to be a critical issue.

Fukumoto: The same challenges apply to the skills matrix. If creating the matrix becomes an end in itself, it will not lead to the original objectives of "supplementing the Committee's expertise" or "improving the content of its discussions."

Casting a cool eye on our current situation, I find that we have attained an enviable level of expertise in such areas as operations, management, and finance. Looking to the future, however, I foresee many changes emerging in the business environment. We clearly need to begin considering ways of addressing more advanced and specialized fields as well.

Okamoto: At the same time, with efforts to ensure diversity now extending to the Board of Directors as well, the Audit and Supervisory Committee also perceives a need to reconsider the composition of its membership from a medium- to long-term perspective. Diversity may not be an issue requiring immediate solution by the committee, but we consider it imperative that we recognize it as an increasingly pressing future challenge.

Assessing the current status of the Audit and Supervisory Committee operations
— Quality and transparency of discussions —

Okamoto: As concerns the operations of the Audit and Supervisory Committee—including such factors as the number of meetings, duration of the deliberations, and conduct of the discussions—the assessors reached a consensus that they were generally appropriate. Whether the number or duration of meetings is sufficient is less important, however, than whether the substance of the discussions is up to par.

Kasuya: I believe the strength of the Bank's Audit and Supervisory Committee lies in its atmosphere fostering frank, open discussions. The fact that an atmosphere has been cultivated, in which every member can express their opinions candidly, regardless of their position or background, is extremely important from the perspective of effectiveness.

I might add that another commendable factor is the Committee's demonstrated ability to transform even conflicting opinions into constructive discussions.

Fukumoto: The Committee's care to provide the requisite information at the right time enables every Committee member to organize their thoughts about issues in advance and to engage in substantive discussions during meetings. Having such a well-established information-sharing system in place clearly contributes to more constructive discussions.

Providing the committee members with essential information at the right time enables each of them to organize their

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thinking about the issues before meetings and engage in high-quality discussions. Having a well-established information-sharing system like ours in place makes constructive discussions possible.

Okamoto: I believe the strength of the Bank's Audit and Supervisory Committee lies in its ability to develop frank discussions. Its cultivation of an atmosphere in which every member feels free to express their opinions candidly, regardless of their position or background, is enormously significant from the perspective of effectiveness.

Identified issue 1
— Risk-based auditing and the IT/DX domain —

Okamoto: One issue that emerged with relative prominence from this effectiveness assessment was the need to deepen our risk-based auditing further. We cannot yet claim with assurance that our proprietary risk assessment tools and evaluation methods are sufficiently systematized.



Kasuya: While decisions based on past experience and insights are important, there are dangers in relying solely on these. Especially in an environment like ours in which conditions are in constant flux, we need to employ data and systems that enable us to assess risks more objectively and systematically.

I feel that a more strategic approach is needed when it comes to prioritizing risks and allocating audit resources as well.

Fukumoto: Fields such as IT, DX, and cybersecurity require advanced expertise, and we cannot be certain that the Audit and Supervisory Committee is currently fully equipped to address them. We reached a consensus during the effectiveness assessment that these factors should be recognized as priority issues moving forward. We consider it advisable to enhance our capacity to address them, even drawing on external expertise as necessary.

Okamoto: We look forward to continuing our dialogue with management on acquisition of a comprehensive understanding of risk-based auditing, IT governance, and DX, and we plan to continue exploring the ways in which the Audit and Supervisory Committee should engage in these areas.

Identified issue 2
— Responding to scandals and crisis management systems —

Okamoto: Another issue of concern involves our crisis management systems and our ability to respond properly to crises and scandals. We recognize that our policies on responding—especially our responses to incidents or scandals with significant social impact—are not yet sufficiently well-defined.

Fukumoto: We need to clarify in advance when the Audit and Supervisory Committee should become involved if a scandal should occur—and to what extent it should take the lead in responding.

Defining roles and procedures in advance, rather than reacting after the fact, we will facilitate prompt, appropriate responses.

Kasuya: None of these issues can be resolved by the Audit and Supervisory Committee alone; we also need to clarify the role of the audit function in promoting further renovation of our crisis management structures across the Group as a whole.

It will be essential to address these issues from the perspective of overall optimization, including coordination with management, the Internal Audit Department, the Compliance Department, and our external auditors.

Okamoto: Going forward, we will continue to explore development of crisis response regulations and manuals for the Audit and Supervisory Committee.

Involvement in management and the perspective of the Audit and Supervisory Committee
— Confronting "never-ending challenges" —

Okamoto: In the past, there has been significant room for improvement regarding our involvement in business planning and corporate value enhancement, making it a topic that could be described as a "never-ending challenge."

Kasuya: While the Audit and Supervisory Committee primarily serves a "protective" function, it is important that its role not be limited to oversight. It must also act, instead, as a body that offers constructive suggestions and raises issues concerning management from an independent perspective.

This means that the Committee must go beyond superficial verification and cultivate a deeper familiarity with management's underlying assumptions and strategic directions.

Fukumoto: Although determining how far to pursue these efforts always involves difficult judgment calls, simply stating clearly that the "Audit and Supervisory Committee is closely monitoring the situation" would contribute to improving the quality of governance.

I also believe that asking the right questions during discussions will lead to improving the quality of our management decision-making.

Future directions based on the effectiveness assessment
— In search of continuous evolution —

Okamoto: We have reaffirmed through our effectiveness assessment that the Bank's Audit and Supervisory Committee demonstrates admirable strengths. It has established a culture of frank, open discussion; it stands on a firm foundation; it shares necessary information in a timely, appropriate manner; and its auditing structures exhibit excellent stability. These strengths were not accumulated overnight. They are the result of cumulative efforts over the years, and we believe they constitute a foundation that we must continue to cherish, maintain, and develop in the future.
At the same time, it has become clear that issues such as conducting successful IT governance, addressing DX, enhancing our crisis management systems and our responses to misconduct, and assuring competency and transparency in our management and strategy implementation are not matters that can be resolved in the short term, but rather critical challenges that will require our ongoing attention.
Looking to the future, we consider it is necessary to prioritize these challenges and, rather than limiting our responses to one-off measures, to position them as medium- to long-term initiatives for improvement spanning multiple fiscal years, while continuously applying the PDCA cycle to check our progress. We recognize, moreover, that translating the insights gained from the effectiveness evaluation into concrete action plans and monitoring their implementation will lead to true improvement in effectiveness.



Fukumoto: In my case, it was the effectiveness assessment that convinced me of the importance of the Audit and Supervisory Committee as an organization that continues to learn and evolve. I do not consider the identification of challenges through the assessment process as a negative process; rather, we should view it as a starting point for growth.
As the roles of audits related to IT, cybersecurity, and especially non-financial information, continue to expand, it is becoming increasingly necessary for every Committee member to internalize new insights, and for the Committee as a whole to share and build on them. I am convinced that this cumulative effort will ultimately lead to higher-quality discussions and more precise decision-making, which will, in turn, enhance the value added to the Bank and the region by the Audit and Supervisory Committee.
This attitude of continuous improvement can serve as an important message to our stakeholders. Actively communicating the fact that "the Audit and Supervisory Committee conducts self-assessments, identifies challenges, and uses them to promote improvement" will, I believe, contribute to greater transparency and foster trust.

Kasuya: I believe it would be a mistake to consider these challenges as issues calling for final resolution. Rather, we should realize that the effectiveness of our governance and auditing must be continually reviewed as the environment in which we operate changes, and that this process of constantly seeking an optimal solution for each situation is a source of value in and of itself.
Given all the changes in our environment—with notable examples including the advances in IT and DX and the increasing sophistication and complexity of risks—the roles expected of the Audit and Supervisory Committee and the standards set for it are clearly rising. In this context, any attempt to address these issues merely by extending existing practices raises the risk that effectiveness will decline without our realizing it. This is why it is so important not to employ the effectiveness assessment as a mere annual event, but rather as an "opportunity to question the status quo and reexamine our assumptions." We believe that deliberately evaluating ourselves from a critical perspective and maintaining a mindset that does not overlook even the slightest sense of unease or single early sign of emerging issues will ultimately lead to improvement in the quality of the Audit and Supervisory Committee.
Our Group possesses an array of strengths—including our talented human capital and loyal customer base—cultivated over more than 90 years of history. Significant room remains for further growth, however, and we members of the Audit and Supervisory Committee intend to continue working to fulfill the trust placed in us by our shareholders, business partners, and other stakeholders.

Okamoto: Going forward, we plan to continue using the effectiveness assessment as a practical tool to monitor and improve the role of the Audit and Supervisory Committee, taking care to ensure that the assessments do not decline into mere formalities. We recognize that the Audit and Supervisory Committee is expected to contribute to improving the quality of our Group's governance through this ongoing process.