

May 11, 2020

Company Name: The Gunma Bank, Ltd.  
Representative: Akihiko Fukai, President  
Stock Exchange Listing: Tokyo (code: 8334)  
For Inquiry: Takeo Uchibori, Managing Executive Officer and General Manager,  
Corporate Planning Department

## **Announcement regarding the Transition Measures from Stock Remuneration-type Stock Option Plan to Restricted Stock Remuneration Plan**

At the Board of Directors' Meeting held on May 11, 2020, The Gunma Bank, Ltd. (the "Bank") resolved to partially revise the executive remuneration plan and implement "measures for transferring unexercised portions of stock acquisition rights that have already been granted to Directors as Stock Remuneration-type Stock Options to Restricted Stock Remuneration," and decided to submit a proposal concerning this matter at the 135th Annual General Meeting of Stockholders to be held on June 24, 2020 (the "General Meeting of Stockholders"), as follows.

### **1. Background and details of implementation of the Transition Measures, etc.**

#### **(1) Background of implementation of the Transition Measures**

Upon approval at the 134th Annual General Meeting of Stockholders held on June 25, 2019, the Bank newly introduced the "Restricted Stock Remuneration (Restricted Stock)" and "Performance-linked Stock Remuneration (Performance Shares)" Plans (collectively referred to as the "Plan") on the same date, to replace the previous Stock Remuneration-type Stock Option Plan, in order to give Directors of the Bank (excluding Outside Directors (the "Eligible Directors")) an incentive to work to sustainably enhance the corporate value of the Bank, and promote increased shared values with stockholders.

Under the Plan, monetary remuneration claims were to be paid to Eligible Directors in order to grant to them Restricted Stock Remuneration, subject to continuous service as a Director of the Bank for a certain period, and Performance-linked Stock Remuneration, subject to the level of achievement of performance indicators of business results, etc., as determined in advance by the Board of Directors, in addition to the above criteria. Accordingly, the Bank abolished the amount of remuneration for allotting stock acquisition rights as the previous Stock Remuneration-type Stock Options, excluding those that had already been granted.

## (2) Objective of the Transition Measures

The objective of the measures for transferring unexercised portions of the stock acquisition rights that have already been granted to Directors as Stock Remuneration-type Stock Options upon introducing the Plan to Restricted Stock (collectively referred to as the “Transition Measures”) is to manage and operate the stock remuneration plans in an integrated and efficient manner, thereby promoting initiatives in line with the purpose of introducing the Plan described in (1) above.

## (3) Details of the Transition Measures

Under the Transition Measures, each Eligible Director reappointed at the General Meeting of Stockholders to remain in his or her respective position (the “Reappointed Directors”) shall waive the rights regarding any unexercised portions of stock acquisition rights that have already been granted to Eligible Directors as Stock Remuneration-type Stock Options in the past fiscal year prior to the introduction of the Plan. Subsequently, instead of acquiring such unexercised stock acquisition rights without consideration, the Bank shall deliver the number of restricted stock (the “Restricted Stock”) equivalent to the number of shares subject to the unexercised stock acquisition rights held by each Reappointed Director.

Furthermore, Directors who resign from a position of Director of the Bank at the conclusion of the General Meeting of Stockholders and hold stock acquisition rights as Stock Remuneration-type Stock Options, shall exercise their stock acquisition rights based on the Stock Acquisition Rights Allotment Agreement that was concluded upon allotment in the past fiscal year.

## (4) Conditions for introduction of the Transition Measures

Under the Transition Measures, monetary claims shall be paid as remuneration in order to deliver the Restricted Stock to Reappointed Directors, and therefore payment of remuneration associated with the Transition Measures shall be subject to approval by stockholders at the General Meeting of Stockholders. Additionally, the Transition Measures are intended to transfer the Stock Remuneration-type Stock Options that have already been granted in the past fiscal year, and do not provide new remuneration to each of the Reappointed Directors.

At the 127th Annual General Meeting of Stockholders held on June 26, 2012, stockholders approved an amount of remuneration for Directors of up to 360 million yen per year, including bonuses, and at the 134th Annual General Meeting of Stockholders held on June 25, 2019, it was approved that the amount of remuneration under the Plan for Eligible Directors shall be up to 120 million yen per year (the total number of common shares to be newly issued or disposed by the Bank under the Plan shall be no more than 500,000 shares per year). However, upon implementing the Transition Measures, the Bank intends to propose at the General Meeting of Stockholders the establishment of an amount of remuneration of up to 240 million yen, set separately from the amount of remuneration under the Plan, for the Reappointed Directors as remuneration associated with the Transition Measures only during the 136th fiscal year (from April 1, 2020 to March 31, 2021 (the “Fiscal Year”) the total number of common shares to be disposed by the Bank under the Transition Measures shall be no more than

440,300 shares).

## **2. Specific details on remuneration for issuing the Restricted Stock**

The Reappointed Directors shall pay as property contributed in kind all monetary remuneration claims paid to them by the Bank based on the Transition Measures, and shall receive the disposal of common shares of the Bank.

The total amount of monetary remuneration claims to be paid to Reappointed Directors based on the Transition Measures shall be no more than 240 million yen.

The total number of common shares to be disposed by the Bank under the Transition Measures shall be no more than 440,300 shares (however, if a share split or share consolidation of the Bank's common shares is conducted with an effective date on or after the date of the resolution at the General Meeting of Stockholders (including a gratis allotment of common shares of the Bank), the Bank shall adjust the total number of shares as necessary, within a reasonable range in accordance with the split or consolidation ratio, etc., from the effective date onward).

The specific timing of payment and allocation to each Reappointed Director shall be determined by the Board of Directors. The amount to be paid for each share shall be determined by the Board of Directors within a range that is not particularly advantageous to the Reappointed Directors receiving the common shares, based on the closing price of the Bank's common shares on the Tokyo Stock Exchange on the business day preceding the date of the resolution by the abovementioned Board of Directors (if there is no trading on that day, the closing price on the most recent prior trading day).

The disposal of common shares of the Bank through the Transition Measures shall be subject to the Bank entering into a Restricted Stock Allotment Agreement with Reappointed Directors that includes (a) provisions prohibiting the transfer to a third party, creation of security interests, or any other form of disposal of the shares within 30 years of the day they are allotted; and (b) provisions stating that the Bank shall acquire the shares without consideration if certain circumstances arise. During the transfer restriction period, the Restricted Stock shall be managed in dedicated accounts opened by Reappointed Directors at Nomura Securities Co., Ltd. to ensure that the Reappointed Directors cannot transfer, create security interests on, or otherwise dispose of them during the transfer restriction period.

## **3. Establishment of return and extinguishment provisions in the Executive Remuneration Rules**

The Bank has established provisions in the Executive Remuneration Rules to the effect that it may force the return or extinguishment of all or part of the stock remuneration if certain circumstances arise (a so-called clawback provision and malus provision) in order to control excessive risk-taking and ensure sound management while also working in advance to prevent accounting fraud and other major scandals and large-scale revisions to previous fiscal years' financial results that may be caused by excessive incentives. Remuneration associated with the Transition Measures will also be subject to the same provisions in the Executive Remuneration Rules.

#### **4. Application to Executive Officers**

When implementing the Transition Measures in the Fiscal Year, the Bank also intends to apply the Transition Measures to Executive Officers of the Bank who are not concurrently serving as Directors by resolution of the Board of Directors, subject to approval by stockholders at the General Meeting of Stockholders.

**(Reference)**

The Bank has established the following “Basic Policy for Executive Remuneration”.

**Basic Policy for Executive Remuneration**

The Bank shall establish officer remuneration basic policy (the “Policy”) and determine matters on Directors’ remuneration and Audit & Supervisory Board Members’ remuneration in accordance with the concept and procedures based on the Policy.

**1. Basic concept on Directors’ remuneration plan**

- In order to establish Directors’ remuneration plan that contribute to the achievement of the management policy of the Bank, based on the various principles of corporate governance codes, the Bank shall provide basic concept of Directors’ remuneration plan as follows.
  - To increase contribution incentive for the Bank’s sustainable growth and enhance corporate value in the medium- to long-term
  - To share profit awareness with stockholders and to enhance management awareness centered on the stockholders
  - To maintain link with business results appropriately, and to function as a sound incentive
  - Not to lean on inappropriate risk taking
  - To hire or secure excellent management personnel
  - Since Directors are in the position to be responsible for the business results of the Bank as a whole unambiguously, the evaluation by individuals when paying incentive remuneration shall be to put weight on the contribution of the business results of the Bank as a whole rather than the business results of the operation in charge
  - To be a determination process that is objective and transparent

**2. Governance on determining compensation, etc.**

- Board of Directors shall determine the below matters based on the advice and suggestions from Remuneration Advisory Committee upon deliberation at the Remuneration Advisory Committee in response to the consult from the Board of Directors. Based on the Regulation on Remuneration Advisory Committee as provided separately, the Remuneration Advisory Committee shall be consisted of three or more members of which more than half shall be Independent Outside Directors.
  - Proposal for the General Meeting of Shareholders on Directors’ remuneration and Audit & Supervisory Members’ remuneration
  - Policy on Directors’ remuneration (including the Policy)
  - System on Directors’ remuneration (including remuneration by individuals)
  - Matters determined necessary by Remuneration Advisory Committee on each matter such as necessary policies to deliberate each matter above
- Audit & Supervisory Members’ remuneration shall be determined upon discussion of Audit & Supervisory Members.

**3. Remuneration composition**

(1) Directors who are not Outside Directors

[Overview of remuneration composition]

Remuneration characteristic	Basic remuneration		Variable remuneration	
			Short-term incentive remuneration	Medium-term incentive remuneration
Cash/stock	Cash remuneration		Stock remuneration	
Link with business results	Non-link with business results	Short-term link with business results	Non-link with business results	Medium- to long-term link with business results
Name of remuneration	Monthly remuneration	Bonus	Restricted Stock	Performance shares

- Remuneration of Directors who are not Outside Directors will be consisted of “Basic remuneration” as fixed remuneration and “Variable remuneration” that fluctuates by business results, etc.
- “Variable remuneration” is consisted of “Bonus” as short-term incentive remuneration based on the business

results by fiscal year, and “Stock remuneration” as medium- to long-term incentive remuneration that results in medium- to long-term and sustainable enhancement of corporate value.

- “Stock remuneration” is further consisted of “Restricted Stock Remuneration” that is delivered before the target period subject to continuous service as a Director of the Bank for a certain period, and “Performance shares” which is performance-linked stock remuneration that is delivered after the target period subject to the level of achievement of performance indicators of business results, etc., as determined in advanced by the Board of Directors of the Bank, in addition to the above criteria.
- Remuneration composition ratio for each Director shall be the target level of “Basic remuneration: Short-term incentive remuneration: Medium- to long-term remuneration = 3:1:1” in consideration of the absolute amount, etc. of the remuneration.

(2) Outside Directors and Audit & Supervisory Board Members

- Remuneration of Outside Directors and Audit & Supervisory Board Members shall be consisted only by basic remuneration in consideration of the respective roles and independence.

**4. Remuneration level**

- The Bank shall determine the appropriate level as we consider appropriate, by taking into account our business results conditions as well as environment, social economic situation and industry trend, etc. surrounding the Bank.
- In addition, as a local leading company, the Bank will be conscious so that the remuneration level will be located in the equivalent class of those compared with management remuneration of the local companies. Furthermore, by participating to surveys conducted by external research institutions (so-called officers’ remuneration survey, etc.) periodically, the Bank shall determine the remuneration referring to such research data.

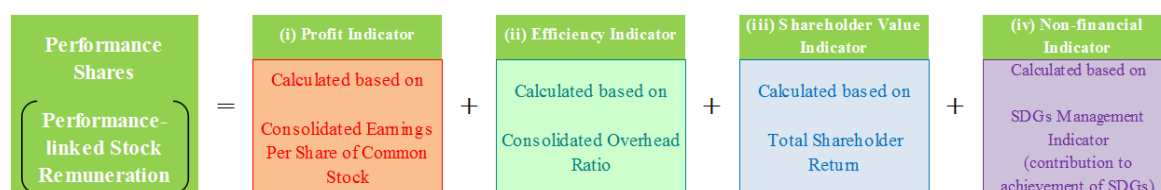
**5. Performance-linked remuneration**

(1) Bonus

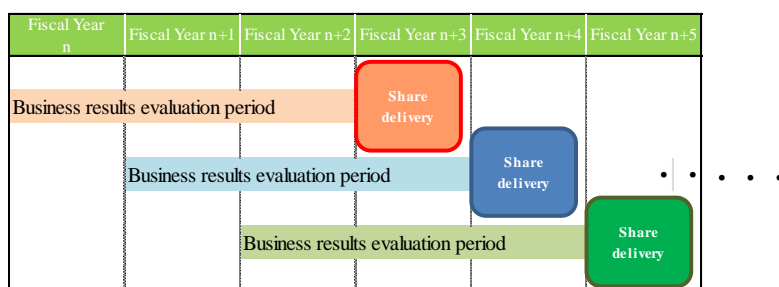
- From the nature of short-term incentive remuneration, for the purpose of enhancing contribution incentive to improve business results for each fiscal year, the Bank will adopt consolidated earnings as a performance indicator. For performance-linked portion, the remuneration amount shall be determined within the fluctuating range of 0-200% in accordance with the level of achievement of consolidated earnings.

(2) Performance shares

- From the nature of medium- to long-term incentive remuneration, for the purpose of enhancing contribution incentive to improve corporate value for medium- to long-term as well as sharing profit awareness with stockholders and enhancing management awareness centered on stockholders, the Bank will adopt the following four indicators as a performance indicator. The remuneration amount shall be determined within the fluctuating range of 0-200% in accordance with the level of achievement.



- In each fiscal year in principle, the Bank shall deliver the common shares of the Bank equivalent to the above remuneration amount in accordance with the service years during the business results evaluation period (the latest three fiscal years) upon reasonable adjustment.



[Selection reasons, etc. of performance indicator that is used in calculating remuneration amount for performance shares]

Performance indicator	Selection reasons, etc.
Consolidated Earnings Per Share of Common Stock (consolidated EPS)	Earnings Per Share (EPS) is a profit indicator that shows profitability of how much earnings are made for one share. The Bank considers Performance Shares as one of the medium- to long-term incentive remuneration. From its nature, with the recognition that the remuneration should reflect “results” for the medium- to long-term, firstly, the Bank raises profit indicator as an indicator to measure such “results.” Moreover, not merely using consolidated earnings, the Bank will adopt how much consolidated EPS, which stockholders place importance, increased as its performance indicator.
Consolidated Overhead Ratio (consolidated OHR)	Consolidated Overhead Ratio (OHR) is a ratio of operating expenses against gross profit that shows as an efficiency indicator. The lower this ratio is, it means that the more gross profit is generated with less operating expenses. Improving productivity and efficiency in the companies is a social requirement especially in Japan. In addition, considering that the banking sector where the Bank belongs is in the situation of under observance of initiatives toward cost reduction, the Bank adopts consolidated OHR, which is also raised in the numerical target in the Medium-Term Management Plan as its performance indicator.
Total Shareholder Return (TSR)	Total Shareholder Return is an indicator that shows investment profitability for shareholders. It shows how much dividends and capital gains (valuation gains/losses) the stockholders, which purchased the shares at the beginning of the fiscal year, acquired against the share price at the beginning of the fiscal year. The Bank considers adopting this stockholder value indicator as performance indicator conform to the introduction intent of the Plan “to share profit awareness with stockholders and to enhance management awareness centered on the stockholders.”
SDGs Management Indicator (indicator to measure the Bank’s contribution to the achievement of SDGs)	Based on “The Gunma Bank Group’s SDGs Declaration,” the Group contributes to the achievement of SDGs through business activities, and strives for realizing sustainable society and creating economic value. Of the 17 SDGs targets that were adopted by the United Nations, the Bank adopts a performance indicator among management indicators that relates to seven targets that the Bank especially determined possible to contribute with this Declaration.

## 6. Concept on return and extinguishment provisions in the stock remuneration

- The Bank shall establish provisions in the Remuneration Rules to the effect that it may force the return or extinguishment of all or part of the stock remuneration if certain circumstances arise (a so-called clawback provision and malus provision), in order to control excessive risk-taking and ensure sound management, while also working in advance to prevent accounting fraud and other major scandals and large-scale revisions to

previous fiscal years' financial results that may be caused by excessive incentives.

**7. Concept on holding shares of the Bank**

- In order to share profit awareness with stockholders and to enhance management awareness centered on the stockholders, the Bank shall introduce stock remuneration for Directors who are not Outside Directors. In addition, the Bank shall encourage holding more than certain number of common shares of the Bank in accordance with respective positions based on “Share Ownership Guidelines” as provided separately.

**8. Disclosure policy**

- The Policy shall be disclosed appropriately to stakeholders through the following disclosure documents and media. (Annual Securities Report, Reference Documents for the General Meeting of Stockholders, Corporate Governance Reports, the Bank's website, etc.)