

Corporate Governance

Basic perspective

While always keeping in mind the development of regional communities, the Bank's basic policy is to respond appropriately to the financial needs of customers, enhance corporate value by ensuring asset soundness and strengthening its profitability, and to be highly evaluated by shareholders and the market. To realize this basic policy, we have positioned the enhancement of corporate governance as the most important management challenge, and are working on the following three points:

- (1) Decision-making for appropriate management and establishment of an efficient business operations system
- (2) Enhancement of compliance and risk management systems that form the basis of sound management
- (3) Timely and appropriate disclosure of corporate information and active IR activities aimed at transparent management

Corporate governance system

The Bank has a corporate auditor system with the five members of the Audit and Supervisory Board (including three Outside Auditors).

The Board of Directors consists of nine Directors, including two Outside Directors.

To achieve our management goals, we believe that it is effective to enhance the corporate auditor system by appointing Inside and Outside Auditors, as well as to strengthen management oversight functions by the presence of Outside Directors and Outside Auditors.

Outside Directors are responsible of management oversight for the Board of Directors, and Outside Auditors are responsible of the auditing in the corporate auditor system, and all have the role of management monitoring and supervising for corporate governance.

In addition, to enhance corporate governance and manage oversight functions of the entire Group, the Group Management Meeting is held every six months to report and discuss management policies and operational status of each Group company on the executive level.

Board of Directors

The Board of Directors makes decisions on basic management-related matters and important business operations, and supervises the performance duties of each Director.

In order to execute important business operations based on management policies determined by the Board of Directors, the Executive Committee, which is a consultative body to the President, meets once a week in principle to conduct thorough deliberations for decision-making to ensure prompt and smooth execution.

The term of Directors is limited to one year to build a management system that can respond more quickly to changes in the business environment.

Structure of the Board of Directors

The Board of Directors consists of seven Inside Directors and two Outside Directors.

Currently, there are no women directors at Gunma Bank, but we believe that diversity, including gender, is important to ensure effectiveness of the Board of Directors, and we are working toward this end. Specifically, we have strengthened our efforts to actively promote

women into managerial posts, and the ratio of women managers has increased from 6% before the action plan was established (as of March 2016) to 10.3% by the end of March 2019. We believe that the number of women candidates for directors will increase proportionally to the number of women managers.

In nominating Outside Director candidates, we are strongly aware that the structure of the Board of Directors should consist of members with diverse values and perspectives based on different types of knowledge, experience, and attributes.

Establishment of the Nomination and Compensation Advisory Committees

In July 2018, in order to establish a system in which Independent Outside Directors are appropriately involved in the decision-making process for nomination and remuneration of the Directors, to increase the objectivity and transparency of the process, and to enhance corporate governance, the Nomination Advisory Committee and the Compensation Advisory Committee were established as advisory bodies to the Board of Directors.

Audit & Supervisory Board

The Audit & Supervisory Board meets once a month in principle, and its members make decisions based on discussions on how to resolve various issues. Additionally, each member of the Audit & Supervisory Board reports on the results of audits, and shares information, and exchanges opinions with the others when necessary.

Also, the Audit & Supervisory Board Office consisting of dedicated staff members, has been set up directly under the Audit & Supervisory Board, and is working to maintain a more effective audit system.

The members of the Audit & Supervisory Board conduct audits in accordance with the auditing policies, audit plans and audit duties established by the Audit & Supervisory Board in accordance with the Audit & Supervisory Board Member Auditing Standards. They monitor and verify the performance of duties by the Directors through attending meetings of the Board of Directors and other important meetings, auditing the accounts of the headquarters and branch offices, investigating the Group companies' operations, examining important documents, and investigating the operations and assets of the Bank. They hold an Audit & Supervisory Board meeting once a month in principle, and collect and share information on the status of audits conducted by each Auditor, as well as meet regularly with the President, Outside Directors, and the Accounting Auditor.

Executive officer system

The Bank has adopted an executive officer system to enhance corporate governance and separate management decision-making from business operations and promote the role of the Board of Directors.

Accounting audit

Our accounting auditor, Ernst & Young ShinNihon LLC., conducts accounting audits in accordance with the Companies Act and the Financial Instruments and Exchange Act. There are no special interests between the executive officers of Ernst & Young ShinNihon LLC. and the Bank.

- Accounting audit fee for fiscal year 2018 paid by us: 66 million yen - Total amount of remuneration paid by our Group: 80 million yen
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Internal audit

For internal audits, the Inspection & Audit Department, which is independent from the departments to be audited, conducts annual audits of the entire Group based on an audit plan determined by the Board of Directors.

Support system for Outside Directors and Outside Auditors

The Secretariat, which is responsible as the secretariat of the Board of Directors, has a key role in supporting Outside Directors while distributing materials for the Board of Directors meetings in advance by the tablet. In order to allow for sufficient time to prepare for deliberations, the Outside Directors receive the materials at the same time as Inside Directors. Along with supplying information on the Bank's new initiatives in advance, they are also provided with opportunities for information exchange with the President and Auditors. Through these efforts, we are working to create an environment where the Outside Directors can always make useful recommendations to the Board.

Outside Audit & Supervisory Board members are also provided with the materials for the Board of Directors in advance, and the dedicated staff in the Audit & Supervisory Board Members' Office offers necessary support for auditing operations by distributing materials for the Audit & Supervisory Board meetings in advance. In addition, at the Audit & Supervisory Board, the standing Auditors explain the agenda of the Board of Directors meetings and minutes of the Executive Committee meetings in detail to the Outside Auditors to share information such as reports on the status of audits conducted by the standing Auditors.

Evaluation criteria for independence of Outside Directors and Outside Auditors

Candidates for Outside Director or Outside Auditor of the Bank are deemed to be independent from the Bank when they do not come under any of the following conditions:

- (1) A person whose main business partner is the Bank, or, if it is a corporate or legal entity, its executive officer,
- (2) A person who is a major business partner of the Bank, or, if it is a corporate or legal entity, its executive officer,
- (3) A consultant, professional accountant or legal professional who has gained a "large amount" (Note 1) of fees or other properties in addition to executive remuneration from the Bank,
- (4) A person who "recently" (Note 2) fell under (1), (2), or (3), and
- (5) A "close relative" (Note 4) of a person who falls under any of the following items from A to D (excluding those who are not considered "important" (Note 3)).

Corporate Governance

- A .A person who falls under (1) to (4) above
- B .An executive officer of the Bank’s subsidiary
- C .A director who is not an executive officer of the Bank’s subsidiary
- D .A person who “recently” fell under B or C above or was an executive officer of the Bank

Note 1: “Large amount” refers to an amount of 10 million yen or more on average over the past three years.

Note 2: “Recently” can be regarded as being almost equal to “presently.” For example, at the time when the content of the proposals was determined for the General Meeting of Shareholders where the person was elected as an Outside Director or Outside Auditor.

Note 3: “Important” refers to those who are directors, general managers and the like (executive officers); and certified public accountants and lawyers (accounting professionals and legal experts).

Note 4: “Close relative” refers to first and second-degree relatives.

Ensuring the effectiveness of the Board of Directors

We analyze and evaluate the effectiveness of the entire Board of Directors based on self-evaluation of the Directors and Auditors regarding items such as composition of the Board of Directors, operational status, support system, deliberations, roles and responsibilities, and communications with shareholders.

At the meeting of the Board of Directors in March 2019, we confirmed that the effectiveness of the Board of Directors was secured.

Regarding the shared issue of “Encouraging spirited discussions at the meeting of the Board of Directors,” it was evaluated that the content of the discussions on the proposals at the Board of Directors meeting was fulfilled and the number of proposals and comments had increased. However, in order to further revitalize important management themes, we acknowledged the issue of securing adequate time for deliberations. Regarding the topic of “Reviewing the composition of the Board of Directors,” it was confirmed that we would continue to examine issues such as the “ratio of outside directors,” “recruitment of women directors,” and “recruitment of legal experts.”

Executive remuneration

In July 2018, the Compensation Advisory Committee was established as an advisory body to the Board of Directors to improve objectivity

and transparency of the decision-making process regarding executive officers remuneration.

In line with the start of the new Mid-term Business Plan, we reviewed the executive remuneration system to urge the management to make further efforts from the same perspective as shareholders and to give them an incentive to improve the Bank’s sustainable business performance and value. We abolished the conventional Share Remuneration-type Stock Option Plan and introduced a Restricted Share Remuneration Plan and Performance-linked Share Remuneration Plan. (Resolved at the General Meeting of Shareholders in June 2019)

The remuneration of the Directors, excluding the Outside Directors, is comprised of fixed-amount remuneration, bonus, and share remuneration. The Outside Directors and Auditors receive only fixed-amount remuneration, taking into account that they are required to play a role of auditing and supervising.

The remuneration limit was determined by the resolutions of the General Meeting of Shareholders in June 2012 and June 2019 as follows:

<< Fiscal year 2018 remuneration limit >>

	Fixed-amount remuneration	Bonus	Share remuneration-type stock option
Director	Total 360 million yen per year		120 million yen per year
Auditor	80 million yen per year	—	—

<< Fiscal year 2018 remuneration results>>

	Fixed-amount remuneration	Bonus	Share remuneration-type stock option
Director	Total 232 million yen		69 million yen
Auditor	59 million yen	—	—

<< Fiscal year 2019 remuneration limit (after revisions) >>

	Fixed-amount remuneration	Bonus	RS and PS
Director	Total 360 million yen per year		120 million yen per year
Auditor	80 million yen per year	—	—

Note: RS stands for “Restricted Share Remuneration,” and PS stands for “Performance-linked Share Remuneration.”

Basic policy for executive remuneration

In June 2019, we formulated the “Basic policy for executive remuneration.” The Bank determines the Directors’ and Auditors’ remuneration in accordance with the perspectives and procedures based on this policy.

Basic policy for executive remuneration

1. Basic perspective on the directors' remuneration system

- In order to create a directors' remuneration system that contributes to realization of the Bank's management policy, our basic perspective on the directors' remuneration system is based on the principles of the Corporate Governance Code as follows:
 - #1 To further motivate the Directors to contribute to sustainable growth of the Bank and increase the corporate value of the Bank over the mid- to long-term,
 - #2 To share profit awareness with shareholders and raise management awareness focusing on shareholders,
 - #3 To maintain proper linkage with business performance and give a sound incentive,
 - #4 To avoid inappropriate risk taking,
 - #5 To be able to hire or secure excellent managerial talent,
 - #6 Because the Directors are primarily responsible for the performance of the entire Bank, individual evaluation for incentive remuneration is more focused on contributing to the overall performance of the Bank than the performance of the business in which the Director is in charge, and
 - #7 To show an objective and transparent decision-making process.

2. Governance for determining remuneration

- In accordance with the regulations set forth separately, the Board of Directors determines the following items based on the advice and recommendations from the Compensation Advisory Committee consisting of three or more members (at least half of them are Independent Outside Directors) after the committee has deliberated the items in response to the request by the Board of Directors.
 - #1 Proposal for the General Meeting of Shareholders on Director and Auditor Remuneration,
 - #2 Policy for remuneration of Directors (including this policy),
 - #3 Remuneration system for Directors (including amount of remuneration by individuals),
 - #4 Items such as policies needed when deliberating each of the above items, which are deemed necessary by the Compensation Advisory Committee, and
 - #5 Remuneration for Auditors is determined through discussions by the Audit & Supervisory Board Members.

3. Remuneration structure

(1) Directors, excluding Outside Directors

[Summary of remuneration structure]

Features of remuneration	Base remuneration	Variable remuneration		
		Short-term incentive remuneration	Mid- to long-term incentive remuneration	
Cash/Share	Cash remuneration	Share remuneration		
Performance-linked remuneration	Non-performance-linked remuneration	Short-term performance-linked remuneration	Non-performance-linked remuneration	Mid- to long-term performance-linked remuneration
Type of remuneration	Monthly remuneration	Bonus	Restricted share	Performance-linked share

- The remuneration for Directors, excluding Outside Directors, consists of fixed remuneration or "base remuneration" and "variable remuneration" that fluctuates depending on business performance.
- "Variable remuneration" consists of "bonus" as short-term incentive remuneration based on performance for each fiscal year; "bonus" as mid- to long-term incentive remuneration, and "share remuneration" as mid- to long-term incentive remuneration that leads to sustainable corporate value enhancement over the mid- to long term.
- The "share remuneration" consists of pre-issued "restricted share" that is subject to certain conditions such as working as a Director of the Bank for a certain period and "performance-linked share" that is a post-issued performance-based share remuneration and is subject to conditions of achieving predetermined

Corporate Governance

performance indicators, etc. in addition to satisfying the first condition for “restricted share.”

- The executive remuneration for individuals shall be set at a ratio of 3:1:1 in the following order: 1) Base remuneration, 2) Short-term incentive remuneration, and 3) Mid- to long-term incentive remuneration, taking into account the absolute amount of remuneration.

(2) Outside Directors and Auditors

- Remuneration for Outside Directors and Auditors shall consist of only base remuneration, considering their role and independent status.

4. Remuneration level

- The Bank determines the appropriate amount of remuneration based on its business performance, the environment surrounding the Bank, social and economic conditions, and industry trends.
- Also, as a leading company in the region, we are aware of the appropriate level of remuneration received by executives of regional businesses through survey data from obtained by regularly participating in surveys conducted by external research organizations (so-called executive remuneration survey, etc.) and use this information as a reference in determining our own remuneration.

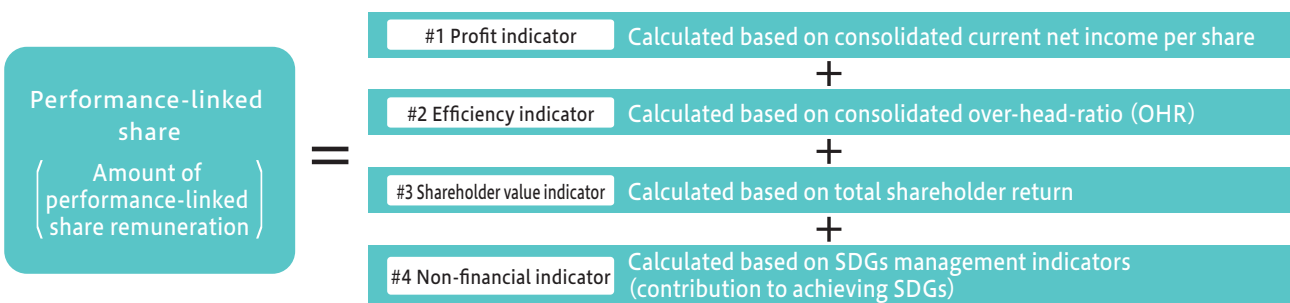
5. Performance-linked remuneration

(1) Bonus

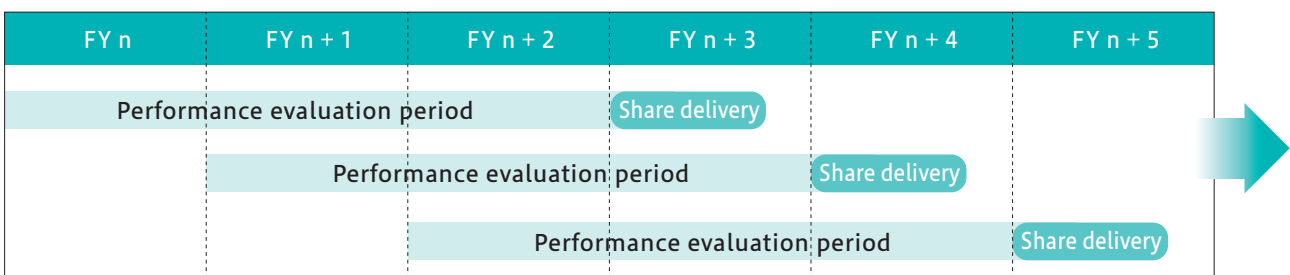
- Due to the nature of short-term incentive remuneration, consolidated current net income is adopted as an evaluation indicator with the aim of increasing motivation to contribute to business performance for each fiscal year. For the performance-linked portion, the amount of remuneration is determined within the range of 0 to 200% depending on the status of achievement of consolidated current net income.

(2) Performance-linked share

- Due to the nature of mid- to long-term incentive remuneration, the following four indicators are adopted as evaluation indicators, with the aim of enhancing corporate value over the mid- to long-term as well as sharing profit awareness with shareholders and raising management awareness that values the shareholders. The amount of remuneration is determined within the range of 0 to 200% depending on the status of achievement.



- In principle, the Bank issues the Bank’s common shares equivalent to the above remuneration in each fiscal year after being reasonably adjusted in accordance with the executive tenure during the evaluation period (the immediately preceding three fiscal years).



[Reasons for selecting evaluation indicators to calculate the amount of remuneration for performance-linked share]

#1 Consolidated earnings per share (EPS)

EPS is a profit indicator that shows the profitability of current net income per share. The Bank positions performance-linked share as one of the mid- to long-term incentive remuneration plans, and by its nature recognizes that it should reflect the mid- to long-term “results,” and as an indicator to measure the “results,” first, we list a profit indicator. Next, instead of simply using consolidated current net income, we adopt an evaluation indicator that shows how much consolidated EPS, which is valued by shareholders, has grown.

#2 Consolidated over-head-ratio (OHR)

OHR is the ratio of operating expenses to gross operating income. It is an efficiency indicator and the lower percentage represents more operating profits with lower operating expenses. Increasing corporate productivity and efficiency has become a social demand, especially in Japan, and the banking sector, to which the Bank belongs, has been paying close attention to its cost reduction initiatives. Thus, the consolidated OHR, which is also set as a target in the Mid-term Business Plan, is used as an evaluation indicator.

#3 Total shareholder return (TSR)

TSR measures the earnings of a share to the shareholder, and indicates the total return generated by a share through dividends and capital gains (valuation gains or losses) on the share price movement during a given period (generally, one fiscal year). The adoption of these evaluation indicators is considered to be in line with the purpose of our basic policy for executive remuneration, which is to “share the awareness of interests with shareholders and raise management awareness that values the shareholders.”

#4 SDGs management indicator (indicator that measures our contribution to achieving the SDGs)

Based on the Gunma Bank Group SDGs Declaration, the Group contributes to achieving the SDGs through its business activities and strives to realize a sustainable society and create economic value. Among 17 goals of the SDGs adopted by the United Nations, we have determined the seven goals in our Declaration, stating that we are able to make a special contribution for these goals. We set an evaluation indicator for the Bank’s management indicators that are associated with them.

6. Perspective on the forfeiture and recovery clauses for remuneration

- To prevent excessive risk taking and ensure the soundness of management, and to prevent serious scandals, such as accounting fraud or significant corrections required for past fiscal year financial statements, which may be caused by excessive incentives, we established the clauses (Clawback clause and Malus clause) for the recovery and forfeiture of all or part of the share remuneration in the event of the circumstances.

7. Perspective on holding treasury shares

- In order to share awareness of the interest with shareholders and raise awareness of management with the emphasis on shareholders, we introduce share remuneration to the Directors, excluding Outside Directors, and encourage them to hold a certain amount or more of the Bank’s treasury shares (including the share remuneration-type stock option plan) depending on their positions.

8. Disclosure policy

- We release this disclosure policy publicly to the stakeholders appropriately through media and the following disclosure materials: securities reports, reference documents for the General Meeting of Shareholders, reports on corporate governance, our website, etc.