

Basic Perspective

The risks facing banks in Japan are becoming increasingly diversified and complicated amid major changes taking place in the business environment. Under such circumstances, in order to improve the corporate value while ensuring soundness and stability of management, it is necessary that we appropriately manage and control risks according to the characteristics of operations and risks.

The Bank understands adequate risk management as one of the most important managerial tasks. The Board of Directors has established the Basic Policy on Risk Management and strengthens and improves the risk management system, including the risk management following this basic policy.

Overview of Risk Management System

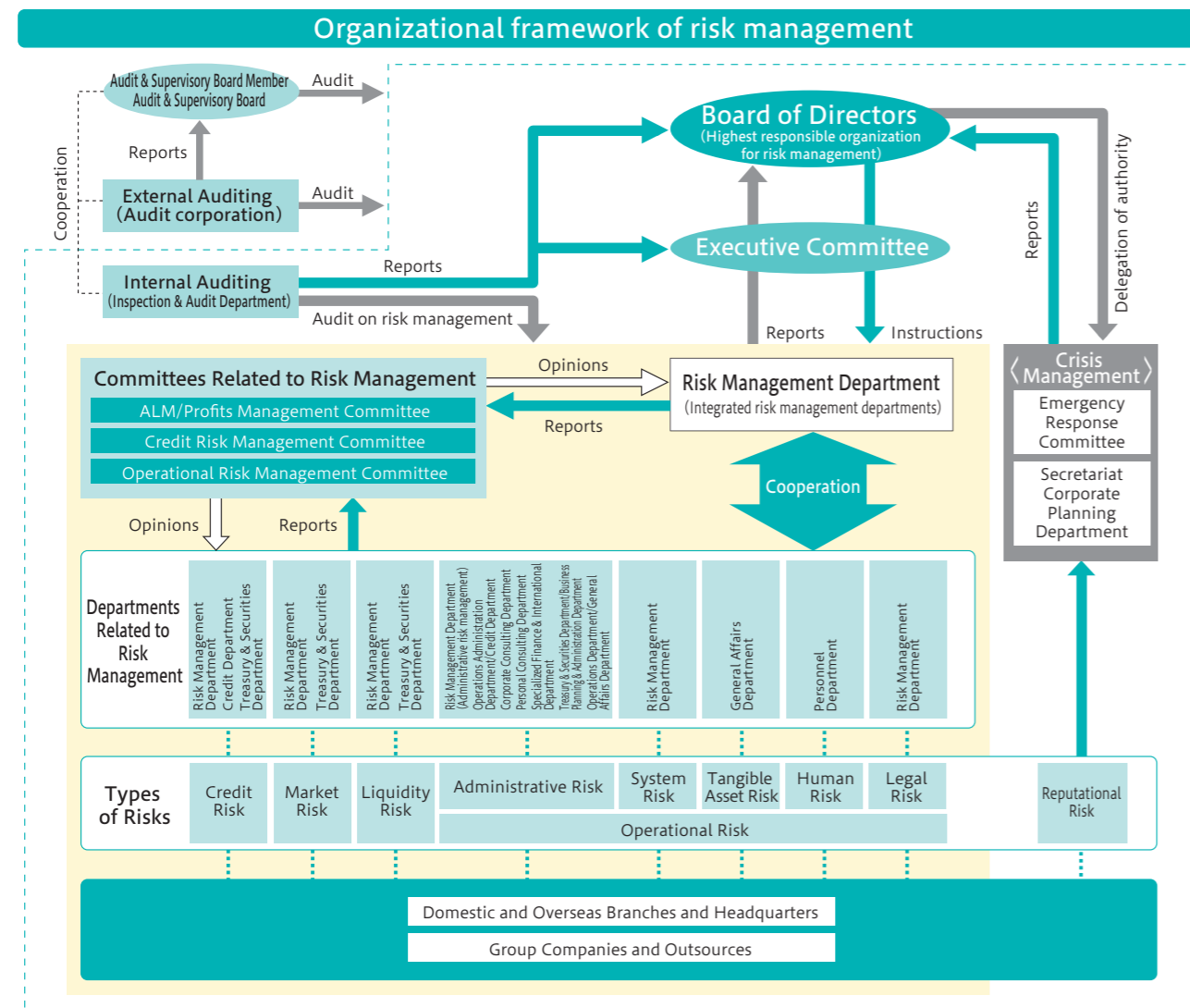
The Board of Directors fully recognizes the importance of risk management, determines the risk management policy based on the Bank's management policy, etc., and strives to foster a corporate culture that places emphasis on risk management.

In addition, the Risk Management Department has been established as an integrated risk management organization for the entire bank, which comprehensively grasps and manages the status of various risks including risk measurement results from a cross-sectional perspective.

The Risk Management Department and various

risk management-related departments work together concerning risk situations and challenges and report the results to the Executive Committee and the Board of Directors based on discussions and reviews by the ALM/Profits Management Committee, the Credit Risk Management Committee, and the Operational Risk Management Committee.

The Inspection & Audit Department examines and evaluates the appropriateness of risk management from an independent standpoint and provides advice regarding improvement in response to the issues identified.



Integrated Risk Management

(1) Basic perspective

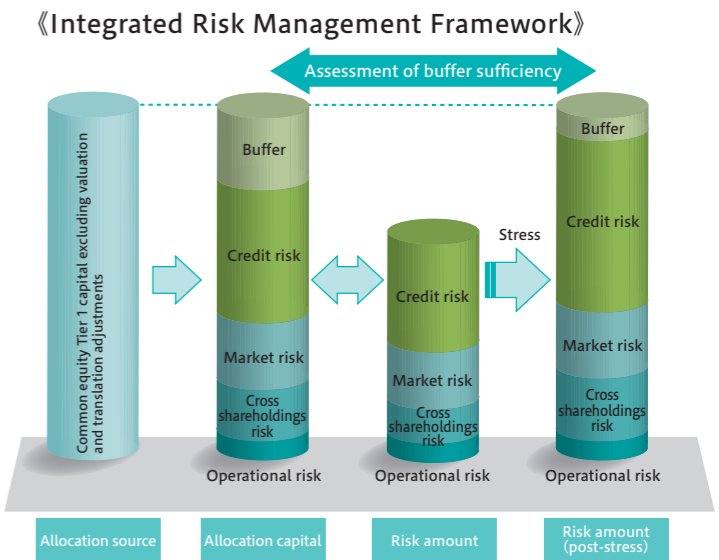
In addition to managing individual risks such as credit, market, and liquidity risks, it is necessary to comprehensively manage risks such as overall risk of the Bank as a whole, and to compare and contrast these risks with management vitality. For this reason, the Risk Management Department is taking the lead in developing a system for integrated risk management, strengthening the management of various risks, and promoting the advancement of integrated risk management.

(2) Integrated risk management framework

As one of the methods for integrated risk management, we implemented a system of integrated risk management to measure the amount of risk by each category such as credit risk and market risk using a unified framework (value at risk (VaR), etc.) and integrate them to be compared with management vitality (equity capital).

In specific terms, the Board of Directors determines allocation of risk capital by risk category every six months, with the amount obtained by subtracting valuation and translation adjustments, etc. from common equity Tier 1 capital as the allocation source.

The Bank regularly monitors the risk amount to determine whether it is within the allocated risk capital, and reports findings every month to the Asset Liability Management (ALM) / Profits Management Committee as well as the Executive Committee.



Management by Risk Category

Credit Risk Management

Credit risk refers to the possible loss that a bank may suffer because a bank's business partner or securities issuer cannot repay/redeem interest and/or principal as promised due to worsening business conditions, etc.

At the Bank, asset-based lending accounts for the majority of credit risk, and ensuring the soundness of asset-based lending is an important task in managing credit risk in the future.

In order to perform strict credit risk management,

mutual checks on credit risks between related departments are necessary. At the Bank, the Risk Management Department is independent from the sales promotion departments and the examination departments, and plans and verifies the management system that forms the basis of credit risk management, such as a credit rating system, asset self-assessment, and amortization and depreciation system, which all work as a regular check function.

Market Risk Management

Market risk refers to the possible loss that a bank may suffer due to fluctuations in market factors such as interest rates, exchange rates, and share prices.

In addition to management by the Risk Management Department, for the Treasury & Securities Department in charge of market transactions, the department in charge of trading (front office) is separated from the department in charge of risk management and the department in charge of routine paperwork (middle and back offices) to provide a check and balance system.

The Risk Management Department manages and analyzes the situation of risk amounts for VaR and valuation gain/loss and the impact that changes in market factors have on gain/loss on valuation and capital ratio, and reports its findings to the Asset Liability Management (ALM)/Profits Management Committee. The Treasuries and Securities Department invests in stocks and bonds within the appropriate trading scope under sufficient risk management.

Liquidity Risk Management

Liquidity risk consists of cash flow risk and market liquidity risk.

Cash flow risk means the possible loss that a bank may suffer if the Bank is unable to secure the necessary funds due to mismatches between operating and funding periods or unexpected capital outflows or is forced to raise funds at significantly higher rates than usual.

Market liquidity risk refers to the possible loss that a bank may suffer due to an inability to trade because of market turmoil, etc. or a trade where the Bank is forced to accept significantly unfavorable price.

The Bank stipulates the Treasury & Securities

Department as the department in charge of cash flow and it manages cash flow strictly on a daily, weekly and monthly basis including that of overseas branches. The Risk Management Department monitors and analyzes cash flow situation, balance of investment and funding, identifies and analyzes interest rate trends, and then reports to the Asset Liability Management (ALM)/Profits Management Committee as well as the Executive Committee. Furthermore, the Bank has formulated a Contingency Plan to prepare for various contingencies and has put into place a system that can address various cases.

Operational Risk Management

Operational risk is the possible loss that the Bank may suffer due to inadequate operational processes, activities of workers such as executives, employees, and temporary employees, and functions of systems, or exogenous events. The Bank divides operational risk into five categories in order to effectively manage risks in accordance with the organizational structure and content of operations. These five categories are: (1) Administrative risk; (2) System risk; (3) Tangible asset risk; (4) Human risk; and (5) Legal risk.

The Board of Directors has established a Basic Policy on Risk Management and Basic Regulations on Operational

Risk, which stipulate basic matters concerning operational risk management. The Director in charge of the Risk Management Department is designated as the person in charge of supervising overall operational risks and the Risk Management Department is designated as the integrated operational risk management division. The Risk Management Department plans and supervises the overall management of operational risk under the direction and supervision of the director in charge, and each risk management-related department manages each risk from a specialized standpoint.

Crisis Management

Based on our social responsibility and public mission as a regional financial institution, the Bank has developed a system that can respond to emergencies quickly and appropriately in the event of a major natural disaster, system failure, novel coronavirus pandemic, etc. and convey relevant information to everyone within the organization.

Specifically, in order to ensure the safety of our customers, executives and employees, and to perform

operations smoothly, we have a crisis management plan (business continuity plan (BCP)). We conduct regular training to ensure its effectiveness and periodically review its contents. We have also established a system to convene an emergency response committee chaired by the President in the event of a crisis. In particular, for major earthquake disasters, we have developed measures such as backup offices and backup systems based on the expected impact.

Cyber Security Management

In order to cope with cyber-attacks, we are implementing multi-layered measures to prevent unauthorized entry into the system and to detect viruses. We are continuously reviewing these measures to ensure their effectiveness.

The Gungin CSIRT* installed in the Risk Management Department plays a central role in dealing with cyber attacks. We are continuously strengthening our security management system through the collection of information from outside organizations and conducting classes and training in cyber security and cyber-attacks.

* CSIRT: Abbreviation for "Computer Security Incident Response Team"

Combating Money Laundering and Terrorist Financing

Money laundering and terrorist financing refer to the act of making it appear that funds obtained through crime or unjust transactions have been obtained through legitimate means. The source of funds is often disclosed after funds have been diverted via numerous banks, and/or funds are provided to terrorists with the aim to commit terrorist acts, etc.

The Bank considers anti-money laundering and combating the financing of terrorism to be a key task for management. It has therefore established the Financial Crime Countermeasures Office in the Risk Management Department and is enhancing its systems to centrally

manage and cope with money laundering. Based on the Required Actions for a Financial Institution indicated by the Guidelines for Anti-Money Laundering and Combating the Financing of Terrorism issued by the Financial Services Agency, the Bank has taken a risk-based approach to identify and assess risks and enhance risk mitigation measures. The Bank regularly reports to the Financial Crimes Prevention Committee and the Executive Committee on details of its efforts to prevent money laundering, etc., working to further enhance anti-money laundering and terrorist financing measures with the involvement of management.

Financial Crime Prevention Service

The Bank has set up the following toll free numbers in Japan as consultation windows for financial crimes.

Gunma Bank "Financial Crime Prevention Service"

Toll free number: 0120-788511

Hours: 09:00-17:00 (excluding bank holidays)

Establishment of a Risk Appetite Framework (RAF)

As the management environment surrounding financial institutions becomes more severe, to achieve sustainable profitability regional financial institutions must undertake business model reforms and develop their governance system for supporting strategies and managing risk appropriately.

Given this, the Bank clarifies types and amounts of risk acceptable to achieving the business plan and builds a risk appetite framework (RAF) for business management and risk management.

The new mid-term business plan, "Innovation for Purpose," was formulated after conducting an analysis of

the risk and return of each of our business areas based on RORA and setting the following risk-taking policy aimed at increasing earnings.

In light of the current market environment, in order to keep to a manageable level the decline in gains on securities valuation due to an increase in interest rates, the Bank has set target values for the amount of interest rate risk in the bond portfolio to prevent a decline in the capital adequacy ratio.

Going forward, the Bank aims to optimize risk and returns and effectively utilize capital and management resources through the gradual development of the RAF.

Risk-Taking Policy

- Invest management resources to solve issues to revitalize the local economy and achieve sustainable growth/actively engage in risk-taking.
- Aim to expand earnings by taking on risks in growth areas such as decarbonization, while securing equity capital to supply funds to the region.
- In securities management, build a long-term stable portfolio by diversifying assets under management with a focus on diversification and securing liquidity.