

Corporate Governance

We believe that the basis for governance is a constant pursuit of the best possible way to maximize the value we offer all our stakeholders in order to achieve the Nanto Mission’s goals and to play an indispensable role in regional development.

■ Corporate Governance Structure

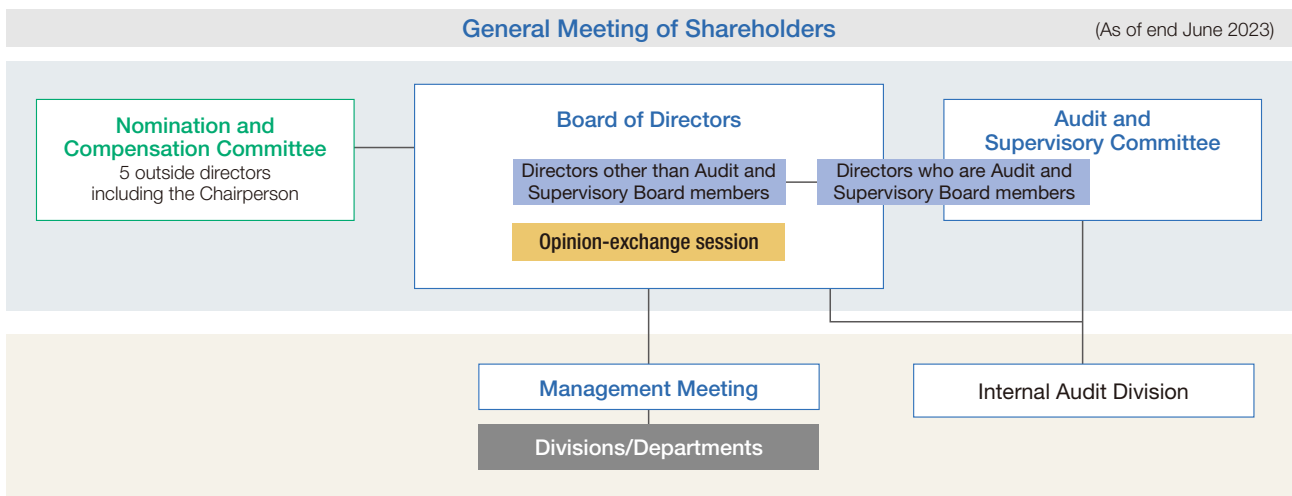
The Bank’s Board of Directors comprises 12 members, seven corporate directors (of which, one Audit and Supervisory Board member) who are familiar with the Group’s operations and five outside directors (of which, two Audit and Supervisory Board members) who have extensive experience and knowledge outside the Bank. This structure was adopted to separate supervision from execution and to ensure that the Board comprises members with diverse knowledge, experience, and capabilities.

In addition, the supervisory function of the Board of Directors has been strengthened by establishing the Nomination and Compensation Advisory Committee. The Committee comprising the President, Vice President and five outside directors is chaired by an outside director, and includes knowledgeable outside experts as observers to enhance the independence, objectivity, and transparency of its decision-making.

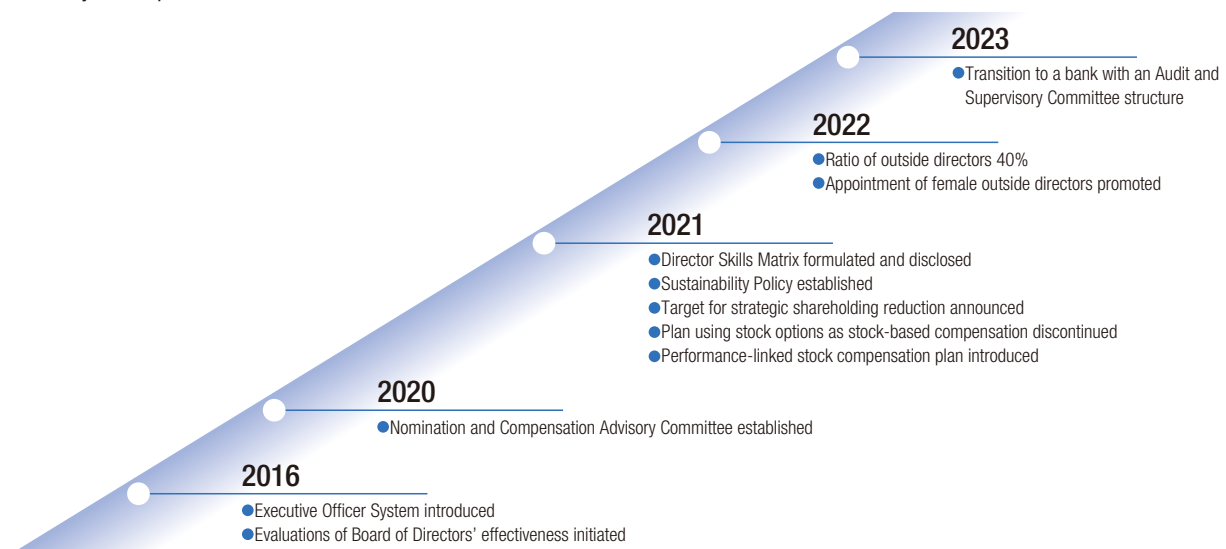
Transition to a bank with an Audit and Supervisory Committee

By transitioning to a bank with an Audit and Supervisory Committee, we have strengthened our auditing and supervisory functions and accelerated our decision-making, while seeking to achieve sustainable growth and enhance our corporate value over the medium to long term.

■ Structure



■ History of Corporate Governance





Governance

Performance

Director Skills Matrix

[Full-time directors]

Name	Current position in the Bank	Management strategy	Risk management	Finance & accounting	Examination	IT & digital	Market operations	Sales planning	Sales promotion	Human resources planning	Human resources development	Experience in other industries
Takashi Hashimoto	President (Representative Director)	●	●	●	●	●		●	●	●	●	
Satoshi Ishida	Vice President (Representative Director)	●	●	●		●				●	●	●
Kazuya Yokotani	Director and Senior Managing Executive Officer	●	●	●			●			●	●	
Takeshi Sugiura	Director and Managing Executive Officer, General Manager, Sales Promotion Headquarters		●		●		●	●	●		●	
Ryuichiro Funaki	Director and Managing Executive Officer	●			●		●	●	●	●	●	●
Kouji Honda	Director and Managing Executive Officer				●			●	●		●	
Takao Handa	Director and Audit and Supervisory Board Member		●	●						●	●	

[Outside directors]

Name	Current position in the Bank	Regional economy	Economic and financial environment	Organization & governance	Finance & Accounting
Hidetaka Matsuzaka	Outside Director	●		●	
Kozue Nakayama	Outside Director	●		●	
Takashi Nishimura	Outside Director	●		●	
Shuhei Aoki	Outside Director Audit and Supervisory Committee Member		●		●
Yoshihiko Kasuya	Outside Director Audit and Supervisory Committee Member		●	●	●

Selection of outside directors

	Reasons for appointment and expected contributions
Outside Director Hidetaka Matsuzaka	Mr. Matsuzaka was appointed to the position of outside director because of his extensive experience and broad knowledge of corporate management and organizational operations as well as for his large fund of knowledge that enables him to supervise management accurately and fairly, and to express his opinions on management from a broad perspective. We expect him to draw on his diverse management experience in corporate operations to supervise the Bank's management from an independent perspective, free from the conventional boundaries of a financial institution.
Outside Director Kozue Nakayama	In addition to her extensive experience as a corporate executive, Ms. Nakayama currently serves as outside director and outside corporate auditor for three listed companies. She was appointed to the position of independent outside director owing to her wealth of knowledge and deep insight. She is expected to apply her diverse range of knowledge and experience to contribute to regional development and to provide advice on the Bank's efforts to promote diversity, as well as to supervise the Bank's management from an independent, objective standpoint.
Outside Director Takashi Nishimura	Mr. Nishimura was appointed to the position of outside director based on his extensive corporate management experience in the railroad, real estate, and hotel industries, as well as on his broad knowledge and profound insight into the issues of corporate organizational management and governance. The Bank expects him to utilize his extensive management experience in and expansive knowledge of non-financial business entities to provide advice that contributes to regional development and to supervise the Bank's management from an independent, objective standpoint.
Outside Director Audit and Supervisory Board Member Shuhei Aoki	Mr. Aoki has a wealth of knowledge and experience in every aspect of the financial industry, which has prepared him to supervise management accurately and fairly in such ways as by sharing his opinions with management from a broad perspective. We expect him to fulfill his duties as an outside director by drawing on his extensive knowledge and experience in the financial field to provide accurate advice, and to supervise the Bank's management from an independent, objective standpoint.
Outside Director Audit and Supervisory Board Member Yoshihiko Kasuya	Mr. Kasuya's appointment to the positions of outside director and Audit and Supervisory Board member was made due to the wide-ranging knowledge and superior insight he has acquired through his experience in both financial institutions and non-financial business enterprises. He is expected to use his diverse experience and knowledge to supervise the Bank's management from an independent, objective standpoint as a member of the Audit and Supervisory Board.

Corporate Governance

Corporate Governance

Operational status of the Board of Directors

The Board of Directors is responsible for making important decisions promptly in a highly uncertain management environment as well as for supervising management. To enhance the effectiveness of these functions, the Board seeks to improve its deliberations by explaining the matters to be deliberated, particularly to outside directors, in advance of meetings of the Board of Directors.

In addition, the Board of Directors holds opinion exchange meetings to discuss important management issues and medium- to long-term themes after resolutions are made and reports compiled. The directors engage in lively discussions at these meetings, especially the outside directors, who offer their opinions from various perspectives.

Number of Board of Directors meetings and main subjects of discussion (April 2022 - March 2023)

Board of Directors Meeting	Chairman	President	Times convened	13
Main items for deliberation				
<ul style="list-style-type: none"> Transition to a bank with an Audit and Supervisory Committee Action plan for the current fiscal year based on the Management Plan and monitoring of progress Initiatives to address sustainability issues (e.g., addressing climate change) Review of strategic shareholdings Progress in construction of the new main building Other matters required by laws and regulations (closing of accounts, convening of the Ordinary General Meeting of Shareholders, selection of representative directors and directors with special titles) 				
Opinion-exchange session	Chairman	President	Times convened	5
Main issues discussed				
<ul style="list-style-type: none"> Action Plan for FY2023 Initiatives to revitalize local industry in Nara Prefecture Bank's issues from the perspective of industry trends and its policies with respect to the future 				

Number of Nomination and Compensation Advisory Committee meetings and main advisory matters (April 2022 - March 2023)

Nomination and Compensation Committee	Times convened	7
Main consultation contents		
<ul style="list-style-type: none"> Consideration of the Bank's governance structure Placing selection of candidates for the Board of Directors on the agenda Consideration of the qualities and capabilities required of directors and updating of the skills matrix table Setting of targets for executive compensation and performance-linked stock compensation for the current fiscal year 		

Outside directors' support system

- We provide outside directors with various types of information they need to perform their duties and contribute to discussions at Board meetings. The Bank also arranges timely training and seminars to share relevant knowledge.
- The full-time Audit and Supervisory Board members provide the outside Audit and Supervisory Board members with information concerning the status of the Bank, including reports from the Internal Audit Department and Risk Management Department, to facilitate communication and cooperation with members of the Audit and Supervisory Board.

Compensation for directors

The Bank has established the following policy for determining the content of compensation, etc., for each individual director ("determination policy" hereinafter).

Basic policy

- The compensation system is designed to encourage directors (excluding directors who are members of the Audit and Supervisory Board. Same hereafter) to conduct management from a medium- to long-term perspective, and to enhance their awareness of their duty to contribute to improving the Bank's performance and increasing its corporate value over the medium to long term. As a basic policy, compensation for each director shall be set at an appropriate level determined by the Board of Directors once a year following deliberation and reporting by the Nomination and Compensation Advisory Committee.
- More specifically directors' compensation comprises fixed monthly compensation and performance-linked, stock-based compensation, while compensation for outside directors, whose responsibility is limited to a supervisory function, comprises only monthly compensation determined in consideration of their duties.

Policy on determination of individual monthly remuneration (monetary)

- The monthly remuneration for the Bank's directors shall be a fixed monthly amount, which shall be determined comprehensively in accordance with the "Remuneration Regulations for Directors and Corporate Auditors," taking into consideration their position, the level of other companies' compensation, the Bank's performance, and the level of employees' salaries.
- The total remuneration shall be no more than 400 million yen per year (including the amount of not more than 80 million yen for outside directors), subject to approval by the General Meeting of Shareholders.



Governance

Performance

- Compensation for directors who are also Audit and Supervisory Board members shall be “monthly compensation” paid as fixed remuneration according to their duties from the perspectives of increasing their independence and further strengthening corporate governance. The monthly remuneration shall be determined through discussions by the Audit and Supervisory Committee in accordance with the “Remuneration Regulations for Directors.” The total amount shall be no more than 100 million yen per year, subject to approval by the General Meeting of Shareholders.

Policy on determination of the details and methods of calculating the amount and number of performance-linked stock compensation (non-monetary compensation)

- The purpose of performance-linked, stock-based compensation is to clarify the linkage between directors' compensation and the Bank's business performance and stock value, and to increase the directors' awareness of the need to contribute to improving the Bank's business performance and increasing its corporate value over the medium to long term.
- The Bank will adopt a structure known as a “Board Incentive Plan (BIP) Trust” (“BIP Trust” hereinafter) as performance-linked, stock-based compensation for the three terms from the fiscal year ended March 31, 2022 to the fiscal year ended March 31, 2024.
- The BIP Trust is an incentive plan for directors under which shares of the Bank and an amount equivalent to the cash proceeds from the conversion of the Bank's shares are delivered or paid to directors in accordance with their position and the degree to which indicators such as performance targets have been achieved.
- In accordance with the “Officer Compensation Regulations” and the “Share Delivery Regulations Concerning the Officer Compensation BIP Trust” established by the Board of Directors, “fixed points” corresponding to the directors' positions and “performance-linked points” ranging from 0% to 200%, depending on the achievement of the Bank's performance targets for each fiscal year, are assigned at a set time each year.
- Points are accumulated annually, and one point is allocated as one share of the Bank's stock in proportion to the accumulated points at the time of retirement (including cases in which a director who is not a member of the Audit and Supervisory Board retires and is later appointed as a director who is a member of the Audit and Supervisory Board).
- “Performance-linked points” for each fiscal year are based on a target value for profit from customer services (consolidated basis) for the year in question as a means of motivating the recipients to achieve the Bank's goals of “securing stable, positive profit from customer services” and “maximizing the Group's earnings” as stipulated in the Management Plan.
- The maximum amount contributed by the Bank is a total of 100 million yen (the total number of the Bank's shares issued is 84,000 shares) for three fiscal years.

< Formula for calculation of allotted points >

Fixed points = Base amount of stock-based compensation by position (*1) × 2/3 ÷ Assumed stock price (*2)

Performance-linked points = Base amount of stock-based compensation by position × 1/3 ÷ Assumed stock price × Performance-linked coefficient

*1 Total amount of compensation for each position to be paid under the scheme when the performance achievement rate is 100%.

*2 Average acquisition unit price of the Bank's shares initially acquired by the BIP Trust (rounded down to the nearest whole number)

Standard amount of stock compensation by rank

(Unit: thousand yen)

Position (*3)	Standard amount of stock-based compensation by position (*1)	Breakdown	
		Fixed portion	Performance-linked portion
President (Representative Director)	6,156	4,104	2,052
Vice President (Representative Director)	5,472	3,648	1,824
Director and Senior Executive Officer	4,275	2,850	1,425
Director and Managing Executive Officer	3,762	2,508	1,254

*3 The position at the beginning of the period subject to payment (from the day following the Annual General Meeting of Shareholders of the previous year to the date of the Annual General Meeting of Shareholders of the current year) is applied.

Target value

Profit from customer transactions (consolidated): 5.6 billion yen

Performance-linked coefficient

(Unit: thousand yen)

Deviation from target	Performance-linked coefficient	Deviation from target	Performance-linked coefficient	Deviation from target	Performance-linked coefficient
+1 billion yen	200%	+0.4 billion yen to +0.5 billion yen	140%	-0.2 billion yen to -0.1 billion yen	80%
+0.9 billion yen to +1 billion yen	190%	+0.3 billion yen to +0.4 billion yen	130%	-0.3 billion yen to -0.2 billion yen	70%
+0.8 billion yen to +0.9 billion yen	180%	+0.2 billion yen to +0.3 billion yen	120%	-0.4 billion yen to -0.3 billion yen	60%
+0.7 billion yen to +0.8 billion yen	170%	+0.1 billion yen to +0.2 billion yen	110%	-0.5 billion yen to -0.4 billion yen	50%
+0.6 billion yen to +0.7 billion yen	160%	0.0 billion yen to +0.1 billion yen	100%	0.5 billion yen or less	0%
+0.5 billion yen to +0.6 billion yen	150%	-0.1 billion yen to -0.0 billion yen	90%		

Corporate Governance

Policy on monthly remuneration and performance-linked stock compensation as a percentage of remuneration, etc., for individual directors

- The Bank shall determine the ratio of remuneration according to each individual director's classification to ensure that the level of remuneration encourages directors to conduct management from a medium- to long-term perspective and with heightened awareness of the need to contribute to improving the Bank's performance and to increasing its corporate value for the foreseeable future.
- Specifically, monthly remuneration shall be fixed remuneration, and the ratio of performance-linked stock compensation shall be 10% to 20% of the annual total monthly remuneration, depending on the degree to which target values are achieved.

Matters concerning determination of individual directors' remuneration, etc.

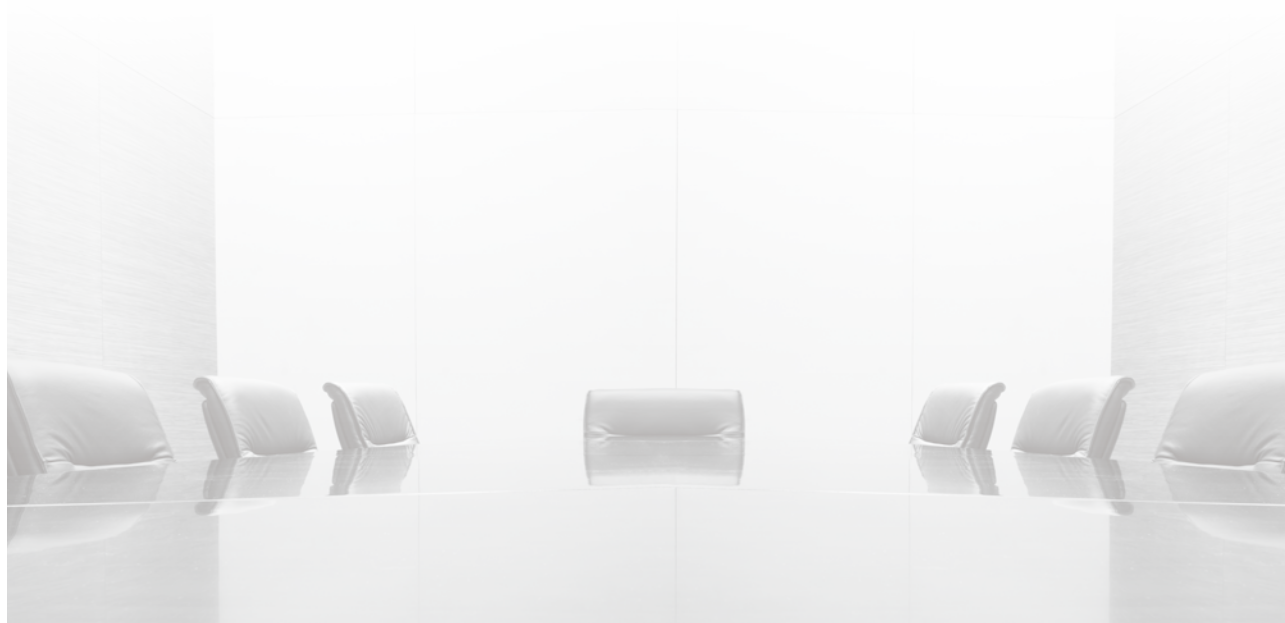
- In its efforts to ensure objectivity and transparency in the procedures employed to determine remuneration and enhance corporate value, the Bank has established the Nomination and Remuneration Advisory Committee, of which the Chair and a majority of the members are outside directors.
- Individual directors' compensation is determined by the Board of Directors in accordance with the "Regulations on Directors' Compensation," based on deliberations and reports of the Nomination and Compensation Advisory Committee.

■ Total compensation by executive officer category, total compensation by type of compensation, and number of executive officers eligible for compensation, etc.

Current fiscal year (April 1, 2022 to March 31, 2023)

Executive officer classifications	Number of executive officers	Total remuneration, etc. (million yen)	Fixed remuneration	Performance-linked compensation (non-monetary compensation)
Directors (excluding outside directors)	6	216	181	35
Corporate auditors (excluding outside corporate auditors)	2	38	38	—
Outside directors and outside auditors	6	39	39	—

- (Notes) 1. The Bank has introduced performance-linked stock compensation for directors. Performance-linked remuneration in this table is the amount recorded as expenses for the fiscal year under review.
2. The Bank's consolidated business profit from customer transactions, which is the basis for calculating performance-linked remuneration, was 5.89 billion yen (an increase of 3.19 billion yen compared to the target) for the fiscal year under review, compared to the target of 2.7 billion yen.
3. No employee salaries were paid to directors who also serve as employees.
4. There is no director whose total amount of remuneration, etc., on a consolidated basis is 100 million yen or more.
5. The above compensation is for the fiscal year under review, and the Bank has transitioned to a bank with an Audit and Supervisory Committee system following the resolution to amend the Bank's Articles of Incorporation at the Annual General Meeting of Shareholders held on June 29, 2023.





Governance

Performance

Evaluation of the Board of Directors' effectiveness

Since fiscal 2016, the Bank has followed a policy of conducting an annual analysis and evaluation of the effectiveness of the Board of Directors.

The table shows the progress made in addressing issues identified in the previous year, as well as the methods and results of the evaluation of the Board of Directors' effectiveness in fiscal 2022.

Progress in addressing issues identified in the previous year's evaluation of the effectiveness of the Board of Directors

- (1) Deeper discussions at Board of Directors meetings on strategies that will contribute to medium- to long-term improvement of corporate value
⇒ Action plans, new businesses, etc., were discussed at several Board of Directors meetings as well as at opinion-exchange meetings.
- (2) Further review of the operation of the Board of Directors meetings to deepen discussion
⇒ Representatives of the divisions responsible are also present at the preliminary explanatory meetings for outside directors to explain the executives' views, which provide the basis for discussion at Board of Directors meetings, and also the reasons for their proposals.
- (3) Enhancement of executives' training to revitalize the Board of Directors
⇒ In accordance with the Annual Plan, theme-based study sessions such as "Diversity and Promotion of Women's Activities" and "Trends in Cyber Security" were extended to the general manager level.

Evaluation method

In fiscal 2022, the Bank conducted an evaluation of the effectiveness of the Bank's Board of Directors as discussed below based on the results of a questionnaire compiled and analyzed by an external consultant.

- (1) In February 2023, a questionnaire was sent to all the directors (10) and all the corporate auditors (4) regarding the composition, operation, and deliberations of the Board of Directors ("FY2022 Questionnaire").
- (2) At a Board of Directors Meeting on May 12, 2023, the results of the questionnaire and the external consultant's analysis were reported.
- (3) At a Board of Directors meeting on June 17, 2023, the Bank finalized its evaluation of the effectiveness of the Board of Directors for fiscal 2022 upon discussion of the Bank's issues and further initiatives.

The main items included in the FY2022 Questionnaire are as follows. Each question in the questionnaire is designed to be rated on a 5-point scale. Starting in the current fiscal year, comments must be included for each main item.

- I. Composition and operation of the Board of Directors (5 questions)
- II. Management and sales strategies (10 questions)
- III. Corporate ethics and risk management (3 questions)

- IV. Dialogue with shareholders (4 questions)
- V. Nomination and compensation of management (3 questions)
- VI. Improvement of previous year's issues (1 question)

Summary of FY2022 Questionnaire analysis and evaluation results

The Board of Directors shared and discussed the results of the external consultant's analysis of the FY2022 Questionnaire, and confirmed that, on the whole, the Bank's Board of Directors operates appropriately and ensures effectiveness, with examples including mention of certain issues that had been addressed in the previous year. We recognize, however, that there is room for further improvement, including addressing the issues raised in the previous year.

<Issues identified in the Questionnaire results>

- Formulation and monitoring of management strategies
- Promotion of DX and the SDGs
- Investment in human capital and development and execution of human resources strategies based on the Management Plan
- Atmosphere of Board meetings and multifaceted discussions
- Director training

Future Initiatives

As a result of discussions held by the Board of Directors concerning issues identified from the results of the FY2022 Questionnaire, the following initiatives will be implemented in fiscal 2023 to enhance the effectiveness of the Board of Directors further.

<Initiatives for fiscal 2023>

- Discussion at Board of Directors' meetings about strategies and other matters supporting sustainable management
- Further improvement of Board of Directors' operations to deepen discussions
- Enhanced training for Board members to revitalize the Board of Directors

Message from the Audit and Supervisory Committee Chairman

With the transition to a bank with an Audit and Supervisory Committee, I will have voting rights at Board of Directors meetings as an Audit and Supervisory Board Member as well as the right to comment on the appropriateness of management in the area of auditing. This structure will strengthen the Bank's supervisory functions and enhance its corporate governance while also contributing to further soundness of its management and corporate value.

Since audits by the Audit and Supervisory Committee are conducted systematically based on an internal control system, the Audit and Supervisory Committee will actively support the Audit Department to enhance its sophistication, and the Audit and Supervisory Committee will review and discuss from various angles the issues that have emerged across the Bank and other issues identified through various monitoring activities. The Audit and Supervisory Committee also recognizes that it is responsible for contributing to the operation of the Board of Directors by examining and discussing issues from various perspectives and making recommendations to the Board of Directors to encourage discussion of the conclusions reached.

Considering today's trend toward "aggressive" governance, we intend to pay particular attention to the progress of the Action Plan in realizing the Management Plan. With regard to investment in human capital, which is a key factor in sustainable growth, we are deepening our discussions of human resources strategies, including the creation of "unconventional" human resources. We will examine the manner in which this human resources strategy fits in and functions with the Bank's overall corporate strategy, including its Management Strategy, as well as the implementation status of various measures in the field required by the human resources strategy and the appropriateness of monitoring the results. We will then make suitable recommendations concerning these measures. We will do our utmost to ensure that our recommendations contribute to the steady progress of human resources development with respect to all the Bank's executives and employees, while producing unconventional human resources.



Director and Audit and Supervisory Board Member

Takao Handa