

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

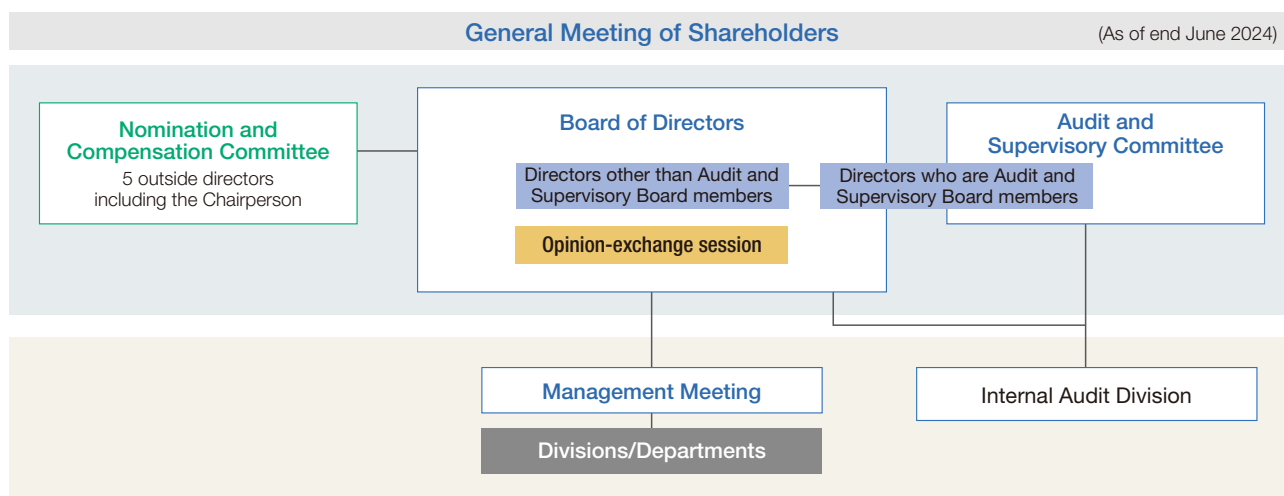
The Bank's Board of Directors comprises 12 members, seven corporate directors (of which, one Audit and Supervisory Board member) who are familiar with the Group's operations and five outside directors (of which, two Audit and Supervisory Board members) who have extensive experience and knowledge outside 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.

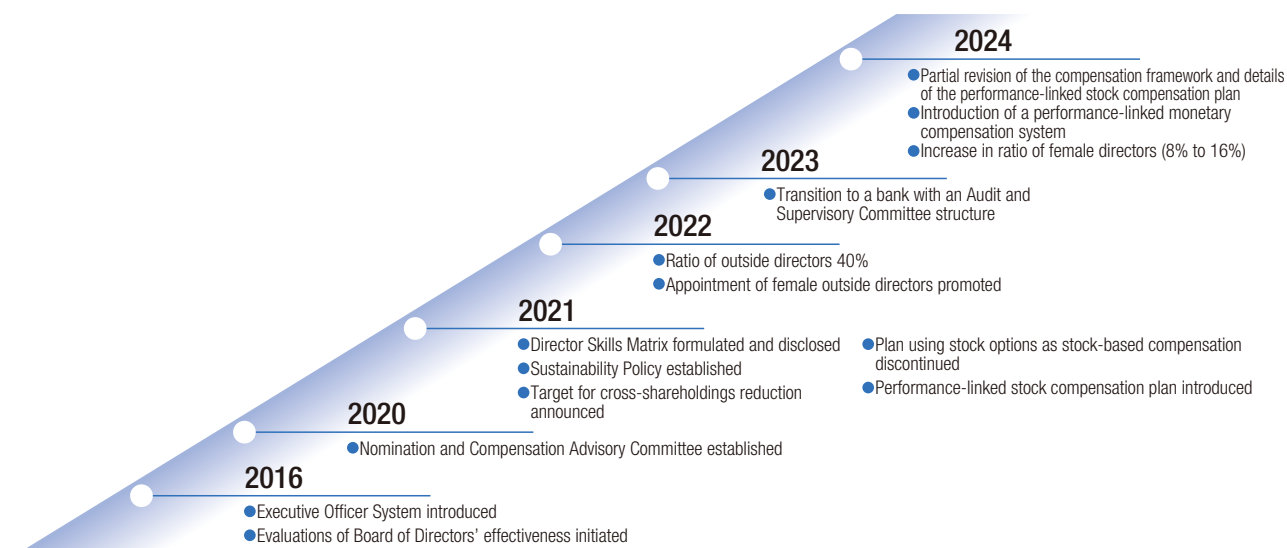
Transition to a bank with an Audit and Supervisory Committee

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



■ 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)	●	●	●		●				●	●	●
Takeshi Sugiura	Director and Senior Managing Executive Officer		●		●		●	●	●		●	
Ryuichiro Funaki	Director and Managing Executive Officer	●			●		●	●	●	●	●	●
Kouji Honda	Director and Managing Executive Officer				●	●		●	●		●	
Haruyuki Kakutani	Director and Managing Executive Officer				●				●	●	●	
Koushi Okamoto	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
Kozue Nakayama	Outside Director	●		●	
Takashi Nishimura	Outside Director	●		●	
Yuuko Tahara	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 Kozue Nakayama	In addition to a broad background in corporate and local governmental management, she has extensive experience and advanced knowledge of corporate administration and regional development, including service as an outside director and outside corporate auditor at two listed companies, one of them a global company. We expect her to supervise the Bank's management from an independent, objective standpoint, with contributions to include suggestions for regional development and advice on the Bank's efforts to promote diversity.
Outside Director Takashi Nishimura	Besides extensive experience as a corporate manager in the railroad, real estate, and hotel sectors, among others, she has broad knowledge and deep insight into corporate organizational management and governance. We expect her to supervise the Bank's management from an independent, objective standpoint and to provide advice on regional development and organizational management that goes beyond the usual range of a financial institution by drawing on her diverse management experience.
Outside Director Yuuko Tahara	In addition to years-long experience as a corporate manager, she has served as a consultant to many companies in the areas of human resource development and educational programs, system planning and implementation support. She currently serves as an outside director at two listed companies, where she shares her deep knowledge and insight regarding organizational management. We expect her to supervise the Bank's management from an independent, objective standpoint, including provision of advice on human capital management, diversity promotion, and SDG initiatives.
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.

■ 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 2023 - March 2024)

Board of Directors Meeting	Chairman	President	Times convened	12
Main items for deliberation <ul style="list-style-type: none"> Initiatives to strengthen the functions of the Board of Directors Initiatives to address sustainability issues (e.g., addressing climate change) Revision of the personnel system Review of cross-shareholdings Initiatives to revitalize the lumber industry and establish a regional revitalization company 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	3
Main issues discussed <ul style="list-style-type: none"> Interim Management Plan for the next fiscal year New business 				

Number of Nomination and Compensation Advisory Committee meetings and main advisory matters (April 2023 - March 2024)

Nomination and Compensation Committee	Times convened	15
Main consultation contents <ul style="list-style-type: none"> Appointment of candidates to the Board of Directors and Board of Auditors Updating of the skills matrix table Establishment of targets for executive compensation and performance-linked share compensation for the fiscal year under review Partial revision of the remuneration framework and details of the performance-linked share compensation plan Revision of the remuneration system for Board members, including introduction of a performance-linked cash remuneration system 		

Outside directors' support system

- We provide outside directors (including Audit and Supervisory Board members) with the diverse information they need to perform their duties. The general managers in charge and others provide advance explanations of all agenda items to be taken up at Board of Directors' meetings in order to contribute to deepening of the discussions at the meetings themselves. 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. In addition, the outside Audit and Supervisory Board members attend meetings to exchange opinions with the Representative Director as well as audit report meetings conducted for each fiscal year by the Accounting Auditor to proactively obtain information necessary for the audits. They express their objective opinions from an independent standpoint at Board of Directors' meetings and Audit and Supervisory Board meetings.

■ 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

- Nanto Bank's compensation system is designed to encourage directors (excluding directors who are members of the Audit and Supervisory Board. Same hereafter) to improve performance each fiscal year, conduct management from a medium- to long-term perspective, and enhance their awareness of their duty to contribute to improving the Bank's performance and increasing its corporate value. 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 (monetary compensation) and performance-linked stock-based and monetary compensation, while compensation for outside directors, whose responsibility is limited to a supervisory function, comprises only monthly compensation as fixed 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.

Policy for determining the details and method of calculating the amount of performance-linked cash remuneration

- The purpose of performance-linked cash remuneration is to clarify the linkage between directors' remuneration and the Bank's business performance, and to increase the directors' awareness of their contribution to improving the Bank's business performance each fiscal year.
- In accordance with the "Remuneration Regulations for Directors and Corporate Auditors" and the "Performance-linked Monetary Remuneration Regulations" established by the Board of Directors, the Bank shall pay, at a certain time each year, monetary remuneration that varies between 0% and 200% in bonuses to the directors, depending on their position and degree of achievement of the Bank's performance targets for each fiscal year, and the target value of net income attributable to shareholders of the parent company ("consolidated net income") for each fiscal year shall be used as an indicator.
- If consolidated net income is less than 0.0 billion yen, however, the amount of performance-linked monetary compensation shall be 0 yen.

<Target> Consolidated net income: 13 billion yen (FY2024)

<Performance-linked coefficient>

Deviation from the target	Performance-linked coefficient	Deviation from the target	Performance-linked coefficient	Deviation from the target	Performance-linked coefficient
+5 billion yen	200.0%	+1 billion yen to +0 billion yen	120.0%	- 3 billion yen to - 2 billion yen	40.0%
+4 billion yen to +5 billion yen	180.0%	0.0 billion yen to +1 billion yen	100.0%	- 4 billion yen to - 3 billion yen	20.0%
+3 billion yen to +4 billion yen	160.0%	- 1 billion yen to -0.0 billion yen	80.0%	-4 billion yen or less	0%
+2 billion yen to +3 billion yen	140.0%	- 2 billion yen to -1 billion yen	60.0%		

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 ending March 31, 2025 to the fiscal year ending March 31, 2027.
- 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 of consolidated ROE for the year as a means of motivating the recipients to achieve the Bank's goals of "medium-to-long-term capital improvement" as stipulated in the Management Plan.
- The maximum amount contributed by the Bank shall be a total of 240 million yen (the total number of the Bank's shares issued is 96,000 shares) for three fiscal years.
- Should a director materially breach the power-of-attorney agreement between the Bank and the director or be dismissed due to an action constituting grounds for dismissal, the Bank shall either refrain from delivering shares to the director under this plan (malus) or demand return of moneys equivalent to the shares delivered to the director (clawback).

<Formula for calculation of allotted points>

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

Performance-linked points = Base amount of stock-based compensation by position × 1/2 ÷ 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)	8,640	4,320	4,320
Vice President (Representative Director)	7,680	3,840	3,840
Director and Senior Executive Officer	6,000	3,000	3,000
Director and Managing Executive Officer	5,280	2,640	2,640

*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> Consolidated ROE: 4.51% (FY2024)

<Performance-linked coefficient>

Deviation from the target	Performance-linked coefficient	Deviation from the target	Performance-linked coefficient	Deviation from the target	Performance-linked coefficient
+2.00% or more	200.0%	+0.50% or more ~ +0.75% or less	125.0%	-1.00% or more ~ -0.75% or less	50.0%
+1.75% or more ~ +2.00% or less	187.5%	+0.25% or more ~ +0.50% or less	112.5%	-1.25% or more ~ -1.00% or less	37.5%
+1.50% or more ~ +1.75% or less	175.0%	0.00% or more ~ +0.25% or less	100.0%	-1.50% or more ~ -1.25% or less	25.0%
+1.25% or more ~ +1.50% or less	162.5%	-0.25% or more ~ 0.00% or less	87.5%	-1.75% or more ~ -1.50% or less	12.5%
+1.00% or more ~ +1.25% or less	150.0%	-0.50% or more ~ -0.25% or less	75.0%	-1.75% or less	0.0%
+0.75% or more ~ +1.00% or less	137.5%	-0.75% or more ~ -0.50% or less	62.5%		

Policy on monthly remuneration, performance-linked monetary compensation 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 improve performance every fiscal year, 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 increase its corporate value for the foreseeable future.
- Specifically, monthly remuneration shall be fixed remuneration, the ratio of performance-linked monetary compensation shall be 0% to 10% of total annual monthly remuneration depending on the degree to which the target values are achieved, and the ratio of performance-linked stock compensation shall be 10% to 30% of the total annual 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, 2023 to March 31, 2024)

(Million yen)

Executive officer classifications	Number of executive officers	Total remuneration, etc.	Fixed remuneration	Performance-linked compensation (non-monetary compensation)
Directors (excluding Audit and Supervisory Committee members and outside directors)	7	216	180	36
Audit Committee members (excluding outside directors)	1	14	14	—
Corporate auditors (excluding outside corporate auditors)	2	9	9	—
Outside directors and outside auditors	8	37	37	—

(Notes) 1. The Bank adopted the "Company with an Audit Committee System" as of June 29, 2023, following a resolution to amend its Articles of Incorporation at the Annual General Meeting of Shareholders on that date.
 2. 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.
 3. The Bank's consolidated business profit from customer transactions, which is the basis for calculating performance-linked remuneration, was 8 billion yen (an increase of 2.4 billion yen compared to the target of 5.6 billion yen) for the fiscal year under review.
 4. No employee salaries were paid to directors who also serve as employees.
 5. There is no director whose total amount of remuneration, etc., on a consolidated basis is 100 million yen or more.



■ 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) Discussion of strategies and other concerns to support sustainable management by the Board of Directors

⇒ The Board of Directors held discussions of sustainable management strategies, such as formulation of the next Medium-Term Management Plan, new business initiatives, and establishment of a regional revitalization company at Board meetings and opinion exchange meetings.

(2) Enhancing Board of Directors' operation for deeper discussion

⇒ Efforts are underway to secure time for discussion of important agenda items by assigning authority over priority business execution to the directors and organizing agenda items for the Board of Directors (preparation of annual schedule), etc.

(3) "Enhancement of training for Board members to revitalize the Board of Directors

⇒ In addition to the "SR/IR-related" and "risk management-related" seminars that have been held continuously every year based on the annual plan, outside lecturers conducted study sessions for directors (including outside directors) and general managers on themes based on the Bank's management strategies and social trends such as "sustainability" and "DX."

Evaluation method

In fiscal 2023, 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) A questionnaire was sent to all the directors (12 members, including the Audit and Supervisory Board members) in February 2024 concerning the composition, operation, and deliberations of the Board of Directors ("FY2023 Questionnaire").

(2) The results of the questionnaire and an analysis consigned to an external consultant were reported at a Board of Directors Meeting on March 19, 2024.

(3) On the occasion of a Board of Directors' meeting on June 17, 2024, the Bank finalized its evaluation of the effectiveness of the Board of Directors in fiscal 2023 following a discussion of the Bank's issues and further initiatives.

The main items included in the FY2023 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. Status of responses to this year's initiatives (2 questions)

Summary of FY2023 Questionnaire analysis and evaluation results

The Board of Directors discussed the results of the outside consultant's analysis of the FY2023 Questionnaire and determined that, overall, the Board had held lively discussions and achieved improvement in the issues raised in the previous year. It found that the Bank's Board of Directors operated appropriately and exhibited effectiveness for the most part, although various tasks remain to be addressed.

<Issues identified in the Questionnaire results>

● Formulation and monitoring of management strategies

● Multi-faceted discussions taking individual stakeholders' perspectives into account

● Investment in human capital and formulation and execution of human resource strategies based on the Management Plan

● Board meetings' atmosphere and agenda

● Supervision of management human resources development

Future Initiatives

As a result of discussions held by the Board of Directors concerning issues identified from the results of the FY2023 Questionnaire, the following initiatives will be implemented in fiscal 2024 to enhance the effectiveness of the Board of Directors further.

<Initiatives for fiscal 2024>

● Enhancement of discussions on the formulation of medium- to long-term management strategies to raise corporate value

● Enhancement of Board meeting management to stimulate discussion

● Enhancement of training for Board members to revitalize the Board of Directors

The Bank will continue its efforts to optimize the effectiveness of the Board of Directors and reinforce its governance structure, including improvement of the above issues.