

Message from the Management



We recognize that our true value as a regional financial institution is being put to the test in these difficult circumstances, and will work as a whole in support of our customers.

Embracing the rapid changes in the environment, we will undertake a radical transformation of our profit structure and address various issues to build a strong management structure.

Akihiko Fukai
President
The Gunma Bank, Ltd.

Preface

Looking at the recent economic situation, the domestic economy, which had been in a moderate recovery trend, has rapidly deteriorated due to the impact from the novel coronavirus (COVID-19), and the situation has become extremely difficult.

The environment surrounding financial institutions is becoming increasingly severe, as evidenced by continued narrowing yields on loans and securities management due to the prolonged Negative Interest Rate Policy, as well as fluctuations in global financial and capital markets due to COVID-19. These rapid changes in the global economic situation are having an even greater domestic and global impact than the 2008 Lehman Brothers crisis, and are also having a significant impact on regional economies.

The Gunma Bank plays an indispensable role in the infrastructure for social and economic stability, and has a mission to fully fulfill our financial intermediary functions and support the regional economy in any situation. We recognize that our true value as a regional financial institution is being put to the test in these difficult circumstances, and are working as a whole in support of our customers.

The structural changes in the regional economy, including demographics, and the changes in lifestyle and business models due to the progress of digitalization, combined with the global COVID-19 pandemic, are further accelerating these changes.

Embracing these rapid changes in the environment, we aim to build a strong management structure by grappling with various challenges, such as taking the initiative for revitalizing regional economies, implementing a radical transformation of our profit structure, responding to emerging needs involving business succession and inheritance, and taking initiatives in digital transformation.

Responding to management challenges

As a regional financial institution, we have to date been able to grow mainly through accepting deposits and making loans. However, to tackle the management challenges mentioned above, we are required to redefine the businesses we are targeting. It is effective to once more consider the core competence of the Bank, namely, “Our core strength which other companies cannot imitate, and through which we can deliver value to our customers” while reducing our dependence on conventional business resources. I believe that we can create new value and contribute to customers and society through effective utilization of the Bank’s management resources upon accurately understanding and defining them.

What is our core competence?

First is the “ability to collect information” that is based on the networks and relationships with customers. Thus far, the Bank has been actively engaged in the expansion of geographical markets with notable accomplishments. We have developed networks with over 34,000 corporate and individual business customers both inside and outside Gunma Prefecture. These networks were carefully built over many years and are expected to provide us with information from which, not only conventional business in deposits and loans, but new business opportunities can arise.

Next comes the “ability to formulate proposals” that we have been fostering thus far. We have strengthened our consulting business as a pillar for marketing strategy and have been engaged in strengthening our staff’s ability to devise new ideas to be presented as proposals. For personal customers, we hold seminars over 600 times annually on asset formation, etc. led by managers from each sales branch, and are striving to provide the optimum proposals in response to customers’ various needs by strengthening collaboration of banking/securities with Gungin Securities Co., Ltd.

For corporate customers, we established Gungin Consulting Co., Ltd., and devoted efforts to solving management challenges, including through the commencement of recruitment services. In fiscal year 2019, we were able to solve 739 of customers’ management challenges that were revealed as a result of conducting business feasibility assessments.

Based on our core competence, we expect to concentrate our efforts on areas where customer and regional needs are high and which may lead to business expansion and increased profitability going forward, for example, in the areas of consulting services for business succession and inheritance.

However, it is critical to keep making efforts to periodically redefine core competence and foster new abilities since the effectiveness of practices differs depending on the market and competitive environment and, in some cases, our traditional competitive advantage may become obsolete through changes in the market environment.

Initiatives for the Mid-Term Business Plan: “Innovation New Dimension”

■ Concept of the Mid-Term Business Plan

The three-year business plan “Innovation New Dimension – Toward delivering value” launched in April 2019 and ending in March 2022 is based on the perspectives above described.

The Bank worked on the previous Mid-Term Business Plan revised twice over the past six years, and provided our unique proposals and support based on the basic concept of “value proposition” thus enabling us to grow together with the regional communities and our customers. In the new Mid-Term Business Plan, we focus on realizing proposition value based on “value proposition” and aspire to be a “regional financial group that can achieve greater value by meeting customer needs through financial service innovation.”

To achieve what we aspire to be, we set forth the basic policies of “Transforming our management platform through three reform initiatives (Process, Channel, Human Resources)” and “Realizing advanced value through evolution of our business model.” We aim to further accelerate and intensify the planned initiatives in light of the sudden change in the environment caused by COVID-19.

Strengthening of governance and capital policy

■ Issues in fiscal year 2019 and initiatives for fiscal year 2020

The consolidated quantitative targets set out in the Mid-Term Business Plan were largely on track for the first year of the plan ended March 31, 2020. However, although subsidiaries, including Gungin Securities Co., Ltd. and GUNGIN LEASING CO., LTD., made steady progress with regard to non-interest business income, the expansion of which we focused on in our goal of transformation of the profit structure, the Bank itself was slow to advance.

In fiscal year 2019, we conducted activities focused on sharing the current issues and goals facing each customer through interviews and presentations for both business succession support and inheritance-related services. In fiscal year 2020, we expect to enter a phase in which we definitively realize optimal solutions in response to individual issues and needs of each customer, while fully utilizing the system and abilities we have improved through an increase in the number of dedicated staff and also leveraging Group company functions to the maximum. We will firmly draw up timelines by backcasting from shared goals with customers and accordingly build up a process so that the necessary steps progress appropriately in order to solve customers' issues and lead to the Bank's revenue.

In addition, we aim to accelerate the pace of the three reform initiatives toward the transformation of the management platform that will make this possible. Our lifestyles, mindset and the social environment have all changed as a result of COVID-19, and online communication, paperless operations and seal-free documents have rapidly become widespread. Leveraging this opportunity, we will accelerate the "DigiCal Strategy" that was set out in the plan, and promote the digitalization of customer interface channels by improving the convenience of Internet banking, apps and online services, and engaging in online communication with customers.



Strengthening of governance and capital policy

We will also make further progress in our efforts aimed at strengthening the governance system and conducting integrated control and operation for risk, return and capital.

To date, we have made efforts to strengthen our governance system by establishing the Nomination Advisory Committee and the Compensation Advisory Committee composed of independent outside directors and representative directors, and by introducing a restricted stock remuneration system and a performance-linked stock remuneration system. By increasing the number of outside directors by one and welcoming a new outside auditor in June 2020, we have been able to build a more effective governance system. The Board of Directors now consists of at least one third outside directors, and we have achieved a balanced system also in terms of expertise in corporate management, finance and legal affairs and in terms of gender.

As a framework for business management, we promote the creation and utilization of a "Risk Appetite Framework" that is a core

tool to optimally balance the levels of risk and return through maximized, effective utilization of limited capital and management resources. This framework is indispensable for financial institutions when creating a sustainable business model. While being ready to accept necessary risk for return in accordance with our financial and management strength, we will steadily work on loan promotion and establish a highly profitable loan portfolio.

In view of shareholder returns, the Bank will be engaged in strengthening the financial structure and, under the basic policy of continuously providing stable dividends, return performance-linked profits to shareholders. For the time being, we are setting a target of 40% of the non-consolidated current net income for the ratio of total payout to shareholders (dividends plus treasury stock acquisition).

In addition, as various environmental and social issues are becoming increasingly urgent, we must play a more proactive role through action programs that include the Sustainable Development Goals (SDGs). In February 2019, we formulated the “Gunma Bank Group SDGs Declaration” with an aim to contributing to the resolution of environmental and social issues through business activities based on our corporate philosophy and SDGs. In fiscal year 2020, we will establish the “SDGs and ESG Administration Office” within the Corporate Planning Department, and further strengthen our efforts by setting numerical targets that include reducing greenhouse gas emissions by at least 26%* and paper consumption by 40%* by fiscal year 2030.

By expanding on these types of initiatives and the various measures under the Mid-Term Business Plan, we will strive to realize a sustainable society and create economic value, and fulfill our responsibilities to regional communities, our customers, our employees, and each stakeholder, including shareholders and investors.

* Compared with fiscal year 2013

Conclusion

At the time of the Lehman Brothers crisis in 2008, I did my utmost to support regional customers in my role as a sales branch manager. At that time, I became convinced that as a regional financial institution we were an indispensable part of the infrastructure of the regional economy, and I learned the extent of the responsibility and role that we should fulfill.

Now, once again, we are on the brink of a new crisis due to the COVID-19 pandemic. Unlike the collapse of the Lehman Brothers, however, the impact of this current crisis will be such that once it is contained, the environment will be one in which society does not return to its former state but becomes completely different, including in terms of lifestyles and common sense. Accordingly, in providing support to regional customers, we will need to provide not just financial support such as cash flow but more extensive support that incorporates changes and transformations of business models.

In order to overcome this latest crisis, we will work steadily on the initiatives I have described above. We will transform to a new dimension in our business model and create a new regional society together with our customers.

Last, I would like to express my sincere gratitude for your continued warm support.

July 2020

Akihiko Fukai
President

