

## Message from the Management



Building regional communities  
is our key priority  
We will respond to the rapidly  
changing environment, and  
establish a robust management  
structure

**Akihiko Fukai**  
President  
The Gunma Bank, Ltd.

---

### Preface

The spread of the novel coronavirus (COVID-19) had a huge impact on all fields around the world. The Gunma Bank has a mission to fully fulfill our financial intermediary functions and support the regional economy in any situation. We have strived wholeheartedly to provide this support. Specifically, in order to smoothly provide funding to the region, we have received around 19 thousand consultations on business funding up to March 31, 2021, and loaned ¥397.7 billion in funds related to COVID-19.

The first tenet of the Bank's corporate philosophy is to "take actions that will foster the development of regional communities," and "sustainable development of regional economy" is also the first priority issue in the Bank's SDGs Declaration. This year, through the COVID-19 pandemic, we have reaffirmed the importance of our role and the weight of our responsibility to regional communities.

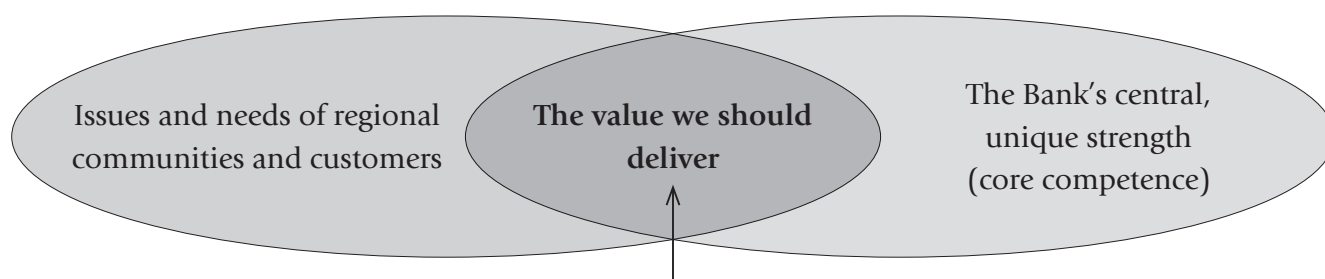
The impact of COVID-19 has not been limited to the economy. The pandemic has also brought about a variety of changes such as New Lifestyle and the acceleration of digitalization. Under these conditions, we will continue to strive wholeheartedly to provide financial support for our customers. At the same time, we believe that initiatives to provide a

greater range of support options to contribute to customers' growth and build sustainable regional communities will become even more vital.

## The Bank's raison d'être

Under the Bank's Mid-Term Business Plan "Innovation New Dimension – Toward delivering value," we aim to "deliver value" for both our customers and the Bank itself. We believe that the value we should deliver for customers lies at the intersection between the following two factors.

One factor is the issues and needs of regional communities and customers. The other is the Bank's core competence: our central, unique strength. In other words, leveraging our core competence to address the issues and needs of regional communities and customers is the value that we should provide, and is the Bank's raison d'être. Correctly defining this value and effectively utilizing management resources will not only contribute to the sustainability of our customers and regional communities, but also lead to a sustainable increase in profit for the Bank.



The value we should deliver and the Bank's raison d'être lie at the intersection of the two

### ■ Issues faced by regions and customers

Gunma Prefecture, the Bank's main sales region, boasts attractive tourism resources thanks to its rich natural environment, as well as abundant agricultural and livestock products. Its economy is driven by the manufacturing sector, primarily transportation equipment and food. It enjoys not only easy access to Tokyo through expressways and other transportation networks completed in recent years, but also suffers relatively few natural disasters. As a result, the number of factory locations and total location area in Gunma Prefecture are both consistently ranked among the highest in Japan.

At the same time, with an aging and declining population, we regard regional sustainability as a key issue, particularly in terms of business succession, labor shortages and productivity improvements. Regarding business succession for example, in addition to a shortage of successors, customers may have a range of requirements such as wanting to consolidate company shares with the successor, wanting two family members to be joint successors, etc. There are also growing needs for human resources, such as the need for personnel to assist the company president, and managers to assume responsibility for new businesses.

### ■ The Bank's core competence

What is the Bank's central, unique strength: our core competence?

I believe it is the "ability to collect information" based on networks and relationships with customers. The Bank's roots lie in The Gunma Daido Bank, established in 1932. Immediately after the Second World War, it built an extensive sales network stretching to the Tokyo metropolitan area, with branches outside the prefecture. The many years of business with customers based on this network, and the broad and profound stock of information accumulated as a result of these relationships of trust: these are the Bank's core competence. The information obtained daily from sales activities is accumulated in the CRM system. We believe that by linking this information together we can work to resolve the issues faced by customers and regions, as well as provide new value and develop new businesses through the utilization of technology such as AI. From December 2020, the Bank also participates in the TSUBASA Alliance, a broad partnership between local banks, enabling it to expand the scope of its problem-solving beyond its own network through coordination with other banks.

We are engaged in realizing the Bank's Mid-Term Business Plan "Innovation New Dimension," with the aim of leveraging these strengths to deliver value to customers.

## **Initiatives under the Mid-Term Business Plan “Innovation New Dimension”**

---

### ■ Concept of the Mid-Term Business Plan

The Bank worked on two previous Mid-Term Business Plans over the six years to March 2019, and provided customers with our unique proposals and support based on the basic concept of “value proposition,” thus enabling us to grow together with the regional community and our customers. In the Mid-Term Business Plan spanning the three years from April 2019, we focus on “realizing” value proposition based on “propositions of value” and aspire to be a “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” and “Realizing advanced value through evolution of our business model.” Given changes in regional issues and the environment, we are expecting to delve deeper into the kinds of value we can deliver.

### ■ Main initiatives in fiscal year 2020

#### Transforming our management platform through three reform initiatives

In accordance with the basic policy of “Transforming our management platform through three reform initiatives”, we have been working on the three reforms of “Process” (the attitude and process of our daily jobs), “Channel” (customer interface channels), and “Human Resources” (work-style and career-path which enhances the motivation of staff based on our corporate philosophy).

In the area of process reform, we launched an operational reform project in May 2019 to solicit a broad range of opinions from across the Bank on operations, products and services that could be reduced or eliminated, acting on 726 of these suggestions. By March 31, 2021, 673 (93%) of these actions had been completed, achieving an annual reduction equivalent to the work of 157 people. Moreover, in June 2021 we established a Digital Innovation Group to promote digitalization within the Bank, and we are working to improve productivity and expand the Bank’s digital channel.

In the area of channel reform, we have been progressively expanding our digital channel and rebuilding the Bank’s branch network in line with changes in customer lifestyles. In terms of expanding the Bank’s digital channel, we have commenced development aimed at introducing an open API platform through the TSUBASA Alliance, and development aimed at renewing the Bank’s smartphone app. In terms of rebuilding the Bank’s branch network, we have implemented the consolidation and reorganization of five branches. In the Tatebayashi area, we designated a “flagship branch” as the core branch, and established “satellite branches” which provide a reduced range of services.

In the area of human resources reform, the talent management system introduced in April 2020 facilitates the integrated management and visualization of the skills and other attributes of the Bank’s staff. This has enabled us to achieve even more strategic deployment of human resources. We also introduced a new system of regular 1-on-1 meetings between supervisors and subordinates from October 2020, with the aim of revitalizing communication between supervisors and subordinates, and improving management by superiors.

#### Realizing advanced value through evolution of our business model

For the policy on “Realizing advanced value through evolution of our business model,” which is our other basic policy, we set forth five strategic themes, namely, “fostering and revitalizing regional industries as well as supporting business succession of these industries,” “supporting the growth of customers through appropriate consulting services,” “improving our operations to steadily increase customer assets,” “strengthening our management structure to adjust to changes in the environment,” and “responding to multifaceted needs through exerting our comprehensive strength.”

I previously indicated sustainability as an issue for regions, in view of an aging and declining population. The Bank is particularly focused on providing business succession support and inheritance-related services. We regard these as areas where the Bank can leverage the strength of its ability to collect information, and where there exist significant needs among regions and customers.

As part of our business succession support initiatives, we increased the number of responsible staff at our headquarters to strengthen the support structure. Under the Mid-Term Business Plan, we aim to implement business succession support, including treasury share measures and succession method proposals, for 6,000 customers with obvious business succession issues. We have already implemented this support for 5,069 customers (a progress rate of 84.5%). Over time, these accumulated activities are crystallizing into the “realization of value” for both customers and the Bank, and we are able to contribute to smooth succession in an increasing number of cases through measures such as M&A and structured covenant loans. As a result, we were able to achieve proceeds from corporate service provision exceeding ¥1.9 billion in the second half of fiscal year 2020, and we are on track to achieve the target of ¥4.2 billion for the final fiscal year of the Mid-Term Business Plan.

As part of our inheritance-related services, we increased the number of dedicated staff and established a weekend and holiday consultation desk at the Individual Consulting Plaza Maebashi. The number of instances of will trust and liquidation of inheritance property services provided by the Bank more than doubled from 71 in fiscal year 2019 to 167 in fiscal year 2020. However, we still believe that there is much greater potential demand in this area, and in April 2021, we established Private Banking Advisors under the Wealth Management Group of the Life Support Department. We also increased the number of Asset Succession Advisors, to strengthen our support for customers.

#### ■ Initiatives in fiscal year 2021

Profit declined in fiscal year 2020 due to an increase in net credit costs, but consolidated non-interest business income progressed to ¥19.1 billion, or 95% of the target of ¥20.0 billion for the final fiscal year of the Mid-Term Business Plan, due partly to growth in the Group's deposited financial assets business, including Gungin Securities. We understand that the other major quantities are also largely on target.

We would like to make fiscal year 2021 a year to utilize the customer support structure that we have strengthened within the Bank, including the business succession support and inheritance-related services mentioned previously, to solve more issues faced by customers, and crystallize this into profits for the Bank. A variety of environmental changes of which we have been aware for a while have gathered pace due to the COVID-19 pandemic, and we will accelerate our efforts to implement the "three reform initiatives." In the area of process reform, we will raise the quality and productivity of work, pivoting on the progressive allocation of mobile PCs to staff, which began in January 2021. In the area of channel reform, we will engage in enhancing the digital channel, including a renewal of the Bank's app, in collaboration with the TSUBASA Alliance. At the same time, we will proceed further with the review of the Bank's branch network, and reassign staff to high value-added fields such as customer consulting services. In the area of human resources reform, we will implement a personnel system based on the degree of employee contribution, utilize the talent management system to strategically allocate human resources, and strengthen support to foster human resources through a range of training programs, self-realization support, and self-development support.

#### ■ Towards the formulation of the next Mid-Term Business Plan

We will launch a new Mid-Term Business Plan from April 2022. We believe that, while continuing the current concept of "delivering value," it will be important to explore more deeply the kind of ways in which we can support customers. We also think that it is important to review expenses even as we enhance profitability, and we aim to further enhance the quality of management by taking on the challenge of the Special Deposit Facility to Enhance the Resilience of the Regional Financial System introduced by the Bank of Japan. In addition, in view of deregulation from the revised Banking Act, etc., we will explore initiatives in new growth areas. Specifically, we are carrying out internal discussions regarding local trading companies and registration-style temporary staffing services, based on a consideration of regional issues.

I previously stated that the value we should provide and the Bank's *raison d'être* lie at the intersection between our core competence and the issues faced by regions and customers. I would like to redefine this intersection as the Bank's "Purpose." Our corporate philosophy represents a universal concept embracing our perception of value and code of behavior: our vision of how we should be. Based on the inward-looking perspective articulated in our corporate philosophy, we will pursue an outward-looking perspective on concepts such as what we can do for society, and what value do we exist to provide. Our Purpose must be something that all of our stakeholders outside the Bank can empathize with, but more importantly, it must be embedded at the core of decision-making and behavior by the Bank's staff. To that end, we have called for voluntary submissions from all our staff regarding their opinion on the Bank's Purpose. We intend to thoroughly discuss the opinions we receive, define the Bank's Purpose, and reflect this in the next Mid-Term Business Plan beginning next fiscal year.



## ESG initiatives

---

### ■ Environmental initiatives

The Bank plays a proactive role in addressing environmental and social issues as a financial institution. We think it is vital to contribute to achieving a sustainable society. In June 2021, we established the Bank's Policy on Environmentally and Socially Friendly Investment and Loans, to regulate investment and loans that may fund businesses with a high environmental burden or may lead to human rights issues or poverty, and to promote a beneficial cycle for the environment and society. At the same time, we began to offer sustainability-linked loans, strengthening our support for customers' initiatives to resolve environmental and social issues.

The Bank has also established reduction targets for greenhouse gas emissions and paper usage, as initiatives aimed at the preservation and creation of the global environment. We are progressively eliminating the use of paper in internal meetings and applications.

Copy paper usage in fiscal year 2020 was down 30.2% compared to fiscal year 2013, achieving our reduction target of 30% for fiscal year 2025 well ahead of time. We are currently working to further reduce paper usage, progressively digitalizing customer deposit receipts, contracts and other documents.

### ■ Initiatives for regional sustainability

In December 2020, we established the specialized investment subsidiary Gunma Regional Advanced Solution Partners Co., Ltd., building a structure enabling us to provide regional companies with support for business rehabilitation, business succession and business ventures, together with capital support. In March 2021, we concluded the Gunma Partnership Agreement on the Creation and Development of Next-generation Industries, a joint industry, university, government and financial collaboration agreement, and we will actively engage in creating and developing next-generation industries with the aim of enhancing regional vitality.

The main industries in Gunma Prefecture include manufacturing, specifically the manufacturing of automobiles and other transportation equipment, and tourism. These industries are anticipated to undergo environmental changes such as CASE, as well as significant changes in industry structure driven by the COVID-19 pandemic. In this context, we intend to explore the kind of roles that the Bank can play, as a regional financial institution, in partnership with local governments and external companies.

### ■ Initiatives to strengthen governance

Securing diversity is a prerequisite for ensuring the effectiveness of the Board of Directors. To this end, we formulated a skills matrix, which we have provided in the Notice of Convocation of the General Meeting of Shareholders, and in the Integrated Report. Through the skills matrix, we will further enhance the disclosure of information regarding the expected roles of Directors and Audit & Supervisory Board Members, and the appropriateness of the composition of the Board of Directors and the Audit & Supervisory Board.

## Conclusion

---

Through the initiatives that I have just described, we will leverage our various forms of capital to work towards achieving sustainable regional societies and creating economic value, by providing value to all our stakeholders.

We regard human capital as particularly important in building a beneficial cycle. I presented our initiatives for human resources reform in Initiatives in fiscal year 2021 above. I personally emphasize sense-making – or getting our employees to find meaning and satisfaction in all their work – and talk directly to our staff at branch manager meetings and the Staff IR sessions we have established as a forum for conveying to staff the significance of measures decided.

Of course, we will push ahead even more swiftly with investment in digitalization, but we also think that the advance of digitalization will further increase the importance of the unique value that only humans can provide. Each and every one of us at the Gunma Bank Group will work to create new regional societies together with our customers, using digital technology to link together various kinds of information, and providing a broad range of value in areas not limited to finance.

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

July 2021

Akihiko Fukai  
President

