

Message from the Management



We will achieve our purpose through the autonomous actions of each individual executive and employee

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Preface

■ We use our strengths in connections to spin the threads of the future for local communities

Having re-examined the meaning of our existence, we established our Purpose in November 2021. The turbulent environment of the world serves as the background to this activity, especially with topics such as the protracted impact of the COVID-19 pandemic, global tensions over the situation in Ukraine, and the inflation that has followed including a steep rise in resource prices dominating the headlines. Currently, there are concerns about a slowdown in the global economy due to monetary tightening policies particularly in the U.S., as well as the negative impact of the rapid depreciation of the yen. This global situation and various trends such as “digitalization” and “decarbonization” are having a profound impact on our local communities and economies.

Amidst these changes, we asked ourselves what the meaning of our existence in the community was and what we could do to work with the community. The answers to these questions led us to draft the Purpose of the Gunma Bank Group.

Purpose

■ What led us to review our Purpose

Although we began reviewing our Purpose around January 2021, I believe that the COVID-19 pandemic played a big role in kicking off the discussions. With our local economy suffering significant effects of the pandemic, I wanted to clarify in writing the meaning of our existence and how we can work with the community.

I believed that our Purpose must be one that would resonate with our stakeholders, and more importantly, it must permeate the decisions and actions of our executives and employees, so that the entire Group would conduct its activities in accordance with the Purpose. The most sublime and beautiful purpose statement is meaningless if it merely remains on display in a frame, covered in dust, or hidden away in the bottom of a desk drawer. For this reason, we spent ample time in the review process.

■ The review process

The Bank produces a video forum called “Staff IR Sessions” in which I make regular appearances to talk to all executives and employees about the management situation and major policies. I decided to use this program as a means to explain the importance of the Bank’s Purpose and invite employees and executives to submit their opinions. Although it was voluntary, we received 755 submissions in which people offered their opinions on the Bank’s essential strengths, the expectations that society and our customers have for us, and the meaning of our existence. I carefully read all the opinions myself and received many new insights from them, including a unique comment that compared the Bank to the flow of the Tone River, as well as opinions filled with passion for the local community. With these opinions in mind and as a result of discussions with young and mid-career employees and discussions at Board of Directors meetings, we arrived at two concepts that symbolized the meaning of our existence: “connecting” and “spinning the threads.”

“Connecting” is an expression of our business itself, which we have built up in the past and in which we must engage for the future. The origins of our business date back to 1932, when the Bank was founded as The Gunma Daido Bank. We functioned as a financial intermediary “connecting” lenders and borrowers of money, and this will continue to be our most important role going forward. Furthermore, I believe that it is extremely important for the future of the region that we play a role that goes beyond finance, such as “connecting” our customers with the Bank’s resources and expertise, “connecting” local people with each other, and “connecting” different kinds of expertise.

“Spinning the threads” expresses the way we want to combine our strengths with the people of the local community and move toward a sustainable future for the region. “Spinning” refers to the act of joining fibers from silkworm cocoons to create thread. Gunma Prefecture, where our headquarters are located, developed around the textile industry, as represented by the World Heritage Site Tomioka Silk Mill. Therefore, I thought using the concept of “spinning threads” would express our unique, regional character.

Discussions on the Purpose continued up until the very last board meeting before the decision was finalized, and we added the subject “we” at the very last moment. It is relatively rare in Japan for a company purpose to explicitly state “we” as the subject, but we decided to include this subject so that each employee of the Bank would be able to recognize it as a personal matter.

■ Penetration within the Bank

After spending over half a year working on the Purpose, we finally issued it in November 2021, and penetration within the Bank is making progress. I have heard from young employees that because we used familiar concepts like “connecting” and “spinning the threads,” “the word ‘connect’ is now appearing in all sorts of situations, even in branch offices.”

The Bank operates 12 business districts, each of which has formulated its own regional strategy, and each branch office has its own mid-term branch management policy. These strategies and policies have also been reevaluated based on the Purpose, indicating how the Purpose has been incorporated at the strategic level for each business district and branch office.

Furthermore, in April 2022, each executive and employee prepared his or her own “Personal Purpose.” Based on the Bank’s Purpose, these statements express why each person works and what they aim to achieve for society through their work. These Personal Purposes were to be shared with colleagues to encourage employees to support each other in achieving their goals. Through exchanges of opinions with bank employees, I have received feedback that thinking about their Personal Purposes has made employees more aware of the Bank’s Purpose in their daily activities.

One of our outside officers advised me that it is important for the President to repeatedly talk to the executives and employees about the Purpose in every possible situation, like a broken tape recorder. I intend to put this into practice until each and every executive and employee is able to act autonomously based on the Purpose.

■ Mid-Term Business Plan “Innovation for ‘Purpose’”

The Purpose was complete, but how would we actually achieve it? The method was laid out in our Mid-Term Business Plan “Innovation for ‘Purpose,’” which went into force in April 2022.

■ The three points of the new Mid-Term Business Plan

The new Mid-Term Business Plan was drafted with an emphasis on the following three points.

1. The plan must be based on the Bank’s Purpose. The previous Mid-Term Business Plan was called “Innovation New Dimension,” and we will continue to work on the innovations promoted under the plan. However, we had concerns that as time passed, there was a risk that innovation itself would become the goal, which would lead to a narrowing of the vision, and the innovations would ultimately become inward-looking. We therefore chose the name “Innovation for ‘Purpose’” to clarify that the goal of the plan is to achieve the Bank’s Purpose, and innovation is the means toward that end. Having established these principles, we discussed the basic policies and strategic themes to finalize the plan.
2. The plan should build on the achievements and challenges of the previous Mid-Term Business Plan and should be formulated from the two perspectives of forecasting and backcasting. Forecasting takes the past and present as its starting point, and by this we meant that the plan should establish what should be done in depth over the next three years. By contrast, backcasting takes the future as its starting point. It impelled us to envision the “to-be future” based on the Bank’s Purpose and work backward to establish what should be done over three years. There may have been insufficient consideration and communication of the “to-be future” in the drafting processes of previous business plans. This time, on the occasion of formulating the Bank’s Purpose, a series of discussions on the “to-be future” was held at the board meeting and it was explicitly stated in the plan. The “to-be future” is the sustainable development of the local community and the Gunma Bank Group. To this end, we need to explore non-financial business areas and evolve ourselves into a regional comprehensive group that contributes to solving local issues, decarbonizing local communities, and supporting the sustainable growth of local industry.
3. To balance social and economic value. “Social value” refers to the sustainable development of the local community and our customers, based on the Bank’s Purpose, and “economic value” refers to the Bank’s profits. Unless our activities are in line with the goals and needs of society and our customers, we cannot sustainably generate revenue, and without sustainably generating revenue, we cannot achieve our Purpose. Social value and economic value are therefore inseparable. In addition to incorporating this insight into the plan, we are also ensuring that our executives and employees are aware of it. As a symbol of our commitment, we have established a quantitative metric in the plan called the “KPIs in Connections.” For example, we have set a goal of “resolving 600 business succession issues” in three years. Helping our customers to solve their business succession issues will not only contribute to the sustainability of the community, but it will also ultimately lead to revenues for the Bank.

■ Quantitative targets

By balancing social and economic value and working on the “KPIs in Connections,” we aim to achieve the following goals by the final fiscal year of the Mid-Term Business Plan, ending in March 2025: profit on loans of ¥54.5 billion, proceeds from corporate service provision (consolidated) of ¥6.5 billion, and deposit financial asset revenue (consolidated) of ¥9.0 billion for consolidated core business net income (excluding gain on cancellation of investment trusts) of ¥45.0 billion (+¥8.1 billion compared to the fiscal year ended March 31, 2022). As a result, we expect profit attributable to owners of parent to reach a record high of ¥30.0 billion, a consolidated of OHR around 55%, and a consolidated ROE of 5% or higher.

■ Basic Policy 1 Implementation of digital strategies as the foundation for “connecting” and “spinning the threads”

In part due to the impact of the COVID-19 pandemic, digitalization is accelerating across the world. As I believe that the power of digital is indispensable in all fields in order to achieve our Purpose, I have given “digital” pride of place in our basic policy.

The Bank’s digital strategy classifies the fields of digitalization we are pursuing in three categories. The first is the digitalization of the community, such as by supporting SMEs in their digitalization and promoting cashless means of doing business. The second is to promote the digitalization of customer contact points, such as the Gungin app that we launched in April 2022. The third is to promote the digitalization of internal bank operations to increase operational efficiency and make information more accessible to support decision-making and action.

In order to advance this kind of digital strategy, it is essential to increase the sophistication of data use. I wrote above that we solicited opinions from executives and employees on the essential strengths of the Bank as part of the process of reviewing our Purpose. The most frequent response we received referred to the Bank’s “information capabilities.” Although I agree, if one were to ask whether we were using our informational strength to its fullest capacity, I would have to say that there is still much room for improvement. We will divide our efforts to increase the sophistication of our data use into the three stages of building the infrastructure for data collection and storage (i.e., a data lake), building the infrastructure for digital marketing, and building the infrastructure for data analysis. We aim to build the infrastructure during the next fiscal year.

■ Basic Policy 2 Reinforce strengths in “connecting” by five reform initiatives

I believe that to achieve our Purpose, it will be important to enhance our strengths in connecting and repeatedly demonstrate our ability to connect, as stated in the Purpose itself. Therefore, our second basic policy entails strengthening our abilities to connect by enacting reforms in the following five areas: our sales processes, business processes, channels, human resources, and collaboration with external parties. The previous Mid-Term Business Plan raised processes, channels, and human resources as three areas to be reformed, and in the new plan we are dividing “processes” into customer-facing “sales processes” and “business processes” which concerns the Bank’s internal business processes. In addition, we are adding the field of “cooperation with external parties” to leverage our many external alliances.

■ Basic Policy 3 “Spinning the threads” of the future by exercising our strengths in “connecting”

The third basic policy shows how we will respond to the expectations of society and our customers by demonstrating our connecting abilities from the five perspectives of local community, businesses, individuals, the Gunma Bank Group, and the Gunma Bank.

What distinguishes us is that to achieve our Purpose, we will place a strong emphasis on the sustainability of the local community, support our customers against the backdrop of the impact of the COVID-19 pandemic, and strengthen our search for new business opportunities.

Sustainability Initiatives

■ The establishment of a Sustainability Committee

In April 2022, we established a Sustainability Committee with me as its chairperson to develop management strategies from a medium- to long-term perspective to address sustainability topics such as SDGs, ESG and climate change, and to strengthen the effectiveness of each policy. At its meetings, the Committee primarily discusses the formulation of policies for sustainability initiatives and follows the progress of our plans. In addition, each time the Committee meets, it issues a report to the Board of Directors. By doing so, we have established a governance structure in which the Board of Directors oversees important matters related to sustainability.

■ Decarbonization

To promote decarbonization in the region, it will be important for the Bank to take the lead in reducing greenhouse gas emissions and to support the decarbonization of its business partners.

In January 2022, the Bank revised its greenhouse gas emissions reduction target and reestablished the goal of Net Zero by FY 2030. Our headquarters has been receiving its electricity from renewable energy sources since April 2022, and in the future, we plan to install solar panels on our branch offices to help us achieve our target.

We will launch our “SDGs initiatives support services” for our business partners within this fiscal year to support them in incorporating the SDGs in their main business operations.

■ Sustainable finance

In addition, we will actively engage in “sustainable finance” to contribute to solving environmental issues (via renewable energy, energy-saving equipment, etc.) and social issues (start-ups, business succession, BCP, medical care, etc.). We will work together with local customers to bring about a sustainable society, with a cumulative target of ¥1.5 trillion to be used in sustainable finance by 2030, of which ¥1 trillion will be in the environmental field.

■ Working with the automobile industry and CASE in Gunma Prefecture

To promote sustainability in our community in Gunma Prefecture, I believe it will be important to support one of Gunma Prefecture’s key industries, namely the automotive industry. As decarbonization efforts reduce the number of gasoline-powered cars, we can expect various changes to the structure of the industry, and we are now making serious efforts to consider what kind of role we can play in the medium to long term. As of this moment, we are deepening communications with key suppliers and building a database. We plan to use this database to create concrete proposals and implement support for each company, while also promoting collaboration with external organizations.

■ On Alliances

In addition to joining the Fincross Partnership (currently consisting of eight regional banks) in May 2018 and the TSUBASA Alliance (wide-area collaboration of 10 regional banks) in December 2020, we concluded the Gunma-Daishi Hokuetsu Alliance with the Niigata Prefecture-based Daishi Hokuetsu Bank in December 2021, and the Ryomo Regional Revitalization Partnership with the Tochigi Prefecture-based Ashikaga Bank in January 2022.

Some people ask whether we really need to have multiple partnership agreements, but each partnership has its own objectives, and I believe that these initiatives are vital if we are to contribute to the sustainability of the region. What the Fincross Partnership and TSUBASA Alliance have in common is that they are both collaboration agreements covering a wide geographic area with participation from regional banks from across the country. However, while the former is focused on the digitalization of finance, the TSUBASA Alliance has the top 10 banks of each region working together to resolve a wide range of shared challenges. The distinguishing characteristic of the Gunma-Daishi Hokuetsu Alliance and the Ryomo Regional Revitalization Partnership is that banks from neighboring or overlapping regions collaborate on sustainability issues.

Regarding digitalization, for example, which is a theme of our Mid-Term Business Plan, it would be difficult for the Bank to tackle this topic on its own. However, by working together with several banks, we can develop even better mechanisms and collaborate effectively to solve regional issues such as decarbonization. Although I regularly participate in the meetings of each alliance, I am not alone. Gunma Bank representatives from several different layers of the organization, including the general manager level, branch manager level, and supervisor level, participate actively in meetings and information exchanges. I am convinced that gathering and discussing with like-minded people who share a common vision of regional revitalization is extremely beneficial from the standpoint of human resource development.



Conclusion

■ Enhancing the general skills and specialized talents of staff

Although I have focused on the Bank's Purpose and our Mid-Term Business Plan thus far, I believe that the driving force to achieve them resides in each individual executive and employee, and that it is of utmost importance to strengthen our human capital.

As mentioned above, "digital" is one of the basic policies of our Mid-Term Business Plan, but if we lack sufficient basic knowledge when proposing a digitalization project to an SME client, we would be unable to sufficiently address their issues and needs. Therefore, to raise the Bank's digital capabilities across the board, we aim for 1,000 of our staff to take a national examination and obtain the so-called "IT Passport." I believe that in this day and age, IT and digital knowledge should be considered base skills for bank employees in the same way that knowledge on finance and taxes are. I tell our executives and employees that after they have acquired these base skills as bankers, they should continue to refine their skills and acquire a high level of expertise that will be able to meet the true needs of our customers. As our customers' needs become more complex and diverse, organizations need both the broad knowledge to understand customers' needs and the expertise to meet those needs.

Of course, a single person cannot cover everything, so for transactions that require a high level of expertise, we have increased the number of headquarters staff who have acquired specialized skills through external training, and we are also enhancing collaboration between group companies and branch offices.

■ All employees and executives combining their strengths to achieve the Bank's purpose

In today's rapidly changing and increasingly uncertain environment, it is extremely difficult to accurately predict the future. We naturally formulate our plans with full consideration of the general direction of the world, but it is also extremely important to be able to respond to uncertain events as they occur. The customers' needs continue to change, as does our business in light of deregulation and its own changing needs. In this context, it would be impossible to reach our goal if we developed a homogeneous workforce and followed a pre-determined path.

Then what is our goal, and how do we reach it? That is what the Purpose is for. Our Purpose is not only the goal that we share, but also the guiding star showing us the way (the process) to achieve that goal without getting lost along the way. Although there is one and only one Purpose, the processes we follow to reach that goal are not uniform, and it is important for each individual executive and employee to autonomously and flexibly think about what it means to reach that goal. That is because the driving force that will enable us to achieve our purpose resides within each executive and employee. For this reason, each person reviewed the meaning of their own existence and set their own "Personal Purpose." I have asked our employees to create their Personal Purpose from three perspectives: the social perspective (how to benefit society), the Bank's perspective (to be in line with the Gunma Bank Group's Purpose), and the individual perspective (what they hope to achieve themselves). If each person creates and accumulates value based on their own Personal Purpose, then this will eventually form a powerful flow like the great Tone River of our region, leading to a prosperous future for the local community.

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

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Akihiko Fukai
President

