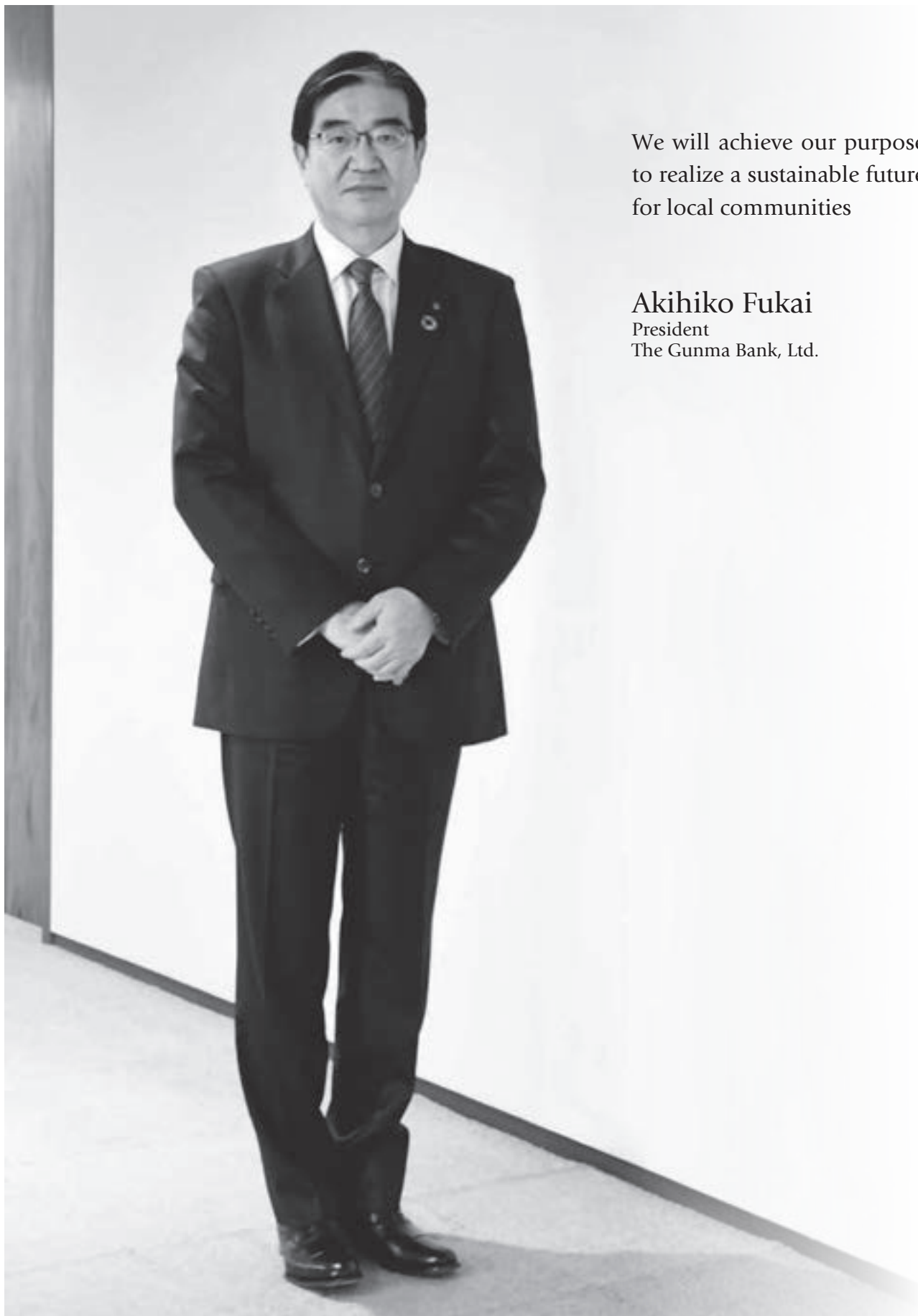


Message from the Management



We will achieve our purpose
to realize a sustainable future
for local communities

Akihiko Fukai
President
The Gunma Bank, Ltd.

Preface

■ Each individual executive and employee will act autonomously to respond to the changing times.

In the fiscal year ended March 31, 2023, we launched our Mid-Term Business Plan “Innovation for ‘Purpose.’” Despite the impact of interest rate hikes in the U.S. and Europe, we have made good progress overall in terms of business results and various measures, and I would like to thank you for your support.

The current situation is expected to boost consumption against the backdrop of COVID-19 being classified as a “Class 5” disease under the Infectious Disease Control Law and higher wages. On the other hand, the environment surrounding our business continues to be uncertain because of factors such as global price hikes, the impact of monetary policies in the U.S. and Europe on the economy, and geopolitical risks, including the Ukraine issue.

We also recognize that the evolution of technology, especially digital technology, has brought about an era of great change, in which what was common knowledge until recently has become nonsense in the blink of an eye.

Looking at local communities, rising raw material costs and the need to secure human resources are currently the top management issues facing companies. In the mid- to long-term, it is inevitable that companies will have to cope with a declining population and environmental issues.

Faced with such environmental uncertainty and a variety of challenges for local communities, it is essential for each individual executive and employee to act autonomously, thinking daily about what value we can bring to our local communities and customers. The cycle of change is rapid and customers’ needs are diversifying, so I believe it is important for each and every one of us to understand and respond to those needs. However, acting autonomously is not synonymous with acting independently without purpose. The basis for what goals we will pursue as an organization is the Purpose established in November 2021: we use our strengths in connections to spin the threads of the future for local communities.

Changes have Emerged in the Bank One and a Half Years after the Establishment of our Purpose

■ Shifting our Purpose to “daily sales activities themselves”

Since the establishment of our Purpose in November 2021, we have been working to spread the concept throughout the Group and to make it personal for executives and employees, and we believe that the following two approaches are important in accomplishing these efforts.

The first approach is for top management to continue to convey the significance of the Purpose. 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. In this program, I am especially conscious of conveying to younger employees in an easy-to-understand manner that the Bank’s policies are based on the Purpose. Likewise, it is also vital to communicate with managers, and at the branch managers’ meeting held in April, we reiterated that social value and economic value go hand in hand in the Purpose. It is not sustainable to engage in sales that prioritize the Bank’s desires in product-oriented activities for our own convenience, and doing good things for society is not necessarily sustainable if it does not generate appropriate profits. I believe that the basic concept of earning appropriate profits as a result of contributing to society and our customers is extremely important from the perspective of sales activities based on our Purpose.

The second approach is to link the various structures and measures within the Bank to the Purpose and incorporate them into day-to-day actions. The key to our Purpose is to sustain the future of the community through connecting activities such as lending and consulting service, and to accomplish this, it is important to understand what customers really need and then provide a variety of connections. In order to promote these sales activities, we introduced the “Connecting Process” in October 2022. Over the course of six months, we had in-depth conversations with 2,548 corporate clients using a newly developed interview sheet, and were able to identify more than 7,000 needs. We hold a dialogue that goes back not only to the immediate needs of our customers, but also addresses their future goals and the values they hold most dear, characterized by a long-term perspective, including the identification of needs, and the Group is working as one to determine what solutions can be provided to meet these needs.

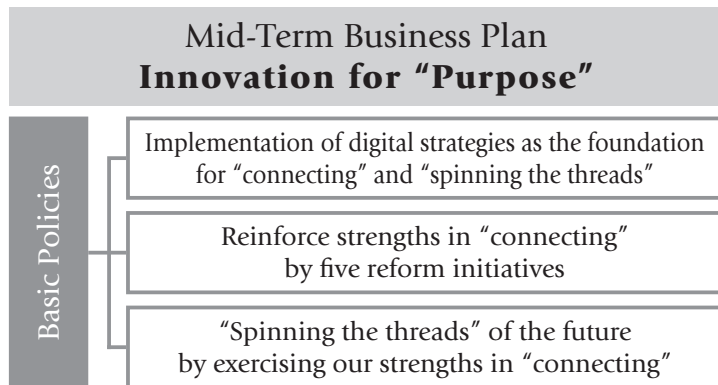
The Bank’s Mid-Term Business Plan is also based on the Purpose, and we have established “KPIs in Connections” that contribute to both the resolution of social issues and the Bank’s profitability. The achievement of these KPIs, as well as outstanding examples of our efforts toward achieving our Purpose, are also linked to our awards system.

A year and a half has passed since the creation of the Purpose, and through my ongoing communication and the association of the Purpose with sales activities, I feel that the Purpose has changed from being like a noble object in a frame to the daily sales activities themselves for the executives and employees.

Progress of Mid-Term Business Plan “Innovation for ‘Purpose’” and Future Tasks

Mid-Term Business Plan “Innovation for ‘Purpose,’” launched in April 2022, sets forth three basic policies to realize our Purpose, and we have been working to enhance our strengths in connecting and to demonstrate our connecting ability. One year has passed since the plan was launched, and I believe that we are making good progress as we have already implemented or initiated the major measures outlined in it. I will discuss the status of our efforts in the key areas of “digital strategies,” “Group’s comprehensive strengths,” “alliances,” “sustainability,” and “human capital” below.

I also recognize that we are making almost the same progress as planned with regard to the “KPIs in Connections” I mentioned earlier, but I believe that there is much room for growth in sustainable finance for SMEs in the corporate sector and in the balance of investment trusts in the individual sector. We will strengthen our efforts by utilizing the “SDGs initiatives support services” launched last September and by responding to the new NISA system.



President Fukai and branch employees exchanging views on the Mid-Term Business Plan and our Purpose (June 2022)

Digital Strategies

The Mid-Term Business Plan calls for digitalization in three areas as part of the digital strategies: the first is “digitalization of the community,” the second is “digitalization of customer contact points,” and the third is “digitalization of internal bank operations.”

(1) Digitalization of the community

With the declining population and labor shortages in local communities becoming a major issue, I recognize the important role of regional financial institutions like Gunma Bank in actively promoting the digitalization of the community and improving community productivity. In addition to offering digital transformation (DX) support services to SME customers at present, we are also strengthening our efforts to develop cashless member stores. In January 2024, we plan to introduce debit cards to promote the digital cashless trend.

(2) Digitalization of customer contact points

Customer needs regarding channels are changing, and we believe it is essential to provide a unique customer experience through an effective mix of digital and face-to-face sales channels. The core of our digital channel is the Gungin app, which we launched in April 2022. The app has been well received for its ease of use, with more than 150,000 users in the past year. In July 2023, we also launched the “Gungin Business Portal” service for corporate clients. In both cases, we will continue to add functions and promote the integration of digital and face-to-face channels.

(3) Digitalization of internal bank operations

One of our themes is to promote the digitalization of internal bank operations to improve productivity. Specifically, we plan to introduce in-branch tablets in January 2024 for time-consuming over-the-counter procedures, such as account opening. This will be beneficial to both our customers and the Bank by reducing the time required for such procedures. At the same time, we are promoting work style innovation through the use of Office365.

In parallel with digitalization in these three areas, we are developing a data utilization infrastructure. We will accumulate various data collected inside and outside the bank in a centralized manner and utilize it for marketing and other purposes. Our vision for the future is to build a community ecosystem through digitalization, cashless transactions, and the effective use of data.

Demonstrating the Group's Comprehensive Strengths

The Mid-Term Business Plan is based on the concept of digging deep into the present (forecasting) and looking backward from the future we aim at (backcasting). From a backcasting perspective, the key is to search for and commercialize new businesses, and we have set the strategic theme of exploring new business opportunities through the Group's comprehensive strengths and deepening existing businesses.

■ New Gungin Consulting business

The two new businesses that we are currently focusing on are the "human resources solution business" and the "regional trading company, marketing and advertising business," which were launched in April 2023 with the establishment of a new dedicated organization within "Gungin Consulting."

A staffing service was conventionally handled at the Bank and we had originally set a target of 200 contracts in three years (KPIs in Connections), but demand was greater than expected, and we were able to achieve 82 contracts in the first year alone. Based on the belief that securing human resources is an extremely important management issue for regional companies, we have decided to expand and upgrade our services by establishing a dedicated organization within Gungin Consulting. We also plan to gradually start employment placement dispatching, and seconding and dispatching personnel from the Gunma Bank Group.

As part of the "regional trading company, marketing and advertising business," we will launch "TSUNAGU+," a purchase-type crowdfunding website for the purpose of creating new regional products and services and disseminating them widely in Japan and abroad. In addition, the Bank will outsource digital marketing and advertising planning related to loan products, etc., to Gungin Consulting, and will accumulate know-how that will be linked to marketing and advertising business for local business operators.

■ Initiatives of Gunma Regional Advanced Solution Partners

As a symbolic initiative by Gunma Regional Advanced Solution Partners, we have acquired all shares of JOETSU Co. Ltd. through the Gunma Regional Advanced Solution Fund, which we manage. JOETSU's main business is various types of printing and marketing utilizing the internet. The main purpose of the share acquisition is to support business succession, and we hope to accelerate the digitalization of the region through collaboration between JOETSU and Gungin Consulting.

Strengthening Alliances and Other Partnerships

■ Reinforcing strengths in "connecting" by signing multiple partnership agreements with regional banks throughout Japan

One of the features of the Bank's management strategy is that we have concluded multiple partnership agreements with regional banks throughout Japan. Some people asked about the need for multiple partnership agreements, but after a certain period of time following the conclusion, I feel that we have been able to fully demonstrate the unique characteristics of each cooperative agreement.

The "Gungin app" I mentioned earlier was developed jointly with TSUBASA Alliance member banks, and we are also benefiting from a variety of other values that are difficult to quantify, such as the sharing of know-how and the exchange of human resources. The Gunma-Daishi Hokuetsu Alliance is fully demonstrating the strengths of a partnership between two banks in adjacent areas, and is achieving results through a variety of partnerships, such as joint product development and joint branch locations. The Ryomo Regional Revitalization Partnership is providing many examples of new value creation by leveraging overlapping business areas to link information and customers across the region. The Fincross Partnership is an ongoing cooperative effort among participating banks to analyze and acquire knowledge, particularly on the use of data.

I believe that these partnerships have greatly enhanced our strengths in "connecting," which is a concept stated in our Purpose, and I feel that they are a major driving force for the realization of the Purpose.



Joint branch with Daishi Hokuetsu Bank (March 2023)

Sustainability Initiatives

■ The 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 discusses important matters related to sustainability.

■ Decarbonization

In order to contribute to the realization of a carbon-free society and the sustainable development of society by proactively working to solve environmental issues in the local community, the Bank has set a target of greenhouse gas emissions reduction as Net Zero by FY2030.

As a major initiative toward decarbonization, Kanto YAWARAGI Energy Co., Ltd. was established jointly with local businesses through the Gunma Regional Advanced Solution Fund operated by Gunma Regional Advanced Solution Partners, with a focus on renewable power generation. Gunma Bank has concluded a PPA contract with Kanto YAWARAGI Energy to install a solar power generation system on the rooftop of a joint branch of the Bank's Takasaki-Tamachi Branch and Daishi Hokuetsu Bank's Takasaki Branch.

In addition, we will acquire naming rights to the "Oze Katashina Hydroelectric power plant" operated by The Tokyo Electric Generation Co., Ltd., from which we will procure carbon-free, renewable electricity. The electricity supply is scheduled to start in January 2024, and we believe that we are the first financial institution in Japan to implement such a scheme. At the same time, we are introducing environmentally friendly electric vehicles (EVs) to all our branches.

■ Sustainable finance

In order to further promote initiatives to address environmental and social issues to realize a sustainable local community, we have set a cumulative target of ¥1.5 trillion to be used in sustainable finance by FY2030, of which ¥1 trillion will be in the environmental field, and ¥500 billion to be used during the period of our Mid-Term Business Plan through FY2024, of which ¥300 billion will be in the environmental field. In FY2022, we invested ¥266.2 billion in sustainable finance, of which ¥116.0 billion was in the environmental field, confirming that customers' needs are extremely high in this field.

■ Initiatives to improve sustainability for automotive suppliers

To improve the sustainability of the automotive industry, which is a major industry in the local community, the Bank has been building a database of suppliers in the prefecture and conducting company-by-company interviews on the technologies, facilities, and characteristics of each company.

In July 2022, the Bank was selected as a financial institution to receive support under the Ministry of the Environment's "Entrustment of ESG Regional Finance Promotion Program Projects in Fiscal 2022" and shared issues with customers based on the results of interviews.

We will expand on these efforts in cooperation with external organizations to provide medium- and long-term support tailored to each supplier, such as support for electrification and productivity improvement.



Expanding Human Capital

■ Establishing a human resource development policy

Based on the Purpose and the Mid-Term Business Plan, we have established the following human resource development policy: “We will enhance the value of our human resources by supporting autonomous career development and challenges, starting from each individual executive’s and employee’s “Personal Purpose,” toward the realization of our Purpose. As I mentioned at the beginning, in the face of environmental uncertainty and various challenges for local communities, it is essential to nurture employees who can act autonomously based on the Purpose and respond to the true needs of customers.

■ Career development through the realization of Personal Purpose

Each individual executive and employee has prepared his or her own “Personal Purpose.” These statements are created from three perspectives: the social perspective (what we should do for society), the Bank’s perspective (what we can do based on our Purpose), and the individual perspective (what they hope to achieve themselves). The most important aspect of human capital is the perspective of each executive and employee, as each person’s desire to achieve what he or she wants to accomplish and how to design his or her own career will be the driving force to realize our Purpose. To support the creation of these aspirations and the realization of their careers, we will provide a variety of growth opportunities, and we plan to reform our personnel system into a job-based system that rewards the efforts of executives and employees who take on challenges (in FY2024).

One of the concepts of the new personnel system is to visualize work. By clearly stating the role of the post and the skills required to fill the post in the job description, it will be easier for each executive and employee to visualize how to design his or her career autonomously. At the same time, we will work to “visualize human resources” by establishing a system in which each executive and employee can clearly express what job he or she desires and the skills he or she possesses. We believe that the visualization of work and human resources will help us realize the concept of the “right person in the right place” and increase engagement, which in turn will lead to the vitalization of the organization as a whole.

In light of these changes to the personnel system, we are calling on executives and employees to link their actions toward the realization of their own Personal Purpose to their own career development, and we encourage managers to communicate with their team members about what kind of career they want to pursue through their Personal Purpose and thereby deepen their understanding and support for their team members.

We plan to establish and disclose multiple non-financial KPIs in line with the Bank’s human resources strategy, and we will measure and disclose the degree of implementation of Personal Purposes as well as engagement as a unique indicator of Gunma Bank.

Conclusion

The Bank celebrated its 90th anniversary on November 20, 2022.

I would like to take this opportunity to express my gratitude to you all for your support.

As I have mentioned several times when talking about our Purpose, the value we provide to local communities and customers is encapsulated in the word “connection.” When we started as The Gunma Daido Bank in the early Showa period (1926-1989), the connections that we were able to offer centered on connecting customers’ money with other money, in other words, the financial intermediary function. However, as time has passed, we have moved beyond simply providing money; now we can also provide information, know-how, human resources, and a wide variety of other connections. We will continue to explore what kind of connections we can make, and each individual executive and employee will continue to focus their wisdom and accumulate many more connections so that we can spin the threads of a prosperous and sustainable future for local communities.

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

July 2023

Akihiko Fukai
President

