

Message from the President



Guided by our corporate philosophy, we focus on achieving the transformation of the management platform and the evolution of our business model as well as responding to customer needs through the innovation of our financial services, and we aim to be a regional financial group that realizes value.

Akihiko Fukai
President

Preface

When viewing the current economic climate, in spite of the moderate recovery of the domestic economy, uncertainty is growing because of overseas trade issues and other factors.

From a financial perspective, the environment for management at financial institutions is getting increasingly severe as a result of narrowing yield spreads on loans and securities due to the prolonged Negative Interest Rate Policy and increased competition caused by the entry of new players from other industries. In addition, Japanese society is in the midst of drastic structural changes relating to demographics and other emerging factors which have led financial institutions, including our Bank Group, to face various threats and challenges.

Meanwhile, the recent progress in digitization has brought dramatic changes to individuals' lifestyles and the corporate business model, and we believe that the evolution of technology in this area will cause financial institutions to enhance innovations in financial services together with radical cost reductions and allow them to create new opportunities.

With a firm awareness of this situation, we are prepared to grapple with various challenges and secure opportunities for growth through measures such as taking the initiative for revitalizing regional economies, implementing a radical transformation of the profit structure, responding to emerging needs involving business succession and other issues, utilization of digital technology, and promoting collaboration with fintech companies.

Two perspectives fundamental to management strategy

In tackling management challenges, we have given priority to two perspectives.

The first is to flexibly develop businesses that are centered on the core competence of the Bank.

As a regional financial institution, we have been able to grow mainly through accepting deposits and making loans. To tackle the management challenges mentioned above, however, we are required to redefine the businesses we are targeting. The drastic change in the environment and the emerging new opportunities for businesses allow us to achieve further growth by making use of these opportunities. To this end, 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 are able to 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 corporate and personal customers both inside and outside of Gunma Prefecture. These networks were carefully built over many years and are expected to provide us with information from which 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. We have promoted collaboration of banking/securities with Gungin Securities Co., Ltd. for personal customers. For corporate customers, we have devoted efforts to supporting them in solving management challenges with the establishment of Gungin Consulting Co., Ltd. the previous fiscal year.

Based on our core competence, we expect to concentrate our efforts on new areas which may lead to business expansion and increased profitability, for example, in the areas of consulting services for business succession and inheritance while providing smooth financial intermediation that is a fundamental part of banking operations.

However, it is critical to keep making efforts to periodically redefine core competence and foster new abilities since the effectiveness of practices differ depending on the market and competitive environment and, in some

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cases, we may lose our traditional competitive advantage through changes in the market environment. Thus, we need to foster future such as improving our skills in digitization to a level where they cannot be imitated by other companies.

Another important perspective is “Improving management speed.” Changes associated with the evolution of IT are occurring at an increasingly faster pace. For example, the smartphones that have spread throughout the world have allowed the launching of businesses that were beyond imagination ten years ago. Recently, the effectiveness of data utilization is attracting attention, and the qualities required for human resources are widely changing, and science and engineering personnel and data scientists are in great need. It is said that “the pace of environmental change is faster than ever.” In future, the speed of environmental change is expected to increase even more. Therefore, I believe that we must raise the speed of decision making and take actions to keep up with all these changes. What we must fear most is the risk of doing nothing. The whole bank, including management, is required to increase the speed of doing business.

A new Mid-Term Business Plan: “Innovation New Dimension”

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 customers with 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 a new Mid-Term Business Plan, we focus on realizing value proposition based on our conventional effort for “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” and “Realizing advanced value through evolution of our business model.” We also set forth strategic themes for each of these policies.

In accordance with the policy of “Transforming our management platform through three reform initiatives,” we grapple with 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) and promote innovations to make our new strategies effective.

For the policy on “Realizing advanced value through evolution of our business model,” 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”. They lead us to further enhance our “ability to offer value proposition” to the “ability to realize value.”

Under these strategic themes, we will work on ways to cope with discontinuous changes rather than a continuation of conventional measures, carry out high-quality consulting services that meet the needs of individual customers while broadening cooperation with our Group companies, and will aim to achieve a radical transformation (new dimension) of our profit structure.

Strengthening of governance and capital policy

In addition, we will promote efforts aimed at strengthening governance and conducting integrated control and operation for risk, return and capital.

In July 2018, the Bank established a “Nomination Advisory Committee” and a “Compensation Advisory Committee” to create a system which allows independent outside directors to be appropriately involved in

the decision-making process for the nomination and compensation of directors as stipulated in the Code of Corporate Governance. This has led to increasing objectivity and transparency in the decision-making process and enhancing governance. Further, in June 2019, the Bank introduced plans for “restricted stock remuneration and performance-linked stock remuneration” based on discussions by the Compensation Advisory Committee. I believe that these plans are effective schemes that allow the directors to enhance management awareness centered on shareholders and give them an incentive to work to sustainably enhance performance and increase the corporate value of the Bank.



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 regional financial institutions, such as our bank, 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 an efficient 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. By expanding these action programs and the policies of the “Mid-Term Business Plan,” we will strive to realize a sustainable society and create economic value, in addition to fulfilling our responsibilities for regional communities and our stakeholders, including customers, employees, shareholders and investors.

Conclusion

Financial institutions are continuing to face challenging times, laden with a variety of issues both domestically and abroad. Amid these circumstances, my mission as the new President is to realize the development of regional communities and the growth of the Bank.

I believe that there is great value in tackling challenges in these difficult times. For business persons, the opportunity to take on many challenges is a joy, and I feel that we are blessed to be working at regional institutions in an era with so many challenges and opportunities.

What I have described above makes no sense if we do not work to achieve these goals. We will continue to steadily overcome each issue, one at a time, and take on the challenges that will lead us to a new dimension.

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

July 2019

Akihiko Fukai

Akihiko Fukai, President