

Message from the President



Fully aware that hard times are the true test of regional financial institutions, we are doing our utmost to support our customers. We will turn the dramatic changes in the environment to our advantage, making a radical shift in profit structure and tackling diverse issues to continue building a robust management structure.

Akihiko Fukai

President
Gunma Bank

Preface

The Japanese economy, which had maintained a moderate recovery based on the recent economic situation, deteriorated sharply with an about-turn into extremely challenging conditions due to the impact of the COVID-19 pandemic.

The environment for management at financial institutions has also become even more difficult with fluctuations in global financial and capital markets due to the pandemic coming on top of persistently narrowing yield spreads on loans and securities due to the prolonged negative interest rate policy. This dramatic change in the global economic situation is having a greater impact than the 2008 global financial crisis in Japan and overseas while also having a marked impact on the regional economy.

We play a key role in the infrastructure that is essential for social and economic stability, and our mission is to fully discharge our financial intermediary functions and support the regional econ-

omy under any conditions. Fully aware that hard times are the true test of regional financial institutions, we are doing our utmost to support our customers.

Structural changes in the regional economy and society, including demographics, and changes in lifestyles and business models due to the progress in digitization combined with the COVID-19 pandemic are further accelerating the speed of change.

We will turn these dramatic changes in the environment to our advantage by addressing such issues as taking the initiative for revitalizing regional economies, implementing a radical transformation of the profit structure, responding to emerging needs involving business succession and inheritance, and taking the initiative on digital transformation to build a robust management structure.

To Tackle Management Challenges

As a regional financial institution, we have 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 are able to 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” 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. The networks we have developed so far with more than 34,000 corporations and sole proprietors both inside and outside Gunma Prefecture were built carefully over many years. The information that can be obtained from these networks is a source of new business as well as conventional business in deposits and loans.

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 are holding more than 600 seminars a year on building assets and other topics with sales branch managers as instructors as well as making efforts to present the best proposals to meet diverse customer needs by strengthening our banking/securities collaboration with Gungin Securities Co., Ltd.

For corporate customers, we have devoted efforts to supporting them in solving management challenges with the establishment of Gungin Consulting Co., Ltd. and the launch of a human resource referral service. In fiscal 2019, we successfully resolved 739 of our customers’ management challenges and other issues identified through our business feasibility assessments.

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

However, it is critical to keep making efforts to 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.

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

■ Concept of the Mid-Term Business Plan

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

The Bank worked on two previous Mid-Term Business Plans 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 community and our customers. In the new Mid-Term Business Plan, we focus on realizing value proposition based on “propositions with value” 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.” Given the dramatic changes in the environment due to COVID-19, we are expecting to further accelerate and deepen the measures we had planned.

■ Main Initiatives in Fiscal 2019

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 have proceeded with the elimination and radical review of our operations to enable our staff to deepen their relationships with customers over the medium- to long-term and concentrate on customer-oriented activities. In May 2019, we launched an operational reform project to solicit a broad range of opinions from across the Bank on operations, administration, products and services that could be reduced or eliminated and promptly began eliminating and reviewing those that were identified. By March 31, 2020, we had already achieved an annual reduction of 126,000 hours in our operations volume, equivalent to the work of 71 people.

In the area of channel reform, we have been reviewing the roles and functions of each branch in pursuit of both higher value added and streamlining of operations. We are also aiming to build a structure that can meet the needs of more diversified and sophisticated customer needs with collaboration between branches in neighboring areas. In April 2020, we introduced a sales structure under which we designated the Tatebayashi Branch as a “flagship branch,” which is the core branch in the area, and three surrounding branches as “satellite branches” with some reductions in services at the satellite branches. The flagship branch and the satellite branches work together to service the area. Based on feedback from customers and the status of collaboration between the branches, we will consider expanding the number of branches included in this structure.

In the area of human resources reform, we have worked to reform our personnel system with the aim of securing and developing expert human resources and supporting the active participation of diverse human resources. We have revised the conventional generalist-oriented single-track personnel system into a multi-track personnel system by also developing a system of work conditions for human resources with advanced expertise in areas such as IT, market operations, and consulting. We began operating this system in June 2020.

Realizing Advanced Value Through Evolution of our Business Model

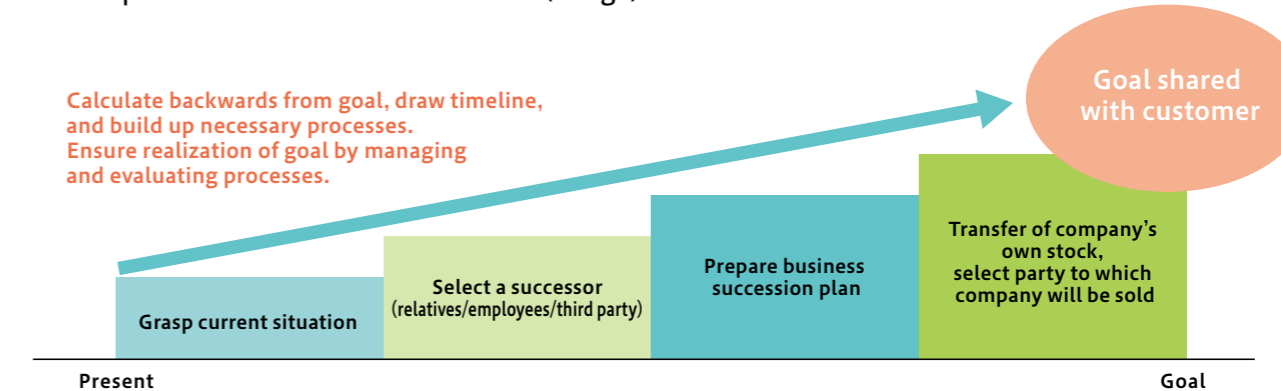
For the policy on “Realizing advanced value through evolution of our business model,” which is our other basic policy, we set forth five strategic themes, namely, “fostering and revitalizing regional industries as well as supporting business succession of these industries,” “supporting the growth of 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.” 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.

In order to achieve a radical transformation of our profit structure, it is essential to improve the profitability of our asset stock as well as increasing non-interest business income, which is less likely to involve interest rate competition and does not depend on risk assets, through the exercise of our core competence. Our particular focus in this area is business succession support and inheritance services.

As part of our business succession support initiatives, in fiscal 2018, the year before the start of the current Mid-term Business Plan, we conducted interviews with 21,000 customers about the existence of successors and shareholder equity composition. In fiscal 2019, we increased the number of dedicated staff at our headquarters to put a structure in place as well as rolling out presentations on return of valuation of company’s own stock and succession methods focused on customers with obvious business succession issues and a pressing need to address them. We set a target to provide these presentations to 6,000 customers over the three years of the Mid-Term Business Plan. However, we provided presentations for 3,083 customers in fiscal 2019, achieving more than 50% progress toward our target. In concrete terms, based on our presentations, there has been a steady increase in cases resulting in smooth business succession through such means as M&As and structured covenant loans.

As part of our inheritance-related services, in fiscal 2019, we increased the number of dedicated staff at our headquarters to put a structure in place as well as conducting interviews on needs and family structure with approximately 6,000 customers for whom smooth inheritance and asset succession could be an issue. Consulting based on these interviews led to contracts for related services, such as insurance, testamentary trusts, and estate liquidation.

How to proceed with business succession (image)



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■ Challenges in Fiscal 2019 and Initiatives in Fiscal 2020

As a result of these initiatives, the financial results for the fiscal year ended March 31, 2020, the first year of the Mid-term Business Plan, progressed largely in line with the consolidated quantitative targets set forth in the plan. However, non-interest business income, which we focused on expanding to transform our profit structure, was limited at the Bank although subsidiaries such as Gungin Securities and Gungin Lease performed well in this area.

In fiscal 2019, we developed business activities with a focus on sharing the current issues and goals of each customer through interviews and presentations for both business succession support and inheritance services. In fiscal 2020, we expect to enter a phase in which we fully utilize the structure and capabilities put in place by increasing the number of dedicated staff and maximize the functions of Group companies while making optimal solutions that meet the individual issues and needs of customers a concrete reality. We will draw timelines based on backcasting from the goals shared with customers and build up processes in which the steps to act on timelines progress appropriately to resolve customers' issues as well as yield profit for the Bank.

We also expect to speed up the three reform initiatives aimed at transforming our management platform which will facilitate this. Our lifestyles, mindsets and social environment have changed completely due to the impact of the COVID-19 pandemic, and there has been a rapid proliferation of online communications and paperless transactions without signatures or seals. We will use this as an opportunity to accelerate the "DigiCal strategy" also set forth in the plan and promote a digital shift in customer contact based on improving the convenience of internet banking, apps, and online conclusion services and implementing online customer communication.

Strengthening of Governance and Capital Policy



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

Thus far, we have worked to strengthen the governance system, including establishing a Nomination Advisory Committee and a Compensation Advisory Committee composed of Independent Outside Directors and the Representative Director as well as the introduction of restricted stock remuneration and performance-linked stock remuneration. In June 2020, we increased the number of Outside Directors by one and appointed a new outside Audit & Supervisory Board member, creating an even more effective governance system. More

than one-third of the members of the Board of Directors are now Outside Directors, with a balanced composition in terms of their areas of expertise, which include corporate management, finance, and law, and their 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 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 that ensures return commensurate with risk to 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 combining dividends and treasury stock acquisition.

In addition, as various environmental and social issues are becoming serious, 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 the aim of contributing to the resolution of environmental and social issues through business activities based on our corporate philosophy and SDGs Declaration. In fiscal 2020, we will newly establish the SDGs and ESG Management Office within the General Planning Department as well as set numerical targets, including at least a 26% reduction* in greenhouse gas emissions and 40% reduction* in paper use by fiscal 2030 to further strengthen our action programs.

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 to our stakeholders, including regional communities, customers, employees, shareholders and investors.

*Compared with fiscal 2013

Conclusion

At the time of the global financial crisis in 2008, I did my best to provide support for local customers as the manager of a sales branch. I firmly believed that regional financial institutions, such as Gunma Bank, are part of the essential infrastructure of the regional economy, and I learned a lot about the responsibilities and roles such institutions should play.

Now a new crisis has arrived once more due to the COVID-19 pandemic. However, unlike the global financial crisis, the current crisis is having the effect of completely changing the post-containment environment into a new society, overturning our previous lifestyles and notions rather than returning to the way society was before. Therefore, the provision of support to regional customers must go beyond the financial aspect such as funding to provide extensive support that includes reform and transformation of business models.

In order to overcome the current crisis, we will steadily work on the measures discussed so far. We will thus achieve a transformation to a new dimension of business model and create a new regional community in partnership with our customers.

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

July 2020

Akihiko Fukai

President
Gunma Bank