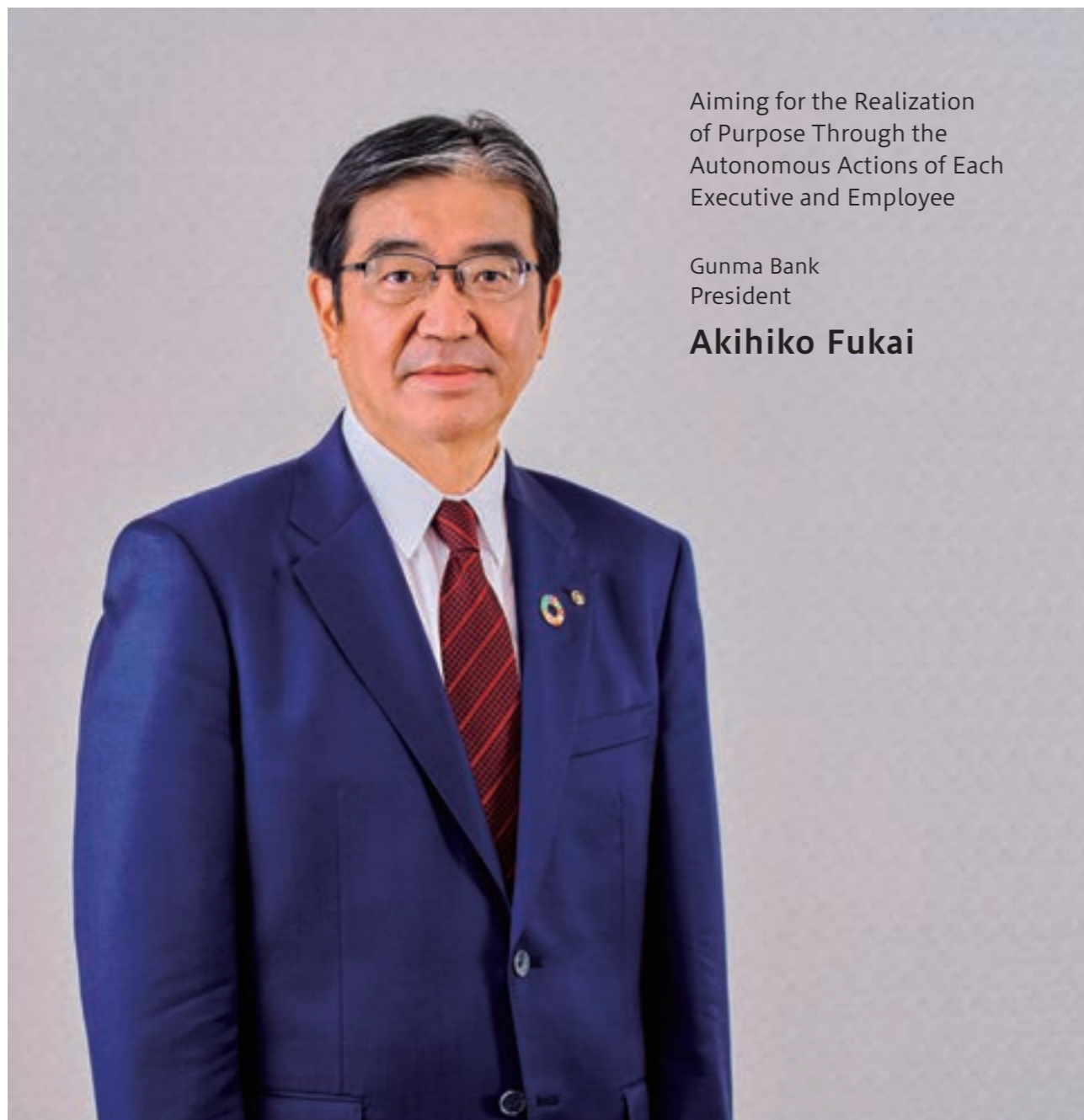


Message from the President



Aiming for the Realization of Purpose Through the Autonomous Actions of Each Executive and Employee

Gunma Bank
President

Akihiko Fukai

Preface

“We use our strengths in connections to spin the threads of the future for local communities.”

The Bank established this as its Purpose in November 2021 after taking new look at the meaning for our existence. Behind this decision was the turbulent global business environment. This includes the prolonged impact of the worldwide COVID-19 pandemic. It also includes global tensions over the situation in Ukraine, and the sharp rise in the price of resources and other goods. There are also current concerns about a slowdown

in the global economy due to monetary tightening in the United States and elsewhere, as well as the negative impact of the rapid depreciation of the yen. This global situation, as well as trends such as “digitalization” and “decarbonization,” are having a significant impact on our regional communities and economies.

The Gunma Bank Group’s Purpose was born of a desire to answer the question, “In the midst of all this change, for what purpose do we exist in the community, and what impact can we make on the community?”

Impetus for Discussing Our Purpose

Impetus for Discussing

I believe the biggest impetus for starting discussions of our Purpose in January 2021 was COVID-19. I wanted to clearly stipulate the meaning of our existence and the impact we could make on the local community in the midst of the massive outside influences on the regional economy.

Throughout our decisions, I felt that the Purpose needed to be something that all of our stakeholders could empathize with. However, I felt that it was even more important that the Purpose be instilled as the cornerstone of the decisions and actions of executives and employees, and that the entire Group to engage in activities based on the Purpose. No matter how noble or beautiful a Purpose may be, it is meaningless if it remains displayed in a dust-covered frame or tucked away in the depths of a desk drawer. For that reason, we spent a great deal of time discussing our Purpose.

Discussion Process

The Bank produces a video program called “IR for employees” on which I regularly appear to tell our executives and employees about our business situation, the significance of major initiatives, and other topics. It was decided that this program would be how we explain the necessity of and solicit opinions on the Purpose. Despite it being voluntary, we received 755 opinions on topics such as the Bank’s essential strengths, what society and customers expect from the Bank, and the meaning of our existence. I carefully read all the opinions, which included a unique opinion that likened the Bank to the flow of the Tone River, as well as opinions filled with passion for the region. From these opinions, I made many discoveries. As a result of repeated discussions with younger and mid-level employees and deliberations at the Board of Directors, we arrived on “Connections” and “Spinning the Threads,” which are both emblematic of the meaning of our existence.

“Connections” represents business we have built up from the past and the business we should work on for the future. The origins of our business, which was established in 1932 as The Gunma Daido Bank, was as a financial intermediary that formed “Connections” between lenders and borrowers. This remains and will continue to be our most important role. We also felt that playing roles that go beyond finance was extremely important for the future of the region. One role is forming a “Connection” between customers and the Bank’s resources and know-how. Another is forming a “Connection” between people in the community, or between know-how and know-how.

“Spinning the Threads,” meanwhile, expresses our commitment to working with the people of the region to achieve a sustainable future for the region. It is in part a reference to the fact that Gunma Prefecture, where our head office is located, developed around its textile industry, which is best represented by the Tomioka Silk Mill, now a World Heritage Site. As such, we felt that “Spinning the Threads” was a phrase that would express



Presentation of the Purpose by President Fukai during an “IR for employees” webcast

our prefecture’s unique regional character.

Discussion of the Purpose continued until the Board of Directors meeting just before the final decision was made. At the very last minute, we added the subject “We” to the Purpose.

While it is typically rare for a Japanese corporation use the pronoun “We” in its Purpose, we made a point to include it, as we wanted each and every one of our employees to recognize that the Purpose was about them.

Instillment within the Bank

Since the completion of the Purpose in November 2021 after more than six months of work, it has become instilled within the Bank’s culture. We have heard from younger employees that the word “Connections,” and variations such as connect, are frequently heard in a variety of situations at bank branches. This is thanks in part to our selection of simple, straight-forward language for the Purpose.

Based on the Purpose, the Bank is having its 12 business districts revise their regional strategies, and our individual branches revise their mid-term branch management policies. In this way, the Purpose is being incorporated into each district and sales branch-level strategies.

In addition, in April 2022, each executive and employee was asked to establish a “Personal Purpose.” These are statements of the impact they will make on society through their duties, as well as why they perform those duties, based on the Bank’s Purpose. After each executive and employee sets a Personal Purpose, they share them with colleagues, thereby encouraging mutual support of their realization. In discussions with bank employees, we have received feedback that having thought about their Personal Purposes has made them more consider of the Purpose in their daily activities.

One outside board member advised me that, “It’s important that you talk to the executives and employees about the Purpose over and over again, like a broken tape recorder.” I intend to put this advice 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”

2022 Mid-Term Business Plan Innovation for “Purpose” (Plan period: April 2022–March 2025)

Basic policy	① Implementation of Digital Strategies as the Foundation for “Connections and Spinning the Threads”	
	② Reinforce strengths in “Connections” by five reform initiatives	③ “Spinning the Threads” of the future by exercising our strengths in “Connections”
Strategic Theme	<ul style="list-style-type: none"> Sales Process Reforms with Emphasis on Progress and Autonomy Business Process Reforms that Contribute to Increasing Productivity Channel Reforms that Adapt to Changes in the Environment and Customer Needs Innovations in human resources aimed at making the best use of creativity Reforms in Collaboration with External Parties for Improving Strengths 	<ul style="list-style-type: none"> Involvement or the like in Regional Sustainability/Initiatives for SDGs and ESGs Coronavirus-ready Support for Finance, Core Business and Succession of the Businesses Personalized Consulting Service for Each Individual Customer Exploring New Business Opportunities through the Group’s Comprehensive Capabilities and Deepening Existing Businesses Reinforcement of Our Management Structure to Consistently Demonstrate Our Strengths in “Connections”

Reinforce strengths in “Connections” by five reform initiatives in order to “deepen” and “extend (new strengths)”

Spinning the threads of the future by exercising our strengths in “Connections” in order to meet expectations from society and customers, and both apparent and inapparent needs



How we will actually go about realizing our new Purpose was stipulated in “Innovation for Purpose”, the mid-term business plan for the three-year period starting in April 2022.

Three Key Points of the New Mid-Term Business Plan

The new mid-term business plan was formulated with a particular focus on the following three points.

The first point is that the plan be centered around the Purpose. While we will continue to work on the reforms (Innovation) promoted under the previous medium-term business plan, “Innovation New Dimension,” we are concerned that if these reforms themselves become the objective over time, our perspective could narrow and the reforms could end up becoming inward-looking. Therefore, to clarify that the objective is to realize our Purpose and that

reforms (Innovation) are merely a means to that end, we decided to name the new mid-term business plan “Innovation for Purpose,” and to discuss the basic policies and strategic themes and formulate the plan based on this premise.

The second key point was that the plan be formulated from two perspectives. The first of these perspectives is forecasting, i.e., working from the past and the present based on the achievements and challenges of the previous mid-term business plan to determine what should be pursued in depth over the next three years. The second is backcasting, i.e., working backward from the “to-be future” based on the Purpose to determine what should be done in the next three years. When formulating previous mid-term business plans, we may not have done enough consideration and communication of the “to-be future.” When

formulating the Purpose, the Board of Directors had a series of discussions on the “to-be future,” which was explicitly stated the new plan. Our “to-be future” is the sustainable development of local communities and the Group. Realizing this will require exploring non-financial businesses, evolving into comprehensive regional group contributing to solving regional issues, and working on initiatives such as regional decarbonization and support for the sustainable development of local industry.

The third key point is that the plan achieve balance between “social value” and “economic value.” By “social value,” we mean the sustainable development of regional communities and customers based on Purpose. By “economic value,” we mean profits for the Bank. Without acting in alignment with the goals and needs of society and our customers, we will not be able to sustainably generate profits. If we do not sustainably generate profits, it will be difficult for us to realize our Purpose. This means that “social value” and “economic value” are inseparable. We are working to incorporate this idea into the plan and assuring that every executives and employees understand it. To symbolize this idea, we have set quantitative indicators in the plan that we call “KPIs in Connections” (see page 25). For example, we have set a target of “600 business succession issues solved in three years,” as contributing to our customers’ business succession issues will lead to the sustainability of society and, as a result, to profits for the Bank.

Quantitative targets

By achieving balance between “social value” and “economic value,” and working on “KPIs in Connections,” we aim to achieve profit on loans of 54.5 billion yen, (consolidated) revenue from corporate services of 6.5 billion yen, (consolidated) customers’ deposited financial assets of 9.0 billion yen, and consolidated core business profit (excluding gains on cancellation of investment trusts) of 45.0 billion yen (+8.1 billion yen over the fiscal year ended March 2022) for the fiscal year ending March 2025, the final fiscal year of the mid-term business plan. As a result, we hope to achieve profit attributable to owners of parent of 30.0 billion yen, the highest ever, consolidated OHR of around 55%, and consolidated ROE of at least 5%.

Three basic policies

The new mid-term business plan has three basic policies aimed at realizing the Purpose (see page 24 for the framework of the plan).

Basic policy 1 Implementation of Digital Strategies as the Foundation for “Connections and Spinning the Threads”

The digitalization of the world is accelerating, in part due to the impact of the COVID-19 pandemic. I feel that the power of digital in every field is essential to the realization of the Purpose. That is why we have made “digital strategy” our first basic policy. The Bank’s digital strategy divides our digitalization efforts into three areas.

The first is digitalization of the region through things like supporting the digitalization of small and medium companies and efforts to promote cashless payment. The second is the digitalization of customer contact points through things like the Gungin app, which was released in April 2022. The third is the digitalization of internal bank operations to improve operational efficiency and the visualize information for use in making decisions and taking action.

Advanced data utilization is essential to promoting this digital strategy. I mentioned earlier that we solicited opinions from executives and employees on the “the Bank’s essential strengths” in the process of discussing the Purpose. The most common response was our “ability to collect information.” While that information is indeed one of our strengths, I feel that we still have room to improve upon how well we leverage the information we collect. We have divided advanced data utilization into three stages; “building a data accumulation and collection infrastructure (Data Lake),” “building a digital marketing infrastructure,” and “building a data analysis infrastructure.” We aim to complete these three stages by the end of the next fiscal year.

Basic policy 2 Reinforce strengths in “Connections” by five reform initiatives

In aiming at the realization of our Purpose, I feel that it is important that we repeatedly reinforce and exercise our strengths in “Connections.” Our second basic policy is conducting reform initiatives in five areas in order to reinforce our strengths in “Connections”; Sales Process, Business Process, Channel, Human Resources, and External Collaboration. In the previous mid-term business plan, we conducted reforms in three areas; Process, Channel, and Human Resources. This time, however, Process has been divided into Sales Process, which deals with customers, and Operational Process, which deals with internal bank operations. We have also added External Collaboration, which leverages multiple alliance agreements.

Basic policy 3 “Spinning the Threads” of the future by exercising our strengths in “Connections”

Our third basic policy shows how we will exercise our strengths in “Connections” to meet expectations from society and customers. It does so from five perspectives; Region, Companies, Individuals, Group, and Bank.

Characteristics of this basic policy include the fact that, in aiming at the realization of the Purpose, we are strongly aware of sustainability in the region, that we will support customers with the impact of the COVID-19 pandemic taken into account, and that we will reinforce our search for new businesses.

Sustainability initiatives

Establishment of a Sustainability Committee

In April 2022, we established the Sustainability Committee, which I chair. Its goal is to enhance the effectiveness of sustainability measures by developing management strategies regarding sustainability issues such as climate change, the SDGs, and ESG issues from a medium- to long-term perspective. The main matters discussed by the committee include the formulation of policies related to sustainability initiatives and the progress of the plan. By issuing reports to the Board of Directors after every committee meeting, we also develop the governance structure by which the board provides oversight of important sustainability-related matters.

Decarbonization initiatives

In order to further decarbonization in the community, it is important that the Bank take the lead in reducing its greenhouse gas emissions and that we support the decarbonization of our business partners.

The Bank revised its greenhouse gas emission reduction targets in January 2022, setting a new goal of “Net Zero FY2030.” In April 2022, we switched our head office building to renewable electricity. In the future, we will aim to achieve our reduction targets by, among other things, promoting the installation of solar power generation systems at our banks.

During the current fiscal year, we will launch an “SDGs Initiative Support Service” for our business partners to help them align their core businesses with the SDGs.

Initiatives for sustainable finance

We are also actively engaged in sustainable finance, which contributes to solving environmental issues (renewable energy, energy-saving equipment, etc.) and social issues (business start-ups and succession-related issues, BCP, medical care, etc.). Through 1.5 trillion yen in cumulative sustainable financing by the year 2030, including 1.0 trillion yen in the environmental field, we will work with local customers to achieve sustainable society.

CASE-related initiatives for the prefecture's automotive industry

As a bank headquartered in Gunma Prefecture, I believe that supporting the prefecture's automotive industry, one of its key industries, is important from the perspective of the regional community's sustainability. It is expected that the decrease in the number of gasoline-powered vehicles as a result of decarbonization will change the structure of the industry. We have started full-fledged examination of what role we can play regarding this change in the mid- to long-term. We are currently deepening communication with major suppliers and developing a database. Based on this, we plan to make specific proposals and provide support to each company while also promoting cooperation with external organizations.

Alliances

In May 2018, the Bank joined the Fincross Partnership (currently) comprised of eight regional banks. In December 2020, we joined the TSUBASA Alliance, a wide-area cooperation of 10 regional banks. In December 2021, we signed the Gunma and Daishi Hokuetsu Alliance with the Daishi Hokuetsu Bank, Ltd. based in Niigata Prefecture. In January 2022, we signed the Ryomo Regional Revitalization Partnership with the Ashikaga Bank, Ltd., which based in Tochigi Prefecture.

I am sometimes asked if we need more multiple collaboration agreements. However, each of the collaborations has a different purpose, and I believe that each is indispensable to the Bank's contribution to the sustainability of the region. The Fincross Partnership and TSUBASA Alliance are alike in that they are wide-area cooperations involving regional banks from across the country. That said, the former is focused on digitalization of finance, while the TSUBASA Alliance is a wide-ranging collaboration between 10 top regional banks on a variety of shared issues. The Gunma and Daishi Hokuetsu Alliance and the Ryomo Regional Revitalization Partnership, meanwhile, are most notable for being collaborations on the sustainability of adjacent and overlapping regions. (See page 40 for more details on the initiatives.)

For example, while the digitalization goals set forth in the mid-term business plan would be difficult for the Bank to achieve on its own, we expect to be able to build better systems by combining the efforts of multiple banks. We also expect that collaboration will be effective in solving regional issues such as decarbonization. I regularly attend meetings of each of these alliances myself. In addition to such meetings between top management, there are also active meetings and information exchanges at multiple levels, including the department manager level, branch manager level, and staff level. I believe that gathering and engaging in discussions with colleagues who share a common direction of regional revitalization is extremely beneficial from the perspective of human resource development.



(Photo top)
Signing of the Gunma and
Daishi Hokuetsu Alliance
(Photo right)



Signing of the Ryomo Regional
Revitalization Partnership

Conclusion

Strengthen comprehensive human resource capabilities and specialized human resources

While I have so far focused primarily on the Purpose and the mid-term business plan, I believe the driving force to realizing them is each and every one of our executives and employees. As such, I believe it is extremely important to reinforce our human capital.

Though “Digital” is of the basic policies of the mid-term business plan, it is clear that without sufficient basic knowledge, we will not be able to fully share our customers' issues and needs when, for example, making a digitalization proposal to a small or medium company. For that reason, we aim to have 1,000 employees pass the national IT Passport examination in order to raise the level of the Bank's digital capabilities. It is now recognized that IT and digital knowledge is as much a base skill for bankers as financial and tax knowledge. I tell our executives and employees, “After acquiring these base skills as bankers, please improve yourselves and acquire the high level of expertise needed to meet the true needs of our customers.” As customers' needs become increasingly diverse and complex, organizations need both the extensive knowledge to share customers' needs and the expertise to meet those needs. Of course, one person cannot possibly master all of the necessary knowledge and expertise on their own. To handle transactions that require a high level of expertise, we have increased the number of HQ employees who have acquired specialized skills through external training and other means. We are also strengthening cooperation between Group companies and branches.

Combining the abilities of each executive and employee to realize the Purpose

In today's rapidly changing and increasingly uncertain business environment, it is extremely difficult to accurately predict the future. Of course, we formulated the plan with full consideration of the general direction the world is heading in, but it is also extremely important that we be able to respond to unexpected events. Customers' needs are changing rapidly, and our own operations are also changing in light of these needs, deregulation, and other considerations. In this context, it would be impossible to reach our goal by trying to develop homogeneous human resources and follow a predetermined path. In that case, what is our goal, and how will we aim to reach it? The Purpose is important in answering these questions. The Purpose is the goal we must share, as well as the lodestar we must follow so as to not become lost along the route (Process) towards reaching that goal. While the Purpose is a unique and singular thing to us, the process for reaching our goal is not uniform. It is important that each and every executive and employee think autonomously and flexibly about how to reach our goal. This is because driving force for the realization of Purpose is each and every one of our executives and employees. This is why we have asked all of them to take a new look at the meaning for their existence and establish a “Personal Purpose.” Each Personal Purpose is created based on three perspectives; the social perspective (being useful to society), the bank perspective (being aligned with the Purpose of the Gunma Bank Group), and the personal perspective (what the individual wants to do). I believe that if each executive and employee creates and accumulates value based on their own Personal Purpose, it will become a large current like the Tone River, the great river of the region, and eventually lead to a prosperous future for the region.

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

July 2022
President

Akihiko Fukai

