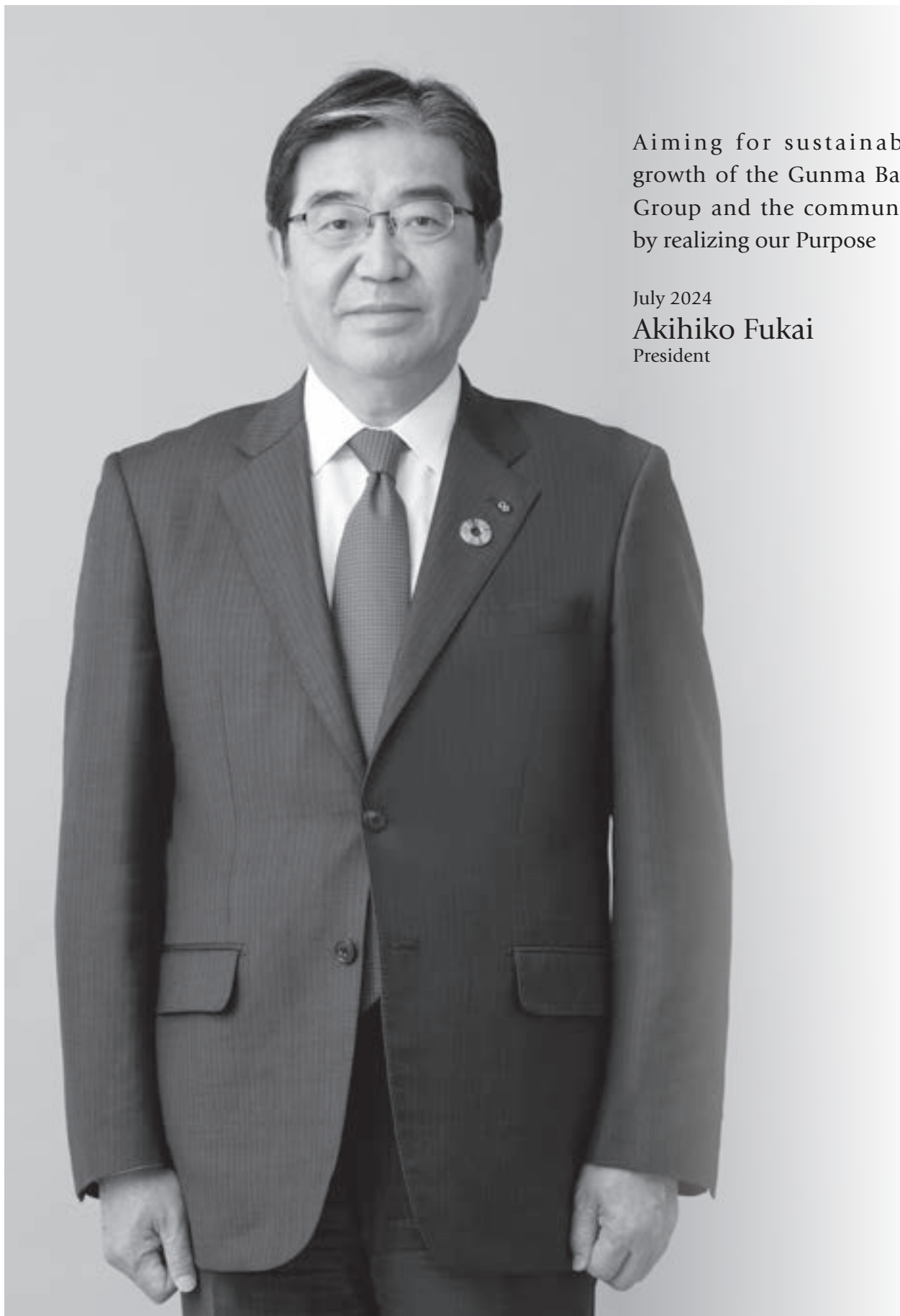


## Message from the Management



Aiming for sustainable  
growth of the Gunma Bank  
Group and the community  
by realizing our Purpose

July 2024

**Akihiko Fukai**  
President

## Preface

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Looking at recent economic developments, the environment surrounding us continues to change. We have seen socio-economic activities returning to normal following the pandemic, greater expectations for higher consumer spending thanks to companies paying higher wages, rising prices due to the depreciating yen, and a change in monetary policy by the Bank of Japan.

Turning toward the Gunma region, a major issue is now the need for improved productivity through the use of digital technology in the fight against the growing labor shortage. And along with this is the need to further promote environmentally friendly initiatives as momentum toward decarbonization gains pace.

In this environment, the Gunma Bank is working to resolve customer and regional challenges. Our aim is to achieve sustainable growth of the Gunma Bank Group and the community based on our Purpose “Using our strengths to connect, we will spin the threads of the future for local communities.”

## Improving Corporate Value

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For the Gunma Bank Group to grow sustainably and increase its corporate value, it is vital that we meet the expectations of all our stakeholders, including customers, local communities, executives and employees, and shareholders. In other words, the Group’s corporate value will increase as a result of solving the challenges our customers face to support the sustainable growth of the local community. It will increase as we give more opportunity and create the environment to motivate employees and improve their skills. Our corporate value will improve as we encourage each and every employee to take pride in their work with a sense of job satisfaction, and it will improve as we build a relationship of trust with our shareholders and investors by returning stable profits and providing information through our investor relations. This idea also connects with the aims of the Purpose we established: sharing of decision axes, increasing individual job satisfaction, and a shared understanding with stakeholders.

Turning our attention to the stock market, many Japanese companies, in response to a request from the Tokyo Stock Exchange, are drawing interest as they run their businesses mindful of capital costs and introduce initiatives aimed at improving their price-to-book ratio (PBR). However, as I mentioned earlier, we believe that meeting the expectations of our stakeholders is the fastest way to improve corporate value, and, therefore, this mindset and attitude remain unchanged. Nevertheless, I feel that this increased interest in improving corporate value has provided a good opportunity for us, as a publicly listed company, to reaffirm the importance of increasing profits while increasing capital efficiency.

### ■ Aiming for ROE of 8% with RORA in Mind

A company’s price-to-book ratio (PBR) can be broken down into price per earnings ratio (PER) and return on equity (ROE). To improve our PER, it is important that we strive for stable profit growth and eliminate any information-asymmetry through investor relations. This is why I have personally taken the initiative in holding dialogues with many of our investors. However, since PER reflects a market view, it can be difficult to control within the company. On the other hand, ROE can be improved through our own efforts, so the Bank is putting particular emphasis on this.

Based on this idea, Gunma Bank has set an ROE target of 8% for the fiscal year ending March 2028, and is working on various measures to achieve this target. But what is important here is our approach to RORA, an indicator of return on risk assets.

The most effective way to improve RORA, is to accumulate assets with high RORA and improve the profitability of assets with low RORA. Assets with a high RORA include highly profitable project finance such as renewable energy and low-risk housing loans. Gunma Bank is therefore working to strengthen the balance of these assets by increasing the number of personnel involved in promoting these fields. Meanwhile, since the RORA on loans to small and medium-sized enterprises (SMEs), which are important for the sustainability of our business and the region, tends to be low due to the relatively high risks and competition, we are working to improve profitability by improving interest rates in response to the Bank of Japan’s policy change and, as I will explain later, by boosting non-interest business income through consulting proposals. In order to improve the profitability of loans to SMEs, the Bank has introduced a unique metric, our so-called “Standard Profit Margin”, in order to share profitability targets with branches and headquarters. Since this Standard Profit Margin is based on the Bank’s overall RORA target, improving the profitability of transactions with each customer will directly lead to an increase in the Bank’s RORA, which in turn will lead to an increase in ROE.

These measures, unique to Gunma Bank, were introduced even before current efforts to increase corporate value, such as improving PBR, made it into the spotlight. Indeed, one of the characteristics and strengths of Gunma Bank is that we have been one of the first banks which has been trying to improve RORA as a whole.

## **Resolving Customer Challenges by Exercising Our Strengths in “Connections”**

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To achieve sustainable growth and development of local communities based on our Purpose, the Gunma Bank Group is working to resolve customer challenges by providing a variety of solutions. In this way, the value we provide to our customers and the community can be expressed in the word “connections.”

### **■ Initiatives Geared Toward the Connecting Process**

Since October 2022, the Gunma Bank has been developing a series of sales activities called “Connecting Process,” starting with dialog with customers, sharing goals and understanding what is needed to realize these goals, and providing appropriate solutions to our customers. This Connecting Process is characterized not only by immediate needs but also by understanding needs from a long-term perspective through sharing our customers’ goals. After one year and six months since we started the Connecting Process, we have talked with 6,085 companies and identified more than 17,000 needs. Gunma Bank branches, headquarters, and group companies work together to provide a variety of solutions in response to the needs that have been identified.

### **■ Deploying a Full-Spec Approach**

Throughout our history, we have supported our customers’ asset building formation and business expansion through money connections, or in other words, through financing. But now, in order to respond to the increasingly sophisticated and diversified needs of our customers, we are making all sorts of efforts to “Connect”. For example, we provide business succession support that connects businesses with next generation managers, business matching support that connects customers with each other, and staffing support that connects companies with the right human resources.

What is important to us when providing solutions to our customers is that we do not carry out each proposal in a separate manner, for example, a financing, business succession support, or staffing proposal, but instead, we view it as a process towards achieving the customer’s goals whereby we make a wide range of proposals as a series from a long-term perspective. At Gunma Bank, we call this the full-spec approach.

For example, when we receive inquiries from customers about new business or installing equipment, we don’t consider it to be merely a loan project. Rather, we offer various proposals in all stages from the preloan to the post-loan stage. So, if it is a new business, we verify the appropriateness of the business plan through Gungin Consulting, and if the customer is installing equipment such as building a new factory, we introduce suppliers and sales partners to expand their business, and introduce any necessary management personnel. The deployment of this full-spec approach not only leads to sustainable growth for our customers, but also helps to increase the Bank’s profits, so it truly is an activity rooted in our Purpose.

## **Realizing a Sustainable Regional Community by Expanding the Field of “Connections”**

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As well as solving the problems faced by our customers by exercising our strengths in “Connections,” the Gunma Bank Group is also working on activities based on a long-term perspective, namely expanding the field of “Connections,” in order to make the region more sustainable.

### **■ Initiatives Towards a Cashless Society**

Promoting cashless payments in the region is one of the key initiatives we can do to revitalize the local economy. Helping to create a society where cash is used less will not only make it more convenient for customers, but will also help to increase spending across the region as useful information is shared with customers in the region through the use of payment data and other information collected by the Bank. With this idea in mind, Gunma Bank has been working in collaboration with Gungin Card on a new debit card released in January 2024, and the more widespread use of card machines at local stores, offices, clinics and other places.

## ■ Initiatives to Create Regional Products and Services

As many products and services are becoming more commoditized, efforts to discover, create, and widely disseminate appealing products and services in the region are also important in helping to boost local consumption and sustainable growth for businesses. Based on this idea, Gungin Consulting launched the crowdfunding site TSUNAGU+ in July 2023 as part of its regional trading company business, and in February 2024 established the online shopping site TSUNAGU+Store. Through these two websites, we are striving to revitalize the local economy by connecting local businesses with consumers who want to support projects originating in the region.

## ■ Initiatives to Revitalize Core Industries in the Region

To make the region more sustainable, it is vital that we take steps to revitalize the core industries that drive regional economic growth. With the aim to revitalize Ikaho Onsen (hot spring resort), the Bank established, through a fund managed by Gunma Regional Advanced Solution Partners (GRASP), an urban development company, Sekiraku Co., Ltd., in December 2023 in collaboration with local businesses. As well as acquiring and renovating an old ryokan (Japanese style inn), Sekiraku is also working to create a bustling community by encouraging restaurants and shops to open that are in short supply in the area. This is just one example of the initiatives we are carrying out. We are also working to revitalize the core industries in the region through initiatives such as the revitalization of Minakami Town through collaboration with businesses, local government, and universities, as well as support for the automobile industry focusing on suppliers to Subaru.



The old Ichikawa Ryokan (building on the left) acquired by Sekiraku Co., Ltd.

## Enriching Human Capital

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So far, I have talked about our efforts to solve customer challenges and create sustainable local communities. I also believe that human resources are the starting point of all our activities. In June 2023, the Gunma Bank formulated its Personnel Development Policy which states, “To achieve our Purpose, we will support employees to build their careers independently and take on challenges based on each Personal Purpose to improve the value of our human resources.” In line with this policy, all executives and employees have set out their own Personal Purpose which they are diligently working towards. As a bank, we want Personal Purpose initiatives to lead to the career development of each executive and employee, and to support this, we are revising our personnel system and improving the training we offer, which I will talk about later.

## ■ Job-based Personnel System based on Occupational Standards

In June 2024, the Bank fundamentally reviewed its existing personnel system and introduced a new job-based personnel system based on occupational standards. To give some background, our previous personnel system was built around the ideas of seniority and lifetime employment. It was a system based on occupational qualifications with the goal of developing generalist employees who could play an active role in a variety of fields. However, due to changes in the environment and more diversified work styles, various problems have become apparent, including a strong sense of seniority that leads to inflexible operation of the system and a passive sense of career development for bank employees.

The key points of the new personnel system are to appoint the right person to the right position according to ability, to treat employees appropriately with the formulation of job descriptions, and to give a clear career picture. Appointing the right person to the right position according to their ability means flexibly appointing talented people regardless of their years of service. As such, we aim to improve the performance of the organization as a whole by providing opportunities for young bank employees to be promoted, and for employees who would otherwise lose their position under the old system based on their years of service to continue to play an active role. In addition, by clearly stating the role, required skills, and required career of managers and supervisors in the newly drawn up job descriptions, we hope to not only ensure appropriate treatment commensurate with the value of the job, but also to clarify the career image of bank employees by disclosing job descriptions within the bank, or in other words, by creating a clear picture of what the job entails.

## Progress of the Mid-Term Business Plan and Future Challenges

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Under the mid-term business plan titled Innovation for “Purpose,” which started in April 2022, we are working to realize a vision for the future based on our Purpose. Based on the digital strategy that I will talk about next, we are taking various measures such as building an effective sales system, strengthening contact with customers, providing financial, core business, and business succession support to companies, and consulting tailored to individual customers. Two years have passed since the formulation of the midterm business plan. We are seeing that many of our measures are bearing fruit, and that we are making steady progress on our KPIs in Connections, such as the number of customer business succession issues resolved and the number of staffing contracts filled. As a result, we have been able to achieve our profit targets for the final year of the plan one year ahead of the original schedule.

On the other hand, exerting the collective strengths of the Group will become a challenge for us as we aim to further increase our corporate value going forward. So far, I have talked about the group companies such as Gungin Card, Gungin Consulting, and Gunma Regional Advanced Solution Partners. Going forward, we will cement and integrate Group business through collaboration with other group companies, notably Gungin Securities, to improve our ability to make asset management proposals to individual customers, and further strengthening collaboration with Gungin Lease to support business customers with new equipment and facilities.

## Executing our Digital Strategy

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Gunma Bank has set its digital strategy as one of the basic policies of the mid-term business plan, and is working on various measures from three perspectives: digitalization of the community, digitalization of customer contact points, and digitalization of internal bank operations. Specific measures include creating an app for individual customers, a portal site for corporate/business customers, and improving nonface-to-face channels, for example, with in-store tablets that allow customers to complete procedures such as opening an account by themselves. The app for individual customers was developed in collaboration with members of the TSUBASA Alliance. After continuous modifications and added functions, the number of users is now at more than 270,000 two years after the app was first launched.

This enhancement of non-face-to-face channels has led to improved convenience for customers and the streamlining of our operations. This has also led to stronger contact with customers by allocating the time freed up from streamlining operations to face-to-face interactions with customers, and by shifting bank employees who were previously doing office work to consulting with customers. We will continue to strive to improve customer satisfaction by effectively utilizing both non-face-to-face and face-to-face channels.

## Sustainability Initiatives

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### ■ Decarbonization Initiatives

The Gunma Bank has set a goal of achieving net zero Scope 1 and 2 greenhouse gas emissions by fiscal 2030, and is undertaking various initiatives toward decarbonization. Specifically, we entered into power purchase agreements (PPA) for many of our branches where solar panels were installed with the help of Kanto Yawaragi Energy Co., Ltd., which was jointly established with local businesses through a fund managed by Gunma Regional Advanced Solution Partners. And in January 2024, we began procuring renewable energy from a newly opened hydroelectric power plant in Oze which has been providing power to nine branches in the northern part of Gunma Prefecture.

Furthermore, the Bank has acquired the naming rights to this hydroelectric power plant and is working to foster momentum toward decarbonization by widely sharing information in the region. Consequently, the Gungin Oze Katashina Power Plant is now widely known. As a result of these efforts, the Bank’s greenhouse gas emissions have reduced at a faster pace than the original plan. We have achieved our reduction target for fiscal 2024, the final year of the mid-term business plan, one year ahead of schedule.



Gungin Oze Katashina Power Plant



## ■ Initiatives for Sustainable Finance

To improve sustainability in the region, we must not only work on our own efforts, but also work on solving the environmental and social issues of our customers. The Gunma Bank has been providing financial support, such as sustainable finance, to solve these customer issues, and so far, we have been able to confirm customer needs that exceed our expectations. As such, I feel that there is now greater awareness of environmental and social issues and higher expectations for financial institutions.

In light of this situation, we have raised our medium- to long-term sustainable finance target from 1.5 trillion yen to 3 trillion yen by fiscal 2030, and we are working to improve sustainability for our customers and local communities by expanding our product lineup of sustainable finance.

## ■ Initiatives to Preserve Natural Capital and Biodiversity

To date, the Gunma Bank has been working to preserve natural capital and biodiversity by supporting environmental conservation activities through the Gungin Foundation. Through our investment trust fund Oze Kiko, we have donated a portion of the trust fees to a foundation that carries out environmental conservation activities in Oze. In order to further advance these efforts, we joined the Task Force on Nature-related Financial Disclosures (TNFD) Forum in April 2024. As well as tackling climate change by reducing greenhouse gas emissions, we will continue to contribute to the realization of a sustainable society by working to resolve a broader range of sustainability issues.

## Conclusion

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Roughly 2 years and 6 months have passed since we first created our Purpose, and I feel that achieving both social and economic value based on this Purpose is steadily taking root. The fact that we were able to achieve our mid-term business plan profit target one year ahead of schedule as a result of our efforts to solve customer and community challenges through the use of our Connecting Process from dialog with customers, and the development of our Full-Spec Approach through the provision of various solutions, is a testament to the value of our Purpose.

Through these Purpose-based sales activities, the Gunma Bank Group will support the sustainable growth of customers and local communities, and will strive to achieve the medium- to long-term target of ROE 8% by enhancing employee engagement and building relationships of trust with our many stakeholders, including shareholders. In this way we will continue to work to further improve our corporate value.

In closing, I would like to ask for your continued support for the growth and development of the Gunma Bank Group.

July 2024

Akihiko Fukai  
President

