

Message from the President



Nothing is more essential than building sustainable regional communities. We will adapt to our rapidly changing environment and forge a resilient management structure.

Akihiko Fukai
President
Gunma Bank

Preface

The spread of COVID-19 has had a major impact in all fields throughout the world. It is our mission to fully exercise our function as a financial intermediary and support regional economies no matter the situation, and we have done everything in our power to assist these economies. In particular, with regard to provide a smooth supply of funds to regional communities, by the end of March 2021, we had received consultations from approximately 19,000 customers regarding business funds and had provided 397.7 billion yen in COVID-related assistance.

The first of our corporate philosophies is to take actions that will foster the development of regional communities, and the first priority issue in our SDGs declaration is the sustainable development of regional economies. Through the COVID-19 pandemic, we were reminded of the importance of our role in regional communities and the extent of the responsibility that we bear.

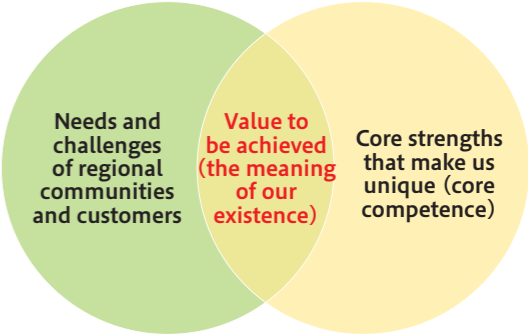
In addition, COVID-19 has brought about a variety of changes, including new lifestyles and an increase in the pace of digitalization, not to mention the impact on the economy. In light of this environment, we

will not only continue to do everything we can to provide our customers with financial support, but we also believe that it will become even more essential to enhance the variety of support services that contribute to the growth of our customers and to create initiatives that help build sustainable communities.

The Meaning of Our Existence

The Bank's Mid-Term Business Plan, "Innovation New Dimension - Toward delivering value -," focuses on realizing value for both customers and the Bank. We believe that the value that we must achieve for our customers lies in the domain where the following two elements overlap.

The first is the challenges and needs of regional communities and customers, and the second is our core competence, which embodies our unique strengths. In other words, leveraging our unique strengths to address the needs and challenges of regional communities and customers is the value that we should make reality and the reason for our existence. I believe that by correctly defining this value and making effective use of our management resources, we can contribute to the sustainability of our customers and regional communities while simultaneously improving the Bank's earnings in a sustainable manner.



■ Challenges Facing Regions and Customers

Gunma Prefecture, our primary area of business, has appealing tourist attractions due to its rich natural environment, as well as abundant agricultural and livestock products. Its economy is driven by its manufacturing industry, with a focus on transportation equipment and food products. In recent years, our prefecture has continued to be one of the top spots in Japan in terms of the number of factories and their locations. This is owing to the development of transportation networks such as expressways, ease of access to the city center, and the relatively low number of natural disasters.

That being said, we are aware that the sustainability of the region, particularly in terms of business succession, lack of human resources, and improving productivity, are important issues given the aging and declining of the population. For example, with regard to business succession, we not only receive consultations about the lack of successors, but also a variety of requests, such as consolidating shares under one's successor or wanting to hand over the business to two relatives. When it comes to human resources, there is a growing need for people who can serve as the president's right hand and managers who can take the reins of new businesses.

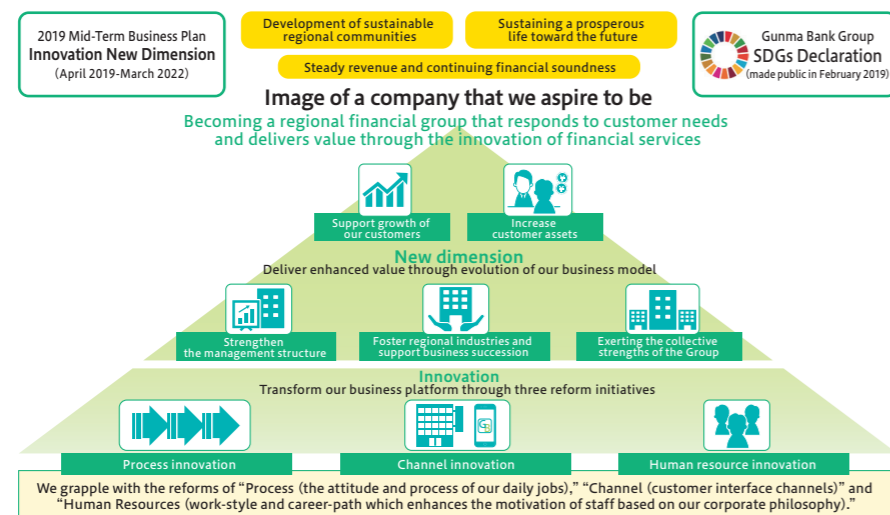
■ Our Core Competence

Moving on, what is our core competence, the core strengths that make us unique?

I believe it is the ability to collect information we derive from our network and customer relationships. Our roots go back to 1932, when the Gunma Daido Bank was established. We opened branches outside of the prefecture immediately after the war and have since built a broad business network that extends to the Tokyo metropolitan area. Our core competence lies in our longstanding relationships with customers based on this network, as well as the wide-ranging, in-depth information we have accumulated through these trust-based relationships. The information we obtain on a daily basis throughout the course of our business activities is accumulated in our CRM system. We believe that by linking these pieces of information, we can solve the problems facing our customers and regional communities, and that by utilizing AI and other cutting-edge technologies, we can provide new value and generate new business. In addition, our entry into the TSUBASA Alliance, a regional collaborative effort among regional banks, in December 2020 (see page 19) has further broadened the scope of our problem-solving initiatives through cooperation with other banks outside of our own network.

We are striving to implement our Mid-Term Business Plan "Innovation New Dimension" with the goal of leveraging these strengths to achieve value for our customers.

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



■ Concept of the Mid-Term Business Plan

During the two Mid-Term Business Plans covering the six years leading up to March 2019, we have aimed to grow alongside the region and its customers by providing and supporting unique proposals based on the concept of value proposition. In our Mid-Term Business Plan for the three-year period starting April 2019, with value proposition serving as our foundation, we have focused on making the value within our proposals a reality. Our corporate vision is to become a financial group that fulfills customer needs and achieves value through innovative financial services.

Our basic policies for making our corporate vision a reality are to transform our business platform through three reform initiatives and to deliver enhanced value through the evolution of our business model. In light of regional issues and changes in the environment, we would like to take a closer look at the kind of value we can achieve.

■ Main Initiatives in Fiscal 2020

Transform our business platform through three reform initiatives

In accordance with the basic policy of “Transform our business 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.

First, in terms of process reform, we launched a business reform project in May 2019 in which we solicited a wide range of opinions from all our banks about aspects of our operations, products, and services that could be reduced or eliminated, and this turned into 726 proposals. As of the end of March 2021, 673 projects (93%) had been completed, which resulted in a workload reduction equivalent to the workload for 157 people. In addition, to promote digitization internally, we established the Digital Innovation Group in June 2020 and are working to improve productivity and expand our digital channels.

In terms of channel reform, we are expanding our digital channels and restructuring our branch network to adapt to the changing lifestyles of our customers. To expand our digital channels, we began development towards the introduction of an open API platform within the TSUBASA Alliance and upgrades for smartphone apps. As part of our efforts to restructure our branch network, in the Tatebayashi area, we reorganized five branches and established core “flagship branches,” as well as “satellite branches” with lighter operations.

In terms of human resources reform, the talent management system introduced in April 2020 will enable the centralized management and visualization of various data, such as employee skills,

which will facilitate more strategic human resources allocation than ever before. Moreover, in October 2020, we introduced 1-on-1 meetings, a system of periodic face-to-face meetings between supervisors and subordinates, with the goal of stimulating communication between both parties and improving supervisor management.

Deliver enhanced value through evolution of our business model

For another of our basic policies, evolution of our business Model, we have settled on five strategic themes, as shown on page 21.

Earlier, I mentioned that communities and customers are concerned about the aging of the population and the sustainability of regional communities in light of the declining population. To address these concerns, we are placing emphasis on support for business succession and inheritance-related services. We recognize these as areas where we can leverage our strength in information technology and where there is a great need among regional communities and customers.

In terms of initiatives for business succession support, we are enhancing our support system by increasing the number of staff at our head office. In our Mid-term Business Plan, for customers encountering issues with securing the succession of their business, we set a goal of providing business succession support to 6,000 customers, including measures for handling their shares and proposals for succession methods. Within two years, we were able to assist 5,069 customers (a progress rate of 84.5%). The accumulation of these kinds of activities is helping us to achieve value for both ourselves and our customers, and the number of cases in which we can contribute to smooth successions through M&A, structured covenant financing, and other methods has increased. As a result, revenue from our corporate services was in excess of 1.9 billion yen in the second half of fiscal 2020, and we are on track to achieve our goal of 4.2 billion yen for the final fiscal year.

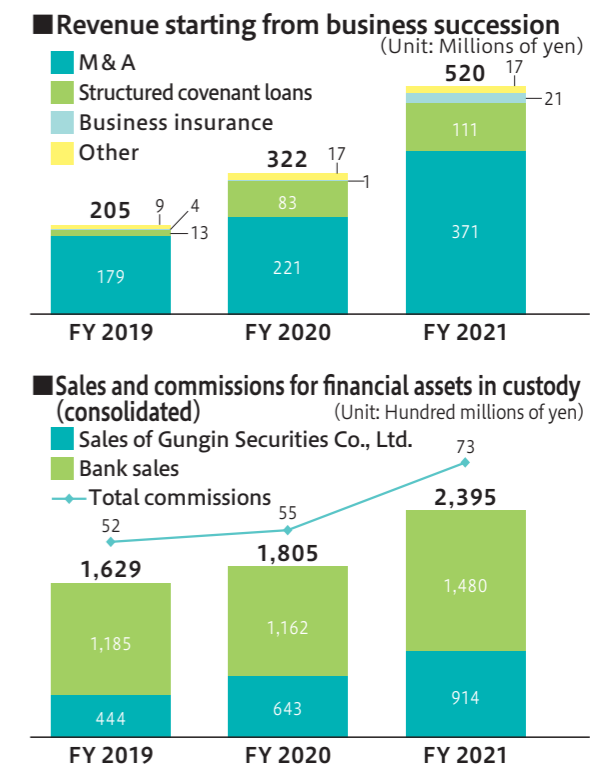
In terms of inheritance-related services, we have hired additional professional staff and established Individual Consulting Plaza Maebashi, an inheritance consultation service limited to days off. In addition, the number of cases we handled involving will trusts and will arrangement services doubled from 71 in fiscal 2019 to 167 in fiscal 2020. However, we believe that there are still potential needs to be met in this area, so starting April 2021, we enhanced support for customers by establishing private banking advisers and increasing the number of asset succession advisers within the Wealth Management Group of the Personal Consulting Department.

■ Initiatives in Fiscal 2021

In the fiscal year ended March 31, 2021, while final profits declined due to an increase in credit costs, our consolidated non-interest income was 19.1 billion yen, which is 95% of our target of 20 billion yen for the final fiscal year of the Mid-Term Business Plan. This was due in part to growth in the Group’s operations related to financial assets in custody, including those of Gungin Securities Co., Ltd. We are aware that other major figures are also generally performing well.

In fiscal 2021, we will leverage the support systems that we have enhanced internally, such as the business succession support and inheritance-related services mentioned earlier, to address more of our customers’ issues, and we hope this year will result in profits as well.

In addition, COVID-19 has accelerated the pace of various changes in the business environment that we have been aware of, so we will make further efforts to accelerate the implementation of the three reforms.



In terms of process reforms, we will improve the quality and productivity of work, beginning with the lightweight laptops that have been gradually distributed to employees since January 2021. For channel reforms, we will work with the TSUBASA Alliance to improve our digital channels, including app upgrades, while further reviewing our branch network and reallocating employees to high value-added areas, such as consulting services. With regard to human resource reforms, we will enhance support for human resource development through the establishment of a personnel system that is based on the degree to which employees contribute, strategic allocation of personnel using our talent management system, and training system, self-fulfillment support, and self-development support as described on pages 24 and 25.

■ Formulating the Next Mid-Term Business Plan

We will launch a new Mid-Term Business Plan in April 2022, and we believe it is important to carry on with our current concept of achieving value while also further exploring the kinds of support we can provide to our customers. Along with improving profitability, we believe it is also essential to review our expenses. By taking on the challenge posed by the Bank of Japan's Special Deposit Facility to Enhance the Resilience of the Regional Financial System, we hope to further improve the quality of our management. In addition, we will explore initiatives in new growth areas in response to the deregulation resulting from the revision of the Banking Act and so on. Specifically, in consideration of regional challenges, we have been holding internal discussions about regional trading companies and registered temporary staffing.

I mentioned previously that the value we must provide and the reason for our existence lies in the areas where our unique strengths overlap with the challenges facing the region and our customers. I would like to redefine these areas as comprising our “purpose.” Our corporate philosophy is a universal concept that encompasses the values and standards of conduct that govern how we should comport ourselves. We will add an external perspective based on the internal perspective defined in our corporate philosophy—namely, what we can do for society, and what value do we exist to provide? We believe it is important that both our internal and external stakeholders are able to relate to our purpose, and more importantly, that it influences the decisions and actions of our employees. Therefore, to encourage our employees to think of this purpose as something that concerns them personally, we are asking all of them to submit their personal thoughts on the matter. Based on the feedback we collect, we will hold thorough discussions to define our purpose and reflect it in the next Mid-Term Business Plan beginning next fiscal year.

ESG Initiatives



■ Environmental Initiatives

Our environmental initiatives are described on pages 39 to 41. We believe that it is vital for financial institutions to play an active role in addressing environmental and social issues and contributing to making a sustainable society a reality. In June 2021, we established the Environmentally and Socially Conscious Investment and Loan Policy to limit investments and loans that have a significant impact on the environment or are the cause of issues concerning human rights and poverty, as well as to promote a virtuous cycle for both the environment and society. We simultaneously began to offer sustainability-linked loans to strengthen support for our customers' efforts to address environmental and social issues.

Furthermore, we have established targets for reducing greenhouse gas emissions and paper consumption as part of

our efforts to preserve and regenerate the global environment. We have made progress in going paperless for a number of meetings and applications. The amount of photocopying paper used in fiscal 2020 was reduced by 30.2% compared to fiscal 2013, which means we achieved the goal of 30% reduction set for fiscal 2025 ahead of schedule. We are currently promoting the digitalization of deposit slips, contracts, and other customer documents as well to further reduce the amount of paper used.

■ Regional Sustainability Initiatives

In December 2020, we established Gunma Regional Advanced Solution Partners Co., Ltd., a subsidiary that specializes in investment, and we established a system that enables us to provide funding assistance for business restructuring, business succession, and venture businesses to regional companies. In March 2021, we signed the Gunma Next-Generation Industries Creation and Cultivation Collaboration Agreement between industry, academia, government, and financial institutions and we will continue to actively work to create and nurture next-generation industries to improve the vitality of the region.

Major industries in Gunma Prefecture include manufacturing, especially transportation equipment such as automobiles, and tourism. However, changes in the environment surrounding these industries, such as through CASE and the COVID-19 pandemic, are expected to usher in major changes to the structure of these industries. Given the circumstances, we would like to continue discussions on what role we can play as we cooperate with regional municipalities and external companies as a regional financial institution.

■ Governance Strengthening Initiatives

To guarantee diversity, which is a prerequisite for ensuring the effectiveness of the Board of Directors, we prepared a skill matrix and published it in the Notice of Convocation of the General Shareholders' Meeting and the Integrated Report (page 51). Through this skill matrix, we will enhance the information disclosed regarding the roles expected of our directors and corporate auditors and the appropriateness of their composition.

Conclusion

We will strive to achieve a sustainable community and generate economic value by leveraging various forms of capital as described in Value Creation Process at The Gunma Bank on pages 8 and 9, as well as by providing value to our stakeholders through the initiatives mentioned thus far.

When it comes to establishing a virtuous cycle, I believe that human capital is a particularly important element. As you can see on pages 24 and 25, which mentions our initiatives toward human resources reform, I am also emphasizing the idea of “making sense,” by which I mean giving employees a sense of purpose and conviction in all their work, and I have spoken to employees at branch manager meetings and at “IR for employees,” which we have established as a forum for conveying the significance of our measures to employees.

Naturally, we will continue to accelerate our investments in digitalization, but the more digitalization advances, the more important it will become to provide value that can only be provided by people. By using digital technology to connect various types of information, each and every one of us in The Gunma Bank Group will strive to offer a broad range of value that goes beyond finance, and together with our customers, we will forge a new local community.

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

July 2021

Akihiko Fukai

President
Gunma Bank