



Outside Director Roundtable Discussion



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Improving governance and contributing to sustainable growth and improved corporate value over the medium to long-term

Gunma Bank's three outside directors exchanged opinions on topics such as the overall effectiveness of the Board of Directors, initiatives to achieve the Bank's Purpose, and issues and expectations for improving corporate value.

Effectiveness of the Board of Directors

How do you assess the effectiveness of the Board of Directors? And how do you see your role as an outside director?

Kondo The effectiveness of the Board of Directors has been increasing year by year. Many companies conduct evaluations of the effectiveness of their Board of Directors, but what is important is that effectiveness evaluations lead to substantive improvements in the functioning of the Board. Gunma Bank repeats this process every year, in which internal directors scrutinize the issues identified through effectiveness evaluations, consider specific improvement measures, and steadily implement them. I believe this is a major factor in advancing governance in an organization.

I have been involved in the manufacturing industry

for many years. I am also a manager at the Gunma Prefecture Professional Human Resources Strategy Center, so I still have the opportunity to talk to many small and medium-sized business owners. Based on this experience and position, I am particularly conscious of the customer and local community perspective. As times change, the way of thinking and values of business owners also change. Whether Gunma Bank has a firm grasp of the trends and changes in society, or whether it is getting caught up in past successes, is something I also pay close attention to.

Nishikawa Board meetings tend to be a place where inside directors explain proposals to outside directors, or where inside directors answer questions from outside directors. But at Gunma Bank, these

meetings are a place for constructive discussion. The atmosphere is one where outside directors can express their opinions freely without reservation. In terms of management, efforts are being made to bridge the information gap with internal directors, for example, by recording statements made by inside directors at management meetings in Board briefing materials. I believe that initiatives like this are also helping to reenergize the Board of Directors.

For a company to grow sustainably, it is essential that management understands the risks and continues to take on challenges with an appropriate risk management structure in place. Governance has both offensive and defensive aspects to it. My focus is more on the offensive role, which is the role of supporting internal directors in taking appropriate risks. What is important here is that discussions take place at board meetings from a range of different perspectives. From this viewpoint, I believe that the specialist knowledge of outside directors with our different backgrounds brings added value to discussions. I run a venture company, and I have also worked for a foreign company. So, I want to use my experience to encourage discussion from a more offensive perspective.

Osugi Looking at the process of evaluating and improving the effectiveness of the Board of Directors, I get a sense of the level of commitment of the Chairman, Nobuyuki Horie, the President, Akihiko Fukai, and the other internal directors who are trying to enhance the effectiveness of the Board of Directors. I believe that the key to increasing effectiveness is the level of commitment of the internal directors. For example, the agenda to be discussed by the Board of Directors was revised based on the issues identified in the effectiveness assessment. This reduced the number of agenda items, which were relatively low in importance. Now, more time can be spent on medium- to long-term issues such as business direction and policy, including the establishment of the Bank's Purpose and formulation of a mid-term business plan. The fact that we are now able to engage in spirited discussions at Board of Directors meetings is no doubt the result of everyone's tireless efforts to make improvements.

One of the key functions of the Board of Directors that I am conscious of is supervising management. In other words, to put a brake on any hasty management behavior. Another function I am focused on is to bring depth to Board discussions so that we can come to more exhaustive, exacting conclusions. I believe that the Board of Directors is a place for intellectual combat, so I intentionally try to pose negative questions and opinions to internal directors at Board meetings. I hope to improve the quality of discussions by incorporating this dialectical way of thinking, which brings together conflicting opinions to produce more comprehensive outcomes.

What are your thoughts on the effectiveness of the Nomination Advisory Committee and the development of management-level human resources?

Nishikawa A defining initiative of the Gunma Bank is that the skills and assessments of new candidates for director and executive officer positions are reported to outside directors. Since evaluations are quantified in this report, the information is easy for us as outside directors to digest. Although we conduct one-on-one interviews with candidates, it is difficult to gauge a candidate's qualities through interviews alone, so this report is a useful resource for outside directors. In addition to one-on-one interviews and reports, observing candidates' behavior in groups, such as what they say in meetings, can also help evaluate candidates.

Kondo Reports are created from the objective perspective of a third-party consulting firm. They provide information not only on the candidate's skills, but also on their personality and behavioral characteristics, which is extremely useful in terms of getting to know the candidate. However, the evaluation is only relative, so it does not mean that candidates with high scores are good at everything. When considering the balance of the Board of Directors, I believe we must focus not only on whether a candidate has the required skills, but also on understanding the strengths and weaknesses of candidates and how this impacts their business execution.



Osugi Developing the next generation of management-level human resources is an important topic for the Board of Directors. The Corporate Human Resources Development Committee was established in March 2024. This committee aims to develop management-level human resources on a medium- to long-term basis with development geared toward employees at every level of the company, not just candidates for directors or executive officers, to ensure the balance and diversity of the Board of Directors as a whole going forward. Matters discussed by the committee are also reported to the Board of Directors and the Nomination Advisory Committee. However, given changes in the business environment, I want to advance discussions on the development of management-level human resources, including issues such as how to define the skills that a Board of Directors should possess and how to ensure diversity on the Board.

■ Purpose Initiatives

The Gunma Bank established “We use our strengths in connections to spin the threads of the future for local communities” as its Purpose in November 2021. How do you feel about the initiatives that have taken place to date for this Purpose?

Nishikawa Many companies have established a purpose or drawn up a mission statement, but Gunma Bank takes its Purpose down to the strategic and tactical level, such as by setting specific KPIs to realize its Purpose. That is to say, the Bank has connected its Purpose with activities in the workplace to create a system that allows employees to act in line with the Purpose. And this is something very special. I don’t think many companies have taken their mission so far beyond the concept stage, embedding it so deeply into the workplace.



Osugi When the Bank formulated its Purpose, I said that from now on, senior management must continue to communicate this Purpose at every available opportunity, and this is exactly what has happened over the past two and a half years. The words “connections and spinning the threads,” while fairly abstract, accurately express the essential functions that a regional bank should fulfill, but more than that, the words are very pleasing to the ear in the Japanese language. Placing this Purpose at the heart of its business activities has, I believe, changed the way Gunma Bank Group employees act. Gunma Bank’s corporate value has improved over the past two years, no doubt thanks to the establishment of its Purpose.

Kondo The point of the Purpose is to give employees a benchmark for action. Not letting this Purpose fade will lead to the sustainable growth of the Gunma Bank Group. However, as new employees join the group every year, it is no easy feat to convince every one of the more than 4,000 group employees of the idea behind the Purpose and have them all act by it. To keep it from being diluted, a link between the Purpose and business activities has been established, and I believe senior management will continue to spread the message of the Purpose. I also think it will become even more important to have a framework or system in place for regularly checking and following up on the level of penetration and status of initiatives in the workplace.

■ Improving Corporate Value

In terms of further improving the corporate value of the Gunma Bank, what hopes or challenges lie ahead?

Osugi Although Gunma Bank’s return on equity (ROE) is already one of the best among regional banks, it is no time to be complacent. The Bank should continue to make bold efforts to further improve capital efficiency. Based on the judgment that the Bank’s current capital adequacy ratio is somewhat high from the perspective of capital efficiency, the Bank is aggressively taking risks to accumulate high-quality assets that contribute to growth, while also returning 50% to shareholders, exceeding the 40% shareholder returns target. To increase corporate value, the Bank must not only increase its ROE but also its price-per-earnings ratio (PER). Increasing the PER means acquiring greater trust from the market and expectations for Gunma Bank, bringing down the cost of capital required by the market. To this end, the Bank needs to actively engage in dialogue with the market. In this regard, I rate highly the initiative of President Akihiko Fukai, who is actively engaged in a wide range of investor relations activities, including dialogue not only with domestic investors but also with overseas investment funds. Gunma Bank conducts investor relations in a wide range of countries, including the

United States, Europe, and Asia. These efforts are possibly the most advanced among regional banks in Japan. Indeed, such investor relations will definitely contribute to lowering capital costs. As an outside director, I fully support Gunma Bank’s strategic capital cost management and will do everything I can to help achieve a price-to-book ratio of 1.0.



Nishikawa As with its Purpose, Gunma Bank also links the improvement of ROE to sales activities in the workplace. The key point is that the Bank’s overall target RORA is translated into profitability targets for each customer. I think it is worth noting that the branches carry out sales activities sharing the same measure of profit with headquarters.

From the perspective of increasing corporate value, a major issue is how to connect human capital to improved corporate value. In these times of rapid change, accepting diverse human resources and

creating an organization in which they can thrive are important elements for a company to survive. When we talk about diversity, equity, and inclusion, we tend to focus on women, but when we focus solely on women, discussions tend to get played down. So, I believe we also need to talk more about how to enrich and utilize minority human resources, such as mid-career hires and professionals.

Kondo I believe that banks have tended to be more conservative in their efforts, but in recent years, Gunma Bank has been willing to take on new challenges, such as fundamentally reviewing its previous approach. For example, the Bank has changed its personnel system from one based on occupational qualifications to a so-called job-based personnel system. The background to this is that the previous personnel system, which had a strong emphasis on seniority, was no longer able to respond to the various needs of customers, and also employees’ values toward work have changed. However, there are both advantages and disadvantages to the job-based personnel system. Yet, instead of stopping there, the Bank needs to forge ahead while also considering the risks. I appreciate Gunma Bank’s attitude, and believe that in these times of drastic change in the business environment, senior management’s spirit to take on challenges will be pivotal for improving corporate value.

