Principal Questions and Answers
Small Meeting for the Nine Months Ended December 2025
(February 5, 2026)

Presenter: Mr. Uchibori, Senior Managing Director

<u>Questions Related to the Business Integration</u>

Q. Following the announcement of the share exchange ratio, Gunma Bank would benefit more from the share price not increasing in terms of the expansion of negative goodwill, while for Daishi Hokuetsu Bank, there are options in view, such as delaying bond disposition or increasing allowance for doubtful accounts using gain on sales of shares before the integration. In light of these changing premises, do you intend to have next year's results reflect financial management following the business integration?

A. - We believe the increase in share price reflects the expectations for the business integration. In terms of our situation, the profit forecast for the current fiscal year is 55.0 billion yen, and we are on track to achieve our target profit for the FY ending March 2028 of 60.0 billion yen by the end of next fiscal year, which will be one year earlier than planned. With this assumption in mind, we are currently considering the extent to which we should implement measures mindful of financial management after the business integration. However, there may be some in the market who view 60.0 billion yen for next year as insufficient. We will create our earnings forecast to be announced in May while engaging in dialogue with market participants. We are also pursuing discussions with Daishi Hokuetsu Financial Group about the sale of shares for policy purposes with the integration in mind. Depending on the pace of future reductions in shares for policy purposes, it is possible that this could result in considerable gains on sale of shares.

Q. When announcing the quantitative plan for the FY ending March 2027, do you plan to revise the quantitative plan for the final year of the Mid-Term Business Plan?

A. - We are considering revising our Mid-Term Business Plan if we succeed in meeting our profit target one year earlier than planned. Daishi Hokuetsu Financial Group's Mid-Term Business Plan ends in the FY ending March 2027, so if we were to align ours with that timeframe, it would make sense to have a new financial group plan starting in April 2027.

Q. If Daishi Hokuetsu Financial Group achieves its Mid-Term Business Plan target ahead of schedule during the current fiscal year, it is possible that it will set a new target starting in April 2026. In that case, it seems that the direction of the two banks may no longer be aligned. What do you think about this?

A. - Since this question is about Daishi Hokuetsu Financial Group, my answer will be pure speculation. There is a possibility that it will revise the targets for the final year of its Mid-Term Business Plan, but I think it is more likely that it will continue with its existing plan until the FY ending March 2027 as scheduled, since both banks can then get on the same page and start new Medium-Term Business Plans as part of the new financial group. We have conveyed our intent to align the Mid-Term Business Plans of both banks with the start of the new financial group.

Q. How much will the transition to the TSUBASA core system impact expenses and periodic profit or loss?

A. - We expect the investment amount to be considerable, but we plan to apply to the Financial Services Agency to obtain a subsidy for financial institutions undertaking business integration. While we will capitalize some assets associated with system development due to the transition, a significant portion will be treated as expenses, such as license fees. As a result, we intend to synchronize the timing of receiving the subsidy with the accounting period as much as possible, and we are holding discussions with our auditing firm with the aim of reducing the impact on PL and leveling it out as much as possible.

Q. The Financial Services Agency's Regional Financing Capacity Enhancement Plan indicates the possibility of easing regulations for intra-group financing. If this regulatory easing is implemented, do you anticipate intra-group financing within the new financial group?

A. - We are holding ongoing discussions and checking with the authorities, but if the regulations are eased, we do think it will be easier to conduct financing between subsidiary banks in the same group. However, we have not yet determined whether we will actually use the system. We have heard that the administrative burden will be considerable, and it will not simply be a matter of holding deposits. Many procedures, such as reporting, will be required. Since we believe there will be no deposit crunch for at least the next three years, we will consider using the system while taking the plan currently being formulated and the balance sheet into account.

Deposits

Q. Regarding corporate deposit acquisition initiatives, I would like to ask about the context for the growth in credit non-main clients. In addition, from what kind of financial institutions are deposits from non-main clients being obtained?

A. - In terms of credit main clients, we have selected around 15,000 companies, which are provided in a list to each branch and on which we have focused our efforts. The main client growth rate is steady at around 8% per year, but we recognize that on a balance sheet basis, growth has mostly leveled off and has hit a ceiling. We are therefore systematically approaching credit non-main clients as well, where we believe there is room for further growth. Here, our definition of main credit clients is determined by credit share. Even though we are ranked second in credit balance, many companies in Gunma Prefecture use our bank for their payment accounts, and engaging these customers has led to an increase in deposits. In particular, given the trend toward reducing payments with promissory notes, proposing alternate payment methods has led to the acquisition of deposits from credit unions and cooperatives, which is viewed as a successful deposit acquisition initiative. Furthermore, deposit-only customers are growing, which is not based solely on approaching them for the purpose of acquiring deposits. Many deposit-only customers are businesses whose share prices are soaring due to business succession, and we are devoting considerable effort to these clients, such as by making proposals that include solving problems that occur during succession.

Q. The growth rate for individual deposits is low. What are the reasons for this, and what is your view on future measures to address it?

A. - There are two main reasons why the growth rate for individual deposits remains low. One is population decline within the prefecture, and the other is the lack of deposits acquired from younger customers. We are seeing cases of funds flowing to the Tokyo metropolitan area due to inheritance, and among the younger generation in particular, there is a portion of customers who are shifting to internet banks. In terms of countermeasures, we are considering offering premium deposits with a higher interest rate on fixed-term deposits that meet certain transaction conditions or are transferred from other banks, as well as conducting campaigns targeting younger customers. Since we do not think the latest interest rate hike will be the last, we want to determine how motivated customers are by the interest rates now. To be honest, we have not implemented any major measures related to individual deposits thus far, but we want to ensure a growth rate of 1% to 2% for the individual deposit balance by raising interest rates while also considering transactions and the like. We will reflect this in next year’s quantitative plan while implementing specific measures.

Q. What kind of initiatives are you implementing to increase deposits among younger customers?

A. - In terms of measures aimed at younger customers, at the moment we are planning to run a salary deposit campaign that provides digital coupons. We are also currently considering various ideas, such as revising our convenience store ATM fees and passbook issuance fees.

Loans

Q. Could you tell us about the current funding needs for local second-tier enterprises and SMEs and their future outlook?

A. - If you compare it with the macro data, our impression is that funding needs in Gunma Prefecture at present are rather lackluster. The reason for this is that growth in capital investment is sluggish and lagging behind expectations. The underlying context for this is the substantial increase in construction costs and labor shortages at building contractors. Furthermore, in the Subaru supply chain, U.S. tariffs are having an impact, and the shift toward electric vehicles has slowed somewhat, which in some cases has led to capital investment being postponed or canceled. There is no denying that these factors are having a certain impact on the growth of loans at our bank. The loan balance for SMEs was falling slightly short of the forecast until December, but due to factors such as an increase in working capital demand caused by rising prices, it was more or less back on track by the end of December. However, at present, there is not enough momentum to anticipate that there will be a sudden increase in loans associated with capital investment.

- With regard to trends in the balance of loans for SMEs, there was a 4% increase year on year for working capital, but a 0.5% decrease year on year for investment capital. By industry, there was 0.6% increase overall for manufacturing, compared to a 2.6% increase for non-manufacturing industries. Increases were seen in the transportation and real estate industries, while the balance decreased for the transportation equipment, construction, and general equipment industries. However, with regard to investment capital, there was positive growth year on year during the period from October to December. It had remained negative before that, so demand is now returning.

Q. Could you tell us about the spread on market lending rates currently offered by Gunma Bank and the situation in terms of competition with other banks?

A. - A significant portion of our loans to corporations is tied to market interest rates, and at present, increases have been almost fully linked to the policy interest rate hikes implemented to date. Some customers have difficulty with interest rate increases, but they are a very small proportion in terms of our overall loan portfolio, so the impact is therefore limited. At the current time, we are being relatively firm in reflecting policy interest rate hikes.

- In terms of competition with other banks, there is no notable tendency toward excessive competition based on low interest rates. However, if the policy interest rate is raised again in April following the December hike, there is no guarantee that interest rate hikes will progress as smoothly as they have until now, and negotiations may become more challenging. That said, we believe that we must continue to appropriately raise interest rates, so a key point will once again be how we can provide value to our customers in areas besides interest rates.

Q. Due to the reduction in the Bank of Japan's operations, the money supply is decreasing in real terms, and it is expected that it will be able to keep up even if the pace of policy interest rate hikes increases. However, some feel that the money supply will remain large, and it will not easily be able to keep up with the hikes. What is your view on this?

A. - The balance sheet is becoming tighter at our bank as well, but on a regional basis, there is still a surplus of deposits. For example, the deposit-loan ratio for credit unions and cooperatives in Gunma Prefecture is roughly 50%, so there is a considerable accumulation of deposits. One approach is to attract deposits by raising the interest rate, but we are also considering distributing locally originated loans. While the situation is as I have described for deposits, the real interest rate remains negative, and we believe there is room to raise lending rates.

<u>Securities</u>

Q. In the third quarter, the balance of shares under management decreased significantly. Was this an intentional reduction?

A. - The main factor was an adjustment of our position on foreign ETFs due to wariness about the outlook for the U.S. market. The balance also declined partly due to the day-to-day operation of investment shares. By the end of March, we intend to restore the balance to a certain level, but at present, reinvestment seems to be difficult, and we are currently considering alternate investment options.

Q. With regard to gains or losses on investment securities, could you tell us the context for the sales of foreign ETFs conducted in the third quarter? Could you also discuss whether there is room for bond swaps with the aim of improving earnings in the future?

A. - This is a somewhat subjective topic, but in our discussions with various parties about market conditions in the next year, some have told us they think the U.S. market will not collapse, while others think it could collapse at any time. We do not actually know what will happen, but based on those opinions, we have adjusted our position to ensure profit. As you mentioned, this operation was also conducted with a view toward disposal of additional loss on bonds, for which valuation loss is trending upward due to recent interest rate hikes. Based on this, there is more scope for bond swaps, and we believe this will lead to increased earnings in the next fiscal year and beyond.

Q. With regard to your future share portfolio, it may also be effective to increase investment in domestic shares from a risk-weight perspective. What do you think about this?

A. - We are considering diversifying our securities portfolio, and in the domestic segment in particular, we are also considering increasing investment in private funds and the like. Furthermore, we are currently operating a PE fund with the aim of reaching around 100 billion yen in the near future, and since it has recently become possible to hire experienced professionals via mid-career recruitment, we intend to further expand our portfolio in this area. In any case, what is important is balancing it with loans, and as long as loans grow as anticipated while meeting our RORA criteria, we believe there will be no need to take unnecessary risks with securities.

Q. It is not possible to avoid increased valuation loss on bonds in a rising interest environment, but do you intend to continue holding domestic bonds with valuation loss until they mature, or will you pursue early disposition?

A. - Given the present share price level of both banks, it is hard to say whether negative goodwill will occur or not. Personally, I think we should eliminate valuation loss on bonds as much as possible before the integration, so we have recently purchased additional bear funds. We also want to dispose of negative spread bonds as needed while considering the bottom line. In any case, the question of when and how to buy bonds will be included in discussions between the two banks about the plan for the next fiscal year and beyond, and we will make a final decision on whether to dispose of them and the amount to be disposed of.

Credit costs

Q. What is the status of local automobile-related loans and credit costs for loans to customers in the Tokyo metropolitan area? Also, with the growing anticipation of higher interest rates, how do you view credit costs going forward?

A. - With regard to credit costs for automobile-related loans, Subaru’s sales volume is not decreasing at present, so we currently have no major concerns. On the other hand, the impact of U.S. tariffs on Subaru is expected to be around 200 billion yen on an operating profit basis, and it has indicated its policy for absorbing that impact on a medium- to long-term basis across its entire supply chain. However, to make up a loss of this size, it may be necessary to significantly increase efficiency across the supply chain, including Tier 2 and Tier 3 suppliers. In actual discussions with suppliers, there is also recognition that roll-up activities will be unavoidable going forward. For example, Tier 1 suppliers may pursue restructuring aimed at in-housing some Tier 2 and Tier 3 processes. It is unclear how these initiatives will directly affect changes in non-credit costs, but the impact on local employment will likely be unavoidable. It is therefore necessary to rapidly implement countermeasures, and we believe it is necessary to enhance roll-up activities with the involvement of our bank.

- We are also keeping an eye on loans to customers in the Tokyo metropolitan area. We are exposing risk by identifying customers with credit above a certain amount. However, since there are some customers outside the prefecture with whom our relationship is not as strong as it is with those inside the prefecture, even more careful monitoring is required. We are therefore striving to identify signs of bad debts at an early stage and have also begun measures such as supporting the formulation of improvement plans and establishing support systems while engaging in communication as needed. In terms of area, we are paying particular attention to cases in Saitama Prefecture, and credit costs occurred there in the third quarter, although the actual amounts involved were not large. Furthermore, with regard to the impact of credit costs associated with rising interest rates, our simulation shows that they will increase by around 1.4 billion yen if the policy interest rate is raised to 1%. At that level, we believe the impact on results will be limited.

Other

Q. I assume that you plan to announce the quantitative plan for the FY ending March 2027 in May. What do you think about the interest rate scenario?

A. - In the current interest rate scenario, we anticipate that the policy interest rate will be raised in December, with a terminal rate of 1.25%. However, given the present situation, some think that the rate hike will come earlier, so we believe it will be necessary to reconsider this when issuing guidance in May. We will attempt to explain the impact amount in terms of upside factors if, for example, the rate rises to 1.5%.

Q. Gunma Bank has outstanding borrowings of around 900 billion yen. If the Bank of Japan's lending operations balance approaches zero, it is possible that liquidity on hand could shrink to around 400 billion yen, even if an increase in the deposit balance is taken into account. What kind of impact do you think this will have on the pace of future lending growth and the accumulation of securities?

A. - We are formulating our plan for the next fiscal year while conducting balance sheet simulations and believe that the balance of loans to large enterprises will remain stable. There are two reasons for this. First, since RORA is high but the absolute interest rate level is low, we have raised the bar for profitability. Second, for fixed-interest loans that were previously structured over five to seven years, we have adopted a policy of limiting them to three years at most going forward. We also intend to increase lending in other categories, such as loans to SMEs. Furthermore, if necessary, we are considering the possibility of adjusting the purchase amounts for the bonds we will buy in the future.

Q. If the yen suddenly becomes stronger, such as reaching 120 yen to the dollar, what kind of impact do you think it will have on customers' results? For instance, how much of a direct impact would there be on automobile suppliers?

A. - At present, we believe that OEMs are benefiting greatly from the weak yen, but the increase in expenses, such as raw material costs, places a greater burden on suppliers. At the moment, moderate appreciation of the yen might in fact have a significant positive impact on supply chains as a whole. However, if there were an extreme appreciation in the yen to around 120 yen to the dollar, it is possible that the situation would change.

Q. What is your view of the enterprise value security rights system, which will begin in May of this year?

A. - While we are not rejecting the system itself, we feel that, in practice, applying it to our customers will not necessarily be straightforward. Even if it were possible to establish collateral, the system is premised on single-bank transactions, so it will be necessary to carefully determine whether it really benefits the customer. If the proposal matches customers' needs, the system could be applied, but at present, we do not intend to actively pursue it.