Message from the Director of Finance

Spinning the threads of the future for local communities by achieving both social and economic value through business activities centered on our Purpose

The Gunma Bank
Managing Director
Takeo Uchibori

Our Performance

(1) Summary of business results for the fiscal year ended March 2023

In April 2022, the Gunma Bank Group launched a mid-term business plan called Innovation for "Purpose," which is centered around our Purpose to "use our strengths in connections to spin the threads of the future for local communities." Based on this plan, we have developed various measures aimed at creating a sustainable future for local communities and the Gunma Bank Group, including deepening our strengths and working to resolve issues faced by society and our customers.

Consolidated business results for the fiscal year ended March 2023, the first year of the mid-term business plan, are as follows.

Core business net income, which represents the profits of our main businesses, was 40.2 billion yen, an increase of 2.9 billion yen compared to the previous fiscal year and a 2.2 billion yen increase compared to announced figures. This was due to an increase in non-interest business income mainly from corporate business and the effect of cost reductions. Moreover, core business net income excluding gains and losses on cancellation of investment trusts increased by 3.0 billion yen from the previous fiscal year to 39.9 billion yen.

Ordinary profit amounted to 38.3 billion yen, 800 million yen more than the announced profit of 37.5 billion yen, due to factors including a reduction in credit costs, despite a decrease in securities-related gains and losses.

Securities-related gains and losses decreased by 11.3 billion yen from the previous fiscal year due to the restructuring of our portfolio, mainly through the replacement of foreign bonds reflecting the rise in overseas interest rates. However, the yield on foreign bonds and the valuation gain on marketable securities improved significantly.

As a result, profit attributable to owners of parent was 27.9 billion yen, an increase of 1.4 billion yen year-on-year, and an increase of 900 million yen compared to announced profit.

(Unit: Hundred millions of yen)

[Consolidated]	FY2023 (Results)	YoY Change	FY2023 (Plan)
Core business gross income	924	(0)	911
Net interest income	714	(5)	695
Non-interest business income	210	4	216
Corporate service revenues	60	16	61
Revenue from financial assets held in custody	68	(8)	70
Expenses	522	(29)	531
Core business net income	402	29	380
Excluding gains/losses on cancellation of investment trusts	399	30	
Loss (gain) related to securities	(17)	(113)	
Credit costs	12	(70)	
Other	10	6	
Ordinary profit	383	(7)	375
Extraordinary loss (income)	5	(0)	
Income before income taxes	389	(8)	
Total income taxes	109	(23)	
Profit attributable to owners of parent	279	14	270

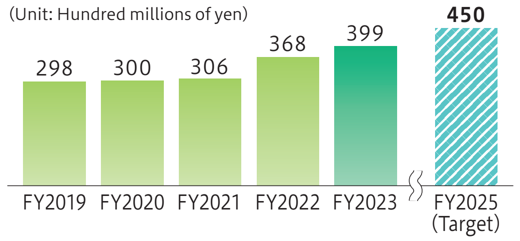
(2) Progress of numerical targets in mid-term business plan

Next, I will report on the results for the fiscal year ended March 31, 2023 regarding the numerical targets set out in the mid-term business plan.

Core Business Net Income (Excluding Gains/Losses on Cancellation of Investment Trusts)

Despite a decrease in net interest income mainly due to an increase in financing costs associated with rising overseas interest rates, core business net income (excluding gains/losses on cancellation of investment trusts) increased by 3.0 billion yen year-on-year to 39.9 billion yen, mainly due to an increase in non-interest business income and a reduction in expenses. As shown in the graph on the right, core business net income has been increasing steadily every year.

We will continue to work to strengthen our earning power and control expenses, aiming to achieve our target of 45 billion yen for the final year of the mid-term business plan.

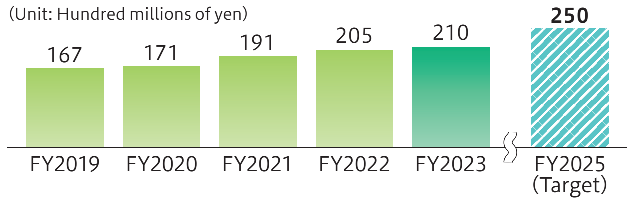


Non-interest Business Income

Non-interest business income reached a record high of 21 billion yen thanks to an increase in income mainly from corporate business, such as syndicated loan-related fees and derivative income.

In terms of corporate business, we will continue to focus on M&A and business matching, including collaboration within our banking alliances. We will also work to strengthen financial support and business succession support rooted in our goal-based and needs-based sales activity, Connecting Process, which was introduced in October 2022. In addition, in the field of financial assets under custody, we will strive to respond to diverse customer needs through asset management-type sales and stronger collaboration on securities.

We will continue to provide financial, key business, and business succession support to corporate customers, and provide consulting services tailored to the individual needs of our personal customers.



Non-interest business income = Total of fees and commissions and other business income (excluding bonds-related gains (losses))

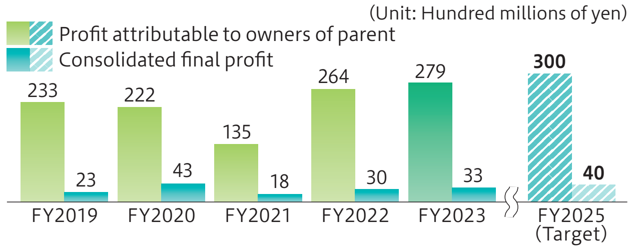
Profit Attributable to Owners of Parent and Consolidated Final Profit

Profit attributable to owners of parent increased 1.4 billion yen year-on-year to 27.9 billion yen due to an increase in core business net income and a decrease in credit costs, marking our third highest profit level ever.

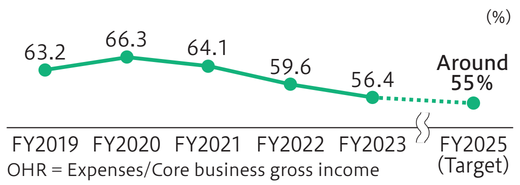
Additionally, consolidated final profit increased by 200 million yen from the previous fiscal year to 3.3 billion yen, mainly due to increased profits at Gungin Lease.

Furthermore, Gungin Consulting has obtained approval as an advanced banking service company, and has been rolling out new consulting-related businesses (human resources solutions business, regional trading company, marketing and advertising business) since April 2023. Going forward, we will further strengthen the earning power of our Group companies by generating new revenue sources.

We will continue to leverage the Group's comprehensive strengths and aim to achieve our final year of plan targets of 30 billion yen for profit attributable to owners of parent, and 4 billion yen for consolidated final profit.



OHR

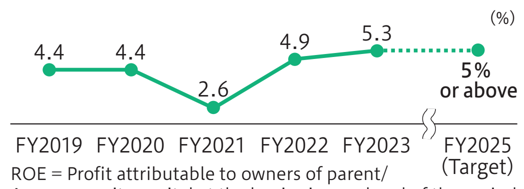


OHR = Expenses/Core business gross income

Our overhead ratio (OHR), which indicates our operational efficiency, improved by 3.2 percentage points from the previous fiscal year to 56.4%, thanks mainly to a decrease in expenses. The OHR level continues to improve, showing steady improvement for how efficient our operations are. We will continue to promote efficient management in terms of both increasing core business gross income and reducing expenses in order to achieve our target of approximately 55% for the final year of the plan.

ROE

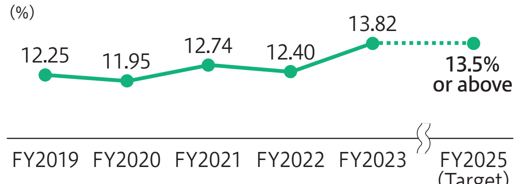
Return on equity (ROE), which indicates our capital efficiency, was 5.3%, up 0.4 percentage points from last year. This level exceeds our 5% or above target for the final year of the plan. We will continue to promote effective use of capital and strengthen profitability to improve our ROE.



ROE = Profit attributable to owners of parent/ Average equity capital at the beginning and end of the period

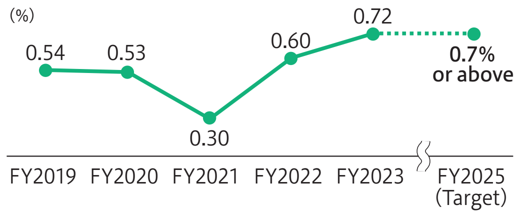
Total Capital Ratio

Our total capital ratio rose 1.42 percentage points from the end of the previous fiscal year to 13.82%, due to a decrease in risk assets owing primarily to the impact of the early adoption of finalized Basel III banking reforms. This has exceeded our target of 13.5% or above for the final year of the plan. We will continue to strive for sound management by strengthening our financial base by accumulating profits through appropriate risk-taking.



Total capital ratio = Total capital/Risk assets

RORA



RORA = Profit attributable to owners of parent/Risk assets

Our return on risk assets (RORA), which shows profitability in relation to risks, rose 0.12 percentage points year-on-year to 0.72%, due to an increase in profit attributable to owners of parent as well as a decrease in risk assets. Our RORA was at the same level as our 0.7% or above target for the final year of the plan. Going forward, we will continue to manage and operate income, risk, and capital in an integrated manner, aiming to achieve even higher levels by improving profitability with our business partners.

(3) Business outlook for the fiscal year ending March 2024

The consolidated business performance forecast for the fiscal year ending March 31, 2024, which marks the halfway point of the mid-term business plan, is as follows.

Core business net income is expected to decrease by 1.9 billion yen from fiscal 2023 to 38.3 billion yen due to a decline in net interest income owing primarily to continued high funding costs in the international sector and an increase in expenses with the issuance of new banknotes. In addition, profit attributable to owners of parent is expected to be 28.0 billion yen, about the same level as in the fiscal year ended March 2023.

Although there are signs of a recovery in economic activity, the business environment remains uncertain, with, for example, high energy and resource prices and labor shortages, but we will spin the threads of the future for local communities by achieving both social and economic value through business activities centered on our Purpose.

Shareholder Returns

(1) Shareholder returns

Our shareholder return policy was revised in May 2022. As per the shareholder return policy below, we have changed the profit that forms the basis of shareholder returns from a non-consolidated basis to a consolidated basis, increasing the amount of shareholder returns.

The dividend per share for the fiscal year ended March 2023 was 18 yen, an increase of 4 yen from the previous fiscal year (interim dividend of 8 yen, and year-end dividend of 10 yen). Furthermore, in the fiscal year ending March 2024, we plan to increase the dividend by 2 yen to 20 yen (interim dividend of 10 yen, and year-end dividend of 10 yen). This is the third consecutive year we have increased dividends since the fiscal year ended March 2022, showing how the Gunma Bank is implementing shareholder returns with an emphasis on dividend levels. We will continue to strive to increase our equity capital while aiming to expand shareholder returns.

Our shareholder return ratio for the fiscal year ended March 2023, made up of 7.3 billion yen in total dividends and 6.9 billion yen in repurchases of treasury stock (1.9 billion yen already acquired and acquisition limit of 5.0 billion yen announced in May 2023), was 51.4%, exceeding the 40% stated in our shareholder return policy.

(2) Shareholder benefits program

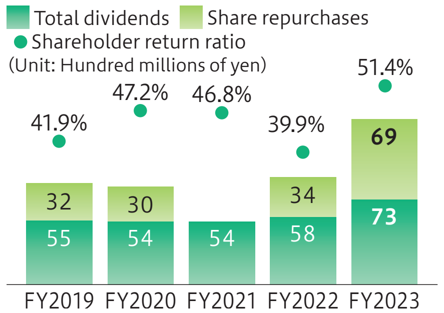
The Bank has a shareholder benefits program through which we offer shareholders complimentary local specialty items. The catalog includes many local specialties such as foods and crafts and products from our local business partners, and is especially popular with our individual shareholders.

Shareholders can also choose from special products from other regions in our Donation Course (introduced in FYE3/2019) that contributes to achieving the SDGs, and from our joint catalog with TSUBASA Alliance member banks (introduced in FYE3/2021). We will continue to strive to enhance our shareholder benefits.

Shareholder Return Policy
(from FYE3/2023)

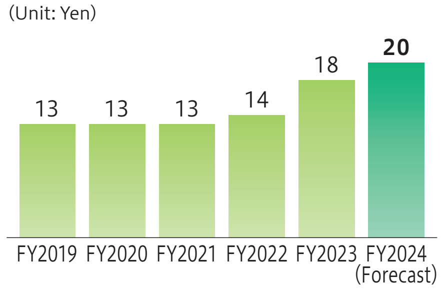
As a regional financial institution, we will strive to increase our equity capital and expand shareholder returns by balancing profitability, investment for growth, and other considerations. Specifically, we will aim for a shareholder return ratio of 40% of profit attributable to owners of parent through a combination of stable dividends and repurchases of treasury shares.

[Total dividends/share repurchases/shareholder return ratio]



Note: The shareholder return ratio for the fiscal year ended March 2023 is on a consolidated basis.

[Dividend per share per year]

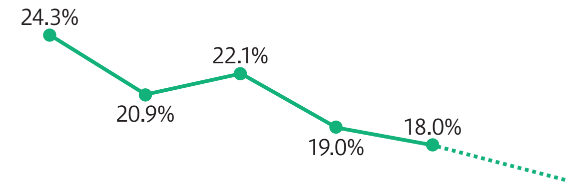


Policy on Reducing Cross Shareholdings

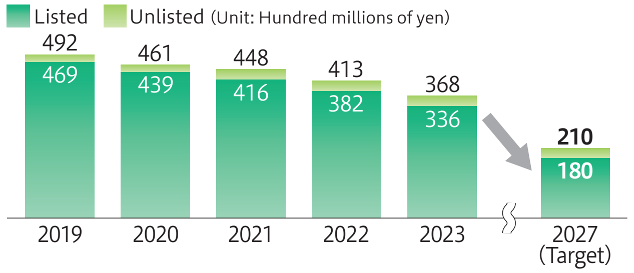
The Bank has established a basic policy to reduce cross shareholdings where possible and only maintain cross shareholdings in the event that the significance of holding these shares for maintaining and strengthening business relationships with customers and stimulating the regional economy is acknowledged. The suitability of individual cross shareholdings is comprehensively determined after an in-depth review of the medium- to long-term business relationship and economic rationality.

In November 2022 we stated our aim to reduce the book value balance of listed cross shareholdings by 20 billion yen (approximately 50% of the book value balance of cross shareholdings as of the end of March 2022) by the fiscal year ending March 31, 2027 for the purposes of sound development of the capital market, further improvement of capital efficiency, and strengthening of our financial position. As of the end of March 2023, we have achieved a reduction of 4.6 billion yen. The ratio of the market value of cross shareholdings to the amount of consolidated net assets decreased from 32.5% prior to the enactment of Japan's Corporate Governance Code (as of the end of fiscal 2014) to 18.0% as of the end of fiscal 2023, showing that reductions are steadily progressing.

[Ratio of cross-shareholdings (market value) to consolidated net assets]



[Book value balance of cross-shareholdings]



* Includes shares in unlisted companies and excludes shares in subsidiaries and affiliates.
Additionally, there are no deemed shares held as of the end of March 2023.

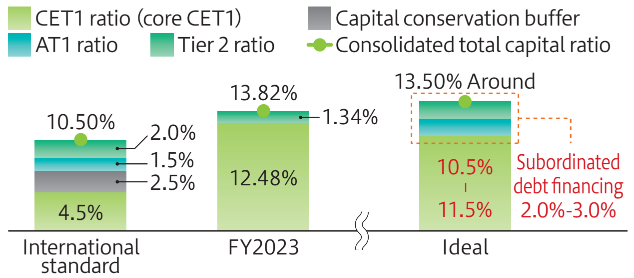
Efforts to Improve Corporate Value See P.60

The Gunma Bank Group strives to realize a sustainable society and create economic value through business activities centered on its Purpose.

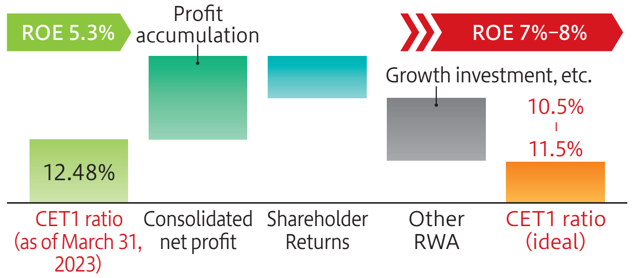
As part of our efforts to increase corporate value, we will strive to improve the equity spread (ROE - cost of capital) by increasing ROE and reducing the cost of shareholders' equity, while aiming to build an optimal capital structure.

In building an optimal capital structure, we use the core CET1 ratio (calculated by deducting the valuation difference on securities from Common Equity Tier 1 capital) as a perspective for capital management with the medium- to long-term target set at 10.5% to 11.5%.

As part of our efforts to improve ROE, we will increase our equity capital by further strengthening profitability, for example, by expanding risk assets through growth investments (risk-taking) and achieving our KPIs in Connections in the mid-term business plan. As such, we will aim for a ROE of 7% to 8% over the medium to long term. And in order to reduce capital costs, we will actively disclose financial and non-financial information, improve our investor relations, and strengthen initiatives for ESG and the SDGs.



[Capital allocation for our ideal]



Dialogue with Shareholders and Investors See P.61

Along with the timely and appropriate disclosure of corporate information with the aim of transparent management, the Gunma Bank regards the active development of investor and shareholder-related activities as one of its key management issues. Our investor relations include regular financial briefings for institutional investors and analysts, company briefings for individual investors, overseas investor relations, and quarterly small meetings. In this way, we provide opportunities for investors to hear explanations on our business performance and management strategies, as well as market opinions, etc. In addition, as part of our shareholder relations, we hold regular meetings with voting advisory companies, major shareholder institutional investors, and others to share our understanding of current issues. The information and knowledge gained through our investor and shareholder relations, as well as the opinions of shareholders and investors, are fed back to the Board of Directors where they are used to lead to initiatives that contribute to increasing corporate value.

An investor relations briefing in action

Note: In principle, figures in financial statements are rounded down to the nearest whole number.