The Gunma Bank, Ltd
Interim Financial Results Briefing Session for the First Half of 2023 – November 22, 2023
Principal Questions and Answers

Q Do you have a message for the market regarding the dividend increase and share buy-backs announced in November?

A ・We recorded favorable first-half results and accelerated bonds disposal for the second half scheduled as credit costs have remained stable and at low levels. Based on these conditions, we want to share with you that we are confident in achieving the net income of 28 billion yen indicated in our guidance.

・In the second half of the year, we will continue to make management efforts to achieve the goals set in the guidance and consider further returns.

Q Regarding the probability of achieving the net income of 47 billion yen forecast for FY2027 and the impact interest rates rising above the scenario would have:

A ・We determined the net income level of 47 billion yen from the ROE target of 7-8% based on optimal capital structure and assumed RORA. Needless to say, we will achieve the goals of our mid-term business plan, which ends next fiscal year, and we will continue to take every possible measure to achieve our goals over the next four years. From a mid- to long-term perspective, we believe that this is an achievable level if we further develop our strengths and improve in areas where we could be more competitive.

・The sensitivity analysis in the event of a rise in interest rates shows that the effects of increased interest on loans as of the fifth year, starting at the current point in time, are 2.7 billion yen if the policy rate is +10 bp, and 6.8 billion yen if the policy rate is +25 bp. In terms of lending, we are building an interest-rate-sensitive portfolio by increasing loans linked to market interest rates, so a rise in interest rates will have the positive effect of increasing net interest income.

Q Regarding the reasoning behind the decision to sell yen bonds in the first half of the year instead of holding them to maturity:

A ・When I travelled overseas for IR, I realized that there was a high level of investor interest in the SVB bankruptcy, so I explained that our bank is not concerned in regard to that due to the majority of highly sticky core deposits. However, we now feel that we do not want to draw unnecessary attention to the widening valuation losses on yen bonds. Leveraging the timing of the financial crises in the US and Europe and the temporary decline in interest rates, we continued to sell JGBs and reduced both our position and duration so that we would have sufficient capacity to purchase additional bonds. We have reduced interest rate risk within the scope of the guidance while leveraging gains from the sale of policy investment shares and other assets. Therefore, it can be said that we have conducted this operation based on a management decision to control risk. We will consider investing again in the future if yields exceed 1%.

Q Regarding the effects of comprehensive collaborations such as with the TSUBASA Alliance as well as individual partnerships with Daishi Hokuetsu Bank and Ashikaga Bank:

A ・The TSUBASA Alliance is a collaboration of the region's top banks and is comparable in size to a megabank. As a result, thanks to the TSUBASA Alliance, we are now able to handle even large-scale renewable energy and other projects that would be difficult to handle independently, which leads to a stronger top line.

・Furthermore, the TSUBASA Alliance has advantages that we lack in that it is fully aligned, which allows us to proactively work on what we deem positive for our own bank. We have chosen to work on developing apps, API common infrastructure, and other projects and have been able to reduce costs compared to developing them independently.

・On the other hand, as an example of an individual partnership, we have partnered with Ashikaga Bank. Our banks cooperate in the Ryomo area, the business base of both of our companies, and we have been able to work together on initiatives that could not be achieved in the past, which has led to effective financial support such as syndicated loans.

・I feel that it is important for top management to build a relationship of trust with each other and to communicate their messages clearly in order to increase the effectiveness of these alliances.

Q Does the plan to grow risk-weighted assets significantly by FY2027 mean that the current lack of risk-taking is the flip side of that strategy?

A ・Either can be said about risk-taking. We aim to establish a firm capital policy and set the CET1 ratio to a lower limit of 10.5% while taking into account dividend restrictions. We will strive to improve ROE as much as possible by setting this lower limit level. In order to do so, we will need to take on more risk, and it can be said that up to now we haven't been taking such risks with that mindset. However, there are areas where the balance is growing, such as cross-border loans, and we intend to further increase risk-weighted assets by taking on risk in new areas, such as mezzanine and venture debt, which will lead to higher earnings.

Q The consolidated core net business profit forecast for FY2027 has increased by 22 billion yen. On the other hand, non-interest business profit has increased by only 5 billion yen. Are there any factors that could cause a further increase in non-interest business profit?

A ・The plan is conservative in regard to the profit level of Gungin Securities. If Gungin Securities' earnings grow more than expected, non-interest business profits could grow significantly.

Q It appears that RORA on mortgages is increasing due to the growth of loan-fee-based interest rate plan. In calculating this, is the up-front fee not prorated over the term of the loan?

A ・Currently, the fees are not prorated over the term of loan but are included in full at the time they are recorded. As we continue to promote mortgage loans and strive to maintain our market share, the plan is that we are expecting to continue to handle a certain amount of transactions each quarter. The increase in the current term should be discounted due to the increase in commissions, but we believe that the increase will smooth out over the long term.

Q Considering the target level of Core CET1 in FY2027, shareholder returns are expected to increase appropriately in the future, but would it not be acceptable to change the return policy at this point?

A ・If everything goes smoothly and as planned, returns will continue to increase. However, the next mid-term business plan is being formulated now, so we appreciate your valuable comments regarding changes to the return policy.

Q For the calculation of the total return ratio, the period of acquisition of treasury shares is set at one year starting from the date of the general meeting of shareholders. I would appreciate it if it were changed to be calculated over the same accounting period (from April 1 to March 31) as other banks.

A ・We adopted this approach because of the importance we place on the level of return on profit. However, if a change to the accounting period of the calculation would be more consistent with other banks, we will consider it.

Q Regarding measures to improve the profitability of low RORA clients:

A ・To make it easier to understand for the staff at sales branches, we are working to secure a "standard profit margin," which is presented as an internal indicator of the target RORA converted on an RA gross margin basis. If the profit margin falls below the standard profit margin, we allow them to negotiate to make improvements in each of the three stages. Furthermore, if the profit margin falls below the lower limit, the branch manager may negotiate directly with the client to improve profitability. In addition to negotiating higher interest rates, we are also promoting comprehensive transactions that include non-interest business profit and improving profitability by raising credit ratings through improved management. We also incentivize these results by linking performance rewards to them. We have continued these measures for nearly five years, and they have been reasonably effective in contributing to improvements to the ROE level and RORA.