Principal Questions and Answers

Financial Results Briefing Session for the Year Ended March 2024 (May 23, 2024)

Q　Is the target profit level in the next Mid-Term Business Plan a stretch target?

A　・We have renewed the next Mid-Term Business Plan released in November 2023 and revised its targets, in which we provide a breakdown for each item. We believe the non-interest business profit would turn out even better. Regarding the balance plan of assets associated with risk-taking, we made no unrealistic predictions on retail lending. We will implement product and price strategies to secure our competitive advantage, while ensuring lifetime profitability, mainly in Gunma Prefecture where housing loans are somewhat robust and our lending share has been rising. Since we mainly focus on cross-border loans (XB) and structured finance (SF) invited by megabanks and foreign banks, we will increase the number of deals and expand domains such as mezzanine financing in real estate by improving our ability to take up deals. We see no problem with the balance plan at our New York Branch. Concerning securities, we aim to recover our government-bond position, whose balance declined in the previous fiscal year, while watching the interest-rate level, with the expectation that it will increase by around 300 billion yen by the final year of the next Mid-Term Business Plan.

・As for expenses, we will raise basic wages and strategically invest in digitalization. However, the overall increase will likely be limited due to our efforts to curtail the base cost and control the number of employees. We consider the targets in the next Mid-Term Business Plan that incorporate the above factors to be neither stretch nor minimum targets, but rather median.

Q　Please tell us about the future differences between consolidated and non-consolidated results. Looking at the future beyond the next Mid-Term Business Plan, do you predict that the bank can achieve around 70 billion to 100 billion yen in consolidated profit?

A　・For the final year of the next Mid-Term Business Plan, we expect 6 billion yen in net profit at group firms. The current profit stands at about 3 billion yen, but if the level is raised to 6 billion yen, the impact of the group firms on the entire group will be substantial.

・We have set no targets for the years beyond the next Mid-Term Business Plan. Although it is difficult to foresee the future business environment, we can formulate practical, realistic measures for the next five or so years. We have four more years left because we announced the plan in the first half. We understand that investors are looking forward to hearing about our longer-term prospects and future directions, so we will carefully examine what domains we can explore and what measures we need to take.

Q Please tell us about the risks you can predict to achieve the targets in the next Mid-Term Business Plan.

A ・Our bank is a regional bank serving Gunma Prefecture and its vicinity. Rural areas have different industrial characteristics from those of metropolitan areas, and face exceptionally rapidly aging and declining populations. Their challenge is to come up with ways to maintain the regional economies substantially. Our bank can choose deals and take risks in the Keihin region too. On the other hand, the exposure can be large, and the majority of our revenues in corporate services and financial assets in custody is earned in local communities and can be affected by the economic trends in the region.

・From a short-term perspective, the business conditions surrounding our clients such as the recent high prices of resources, exchange rate fluctuations, and interest rate policies are dramatically changing. It is unclear to what extent these factors will affect credit costs in the future. However, credit events that could significantly undermine our financial results—similar to what we have experienced in the past—will be unlikely.

Q After Japan ended its negative interest-rate policy, it has become possible to secure interest margins without taking risks through the management of the Bank of Japan’s current account balance. Will there be any change in your bank’s risk appetite?

A ・We understand that the time will come when interest margins will increase in tandem with rising interest rates, represented by the BOJ’s current account and Ministry of Finance loans, which enable us to secure interest margins without taking risks, and loans to major companies, which are low risk-weighted and often linked to market interest rates, thus making it easy for us to secure interest margins as well. However, even under the prolonged negative interest rate policy, our bank posted the highest-ever profit by enhancing our non-interest business profit, streamlining operations, and implementing other drastic reforms in the profit structure. We are certain that we can secure stable profits by utilizing the BOJ’s interest scheme or building bond ladders. However, that is not enough to differentiate our bank from its rivals because most of them do the same, nor to win recognition from investors. Success may depend on how our bank can differentiate itself in growing domains such as XB and SF, or growing markets such as the southern Saitama area and the Keihin region. We hope to be a bank that promotes full-spected marketing activities, including consulting, not just lending, and to gain a competitive edge in that domain.

Q　Which factors do you think are contributing to your bank's success in controlling the number of employees while work-style reforms are in progress? Do you expect any change in the workplace now that Japan's negative interest-rate policy has come to an end?

A　・We are promoting reforms in the operational process and enabling labor-saving operations. Specifically, we have implemented zero reporting in the operation reform project, eliminated unnecessary operations, and reduced administrative work and customer-side paperwork by installing in-branch tablets and other digital platforms.

・Our efforts to consolidate branches also substantially contribute to the successful control of the number of employees. As of the end of March 2024, the number of employees (including temporary workers) totaled about 4,000, falling by some 300 from two years ago. We expect the number to decline further by the end of March 2028. We predict that the overall personnel expenses will remain unchanged, even if their wages are raised accordingly.

・In the meantime, mid-career hires have been increased. We need human resources with sufficient experience and skills to provide corporate consulting and other professional services. We do not consider it a problem if the personnel expenses go up, as long as hiring such human resources results in profit growth. We have abolished the seniority-based qualification system and will introduce a new job-based personnel system. We will make further efforts to improve the capabilities of human resources.

Q　Please share with us your deposit strategies.

A　・As for individual customers, we seek to attract more deposits by consolidating branches and enhancing digital tools such as smartphone apps. Transactions through manned channels have, in fact, declined from the past level, while those through digital channels have posted a significant increase. We will work further on improving customer convenience. To differentiate our services from those provided by Internet banks, it is important that our customers value our combination of real branches and digital channels. We are thus planning to strengthen consultation services as well. Financial institutions of other types may start increasing deposit interest rates in our region. However, we will determine if we should raise interest rate after examining interest rate gaps, outflows of deposits, and other conditions.

・For corporate customers, we have not thoroughly encouraged major customers to make deposits, but are strengthening our effort to make deposit transactions commensurate with lending shares. As deposits can be a source of risk-taking, we will work hard on acquiring and retaining deposits.