Principal Questions and Answers
Interim Financial Results Briefing Session for the First Half of 2024（November 22, 2024）

[Initiatives for Corporate Value Improvement]

Q. Regarding capital allocation on page 12 of the IR material, sales of high-risk assets to investors may remain relatively low amid expectations of rising profit levels. In that case, can we expect the bank to improve profit returns to its shareholders to achieve the target range of 10.5% to 11.5% for the core CET1 ratio?

A. While expectations for increasing interest income are rising in an environment of rising interest rates, the core CET1 ratio may only fall within the target range if risk-taking changes significantly. We are revising our approach and planning to take on more risk as we formulate the next Mid-Term Business Plan. However, we assume we will keep our basic stance the same.

- Although our IR materials show that shareholder returns account for more than 50% of our capital allocation, communicating that we are firmly aware of dividend levels is more important than showing this number as a set return policy. It is also better to take a flexible approach to acquiring treasury shares when there is a gap between our valuation and our share price.
- Along with expectations of increasing interest income due to changes in the interest rate environment, there is also room to grow non-interest business income, so the target level for ROE may be raised further. In that case, even if we find it challenging to achieve the target range for the core CET1 ratio over the three years of the next Mid-Term Business Plan, we may create a plan that ensures sufficient profits and ROE.
- Changes in the financial climate have significantly affected our earnings environment, so we would like to revise and make our initial plan more realistic while communicating with the market. In May of this year, we announced our target final profit of 50 billion yen for the final year of our next Mid-Term Business Plan. However, we may be able to demonstrate an even higher level when we officially announce it next year.
- In terms of risk-taking, our bank can still be considered conservative. For example, we have stopped handling LBOs because managing syndicated deals is challenging, but we need to study carefully whether we truly cannot handle them. Also, in structured finance, most deals we handle are senior loan transactions, and there are few mezzanine loan transactions. There are also only a few deals similar to start-up and equity financing, and the area we handle still needs to be broader. Thus, we need to expand the scope of risk-taking in various fields.

Q. You have explained the measures to improve ROE to achieve a PBR of more than 1. Do you have any measures to strengthen PER?

A. When PBR and ROE are mapped, we recognize that our PBR is relatively low compared to megabanks and top regional banks with similar ROE levels, and that this is how the market sees us. We must also consider further improving ROE.

- We believe the recently announced dividend increase will improve our PER. Enhancing IR activities is also essential. In IR activities, we have been conscious of conveying the bank's vision as a message from our management. We want to gain the market's trust by steadily implementing initiatives outlined in the vision one by one.
- Also, vital is promoting our bank's shares as alternatives for the dissolution of cross-shareholdings, which is currently underway. We are making a concerted effort to approach not only domestic and foreign institutional investors but individual shareholders as well. For example, we hold company information sessions with our executive officer in charge of finance, which are opportunities for sales representatives from local securities companies to learn about our bank.
- In any case, to improve our PER, we need to convince the market that our bank firmly adheres to the guidance we have provided without any negative surprises and can also provide positive surprises.

Q. The next Mid-Term Business Plan indicates a direction of advancing your RORA management. With the interest rate environment also changing in the future, will there be any changes in how you increase your investment in risk assets?

A. When calculating RORA, the RORA for each division also includes incomes from deposit procurement, which are differences between deposit interest rates and cut-off rates. Our interest rate scenario assumes that the policy interest rate will rise several times. In some cases of long-term floating-rate loans and structured finance of large corporations, incomes from deposit procurement have expanded and become higher than the spread profitability of loans. We are entering a world with interest rates and consider separating deposit procurement incomes to manage RORA. In addition, we are working to improve our rating methodology for risk assets, such as revising our rating criteria and improving parameter estimation, which have the effect of lowering risk weights. It took time to disseminate the RORA concept within our bank, but it has already taken root. We want to increase our investment in risk assets based on a more sophisticated approach.

[Interest rate environment]

Q. While other financial institutions in the Keihin area offer new mortgage interest rates in the 0.3% range, your bank offers interest rates in the 0.6% range. Please tell us about your future interest rate strategies that take competition with other banks and regional characteristics into account.

A. We offer different interest rate levels in Gunma Prefecture than in the highly competitive Tokyo metropolitan area. However, we can compete well with other banks due to Gunma's regional characteristics. We just raised our mortgage rates in October, so it is unclear how much this raise will affect competition. Soaring material prices mean the current mortgage market is not in a good state. There have been changes in the market due to rising house prices, such as people who would have been able to get a loan in the past finding it more challenging to pass loan screening, and people who would have built a custom-built house with a high-tier builder buying a ready-built house instead. Despite this environment, our bank has achieved its 40% target of new housing loan executions in Gunma Prefecture.

・ In the Tokyo metropolitan area, whereas our competitors are aggressively pushing forward with rates in the 0.3% range, we have maintained our approach with no particular changes. The 0.6% range is merely our entire bank's average rate, and pricing is done regionally. Given that the current environment makes it challenging to achieve the same growth as in the past, we will continue to make improvements, such as actively deploying our sales force and simplifying applications in cooperation with guarantee companies.

Q. When you start investing in government bonds, please let us know at what level market interest rates will have to rise before you consider it.

A. We continue selling government bonds and have significantly reduced the risk they entail. We can still buy government bonds but expect to incur valuation losses immediately after purchase. In the future, we may consider gradually buying short-term five-year and seven-year bonds when the interest rate on ten-year government bonds reaches around 1.5%.

Q. Can you perform a simulation of the "Interest Rate Sensitivity Analysis" on page 3 of the Data not only for deposits and loans but also for scopes, including the Bank of Japan's deposits and securities?

A. Currently, the analysis only covers deposits and loans. Next time, however, we will consider whether we can analyze the scope, including the Bank of Japan's deposits and securities, by interest rate scenario. In addition, we are formulating our asset plan in the next Mid-Term Business Plan. We want to study how each interest rate scenario will affect the asset plan.

[Loans]

Q. What do you think about the capital demand of small and medium-sized enterprises (SMEs) in Gunma Prefecture?

A. The overall increase in capital demand for SMEs was 3.2%. Capital demand increased in all regions, including Gunma Prefecture, but the rate of increase was higher in areas outside the prefecture. The main reasons for the high growth in capital demand outside the prefecture, particularly in the Keihin area, are that our bank has established branches in this area as a vital sales region, like Gunma Prefecture, and the area has strong capital demand in real estate.

・ In addition, by purpose of capital use, working capital and capital expenditures for overall SMEs increased by 3.6% and 4.3%, respectively, with Gunma Prefecture showing similar trends. The Bank of Japan's DI (Diffusion Index) survey and the Gunma Economic Research Institute's questionnaire also show high enthusiasm for capital investment among companies. The background is the growing need for efficiency and digital transformation to address labor shortages and improve productivity. In some capital investments, however, construction schedules are being postponed due to the rising cost of building materials and the inability to secure workers for large-scale developments in the Tokyo metropolitan area.

- The overall growth rate of capital demand for real estate is about 10%. This increase includes landowner loans for rental properties and financing for rental offices and residences. Real estate loans are one of our bank's main business areas, and we manage credit risks using various real estate-related indicators.
- Since our bank has a large loan balance in our home prefecture of Gunma, the rate of increase is lower than in other regions. However, we will continue to conduct demand-based sales activities and acquire equipment loan projects for SMEs while also responding effectively to the growing demand for working capital loans due to rising prices.

Q. Are there any signs that SMEs that are deposit-only customers are starting to borrow?

A. There are no particular signs of deposit-only customers starting new borrowing transactions, but they also have reasonable capital investment needs. Even if they have abundant cash, there is a good chance that more of them will seek loan consultations from our bank for significant investments.

- For our bank, deposit-only customers are those with a greater potential need for fee-based services than for borrowing. Previously, our sales activities were centered on lending, but our current style is to understand issues facing deposit-only customers, such as business succession, and propose solutions rather than products. After the headquarters made a list of deposit-only customers and had our bank staff thoroughly carry out the "Connecting Process," a business continuation feasibility evaluation, customers responded positively, saying that they now have more opportunities than before to communicate with our bank staff in charge. We want to make similar proposals to other banks' main customers in the future.

Q. From the perspective of regional revitalization, can your bank sometimes provide loans even at low RORA levels?

A. Even in cases with low RORA, we may provide financing from the perspective of regional revitalization. In such cases, however, it is fine if partner companies have a stance of cooperating with our bank to increase profits. However, if they allow our bank to make only a minimal profit, we would rather distance ourselves from such transactions and invest more resources in clients with whom we can engage cooperatively. In addition, we find it challenging to profit from lending alone to clients with troubled businesses, so we consider whether to proceed with lending transactions based on overall profitability, including profits from non-interest business.

- For clients essential to the community, such as medical institutions, we also provide support by injecting capital-like funding through our subsidiary Gunma Regional Advanced Solution Partners, even if we know they will be unprofitable for a certain period. We also arrange collaboration between these medical institutions and Gunma University Hospital, the core hospital in the region. Utilizing our group's capital means we can still tackle transactions where ensuring profitability is difficult.

[Deposits/deposits financial assets]

Q. How are you planning to attract deposits in an environment where interest rates are reviving? Are you also considering setting targets such as KPIs for this in the next Mid-Term Business Plan?

A. Deposits, including negotiable certificate deposits, increased by 2.1% to 8.5 trillion yen. The loan balance was 6.6 trillion yen, and we reduced the yen bond position in securities, so there are currently no problems with our cash management. However, securing deposits will be an essential point from a long-term perspective.

- To increase personal deposits, we need to have individuals choose our bank for their daily living account by promoting both the digital convenience of online banking, such as using apps, and the face-to-face convenience of our branch network. This approach remains unchanged. Regarding corporate deposits, while our sales approach has been firmly centered on lending, we are now strengthening the promotion of deposit transactions commensurate with our share of lending.
- We may consider raising deposit interest rates if we need deposits as investment opportunities increase. In that case, however, we must also consider reducing investment assets with low profitability, such as those with low interest rates and spreads.
- We are currently formulating the next Mid-Term Business Plan. We appreciate your valuable feedback regarding the introduction of KPIs for acquiring deposits.

Q. Regarding income from deposits financial assets, the progress rate for the year's first half was only 42% of the annual target of 9.7 billion yen after the interest rate increase. Are there any factors expected to accelerate progress in the second half?

A. From the second half of the last fiscal year, our group has promoted a customer segment strategy between the bank and its securities subsidiary. Since the first half of the year, with the consent of approximately 4,000 of the bank's customers who have asset-management needs and hold a certain amount of financial assets, we have been referring them to Gungin Securities. With these customer referrals now mostly complete, we have been able to effectively approach customers with high investment needs and financial literacy from the second half of the year. In addition, since April of this year, we have added 29 work-ready people to Gungin Securities. Hence, our plan emphasizes the second half of the year.

[General management]

Q. In revising the profit forecast announced for this fiscal year, the profit of the group companies remains unchanged at 4 billion yen from the beginning of the term. Is there room for an upward revision?

A. The profit target for our group companies remains unchanged from the initial plan at 4 billion yen. Since it was 3 billion yen in the previous fiscal year, 4 billion yen was a stretch at the start of the fiscal year. However, this level is now entirely achievable. Our leasing subsidiary, which has been our particular focus for the past few years, is showing growth. Its lease receivables balance had been hovering around 70 billion yen for a long time. Finally, it reached 80 billion yen in the first half of the year. The leasing subsidiary's target profit is also moving in a positive direction compared to the initial plan.

- On the other hand, our guarantee subsidiary is struggling. Although its primary business is guaranteeing new housing loans and our bank's share of new housing loan executions in Gunma Prefecture has exceeded 40%, overall construction starts have decreased, causing the subsidiary's performance to decline compared to the initial plan. These items are a breakdown of the target profit level of 4 billion yen.
- We are formulating the extent to which we expect to increase our group companies' profits over the next three years. As regulations have been relaxed, enabling us to expand into various new fields, we are studying what kind of business our group as a whole can do and how new trials can contribute to our profits.