

**"Top Management Seminar of Regional Banks"**  
**Organized by SBI SECURITIES Co., Ltd.**

**Principal Questions and Answers**

**【General management】**

- Q. The banking industry has changed substantially since 2000. How do you think the Gunma Bank has changed?
- A. Looking back on the years after I assumed the post of president in 2019, the Gunma Bank has changed significantly since it formulated the Purpose in 2021. Under our Purpose, "We use our strengths in 'Connections' to spin the threads of the future for local communities," we have fundamentally transitioned our profit structure and enhanced non-interest businesses, such as commissions from corporate customers and deposited financial assets, based on the consulting advice we received. This transition reflects a change in the mindset of our employees, who have made enormous efforts to understand our customers' needs.
- Gross profit had decreased mainly due to the monetary easing policy. After I took office as president, however, we have increased non-interest business income by proposing a wide range of approaches that are beneficial to our customers. Based on these transactions, we have managed to restore gross profit to the levels before interest rates declined. Now that we are back in a world with rising interest rates, I believe that is a significant change.
  - In addition to the increased non-interest business income, we have also reduced costs and established a corporate structure and culture that enables us to translate our management resources into profits. Employees have started to independently imagine and consider solutions to such questions as, "How can we translate our relationships with customers into profits?" To achieve ROE and other return-on-capital goals, a sense of urgency from top management is usually required. However, we have created a system that enables each business branch to manage RORA, which consequently encourages employees to think independently. That is another change we have seen in recent years.
  - The reform of our personnel system has also helped change the mindset of our employees. We have introduced a personnel system that enables each employee to express what they hope to do in their respective "Personal Purpose" and accommodates their preferences for the type of work they want to engage in. I am confident that the personnel system reform, carried out in line with the promotion of sales activities based on the Purpose, has had a significant impact in encouraging our employees to think independently.

- Q. Could you tell us what you think your bank will look like 10 years from now?
- A. In a decade's time, our numerical plan will further expand, and the earnings structure will change as well. For instance, if we decide to develop a new business over the course of three decades, it is likely that we will have other earnings sources in addition to interest and non-interest income. I assume that our bank will face challenges in managing the sources as a whole if it continues to maintain its current organizational structure as an independent bank, and the structure will likely change over the long term.
- Q. When realizing the Gunma Bank's near-future numerical plan, what risks are you most wary of? Please also share what potential risks are likely to affect the banking industry in the future.
- A. A potential risk that may impact regional banks is the limited growth of the local economy and the further decline in the community's population. Among other risks—although I believe face-to-face interactions are essential for services for small- to medium-sized companies—I am concerned about the extent to which these services will be affected by future advancements in technology. Internet banking and other technological changes could pose a threat to the banking industry, but we have dealt with the situation by promoting a combination of state-of-the-art digital services and human-driven services to make customers feel safe.
- Securing human resources is another challenge we face. There has been much discussion about raising starting wages. As the business grows increasingly complex, I think we need to establish a system that secures competent human resources and enables them to deliver results.
  - In the meantime, we are mindful of not only risks but also opportunities. In terms of capital allocation, we are not only pursuing organic and single-track growth, but are also thinking of adopting an inorganic growth strategy. I won't deny the possibility that we might adopt such a strategy when the time is right.
- Q. Regarding the advancement of RORA management, could you please share with us your thoughts on the bank's organizational structure, specifically whether you plan to maintain the current structure or restructure it into a holding company?
- A. I think there are two aspects that need to be reviewed to advance RORA. First, we need to further improve the current RORA calculation scheme, which was developed in an environment without deposit interest rates. The scheme includes revenue from deposit funding, which is the difference between the deposit interest rate and the settlement rate, and tends to show a higher return in the current environment with interest rates. We are thus proceeding with steps to refine and improve the calculation scheme to achieve more precise earnings management.

- Second, we need to strengthen our return-on-capital management for when we welcome a highly profitable non-banking business into our group. It will be important to examine whether we should remain as a bank or shift to a new management structure, strengthen our entire group management, and enhance value creation and profitability. If we opt for inorganic growth, which includes a possible entry into a new business field, we will be able to take risks and reap benefits from capital policy. While the existing businesses within our banking group appear satisfactory enough, I see it is a highly plausible scenario to pursue mergers and acquisitions in some form, and have been actively examining this option.
- Q. In the material on the Mid-Term Business Plan, your bank introduces the regional ecosystem that utilizes cashless data. Could you explain more details about this regional ecosystem?
- A. The regional ecosystem refers to our initiative to revitalize local economic activities. Specifically, we aim to promote cashless payments in the region to improve consumer convenience and provide services that cater to local needs through the utilization of data. Ultimately, we need user-friendly payment methods, such as debit cards, and we hope to promote them widely.
- Also, to address local issues, the sustainability of the local economy is required, and supporting start-up firms is one of our ecosystem initiatives. As a concrete step, we have launched a program to support start-up firms jointly with Venture for Japan. I believe creating an environment that makes it easier to start businesses will also enhance the sustainability of the region.
- Q. What is the current situation regarding the next-generation core banking system?
- A. Our examination of the next-generation core banking system is in the final phase, and we will likely have a clearer idea on that matter by the end of this period. We have set up a taskforce to discuss administrative work, alliance factors, and cost balance from multiple perspectives. Aiming to start operations in 2029, we will create a detailed transition plan and proceed with the plan to ensure the seamless operation of the next-generation core banking system.

## **【Human Capital】**

- Q. In regard to the various measures to enhance human capital, I believe that the Gunma Bank has its own strengths in recruiting, retaining, and developing human resources as a regional bank, which have helped differentiate it from rivals and ensure its competitive advantage from the investors' point of view. Could you explain your bank's initiatives in recruitment and other human resource management as a regional bank?
- A. We regularly conduct employee engagement surveys to analyze our employees' strengths and capabilities as human capital. Through these surveys, we found that many of our bank employees have a strong sense of mission and are enthusiastic about contributing to local communities. I believe these human resources can become one of our strengths. Our bank growing together with our customers in a virtuous cycle of economic value and social value, as outlined in the Purpose and the Mid-Term Business Plan, has led to the realization of our employees' well-being.
- Initially, some employees seemed to find it difficult to associate the Purpose with their daily operations, but they reflected on it and created their own Personal Purpose. As a result, they have developed a deeper connection to the Purpose, and the direction of the work they are now interested in aligns with the bank's goals. Promoting this approach to human resources and the Purpose has apparently given us an advantage in recruitment.
  - Following the personnel system reform, the number of employees who are taking a self-directed approach to their careers has increased, building momentum for career ownership. They have started to speak up and articulate what they are interested in doing, with an increasing number of young employees coming forward and applying for positions they wish to take. For young candidates, it must be appealing that seniority now plays a less significant role at our bank, and the recruitment system has become more flexible. We try to share our bank's evaluation criteria and perspectives with candidates by thoroughly explaining during the recruitment process that our employees are encouraged to express their work preferences. We also listen to the opinions of those who take part in our internship program on what they hope to achieve at this bank if hired.

### **【Corporate Value Improvement】**

- Q. Given that  $PBR = ROE \times PER$ , the difference in PBR compared to other major regional banks should reflect the difference in PER. What do you think is needed to increase the Gunma Bank's PER?
- A. To increase the PER, it is important to develop a solid plan for earnings growth and have investors believe in the plan. Communication with market participants is one aspect, and boldly increasing dividends has had a positive impact on the stock price. I believe providing evidence that the bank can maintain the current level of earnings will also be effective in improving our PER. We can raise our ROE, but won't be able to raise our PER unless market participants believe that our earnings will increase. Therefore, we will make sure to disclose information that we think will attract attention from market participants and overseas investors.
- In the past, not just our bank, but also other banks, disclosed no specific numerical data for the next mid-term business plans in advance. However, I recognize that disclosing the plan's outline was highly effective in boosting the stock performance. I believe it is important to explain to investors the likelihood of our bank achieving its core CET1 ratio target, what the growth drivers for interest and non-interest income will be, and to ensure that investors believe in the growth plan.
  - In terms of growth drivers, we will certainly increase assets. We can improve our ROE to 9% or 10% if non-interest business income is also accumulated. Given that rival banks with similar customer bases are doing almost the same thing, we need to explore more opportunities and further strengthen this area. If the ROE subsequently exceeds 8% without further accumulation of assets, we can increase returns and win recognition from market participants, which will then help further improve the PER.

### **【Capital policy】**

- Q. Your shareholder returns currently remain at around 50% of total returns, under the policy of offering 40% of the profit attributable to parent company. Can we assume that this will continue?
- A. It is not a problem to assume that our shareholder returns will basically remain at around 50% unless we see a substantial change in our financial results. We will examine our capital allocation policy and provide returns at the optimal timing. We increase dividends based on the belief that dividends have a strong impact on the stock price. However, since we purchased treasury shares in August 2024, we are also thinking of flexible returns through dialogue with market participants. We can also raise the return levels even further if we succeed in increasing earnings from sources other than assets. At any rate, it is not that we will stick to 40% because we have a policy of providing 40% of total returns, but rather we will continue to provide returns based on our actual performance.

### **【Restructuring or consolidation of regional banks】**

- Q. What are your thoughts about a possible restructuring or consolidation of regional banks?
- A. A restructuring or consolidation of regional banks could happen at any time. Regional financial institutions are facing a shrinkage of local economies, and some are in fact struggling to secure deposits, although I am not sure if their revenues will be immediately dragged down by the shrinkage. I am aware that our bank's PBR is discounted, despite our ROE remaining at a relatively high level among top-ranking banks. In terms of scale, I find it worth examining restructuring or consolidation. I assume that no management team overlooks this option. If we decide to move forward with either, it would be extremely important to consider which bank to merge with and when, and to focus on increasing the value provided to customers and enhancing corporate value. Meanwhile, there are banks that are strong enough on their own, and staying independent with the ability to make flexible and prompt management decisions is quite appealing. We will, however, continue to examine consolidation, as we may face scale or efficiency challenges while promoting digitalization.
- Q. Do you think the TSUBASA Alliance will be beneficial if the Gunma Bank chooses not to be merged and stay independent?
- A. The TSUBASA Alliance is a scheme in which participating banks jointly establish a common foundation to ensure a certain level of standards and address their respective local issues based on that foundation. One of its latest initiatives is the development of a common application. The development process was remarkably fast, as we based it on an existing app created by a bank that took the lead in that field, although some adjustments were added. Other collaborations in the TSUBASA Alliance include the consolidation of measures against money laundering and related operations, and the alliance has proven effective in terms of cost reduction and business streamlining. I understand that participating banks in the TSUBASA Alliance should generally operate on their own and manage their own businesses. However, I don't think we should rule out consolidation just because we are a member of the alliance.