Principal Questions and Answers
The Mid-Term Business Plan (March 3, 2025)

[Loans]

Q. Gunma Prefecture is drawing attention because it has ranked first among the most desirable relocation destinations and is benefiting from inbound tourists. We feel that it has the potential to grow going forward. The latest Mid-Term Business Plan projects strong growth of loans outside Gunma Prefecture, but can we expect growth in Gunma Prefecture to drive the whole Bank in the future?

A. In the Plan, we forecast significant growth in the Keihin Region, NY Branch, and loans from headquarters, such as structured finance, but we do not expect Gunma Prefecture to grow at the same pace as them. As evident from the fact that it has ranked first among the most desirable relocation destinations, Gunma Prefecture's attractiveness is that it is highly livable due to its abundant nature, low living cost, fewer natural disasters, etc. Due to its close distance from Tokyo and strong industrial base, its regional potential is very high.

・ By building the ecosystem depicted in the latest Mid-Term Business Plan to increase the attractiveness of Gunma Prefecture as a market, we will work to increase capital needs in the Prefecture to increase loans further in the medium- to long-term. The Bank has always been operating as a regional financial institution with a broad business base, and Northern Saitama and Tochigi Prefecture have a long history as our bases. Therefore, we feel that they are like our home in the same manner as Gunma Prefecture, and we do not regard loans in these areas as loans to external areas.

Q. You have a plan to increase the balance of structured finance significantly. What measures will you take to realize it going forward?

A. We aim to increase the balance of structured finance to 340 billion yen in three years, which is almost twice the current balance. In order to increase the balance as planned, we will continue to focus on participating in syndications with other financial institutions, such as megabanks, trust banks, and foreign banks. That said, the Bank has recently acted as an originator in a refinance project for a local hotel. If local lending opportunities, such as large renewable energy projects, arise going forward, we believe that we can increase deal origination by utilizing the framework of TSUBASA Alliance.

・ In addition, there are strong capital needs for NY Branch, which mainly focuses on one-on-one transactions. Our aim is to increase its balance by 40 billion yen to 200 billion yen in three years. The Branch has generated a profit of 100 to 200 million yen every year, but it is expected to generate a profit of about 500 million yen this fiscal year. We would like to achieve further growth in profit going forward, and as we work to increase profit, foreign currency procurement will be important. Therefore, we are also actively working on improving our credit ratings.

[Securities]

Q. You indicate that you will increase the JGB balance by 350 billion yen during the Mid-Term Business Plan period. On the other hand, the balance of securities as a whole is expected to increase by only 50 billion yen in three years from now according to page 19 of the presentation material. What are the factors behind it?

A. While we plan to increase the JGB balance by around 350 billion yen, we also plan to reduce the balance of other securities by around 200 billion yen, including the reduction of low-yielding JGBs and scheduled redemption of municipal bonds, such as Gunma prefectural bonds. In addition, we expect the balance of international bonds, which are U.S. mortgage securities, to be reduced by around 150 billion yen. The balance of securities is expected to increase by 50 billion yen in three years, and we will also replace low-yielding bonds with high-yielding bonds while paying attention to core profit. Therefore, we expect a corresponding increase in interest income.

[Capital policy]

Q. Regarding the capital allocation diagram shown on page 19 of the presentation material, if consolidated profit increases more than expected, is there a possibility that you will increase shareholder return while you work to achieve a core CET1 ratio of 11.5%? Furthermore, if the target range of your core CET1 ratio is from 10.5% to 11.5%, it is possible to set the target level in three years at 11.0%, the median point in the range, instead of 11.5%. What is your position on this point?

A. In the latest plan, our shareholder return target is a progressive dividend of 40%. Provided that we can achieve the Group companies' profit of 60 billion yen, we will likely be able to achieve more aggressive shareholder return above 40%.

・ In order to actively increase risk assets, we will need more human resources. As the current favorable business environment may not continue, we will work to gradually restrain the growth rate of real estate loans and replace them with high-RORA assets. As a result of bottom-up calculation based on these circumstances, we have adopted a target core CET1 ratio of 11.5%. If the profit level rises, we can absorb the corresponding risks with the profit for that period. In this sense, adopting a target of 11.0% in explaining our position can be a reasonable option. We will consider your point as a valuable opinion.

Q. The capital allocation diagram on page 19 of the presentation material shows that half of the consolidated net income will be allocated to shareholder return. You have set the dividend payout ratio target at 40%, so do you estimate that share buybacks will be around 10%? What is your view on how that level will be perceived by Japanese and foreign institutional investors?

A. As you pointed out, there is no problem in understanding that the total shareholder return ratio will be 50%. While there are various approaches in determining the proportion of dividends and share buybacks, we have prioritized dividends, which have a positive effect on PER, based on our past experience. Although there are approaches that prioritize share buybacks, we aim to achieve an ROE of 10% going forward, so we have changed our shareholder return policy from total shareholder return to dividend payout ratio by anticipating that PBR will also rise. In any case, we are committed only to dividends of 40%. As for the remaining 10%, we would like to implement buybacks flexibly based on market conditions, such as the timing of the undervaluation of our shares.

[General management]

Q. Regarding the consolidated profit and ROE targets of 60 billion yen and 10% in the final year of the Mid-Term Business Plan, if it becomes difficult to achieve both, which target will you prioritize?

A. There is no priority between them, and we believe that we can simultaneously achieve both. However, it may become difficult to achieve the profit target during the Mid-Term Business Plan period due to changes in the environment or for other reasons. If so, we would like to aim to achieve an ROE of 10% because we have only made a commitment to the market to enhance corporate value rather than to increase profit levels, and in particular, we are strongly committed to achieve the ROE target in our latest Mid-Term Business Plan.

Q. Your interest rate scenario in the Mid-Term Business Plan assumes that the policy interest rate will not rise above 0.75%. If the policy interest rate rises more, what will be the impact on interest income and credit costs, and what will be the resulting impact on the likelihood of achieving a consolidated profit of 60 billion yen and ROE of 10% in the final year of the Mid-Term Business Plan?

A. If the policy interest rate rises to 1% during the plan period, interest income is expected to increase by around 5.5 billion yen. In the other scenario in which the policy interest rate remains at the current level of 0.5%, interest income is expected to decrease by around 3.0 billion yen.

・ We have calculated credit costs on a trial basis by applying stress to “normal” and “need caution” borrowers by increasing the policy rate to 0.75% and calculating the amount of increase in loan loss provisions by treating “normal” borrowers who will record a loss under the stress as “need caution” borrowers and “need caution” borrowers whose net assets will be negative under the stress as “possible bankruptcy” borrowers. As a result, credit costs are expected to increase by only around 1.0 billion. Even if the policy rate rises to 1%, given our current portfolio composition and credit ratings, we expect the amount of additional credit costs to be around 400 million yen, which is not a significant increase.

Q. We expect Gungin Card to play an important role as the Bank works towards building the ecosystem depicted in the Mid-Term Business Plan. Will you consider changing the company from the current equity method entity to a wholly owned subsidiary going forward?

A. Making Gungin Card a wholly owned subsidiary is not included in the latest Mid-Term Business Plan as a separate measure. Although the company has not been a wholly owned subsidiary as a result of capital policies both in and outside the Group, its measures and efforts are linked to the Bank’s policy. Therefore, we believe that our strategy execution will not be hindered by the existence of shareholders outside the Group or the fact that the company is not a wholly owned subsidiary.