Principal Questions and Answers
Financial Results Briefing Session for Fiscal Year Ended March 2025
May 23, 2025

[Business Integration]

Q Who proposed the business integration, and when was it proposed? When was it communicated to the external directors, and what were their reactions?

A ・ We began formally considering the matter in November of last year and arrived at the memorandum of understanding in April. When joining the TSUBASA Alliance, the first company that approached us was Daishi Hokuetsu Financial Group, which also collaborates with us separately in the Gunma Daishi Hokuetsu Alliance, so we believe that both parties recognized the possibility of business integration. Since our collaboration was progressing well and producing results beyond expectations, the executive officers were not particularly surprised by the idea of integration. Furthermore, since the external directors have an in-depth understanding of the banking industry and details of our business, they responded positively, indicating that it was a good idea.

Q Due to the increase in market capitalization and trade volume growing after the business integration, there is a possibility of an expanded investor base and improved valuation. What kind of effect do you expect this to have on share price?

A ・ Through the business integration, we intend to create a financial group that is a leading regional bank both qualitatively and quantitatively. In terms of volume, given the changes in the interest rate environment, we believe the size of the balance sheet will have an impact. Along with the balance sheet expanding, we expect efficiency to increase as a result of the business integration. Furthermore, we believe that the increased scale will directly impact investor coverage. There are other likely benefits as well. For example, when overseas investors consider a Japanese regional financial institution, it is more likely to attract widespread attention from them if it is in the top rank in terms of size, and inclusion in indexes will lead to increased circulation. On a simple sum basis, our current market capitalization is around 750.0 billion yen, but in order to further increase it, we intend to develop a robust plan in terms of both profit and capital efficiency through discussion between the two banks, with the aim of finalizing the definitive memorandum of understanding.

Q Regarding the anticipated synergy effect due to the business integration, do you expect there to be lending of funds by the two banks? Specifically, will there be activities such as Daishi Hokuetsu Financial Group acquiring deposits in Niigata Prefecture while Gunma Bank utilize those funds to issue loans in southern Kanto?

A ・Concerning synergy, we believe that we will be able to make effective use of capital and increase the loan-deposit ratio for the entire Group after the integration. Since we are not expecting to merge the two banks after the integration, we do not think there will be financing by both banks. However, if we build a portfolio with integration in mind, we believe that we will be able to make effective use of capital. Daishi Hokuetsu Financial Group has a dominant local presence, and by collaborating with us, it will be able to grow its business in southern Kanto to further expand its loan balance while also maintaining a suitable loan share.

Q Could you tell us about the issues Gunma Bank is facing that will be resolved through the business integration?

A ・There are areas where our capacity to provide solutions is inferior to that of Daishi Hokuetsu Financial Group. Therefore, we believe there is scope for us to improve our profitability from non-interest businesses by developing solutions for our customer base.

Q In the fiscal year ended March 2025, Daishi Hokuetsu Financial Group's OHR was 60% and ROE was 6%, indicating room for improvement from an efficiency standpoint. Have you been able to develop a relationship that allows you to give recommendations to Daishi Hokuetsu Financial Group?

A ・We have agreed on achieving capital efficiency that exceeds the market's expected cost of equity, and the senior management plans to take the lead on achieving this target. While the details are still being considered, the headquarters will be given greater authority following the integration and will have responsibility for planning, risk management, and income management. Rather than making recommendations to Daishi Hokuetsu Financial Group, we will create a command-and-control system as the structure for the headquarters following the integration, thereby adopting an approach that involves more than just adding the two companies together.

Q Investors' reactions to the business integration are varied, with some believing that it would be better for Gunma Bank to continue operating independently. In addition, the ROE target indicated in your Mid-term Business Plan is 10%, but you are integrating your business with a partner whose ROE is lower than yours. Could you tell us your thoughts on this?

A ・From a long-term perspective, we believe it is quite possible to achieve a return on equity that exceeds the cost of equity. In the past, our share prices have been discounted for scale-related reasons, so in order to overcome this, we are aiming to become a leading regional bank both qualitatively and quantitatively based on the business integration. While there may be some differences in the timing, we believe that both banks should ultimately be able to achieve the same thing.

・In an alliance, we are unable to enjoy benefits such as obtaining economies of scale, improved efficiency due to systems integration, and enhanced risk-taking capacity due to increased shareholder capital. We are also restricted in terms of changing the allocation of personnel and management resources. In the case of business integration, however, we can do all of these and the outcome is completely different. We can also naturally expect an improvement in market capitalization. The biggest difference between collaboration and integration is the ability to share the same management targets. When we were collaborating, we did not have the same management targets and we worked only on what benefited us. Going forward, however, we will engage in management with the same management philosophy and targets. This decision reflects a long-term, big-picture business judgment.

Q When will you publish the ROE for the new group following the business integration?

A ・We will create a management plan aimed at concluding the definitive memorandum of understanding, and as mentioned earlier, we plan to achieve a return on equity that exceeds the cost of equity. We intend to indicate the pathway to achieving that in March 2026, when the definitive memorandum is expected to be finalized.

・Incidentally, regarding profit level after the integration, for the fiscal year ending March 2027, which is final year of its Mid-Term Business Plan, Daishi Hokuetsu Financial Group is targeting a profit of 40.0 billion yen and ROE of 7.5% or more. Meanwhile, in the fiscal year ending March 2028, which is the first year of integration, we are targeting a profit of 60.0 billion yen and ROE of 10%. If we extrapolate from these figures, profit will be over 100 billion yen and ROE will be over 9% in the first year of integration. Due to the addition of the synergy effect, we believe these figures are realistic, and it is feasible that we will achieve ROE that exceeds cost of equity.

Q While it is easy to understand the benefits for Daishi Hokuetsu Financial Group in expanding into the Kanto region through the integration, why is Gunma Bank—which has adopted a southward expansion policy—integrating with Daishi Hokuetsu Financial Group, which is located in the north?

A ・ We believe business integration should be undertaken only with banks where there is genuine potential, and we do not think there are many such banks. We are not integrating with Daishi Hokuetsu Financial Group because we want to expand northward, but rather because we share the same vision and our management resources complement each other. Another reason is that we foresee being able to eliminate the scale-related disadvantages that we have experienced until now. The value of the integration will change depending on what we do going forward, so we intend to demonstrate it with our actual results based on the plan that we will announce in the future.

Q As you reduce shares for policy purposes, could you tell us about your approach to the capital adequacy ratio and expectations in terms of the profit buffer following the business integration?

A ・ We have established a policy of eliminating shares for policy purposes, which we have never viewed it as a profit buffer. To maintain adequate financial strength in the event of unforeseen circumstances, we believe that for an optimal capital structure, it is necessary to set the core CET1 ratio at 10.5% to 11.5% and the total capital adequacy ratio at around 13.5% and supplement them with AT1 bonds and B3T2 bonds. We are also focusing on a profit level exceeding 100.0 billion yen following the business integration, and if we achieve profit on that scale, we believe there will be no need to have shares for policy purposes as a profit buffer. In addition, Daishi Hokuetsu Financial Group is a domestic standard bank with a different approach to capital structure, so we intend to continue considering this issue in our discussions aimed at realizing the integration.

[Securities Management]

Q In terms of securities management, banks formerly covered unrealized losses on securities management using unrealized gains on shares for policy. However, in the fiscal year ended March 2025, many regional banks recorded unrealized losses. While reducing your shares for policy, will you make any changes to your share management strategy?

A ・At present, we are reducing our ownership of bonds, but the reason for that is not to increase our ownership of shares. Furthermore, we do not think it is acceptable if bond management has a negative impact but our overall performance is positive due to gains on policy shares, and we do not expect to keep owning shares for policy. On the other hand, it is quite possible that we will own shares as net investments.

・Some believe that it is better to have no unrealized losses, but we are already handling bonds that will cause such losses. Although there may be some losses due to rising interest rates, we believe the risk is not very significant.