Principal Questions and Answers
Interim Financial Results Briefing Session for the First Half of 2025
(November 26, 2025)

Business Integration

Q. As discussions of the integration with Daishi Hokuetsu Financial Group progress, could you tell us if any issues or expectations have arisen that you were not aware of before the negotiations?

A. - To date, the discussions are progressing well as originally anticipated, and we do not feel that there are any problems, but since the banks are not identical, we are continuing to pursue discussions via the integration committee and other channels. While it might differ from expectations, I would like to present some interesting data about how the integration is being viewed by the market. If you look at changes in the total market capitalization of our bank and Daishi Hokuetsu Financial Group and the average market capitalization of the top 18 banks excluding us, our market capitalization has grown 1.51 times since the start of the year, compared to the average for other top banks, which is 1.32 times. The market's view is therefore positive, which we consider an indication of expectations regarding the integration.

Q. In terms of the method of using gain from negative goodwill, Gunma Bank perhaps intends to use it for the disposition of bonds. Daishi Hokuetsu Financial Group, on the other hand, is pursuing significant loss cutting in the current fiscal period. Do the two banks plan to align their approaches to cutting losses on bonds?

A. - We cannot provide definitive information on negative goodwill since stock prices are fluctuating, but assuming that there would be gain from negative goodwill, we are considering using it for the disposition of bonds within the overall portfolio. Besides bond disposition, other methods of using gain on negative goodwill that we are considering include building up our reserves or using it for impairment losses.

Q. Regarding the method of using negative goodwill, it seems that you are considering using it for the disposition of bond losses, but are you also considering using it for a share buyback?

A. - The disposition of bond losses is just one option, and we are also considering building up our reserves. Regarding the expectations that we will use it for a share buyback, we will take that matter into consideration.

<u>Lending</u>

Q. On page 12 of the briefing materials, the RORA change factor by borrower is divided into a risk weight factor and a profit margin factor. What are the details of each of these? Also, is there a difference in the RORA level for stock-based loan amounts and newly executed loan amounts?

A. - One risk weight factor is changes in RORA based on changes in the rating composition by segment. If relatively large loans are issued to highly rated borrowers, the risk weight for each segment decreases, and on a stock basis, the higher the rating, the lower the risk weight, even for the same borrower. Examining the large enterprise and second-tier enterprise/SME segments reveals that, as the distribution of ratings shifts higher, the risk weight decreases and the RORA increases. Furthermore, the fact that rating systems are becoming more advanced can also be considered a factor in the decrease in risk weight. In particular, the main reasons for the rise in RORA for rental real estate are the revision of individual credit rating standards and the change in the estimation method for LGD, which is used in risk asset calculations for mortgages and unsecured loans.

- The profit margin factor does not necessarily refer only to interest rates, but they have an overwhelmingly large impact on it. We receive fees for proposing solutions to various issues while also arranging financing to avoid interest rate competition, and this approach to improving earnings based on both fees and interest rates has proven successful, leading to improvements in RORA.

- The RORA levels for stock-based loans and newly executed loans differ in nature. For stock-based loans, RORA is viewed from the perspective of the earnings status in the current fiscal year, while for newly executed loans, it is viewed in terms of lifetime profit. When calculating the RORA for newly executed loans, we incorporate the effect of interest rate hikes based on different scenarios, such as floating interest rates, which often results in better lifetime profit than current fiscal year profit. There are cases where, even if interest rates are competitive, our proposals are accepted because they make it possible to ensure lifetime profit. For stock-based loans, the proportion of market rate-linked loans has been increasing, which improves profitability in the near term. As a result, there is no longer any significant difference in RORA whether for stock-based or newly executed loans.

Q. With the loan balance growing more than anticipated in the first half results and the interest pass-through rate being high, many banks, including yours, have seen net interest income surpass expectations. What is your analysis of this, based on trends in financing needs, changes in the competitive environment in the lending and deposit markets, and other factors?

A.
- It is likely that the loan balance is growing at many banks because of macro factors. At our bank, working capital loans for SMEs are increasing, and the reason for this is the impact of inflation. On the other hand, while growth in equipment financing remains sluggish at our bank, we are aware that there are some fairly large-scale capital investment projects happening. It is likely that the reasons for the sluggishness of equipment financing include the following: while there is a desire to invest in equipment among companies in the prefecture, there are issues such as high costs and labor shortages, which are causing delays in the execution of capital investment, and clients with ample cash reserves are addressing these needs using their own funds. Recently, as factory modularization and standardization progress, investment in large-scale equipment to address the labor shortage has been increasing, and factory construction is being undertaken using large growth subsidies worth several billion yen. Due to the ramping up of these large-scale equipment projects, we expect that demand for equipment financing will increase further in the future.
- With regard to the competitive environment for acquiring deposits, interest rates were low to begin with and financial institutions were battered during the era of monetary easing, creating an environment where banks avoided excess competition. As our loan-to-deposit ratio is around 83%, compared to around 50% for Shinkin banks and credit associations in the prefecture, there is no lack of deposits in the region, and except for large accounts, there is no move toward acquiring deposits by raising interest rates. As interest rates for loans are rising, market-linked loans naturally follow suit, and the interest rate hikes will be reflected in the rates when renewing three- or five-year fixed-interest loans, such as apartment loans. Net interest income will therefore increase going forward.

Other

Q. Could you tell us the investment amounts, investment periods, and so on for investments in the AI field? Also, what are your expectations for the TSUBASA Alliance's AI-related business?

A. - During the current three-year Medium-Term Business Plan, we are planning system-related investments of around 25.0 billion yen. Two major investment areas included in this amount are core systems and branch terminal-related investments, which are expected to total around 15.0 billion yen. Of the remaining 10.0 billion yen, AI-related investments will account for 1.5 billion yen, and we are working very hard to pursue them. In the past, our use of AI was limited to supporting planning operations, but recently, it has reached the level of being integrated into various workflows. In fact, we have now begun development work to incorporate it into our financing-related system. While lending services are an area where experience matters, this is a system that uses AI to provide guidance in a navigation format, teaching key points for funding proposals and accepting requests. We are planning to launch the first phase around May next year, and we believe this will improve our operational efficiency, especially for our younger employees.

- In the TSUBASA Alliance, the Chiba Bank has acquired an AI company and is now pursuing research based on that. It is not yet at the stage where it can announce anything, but it may be expected to do so in the future.

Q. With regard to the future use of capital, are you considering taking more risks by increasing investment in higher-risk stocks or the like?

A. - One of the reasons behind the capital ratio being higher than anticipated is that assets under management have decreased due to selling pure investment shares. In terms of our approach to risk-taking, we may consider increasing investment in investment trusts or individual stocks if the RORA is favorable, and we may also consider leveraging the current steady growth in lending. The integration with Daishi Hokuetsu Financial Group will expand our respective markets, enabling us to increase our risk assets, mainly through lending.

Q. The ROE level also fluctuates based on the level of the valuation difference on available-for-sale securities. From the perspective of improving ROE, are you considering steps such as controlling the valuation difference on available-for-sale securities?

A. - Net assets, which are the denominator used for calculating ROE, are around 600.0 billion yen, and when you factor in the level of our valuation difference, as the impact on ROE is minor, we are not considering controlling the valuation difference on available-for-sale securities. In the final year of the Medium-Term Business Plan, we have set a profit target of 60.0 billion yen, and we are already looking at a profit of 55.0 billion yen in the current fiscal year. Therefore, even though we may revise the overall figures, there will be no change in our policy based on changes in unrealized gains or losses valuation.

Q. For customers in automobile-related industries, what is the current impact of U.S. tariffs?

A. - In July, U.S. tariffs were set at 15%, which eliminated the sense of uncertainty, and executives at our customers have not expressed a strongly negative reaction to them. In the short term, these 15% tariffs will have no impact; however, assuming they are passed on to customers, there is concern about whether companies will be able to reach their previous sales levels in the U.S. On a more promising note, hybrid vehicles are becoming more popular than electric vehicles in the U.S. Subaru is rolling out hybrid versions of its existing models with new pricing. To offset the tariff burden, it plans to pursue earnings growth throughout its value chain via cost reforms. At present, no impact has been seen. However, if sales volumes in the U.S. decline due to the passing on of tariff costs to customers, we believe there will be an impact and therefore intend to keep a close eye on the situation.