Principal Questions and Answers
Small Meeting for the First Half of 2025
(December 9, 2025)

Presenters: Mr. Fukai, President, and Mr. Uchibori, Senior Managing Director

Questions Related to the Business Integration

Q. If there is no gain from negative goodwill, will the anticipated plan be affected? And, if the PBR of the newly integrated company exceeds 1.0, is it possible that the target indicator will be changed from ROE to the increased market capitalization or that the policy on the acquisition of treasury shares will be reviewed?

A.
- It is uncertain if there will be any negative goodwill, as it will be some time before the business integration is actually implemented in April 2027. Still, we have communicated our intention to utilize any negative goodwill recorded to improve our securities portfolio. If there is no negative goodwill, we could address the earnings issue in a carefully planned way or apply gains on sale of shares for policy purposes. Moreover, it is also possible that we proceed with the improvement of our securities portfolio in a carefully planned way, regardless of whether any negative goodwill is recorded, as it is a special factor associated with the reappraisal upon the integration.
- While our PBR now exceeds 1.0, we recognize that this is merely a milestone. We will continue to increase our return on equity after the integration by paying attention to how our ROE and PBR are mapped. We do not plan to review our return policy on the grounds that our PBR is greater than 1.0. We believe it to be appropriate to increase returns as earnings increase pursuant to the return policy while being aware of EPS growth.

Q. With respect to the capital adequacy ratio of the Daishi Hokuetsu Financial Group, the change to the Internal Ratings-Based Approach has created room for taking risks. Do you think it will have a positive impact on the group after the integration?

A. - The capital adequacy ratio of the Daishi Hokuetsu Financial Group is trending upward due to floor adjustments. Conversely, our capital adequacy ratio is trending downward because the multiplier used to calculate the capital floor has been raised. Our capital strategy is to increase our risk taking while accumulating Tier 1 and Tier 2 capital in accordance with the optimal capital structure. The integration with the Daishi Hokuetsu Financial Group will have a positive impact on us because the resulting capital increase will expand the room for taking risks. We will consider how to utilize our capital after the integration with the hope of utilizing it in an effective way to increase our ROE. For example, we could increase loans to high RORA lenders by utilizing our network or buy back Japanese government bonds while reducing loans to large companies to a certain extent.

Q. In my opinion, it could be an option to raise the capital adequacy ratio of the integrated group since credit costs are expected to increase in a rising interest environment. Could you tell us your thoughts on this?

A. - Even if credit costs increase due to rising interest rates, we can absorb those increases with earnings as net interest income also increases in such an environment. Based on the information disclosed by the two banks, the profit of the integrated group will be at the 100 billion yen level in 2027, the first year after the integration. Accordingly, we do not recognize any need to raise the capital adequacy ratio to prepare for credit costs. In terms of the level of the capital adequacy ratio, we believe that, even if some credit costs are incurred, we do not need to increase the capital from the beginning since we can handle those costs by reducing buybacks and through other means. Given that both banks have ample capital and their fundamental profitability will be further enhanced by the integration, they will be more resilient to unexpected situations.

Q. You will not be able to utilize gains on sale of shares as they will be marked to market upon the business integration. Are you considering taking any measures in advance, including recording unrealized losses of securities and setting aside loan-loss reserves?

A. - (Mr. Uchibori) I think it is possible for us to apply gains from valuations of shares to allowances and other measures to reduce risk before the integration. In fact, the Daishi Hokuetsu Financial Group disposed of certain bonds in the first half of 2025.

- (Mr. Fukai) I believe that credit costs can adequately be absorbed by profits earned in the ordinary course of business in light of the fact that the newly integrated company's profit is expected to exceed the 100 billion yen level and the current exposures of the two banks.

ROE

Q. I think it is possible for you to achieve the ROE target of 10%, which has been set for the FY ending March 2028, the final year of the Mid-Term Business Plan, in the next fiscal year. Is there any possibility that you will revise the ROE target upward?

A. - First of all, we will make every effort to achieve the targets for the current fiscal year, the profit target of 55.0 billion yen and the ROE target of 9.5%. If the Bank of Japan raises the interest rate at an early stage, net interest income will increase along with the steady growth of the loan balance. Non-interest business profit is also increasing. Therefore, we may discuss whether to review the targets for the FY ending March 2028 when drafting the plan for the next fiscal year. What is important for us at present is to achieve the targets for the current fiscal year. However, if we expect to achieve the targets for the FY ending March 2028 ahead of schedule in the next fiscal year, we may choose to end the Mid-Term Business Plan one year ahead of schedule and start a new Mid-Term Business Plan in April 2027 as a newly created group. We intend to explain our plans for the next fiscal year and beyond when we announce our business forecast for FY2026.

Deposits

Q. Compared with the end of March 2025, while personal deposits increased slightly, personal assets under custody increased by about 100 billion yen. Do you recognize this as a shift from savings to investment? Or, do you see the sluggish growth in personal deposits as an issue to be addressed?

A. - Acquisition of personal deposits is one of the issues we are facing, and we are aware that we should not simply focus on assets under custody. While we should promote appropriate products depending on customer needs, we hope to expand fund wrap services from which we can obtain fees periodically, rather than whole life insurance and other similar products in which deposits are locked and which cause deposits to flow outside the prefecture through beneficiaries.

- (Mr. Uchibori) Although we have adopted an all-asset approach, we have not been able to implement it successfully in reality. The sale of investment trusts inevitably accompanies cancellation depending on market prices, as it constitutes the sale of products. Rather, the ideal form is a fund wrap service where we keep the assets of our customers under custody in their entirety in order to increase those assets and obtain fees from them. We would like to promote sales activities that make comprehensive proposals on assets under custody, including deposits.

- (Mr. Fukai) We have not conducted premium interest rate campaigns to acquire personal deposits very often. However, in light of the interest rate situation and pass-through rates, I can assume that there will be no problem in providing premium deposit interest rates. Within the prefecture, the loan-deposit ratio of credit unions and cooperatives is around 50%, suggesting that there is some room for deposit acquisition. We are considering possible measures to secure customers, including premium interest rates on retirement allowances. I would like to emphasize that the most important thing is to acquire individual daily accounts. We think that we need to make further efforts on point services in collaboration with the local companies and products that we have focused on, including salary payments, pensions, and asset-building savings plans for workers, despite the declining population.

<u>Other</u>

Q. It is assumed that local SMEs could be exhausted by the burden of interest payments if interest rates continue to rise. Considering that Gunma Bank promotes RORA management, could you share the bank's views regarding how to balance economic rationality with its role as a local financial institution?

A.
- In the current situation, the rising cost of materials and fuel and the labor shortage are more serious management issues than the burden of interest, and we need to provide support for these issues. While it is certainly not the case that interest rates have no impact, we do not think that rising interest rates will create sustainability concerns among many companies, as our internal simulation suggests that a 1% interest rate hike will increase credit costs only by approximately 1.0 billion yen.
- Since local SMEs play an important role in local infrastructure and employment, we will not refuse to do business with those SMEs in order to only pursue high RORA loans. With respect to small companies that are unable to deal with the rising costs and labor shortages of this difficult business environment, we will encourage them to consider roll-up transactions where companies are combined through a fund or offer them consulting services to enhance their productivity. In addition, against the backdrop of the deregulation of the banking industry and the expanded capital after the integration, we are also considering establishing a company to serve as a back-office division (BPO) and originating a fund together with a core company, thereby utilizing them to support SMEs that have difficulty in continuing to do business.

Q. Could you tell us your thoughts on the impact of the real negative interest rate on the economy?

A. - The problem is not the real negative interest rate, but whether soaring energy prices and labor costs are properly reflected in selling prices, as they have a greater impact on the economy. As domestic-demand-oriented companies are presumed to be suffering from imported inflation to a greater extent, we hope that the real interest rate will be corrected and that the yen will strengthen to some extent.

- From a banking standpoint, we are paying closer attention to the possible occurrence of any event that would generate credit costs than we are to the fact that the real interest rate is low. It is assumed that credit costs will increase to some extent if interest rates rise. However, and more importantly, a major issue faced by companies is their inability to reflect rising costs in their selling prices. For example, it would be difficult to reflect rising costs in the selling prices of the medical industry since the system does not allow companies to do so, as well as in industries that include many small companies. In negotiating price revisions, it may sometimes be difficult to get customers to consent to higher labor and energy costs being passed on to their prices since they may be reluctant to agree due to the negotiating company's low productivity; however, it would be easier to obtain their consent if the price revision were based on soaring materials prices or if the negotiating company had unique technology or some other competitive advantage.

- In an environment where costs are rising rapidly and labor is in short supply, management skills have a huge impact, and larger entities have advantages in terms of management. We are continuing our efforts to enhance local sustainability, including through a fund launched jointly with a major local construction company in March of this year that will take on the business of construction companies that have no successors for the purpose of boosting the construction industry, which is suffering from insufficient human resources.

Q. Currently, loan demand has not declined despite the assumption that it would decline due to rising interest rates. Could you tell us your thoughts on the effectiveness of the monetary policies of the Bank of Japan?

A. - I would say that the monetary policies are not working effectively because the current policy interest rate is below the neutral rate. I am assuming that interest rate hikes will not decrease loan demand largely due to the impact of inflation. We will see greater demand for operating capital. On the other hand, equipment financing has not grown appreciably because there is a time lag between the time when demand is generated and the time when financing is actually implemented and because funds on hand are applied to the financing even though certain indicators published by the Bank of Japan and other institutions suggest that demand for capital investment is strong.

- The loan balance for second-tier enterprises and SMEs at the end of September increased steadily by 2.9% year on year. While some argue that we should further increase the balance based on the comparison with CPI, we intend to increase high-quality loans while paying attention to RORA, rather than trying to increase the volume indiscriminately.

Q. How do you think the Financial Services Agency's Regional Financing Capacity Enhancement Plan will affect Gunma Bank?

A. - Under the plan, they are discussing roll-up transactions and consulting support that will contribute to improving the efficiency of local companies, among others. Many of the topics they discussed are similar to the measures stipulated in our Mid-Term Business Plan. I also find the lifting of the ban on M&A brokerage very attractive because our collaboration with the Daishi Hokuetsu Financial Group will expand the areas for matching companies. In addition, I think it is also important to collaborate with other financial institutions in the prefecture to promote roll-up transactions.