

Principal Questions and Answers
Small Meeting for the Year Ended March 2026
(June 11, 2026)

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

Questions about the Business Integration

- Q. With regard to inter-bank lending between sister banks following the business integration, how do you view the possibility of regulatory easing and its potential impact?
- A. • (Mr. Uchibori) We have now begun discussions with the authorities, focusing on the fund disbursement system, and as an extension of those discussions, we are gathering information about inter-bank lending between sister banks. The system itself has been eased to some extent, but to be honest, we do not yet fully understand the specifics of how this will be implemented. Going forward, once the way to smoothly implement inter-bank lending, including the administrative aspects, becomes clear during our discussions with the authorities, we believe it will be worth considering.
- (Mr. Fukai) While Gunma Bank is considered to have a very efficient balance sheet, the situation is tight given the difference between growth in deposits and growth in loans, so now more than ever, we need to be thorough when selecting assets and pursue management that focuses on ROA as well as RORA. Furthermore, in a rising interest rate environment, capital costs increase as ROE rises, so it is important to enhance asset management based on RORA. As part of revising our balance sheet, we are revising our management: for example, by replacing the portion of yen funds previously allocated to foreign bond investments that relied on currency swaps with repo financing. While we increase our bond holdings, the balance sheet may be rather tight overall, but cash flow will not be so tight that we need to limit lending.
- Q. What effect will the size expansion that the business integration will cause have on areas other than the expense ratio?
- A. • In a positive interest rate environment, the bigger the balance sheet is, the more efficient it becomes. The current environment is favorable, and as we have said previously, the two banks are highly complementary, so we fully expect that there will be top-line growth. Furthermore, we anticipate cost benefits in the future due to the integration of our accounting systems. For example, operations will be consolidated across the two banks through measures such as standardizing our subsystems, which will allow us to make operations more efficient. Fundamentally,

however, rather than reducing costs per se, the purpose of the integration is to efficiently enhance profits by combining the strengths of the two banks. In fact, in the area of fee income, with regard to foreign exchange derivative operations, which is a strength of Daishi Hokuetsu Financial Group (FG), we are developing our system in the southern Saitama and Keihin districts, which we were unable to serve adequately in the past. We are currently receiving many inquiries and starting to see the benefits. For this year's earnings forecast, we expect that non-interest business profit will increase by 5.7 billion yen to 35.0 billion yen, as we look to achieve our mid-term business plan target ahead of schedule. The main reason for this is foreign exchange derivatives. Thus, we believe that the benefits of the integration will first and foremost be realized through top-line growth rather than reducing costs. Cost reductions will be seen following the system integration.

- Moreover, the business integration is also significant from the perspective of our investment capacity. Even if the capital ratio is the same, a larger company has a greater capacity to absorb shocks and more flexibility when investing. In this sense, there will be options available, such as buying companies in other industries, and we believe there is room to expand our business domains while assessing the need for these.

Q. How have you analyzed success and failure when looking at case studies related to business integration? How are you applying those analyses to the integration?

- A. • Even for recent integrations involving regional banks, there is a certain number of cases where the focus is still on cost synergies. However, even in integrations involving banks in the same prefecture, there are challenges such as the difficulty of consolidating or closing branches or the difficulty of implementing workforce reductions in light of the labor shortage. In this context, when carrying out an integration where the two parties maintain a certain amount of independence, such as the one between Gunma Bank and Daishi Hokuetsu FG, rather than focusing primarily on cost synergies, the question of how to achieve results within that framework is essential. A key characteristic of our integration is that we expect enhanced earnings due to economies of scale and complementarity. If it is simply a case of "1 + 1 = 2," integration is of limited significance; the key is whether it can create added value, i.e., "1 + 1 = more than 2." In our case, in addition to the fact that the two banks are highly compatible and top-line growth is expected, we will have more management strategy options due to the size expansion, which is very significant. Furthermore, the bigger a company is, the greater its capacity to absorb risk is, which improves its sustainability by reducing the risk of bankruptcy.
- On the other hand, there could be a risk of the integration being simply a case of "1 + 1 = 2" if control via the holding company does not function effectively. To prevent this, it is important for the holding company to stipulate clear policies and operate the subsidiary banks within that framework. In addition, the distinctive characteristics of each bank should be leveraged so that the strengths and

weaknesses of each bank complement each other with a view toward overall, rather than individual, optimization.

- When pursuing business integration, it is not realistic to adopt an approach that assumes a specific model will be used and then search for a partner that fits that model. In practice, the pool of integration candidates will be extremely limited, and in some cases, there may not be a single candidate available. Ultimately, it is not about choosing a partner because you want to implement a particular model; it is about seeking a particular model because a partner exists, and you want to achieve the optimal results with them. Accordingly, when we announced the business integration, we were sometimes asked why we chose Daishi Hokuetsu FG, and the reason is that throughout the process leading up to the agreement, we confirmed that substantial benefits could be expected, and we were convinced that the two banks were ideal business partners for one another.

Q. When pursuing business integration, what is the most important point in terms of ensuring that operations proceed smoothly from day one?

- A. • From a practical perspective, standardizing the rules is essential, but we believe that what is most important is to be extremely meticulous in formulating the group's plan. Rather than simply listing measures, it is preferable to adopt a system that clarifies the order of priority for implementing them, specifies management methods, and regularly checks progress. We believe this kind of management will be effective for at least the first six months to one year. As a prerequisite for this, it is necessary to align our mindset and approach to policy, but the most important point is to clearly develop the group's mid-term business plan—in particular, the specific action plan for implementing the measures. Along with this, we believe it is essential to carefully specify KPIs with a view toward tracking the status of processes as well as the final profit achieved.

Q. When do you estimate that the mid-term business plan for the new FG will be announced?

- A. • (Mr. Uchibori) Since the integration is scheduled for April 1 next year, we are considering announcing the plan with that timeframe in mind, although we have not yet decided whether it will be released at the time of the integration or right before it.

Questions about Deposits

Q. What is the mechanism for providing incentives based on raising deposit internal transfer rates with the aim of increasing deposits at branches?

- A. • We have adjusted the deposit internal transfer rate and adopted a mechanism whereby raising the deposit internal transfer rate increases branches' earnings. Specifically, by raising the deposit internal transfer rate used in calculating financing profit, the system is designed so that the more deposits a branch acquires, the

more earnings it will record, and these results are considered when assessing performance commendations.

Questions about Loans

- Q. In the current rising interest rate environment, are there any changes in the preferences of borrowers, such as fixed versus floating interest rates, or the choice of term?
- A. • (Mr. Uchibori) Since large enterprises are extremely sensitive to interest rates, they have a strong need for long-term loans at fixed rates, but in consideration of the balance sheet, we have adopted a policy of limiting long-term, fixed-rate loans. There is also a growing tendency among companies to seek long-term loans even with floating rates and to want to secure credit lines of a certain size. Fixed-interest loans to local SMEs are mostly handled through government-backed lending programs such as those offered by Gunma Prefecture.
- (Mr. Fukai) Many government-backed lending programs are intended to manage cash flow based on economic conditions, and in addition to offering customers advantageous terms, they provide benefits to our bank in terms of profitability due to the guarantee association's risk-sharing system and deposits of cash and equivalents.
- Q. The Financial Services Agency has expressed concern about structured lending. In light of the recent discussion of this subject, how do you view structured financing (SF)?
- A. • Firstly, what the Financial Services Agency viewed as problematic was so-called structured lending, which is a form of lending in which underlying assets such as corporate bonds and government bonds are transferred to an SPC and loans are then made to that SPC. Although this kind of transaction is technically a loan, in some cases, it may in reality be similar in nature to a derivative transaction with market risk, and whether that risk is being managed appropriately has been viewed as an area of concern. In contrast to this, the SF instruments offered by our bank are substantive financing instruments to which those concerns do not apply. Specifically, they target non-recourse real estate, renewable energy, infrastructure, etc. and differ in nature from schemes that involve transferring financial assets to so-called SPCs and earning premiums by selling derivatives.

Questions about Balance Sheet Management

- Q. Given the observed decrease in the NSFR (net stable funding ratio)-related buffer, how do you view management of the yen-denominated balance sheet in the future?
- A. • (Mr. Fukai) When discussing the NSFR, the main points are how to promote the securitization of long-term claims and how to cover the remaining claims with stable funding. Specific measures to be considered include transferring assets off the balance sheet via methods such as securitization of mortgage claims. From a funding perspective, we are also considering the use of senior bonds, and we will comprehensively assess the impact and effect that combining various measures has on the NSFR and LCR (liquidity coverage ratio). In terms of deposits, we are making efforts to increase the balance, and individual deposits are trending upward as well.
- (Mr. Uchibori) With regard to term deposits, we are implementing a policy of selectively offering interest rate premiums on new deposits. While performance has been strong recently, we recognize that it will be difficult to achieve our target for individual deposits in this fiscal year using only the current measures, given that we are planning to increase them by over 2% year-on-year, and are therefore considering additional measures. That said, the efforts we have made so far have confirmed that offering interest rate premiums has a certain effect in shifting funds, and going forward, we are also looking at introducing new products. Specifically, as a benefit that leverages the regional characteristics of Niigata prefecture, we are considering measures such as providing Niigata rice in collaboration with regional trading companies affiliated with Daishi Hokuetsu FG. This is already at the concrete discussion stage, and we would like to make it an initiative that symbolizes the business integration.
 - (Mr. Fukai) In terms of setting interest rates, we have adopted a policy of selectively providing premiums and have started offering term deposits that provide certain interest rate incentives, primarily targeting funds flowing in from other banks, or so-called new money, and retirement allowances. In terms of why we can secure profitability even when adding a premium to the interest rate for these funds, one reason is that lending rates are keeping pace well with policy interest rates. For corporate loans in particular, the yields are increasing steadily, especially for new loans, and we recognize that it is possible to maintain overall profitability even if deposit interest rates rise to some extent.
 - (Mr. Uchibori) In fact, when we reviewed some survey results, we found that providing rice had a bigger impact on customers than offering interest rate premiums did. For example, while providing 5 kg of rice may be a small amount in terms of interest rates, it has a strong emotional appeal. Efforts aimed at increasing the balance of highly sticky deposits are important as well, and we are working to enhance customer touchpoints through measures such as the introduction of an app. While we have established a branch network in the Tokyo metropolitan area

to some extent, to date, we have not prioritized the acquisition of deposits. However, addressing the outflow of deposits has lately become an issue. With regard to inherited deposits in particular, since there are many cases where we have a certain understanding of family relationships, we believe that there are opportunities to take measures before inheritance takes place, such as encouraging family members who may become heirs to open accounts with us, and we are considering various measures aimed at deposit acquisition.

Q. While the cost of issuing corporate bonds as a means of acquiring funds is high compared to deposits, could this be a realistic option?

A. • (Mr. Uchibori) If, for example, we issued five-year corporate bonds, the final borrowing rate would be expected to be around 2.0% to 2.3% at current levels, but it is also true that it would be challenging to decide which assets to allocate the raised funds to. For instance, if we could combine it with initiatives that can secure relatively favorable interest rates, such as project financing, we believe it would be worth considering issuing several dozen billion yen of corporate bonds.

(Mr. Fukai) It may be easier to raise funds by offering a fixed interest rate for term deposits rather than issuing corporate bonds. On the other hand, customers can cancel or withdraw deposits, so their nature differs significantly from corporate bonds. If term deposits are treated the same as corporate bonds for regulatory purposes, it makes more sense to choose deposits as a fundraising method. Ultimately, the deciding factor is how they are assessed under regulations for the NSFR and the like; rather than responding to liquidity risk with a strong sense of concern, it is solely about taking the measures required for regulatory compliance. Rather than a decline in the LCR or NSFR figures themselves, the issue is instead ending up in a situation that would force us to revise our management policies due to financing costs and asset composition restrictions. In that case, we believe it would be necessary to conduct more rigorous asset selection and review our management policies, not just in terms of regulatory compliance but from the perspective of actual business operations and risk control.

Q. If corporate bonds were issued to meet NSFR requirements, is it correct to assume that you would allocate the proceeds to fixed-interest loans for large enterprises and the like?

A. • The key issue is achieving a balance between our corporate bond issuance costs and the financing costs of funds allocated to loans for large enterprises. We also have some leeway in judging whether to accept a certain negative spread. We will address this issue after comprehensively considering it along with various other factors.

Questions about Capital Ratio

- Q. Are you considering raising the target range for the capital ratio?
- A. • If we intend to raise the target range, we will need to further increase RORA in order to improve ROE, which raises the question of whether that can be achieved with our existing management approach. We believe that the range of 10.5% to 11.5% is appropriate at the present time, and there is no change in our capital accumulation policy, which includes AT1 and B3T2 bonds. We will therefore maintain the capital ratio in this range mainly through shareholder returns and the accumulation of risk assets. Furthermore, the reason our ratio may appear somewhat high is that we are anticipating the finalization of Basel III, and risk assets are increasing due to floor adjustments. Taking this into account, the effective upper limit is around 11.5%, so we are focusing on keeping the ratio within this range for now.
- Q. With regard to the capital ratio, how do you balance pressure from the stock market to return profits to shareholders with rating agency requirements to have surplus capital?
- A. • We are in close communication with rating agencies, and since the approach of limiting the CET1 ratio is contrary to their wishes, we need to maintain effective dialogue with them. That said, we have specified a clear ROE target and financial plan, and we do not make management decisions based solely on the capital ratio. As long as we continue to steadily reduce asset risks and improve profitability while maintaining a certain level of capital, we believe there is a strong possibility that our rating will be upgraded. It is also necessary to raise our current rating with foreign currency funding in mind, so we plan to carefully explain our approach in terms of limiting the CET1 ratio, which I mentioned previously, to rating agencies while achieving a balance. We are also focusing on our ability to replenish capital in the event of a shock. Regional banks tend to be viewed more cautiously in terms of their capital replenishment capabilities. Given that tendency, we hope that investors will understand that regional banks need to maintain a certain capital buffer. There are various approaches to achieving this buffer, such as maintaining it based on the CET1 ratio or securing it through a multi-tiered capital structure, as we do. We believe we can maintain an adequate level of financial soundness while limiting the CET1 ratio.

Questions about Shareholder Returns

- Q. With regard to shareholder returns, is there leeway to raise the total payout ratio?
- A. • While there is debate concerning whether the total payout ratio or dividend payout ratio should be the benchmark for a shareholder return policy, we believe that with the PBR currently at around 1.4 times, it logically makes more sense to first clearly define the dividend payout ratio and distribute returns accordingly, rather than incorporating share buybacks into the planned returns. Buybacks have a greater impact and are more effective if they are conducted flexibly in dialogue with the market under circumstances such as when capital exceeds expectations or shares are being sold off. With Daishi Hokuetsu FG's PBR approaching roughly the same level, we believe it would be more logical for the new FG to adopt a return policy that is somewhat dividend-focused, rather than a framework defined as "40% dividend payout ratio and 10% share buybacks for a total of around 50%." However, we do not anticipate making any significant changes to our policy this fiscal year. On the other hand, we do not rule out the possibility of future changes. We think this is a subject that should be considered by both banks ahead of the integration.

Other Questions

- Q. What arrangement do you think is preferable in terms of the president of the holding company and the presidents of the subsidiary banks? Should one person hold both positions concurrently, or should a different person serve in each role?
- A. • We don't have a clear answer for this yet, but as we move forward with the integration, we believe it would be preferable to establish a structure in which the holding bank's president is not overly involved in either bank. Going forward, we will give this matter careful consideration.

- Q. Is there an intention to appoint outside directors to the unlisted subsidiary banks who are at the same level as those at the holding company?
- A. • There is a possibility of that, but selecting them is an issue. It will be necessary to carefully consider whether we can find appropriate individuals. One key consideration is how the roles of the holding company's board of directors and the subsidiary banks' boards of directors will be divided. Even in discussions by a subsidiary bank's board of directors that do not directly involve the holding company, an outside perspective is often needed. For instance, it may be effective when discussing subjects such as support for individual customers, specific measures, and day-to-day management. Since the board of directors' role differs from that of a listed company, the approach to selecting directors also differs. In contrast, the directors of a listed holding company are entrusted by shareholders to handle management, and their input is indispensable when it comes to capital efficiency and capital policy. At subsidiary banks, on the other hand, we believe that individuals who can evaluate the bank's purpose from a more social perspective and its impact on the local community are best suited to director roles.
- Q. In some cases, outside directors serve concurrently at a holding company and its subsidiary bank. What do you think of this?
- A. • (Mr. Fukai) While we would not say that a holding company's operations have no connection to a subsidiary bank's, we recognize that the role that should be fulfilled by the holding company's board of directors differs from the role of the subsidiary bank's board of directors. Therefore, we would need to think carefully about outside directors holding concurrent positions.
- (Mr. Uchibori) Personally, when it comes to outside directors at subsidiary banks, I think that rather than having people hold concurrent positions, we need individuals who possess specialized expertise as bank employees and external individuals who have an in-depth knowledge of the local community and the ability to see things from the customer's perspective.