Principal Questions and Answers
Small Meeting for the Three Months Ended June 2026
(August 6, 2026)

Presenter: Mr. Otani, Managing Director

Questions about the Business Integration

Q. I would like to ask about the current status of discussions regarding the Mid-Term Business Plan for the new financial group (FG). We understand that there has been a change due to the business integration in the current Mid-Term Business Plan compared with the previously formulated plan. Are there any qualitative or quantitative differences?

A. - Preparations for the launch of the new FG are progressing steadily, and various initiatives have been underway since April. Currently, representatives of the two entities attend each other's meetings and committees as observers. Furthermore, we have established satellite offices in Gunma, Niigata, Nagaoka, and Tokyo and begun joint operations, thereby deepening cross-organizational collaboration. Regarding the Mid-Term Business Plan, we have already begun deliberations, and directors of the two entities are currently discussing priority issues and materiality based on our assessment of the business environment. At Board of Directors meetings, directors—including outside directors—are discussing the assessment of the business environment, and most recently, internal directors conducted a brainstorming session on materiality. In these discussions, in addition to priority initiatives to be addressed over the next three years, we are also considering future demographic trends and the state of local communities 10 years from now and toward 2050. Going forward, we plan to translate the directions of these discussions into concrete measures and quantitative targets. Although we announced a profit target of over 140 billion yen for the fiscal year ending March 2030 at the time of the final agreement, the interest rate environment and the profit levels of the two entities have changed significantly since then. We project a profit of 65 billion yen for the fiscal year ending March 2027, while Daishi Hokuetsu FG projects a profit of 53 billion yen, presenting a situation that differs significantly from the assumptions originally made. Because of this, we are proceeding with discussions aimed at setting more ambitious targets and plan to further explore specific synergy measures, along with the redeployment of human resources and the optimal allocation of capital going forward.

- Furthermore, because the balance sheet structures of our bank and Daishi Hokuetsu FG differ, we need to discuss what kind of asset allocation we should aim for going forward, and we plan to make this one of the themes for next month's Integration Preparatory Committee meeting. We believe that Daishi Hokuetsu FG will pursue a policy of expanding its loans, as it has sufficient capacity in its loan-to-deposit ratio. Meanwhile, we need to focus on building up deposits and work to strengthen non-interest business profit generated from non-risk assets. In addition, even though the two entities provide loans to large corporations, their ROA and RORA levels differ, so we cannot equally categorize the two entities as providers of loans to large corporations. Going forward, rather than pursuing the strategy we have developed independently to date, we will formulate a strategy for the new FG following integration with Daishi Hokuetsu FG. While there are challenges in doing this, it is also highly rewarding. We plan to combine the strengths of the two entities to create a truly unique organization.

Q. Regarding the new FG's capital policy, how is the discussion progressing in terms of its overall direction, including perspectives on aggressive growth investments and shareholder returns that exceed previous levels?

A. - We are currently conducting specific discussions regarding capital policy. The basic approach is to ensure that the capital policies the two entities have pursued to date are not scaled back. In terms of shareholder returns, the two entities have set a dividend payout ratio of 40% as their target, and we are proceeding on the premise that we will not allow the ratio to fall below this level. Since capital is expected to accumulate after the business integration, we will continue to discuss the optimal capital level. We are considering a CET1 ratio range of 10.5% to 11.5%, which we currently use as our baseline. We also plan to continue using subordinated debt as a core strategy. Growth investment is also a key priority. In addition to investments in system infrastructure, initiatives to enhance strategic investments—including those in the AI field—along with efforts to strengthen customer touchpoints, enhance sales support, and improve operational efficiency are essential. Furthermore, investments aimed at strengthening resilience—such as measures against cyber threats and money laundering—are also essential. Accordingly, we intend to pursue our capital policy while balancing growth investments with sound capital management. Regarding shareholder returns, as mentioned earlier, we plan to maintain our current policy without scaling it back.

<u>Questions about Deposits</u>

Q. With regard to individual deposits, given the increase resulting from measures such as Premium Time Deposits, I understand that liquid deposits are decreasing. Is that correct?

A. - Although individual deposits increased by approximately 39 billion yen compared to the end of March, inflows into Premium Time Deposits and Life Event Time Deposits over the three months from April to June totaled approximately 21 billion yen. Therefore, while there were deposit inflows and outflows, it can be concluded that approximately 21 billion yen of this increase was attributable to these two products. On the other hand, competition to attract liquid deposits has intensified further. Factors contributing to this include competition from megabanks and online banks, as well as outflows to other prefectures related to inheritance. Furthermore, against the backdrop of factors such as increased consumer spending driven by inflation, the volume of card and cashless payments has risen, resulting in outflows exceeding inflows. However, our interest rate policies have been yielding some results. In Gunma Prefecture, inflows exceed outflows, and we have been successful in capturing demand from customers switching their deposits from Japan Post Bank, credit unions, and other institutions.

- On the other hand, outflows of funds to the Tokyo metropolitan area attributable to inheritance procedures are a common challenge faced by regional banks. While our branches in the Tokyo metropolitan area have traditionally focused on promoting corporate loans, we plan to shift our strategy to place greater emphasis on attracting deposits as well. As part of this strategy, we have assigned three employees from Gungin Securities' headquarters to the Keihin and southern Saitama areas to strengthen our touchpoints with wealthy individuals, such as private medical practitioners, business owners, and apartment loan borrowers. We are seeing positive results, and by leveraging our existing branch network to expand our securities services and consulting capabilities—including inheritance planning—we aim to create a virtuous cycle that recirculates deposits that have flowed out to the Tokyo metropolitan area back into Gunma Prefecture.
- Our bank holds an approximately 38% deposit share in Gunma Prefecture, with the remaining approximately 60% held by other financial institutions. As one of the future directions we should pursue, we are exploring the possibility of establishing a system in which credit unions and credit associations in Gunma Prefecture deposit their funds with us, and we, in turn, originate and distribute loan transactions to financial institutions with low loan-to-deposit ratios. Syndicated loans, including structured finance deals for which we served as arranger, totaled approximately 75 billion yen in just over half a year. Of that amount, about 16 billion yen was for local projects, and we have arranged these transactions primarily by requesting the participation of financial institutions in Gunma Prefecture. Our role is to allocate deposits collected within the region to local lending, thereby establishing a system that keeps funds circulating within the region. We believe that if we can offer appropriate rates to credit unions and credit associations, there is significant room to ask them to consider depositing funds with us. Accordingly, it is important for us to take on the role of structuring and allocating loan transactions to promote the circulation of funds. Going forward, we intend to clearly present an overall strategic direction focused not only on interest rate policies but also on deposit strategies for the metropolitan area and Gunma Prefecture, respectively, with a focus on the circulation of funds.
- As we are also actively promoting financial asset management, we have observed a shift from deposits to investment products in some cases. Accordingly, we have

adopted a Comprehensive Asset Approach and are thoroughly implementing sales strategies that offer optimal portfolio proposals based on a comprehensive understanding of our customers' total assets, including deposits held at other banks. Rather than simply soliciting deposits, we place a strong emphasis on providing asset management proposals based on a comprehensive view of our customers' total assets.

Q. I understand that you are promoting deposit transactions that are commensurate with your corporate loan share. Is this aimed at acquiring time deposits that offer a certain level of interest?

A. - Our efforts to promote deposit transactions that are commensurate with our loan share are primarily based on the assumption that customers will transfer their liquid deposits from other banks. Meanwhile, we have been acquiring time deposits, particularly from large corporations, through interest rate premium measures, but these deposits account for only about 5% of the total outstanding balance of corporate and other deposits, representing approximately 150 billion yen.

Q. Regarding corporate customers with surplus deposits, I would like to ask what measures you are taking to attract deposits. While some banks have suggested that competitive interest rates are key, what approach are you taking?

A. - We recognize that how to approach customers with surplus deposits is one of the challenges we face. We believe there is a significant amount of potential demand in areas such as business succession, M&A, and the management of surplus funds, so our branch offices and headquarters are working together to compile a list of target customers and are making ongoing outreach efforts. Although borrowing needs are limited, we believe that enhancing convenience is key to increasing deposit transactions, along with interest rate premium measures. Through the provision of a corporate portal and online banking, we are working to strengthen our touchpoints with customers' accounting and general affairs operations. Furthermore, we are striving to maintain and expand our customer base, including workplace banking, and these efforts are helping to strengthen relationships with customers with surplus deposits and maintain and increase deposit balances.

Questions about Loans

Q. I would like to learn about the practical aspects of structured finance (SF), particularly with regard to real estate non-recourse loans and renewable energy projects, including how to structure such deals.

A. - With regard to risk management for non-recourse real estate loans, we primarily target borrowers with high credit ratings, and there have been no defaults since we began this initiative. We conduct rigorous screening based on strict criteria—such as LTV and DSCR—in addition to the highly effective covenants established by the arranger. Furthermore, based on our proprietary RORA criteria, we conduct thorough screening for profitability even at the application stage, and we believe that risks in this area are being appropriately controlled.

- To illustrate examples of non-recourse real estate loans and renewable-energy-related transactions, it is useful to envision cases in which an SPC company holds income-producing properties or power generation facilities that are ultimately sold to a REIT or fund. For example, there are transactions with a clear exit strategy, such as financing that pools income-producing properties into a structured portfolio and provides bridge funding until the properties are sold.
- For transactions that do not meet our screening criteria or that exceed our credit limits, we handle them through the prescribed approval procedures, such as approval at management meetings. Specific real estate transactions include a wide range of properties, both large and small, such as hotels in Kusatsu Onsen, as well as offices, residential properties, and commercial facilities in prime central locations.
- Although terms such as interest rates and loan terms vary depending on the profitability of each project, we consider RORA to be a key decision-making criterion. During periods of rising interest rates, we review this criterion as appropriate. Still, we maintain high profitability targets and, as a general rule, do not accept transactions that do not meet this criterion. Accordingly, when screening transactions, we carefully select them by thoroughly evaluating the balance between profitability and risk.
- Regarding renewable-energy-related transactions in SF, we primarily focus on domestic transactions such as solar and wind power, covering regions throughout Japan. In many cases, major banks, including megabanks, act as arrangers to structure these transactions, and we also participate in them. As the number of participants has increased in recent years, competition has intensified, so we submit competitive bids for transactions we wish to participate in to secure our desired allocation.

Q. Regarding housing loans, while some regional banks are curbing their offering of such loans for profitability reasons, others view them as an important product for attracting ancillary transactions. With the deposit-loan gap expected to narrow in the future, how do you view housing loans?

A. - We recognize a key challenge for housing loans in that RORA is high while ROA is low. However, housing loans serve as an anchor product in retail banking and play a crucial role in driving ancillary transactions such as unsecured loans and payment services, together with deposit transactions. For this reason, we evaluate housing loans comprehensively from the perspective of customer lifetime value, rather than focusing solely on their profitability. We are currently conducting data analysis to identify which types of customers contribute to long-term revenue growth. Going forward, we plan not only to promote housing loans but also to strengthen our proposals for ancillary transactions tailored to life events through database marketing, with the aim of expanding transactions with customers. Therefore, we have no plans to reduce our housing loan portfolio at this time and will continue pursuing an aggressive approach.

- In addition, we have confirmed data indicating that housing loan borrowers also tend to take out unsecured loans, which allow us to set relatively high interest rates. Against the backdrop of intensifying competition with other banks and a decline in the number of new house constructions, the business environment is becoming increasingly challenging not only in Gunma Prefecture but also in Saitama Prefecture, Tochigi Prefecture, and the Keihin region. However, taking into account customer demographics and regional characteristics, it is important not only to set strategic interest rates for housing loans but also to evaluate overall profitability—including ancillary transactions such as unsecured loans—rather than evaluating housing loans alone.

Questions about Securities

Q. Regarding privately placed municipal bonds held in your securities portfolio, is this an exposure you are expected to continue to hold as a regional financial institution? If you did not hold privately placed municipal bonds, would that allow you to manage your portfolio more flexibly? Please explain the role of the privately placed municipal bonds in your portfolio.

A. - Regarding privately placed municipal bonds, as they are linked to deposit transactions in our business relationship with Gunma Prefecture, we need to hold them to a certain extent. Furthermore, as we view privately placed municipal bonds in some respects as effectively equivalent to loans, we believe it is necessary for us to hold them to fulfill our role as the region's leading bank. On the other hand, we treat newly acquired privately placed municipal bonds as held-to-maturity, and of the existing balance of approximately 420 billion yen, about 110 billion yen is held to maturity.

Questions about Balance Sheet Management

Q. I would like to ask to what extent the current level of the IRRBB ratio is affecting your balance sheet management. How do you plan to manage your balance sheet in light of the IRRBB ratio—for example, whether you can continue to actively raise funds primarily through time deposits without facing obstacles, or whether you will need to take interest rate risk in your portfolio?

A. - Regarding medium- to long-term bonds with valuation losses, we have been implementing loss-cutting measures. As a result, our current IRRBB ratio suggests a downward-parallel position that is sensitive to falling interest rates. Therefore, we recognize that the primary risk to our balance sheet at this time is a decline in interest rates, while we have secured a certain degree of resilience against rising interest rates. We are also aware that our IRRBB ratio exceeds the regulatory threshold of 15%, and we report on this situation to the management meeting every month. Currently, while paying close attention to the timing of government bond purchases, we have resumed purchases with an average duration of approximately five years, and the IRRBB ratio is gradually declining. Given the current interest rate environment, we do not foresee any particular issues regarding balance sheet management. While taking into account the potential impact of a period of rising interest rates, we are fully aware of the status of our IRRBB ratio and are appropriately assessing and managing the associated risks.

<u>Other Questions</u>

Q. I have heard that Gungin Securities is performing well. Could you please explain the key measures driving this growth? Also, is the corporate governance system adequately established to prevent misconduct?

A. - Among newly established bank-affiliated securities firms, Gungin Securities has been performing steadily, primarily due to the effective collaboration between its banking and securities operations. Both the growth rate of the balance of assets under management and the balance of assets under management per account are at the highest levels compared to those of other companies. Furthermore, while there are not many securities firms affiliated with regional banks that achieve net profit exceeding 1 billion yen, Gungin Securities has been steadily building up its earnings. A key factor behind this is that the bank leverages its relationships with customers to refer clients to Gungin Securities based on certain criteria. This initiative has yielded results, leading to the adoption of an advisory-style sales approach centered on mutual fund sales and an increase in stock income from assets under management at the securities firm. The business model centered on bank-securities collaboration is bearing fruit.

- Gungin Securities employs highly specialized staff and ensures a customer-centric business approach by aligning the skill levels of its advisors with the specific needs of its clients. Furthermore, when proposing financial instruments, Gungin Securities is committed to making recommendations that are optimal for each customer’s needs and financial situation, thereby ensuring a customer-centric approach. As a result, the company has established systems to prevent misconduct.

Q. Please provide an update on the status of your cybersecurity measures.

A. - Regarding cybersecurity, given the current situation involving Claude Mythos, we have received various requests from the Financial Services Agency regarding matters that need to be addressed, and we are preparing to implement the necessary measures. At the same time, we have been continuously implementing cybersecurity measures. Even before Mythos came into the spotlight, we introduced security support services and have been working to strengthen our security incident response capabilities in close collaboration with third-party consultants and system vendors. Therefore, we are committed to advancing our zero-trust initiatives and steadily strengthening the robustness of our entire system based on a multi-layered defense approach. In addition, we are prioritizing efforts to address the current challenge posed by Mythos and holding regular meetings between directors and the relevant departments.