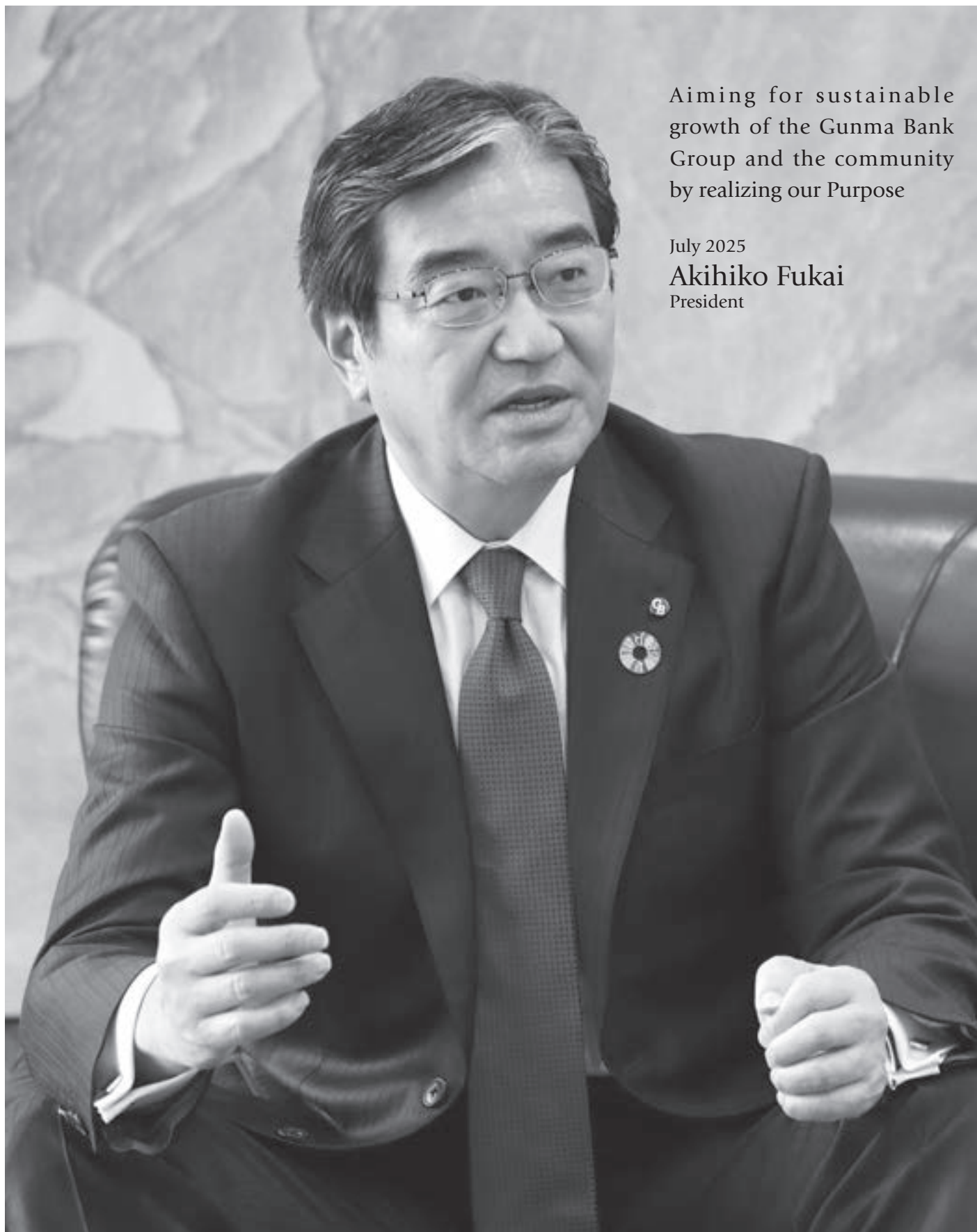


Message from the Management



Aiming for sustainable
growth of the Gunma Bank
Group and the community
by realizing our Purpose

July 2025

Akihiko Fukai
President

Our commitment to “Purpose-Driven Business” and Becoming a Top Regional Financial Group.

FY2024 results of the mid-term business plan “Innovation for ‘Purpose’”

■ Reached record high profits for the second consecutive year

For the fiscal year ended March 31, 2025, the final year of the previous mid-term business plan, consolidated net income increased 41% year-on-year to 43.9 billion yen, achieving the highest profit level ever for the second consecutive year.

The primary reason for this increase is the rise in net interest income. Loan balances have steadily increased for both corporations and individuals, mainly driven by retail loans. Additionally, there was significant growth in the loan balances of high RORA levels, such as large corporate loans in the Tokyo metropolitan area, cross-border loans to foreign companies, and structured finance. The rise in interest rates has also contributed significantly to our profits. Approximately half of our corporate loans are tied to floating interest rates linked to market fluctuations, making them highly sensitive to interest rate changes. Thus the shift towards higher interest rates has been advantageous.

Moreover, non-interest income, particularly from corporate consulting sales, have reached a record high for the sixth consecutive year.

In fact, at the beginning of formulating the previous mid-term business plan, we had concerns that we were setting targets that were too ambitious and challenging. However, we successfully converted our efforts into results, such as building asset allocation based on RORA management, enhancing the profitability of individual companies, and increasing non-interest income by promoting widespread awareness of a full-spec approach using our “connecting process” as a starting point.

■ Significant progress in transforming our profit structure and establishing a robust profit structure resilient to interest rate changes

Over the past six years, since the mid-term business plan preceding the previous one, we have implemented various initiatives under the theme of Innovation, leading to substantial reforms to our profit structure. In a continuously low-interest-rate environment, our primary focus has been on enhancing non-interest income, including revenues derived from corporate services and financial assets under custody. This approach has enabled us to establish a resilient profit framework that can adapt to interest rate fluctuations.

In terms of service channel innovation, we have improved digital platforms, such as the Gungin App and the Business Portal for corporate customers, providing more convenience to our customers. We have also accelerated digitalization by equipping all branches with tablets to boost operational productivity. Simultaneously, we have advanced initiatives to effectively integrate digital and direct sales strategies while diligently managing costs. These initiatives involve optimizing our branch network while maintaining a high quality of service for customers, and establishing Individual Consultation Plazas, which provide one-stop, high-value-added services on Saturdays, Sundays, and national holidays, not only within the Prefecture, but also outside it for the first time.

Through these efforts, we believe that we have made significant advancements in reforming our profit structure by enhancing non-interest income and improving expense efficiency.

Secondly, regarding human capital, we have implemented a job-based personnel system designed to visualize tasks and to ensure that qualified individuals are appointed to appropriate positions. We have laid a solid foundation for the new mid-term business plan, which includes strengthening external collaborations through multiple alliances and investing resources in new businesses and growth areas.

Looking back at the previous mid-term business plan, a significant highlight has been the execution of sales activities centered on our Purpose (hereinafter referred to as purpose-driven business), “By connecting the strands of resources, people, and generations, we weave better futures for our communities.” Since establishing this Purpose in 2021, we have successfully integrated purpose-driven business throughout the organization over the past three years. These business practices start by sharing goals that focus on understanding our customers’ thoughts and objectives. By engaging in business activities that emphasize the “connecting process,” I have consistently stressed the importance of delivering high-quality solutions to address the challenges faced by our customers and local communities. This approach involves leveraging the Bank’s management resources, such as services and information, beyond traditional financial functions, and I have been committed to executing it. As a result of these efforts, I have observed a significant improvement in our earning power over the past three years.

Changes in the external environment and recognition of challenges

■ Sudden increase in uncertainty about the future due to geopolitical risks and trade issues

The landscape surrounding banks is undergoing rapid transformation due to various factors, such as shrinking population, advancements in digital technology, increasing focus on sustainability, escalating labor shortage, and rising costs of raw materials.

In the financial sector, the Bank of Japan's decision to change its negative interest rate policy has facilitated a transition towards higher interest rates. This shift has intensified competition, particularly with the emergence of new financial services from various industries, significantly altering the business landscape.

Moreover, in April 2025, the United States announced the implementation of reciprocal tariffs on all countries and regions, sending shockwaves across the globe and further increasing uncertainties about the future.

In Gunma Prefecture, where secondary industries primarily in manufacturing play a significant role, the automobile sector is thriving, with supply chains concentrated around major manufacturers. Given the high proportion of finished vehicle exports to the United States, the potential for prolonged high tariffs can have further-reaching impacts on the entire supply chain than initially anticipated.

■ Understanding our customers and supporting the region with all available resources

How can we adapt to the recent shifts in the external environment as a financial institution? I believe that the experience of the 2008 financial crisis, often described as a "once-in-a-century crisis," offers valuable lessons. During that period, I served as General Manager at a branch. I was able to respond promptly to the needs and concerns of our customers even amidst the turmoil because I had always focused on communication and had a deep understanding of their business models.

From this experience, I have come to believe that a fundamental responsibility of bank employees is to thoroughly understand our customers' businesses, gather information from diverse perspectives, and feel confident in offering informed opinions on their business strategies.

Regional banks, committed to supporting local communities, have a critical mission to foster the sustainable growth of both our customers and the communities we serve. We will contribute to the development of the region by deepening our efforts in purpose-driven business and the connecting process we have developed over time, ensuring that we stay closely connected to our customers and continuously provide tailored services and solutions.

Gunma Bank's strategic focus for the next three years (new mid-term business plan "Growth with 'Purpose'")

■ Concentrating on deepening our commitment to purpose-driven business and building three ecosystems

Since April 2025, we have started implementing a new mid-term business plan titled "Growth with 'Purpose.'" This plan builds upon the precedents established over the past six years of innovation to develop management strategies and initiatives centered on our Purpose. The plan will accelerate sustainable growth within the region and the Gunma Bank Group, ensuring that the next three-year period becomes a pivotal time to achieve growth.

In the new mid-term business plan, "materiality" has been newly established as a priority issue for the realization of our Purpose. We will address these matters from a medium- to long-term perspective, confronting the challenges associated with achieving sustainable growth of our customers, the region, the Gunma Bank Group, and our executives and employees.

Furthermore, several strategic themes have been established under the basic policies, which aim to deepen our efforts in purpose-driven business developed to date and to create a virtuous cycle of social and economic values. Given the changes in the external environment, the needs and challenges faced by local customers have become increasingly diverse and complex. It is crucial to provide valuable services through proactive dialogue with customers, forming the basis of purpose-driven business, and to resolve the customers' issues while contributing to the Bank's financial performance. We believe that achieving both objectives must be prioritized for sustainable growth.

Additionally, in the new mid-term business plan, we strive to establish three sustainable regional economic zones (Ecosystems).

The first Ecosystem increases the sustainability of regional industries. Gunma Bank will collaborate with leading companies of the regional industry to offer support to companies facing business succession challenges, thereby promoting the sustainability of local industries. For instance, Gunma Regional Advanced Solution Partners, a subsidiary specializing in investment within the Gunma Bank Group, established the Gunma Green Growth Fund in March 2025 in partnership with a large local construction company to foster sustainable development in the regional construction sector. Through business succession initiatives facilitated by this fund, the aim is to support the restructuring and integration of the construction industry's value chain.

While enhancing the sustainability of existing industries is vital, it is equally important to foster the creation of new businesses and provide support to startups. Gunma Prefecture, as our base of operations, boasts a low risk of flood and earthquake disasters, and offers transportation advantages. We will leverage these regional characteristics to facilitate the establishment of new business opportunities and connect venture companies outside the region with local firms, thereby enhancing the sustainability of regional industries.

The second Ecosystem increases the productivity of regional business. Utilizing IT and digital transformation is crucial to enhance productivity. Therefore, we will assist local businesses in improving productivity levels and addressing human resource shortages by collaborating with external partners that possess specialized expertise in supporting digitalization, while also exploring the development of BPO business and other solutions for challenges that cannot be resolved through digital means.

The third Ecosystem enriches regional life. By utilizing data derived from deposit transactions and cashless services, we will provide valuable and timely information services tailored to the specific needs of each customer, ultimately expanding consumption within the region and benefiting both regional businesses and local residents.

We will build upon the foundations established during the previous mid-term business plan to further deepen our commitment to purpose-driven business and construct sustainable regional Ecosystems over the next three years.

■ Aiming for a new stage, simultaneously achieving four key goals. (Benefits for customers and the region, the Gunma Bank Group, employees, and shareholders and investors)

For the fiscal year ending March 2028, the final year of the new mid-term business plan, we have established a target for consolidated net income of 60.0 billion yen and ROE of 10%. While several megabanks and regional banks have also set ROE targets of 10% as their long-term goal, Gunma Bank has defined a clear three-year timeline leading up to the final year of the new mid-term business plan. To reach this new stage and fulfill the goals of our business plan by the final year, it is essential to deepen our commitment to purpose-driven business and build the three Ecosystems. These initiatives aim to foster consistent growth in our main businesses, particularly in profit on loans. We aspire to achieve an industry-leading ROE, driven by increased revenues from corporate services and financial assets under custody.

Furthermore, the new mid-term business plan aims to achieve four key objectives simultaneously for our stakeholders: our customers and the regions we serve, the Gunma Bank Group, our employees, and our shareholders and investors. By leveraging purpose-driven business as a foundation, we seek to address challenges and provide valuable services to our customers and the regions in which we operate. The results will be linked to the profit of Gunma Bank, and its increased profits will contribute to higher employee incomes. Moreover, when our customers are satisfied with our services, it boosts employee motivation. Companies that prioritize strong profitability and employee well-being are often highly regarded in the market, leading to favorable outcomes for shareholders and investors. To create this virtuous cycle, we must achieve these four goals simultaneously, which is a commitment we take seriously in fulfilling our Purpose.

Capital policy and shareholder returns

In February 2025, we revised our shareholder return policy from total shareholder return to dividend payout ratio and introduced a progressive dividend system. These changes were applied from the fiscal year ended March 31, 2025. Our objective is to deliver sustainable profit growth to shareholders and investors while consistently meeting their expectations.

Regarding our engagement with shareholders and investors, we have been participating more actively in Investor Relations and Shareholder Relations events. We have incorporated opinions and feedback obtained through our dialogue with institutional investors and analysts into our strategic policies.

For example, the “CEO Message” videos on our website explain our financial results and mid-term business plan in English. These videos were created following a recommendation from an analyst at a foreign-affiliated company to publish a brief five-minute video in an easily accessible location on our website. This initiative has substantially increased awareness of Gunma Bank among numerous overseas institutional investors, thereby enhancing our corporate value.

The financial results for the fiscal year ended March 31, 2025, show that various initiatives undertaken over the past six years have produced positive outcomes. We are confident that a solid foundation has been established for the successful execution of the new mid-term business plan. All members of Gunma Bank are committed to working together to further enhance corporate value through the execution of initiatives that take us to higher levels, aligned with our Purpose.

Basic agreement for the business integration with Daishi Hokuetsu Financial Group

■ Background regarding this integration

Gunma Bank and Daishi Hokuetsu Financial Group (hereinafter referred to as Daishi Hokuetsu FG) have reached a basic agreement for a business integration scheduled for April 2027.

The background for this integration is rooted in our participation in the TSUBASA Alliance in 2020. Following this involvement, we recognized the potential for a partnership, given our geographical proximity and the ability to leverage each bank’s regional characteristics. In December 2021, the Gunma Daishi Hokuetsu Alliance was formed, further strengthening our relationship.

Over the nearly three years since forming the alliance, Gunma Bank has significantly exceeded initial expectations by achieving the planned collaborative benefits ahead of schedule. This success can be attributed to the distinct nature of our business territories and strengths of the two companies, which complement each other and create synergistic effects.

Meanwhile, various environmental changes have been accelerating, including a shrinking population, advancements in digital transformation, and an increasing focus on sustainability. The financial sector has also been experiencing a shift back to higher interest rates. Consequently, the landscape surrounding financial institutions, along with the challenges faced by customers and local communities, has become increasingly diverse and complex.

In light of these changing conditions, we have concluded that reaching this basic agreement is essential for pursuing new growth strategies. As leading banking groups in Gunma and Niigata Prefectures, the integration aims to advance toward becoming a new financial group among the top regional banks in terms of both management scale and quality.

■ Aiming for maximization of growth synergies

The primary objective of the business integration is to maximize growth synergies. We represent leading banking groups based in Gunma and Niigata Prefectures, and by leveraging our respective strengths, we aim to expand our operating territory from Niigata to the Tokyo metropolitan area and international markets. By uniting our customer bases, we seek to enhance growth, thereby further improving profitability and corporate value. This integration represents a unique approach that has not been previously observed in regional bank reorganizations.

During a recent press conference, I expressed our aspiration by stating, “We aim to enhance the scale and quality of management to create a new financial group that ranks among the top regional banks.” As required by the Tokyo Stock Exchange, Gunma Bank has demonstrated outstanding performance as a regional bank by focusing on management with an awareness of capital cost and stock price. However, through engagement with international institutional investors, it has become evident that scale, not just quality, is a crucial determinant of corporate value.

The forthcoming business integration will allow both companies to collaborate and complement each other’s expertise and strengths, ultimately delivering higher-value-added products and services to a broader customer base across multiple regions, while addressing diverse needs and challenges. Furthermore, as our capital base grows, our capacity for risk-taking will increase, enabling us to explore dynamic inorganic strategies, including the establishment of new ventures in non-financial sectors and potential mergers and acquisitions.

This business integration will also enhance operational efficiencies. In accordance with the basic agreement, Gunma Bank announced its intention to transition to the TSUBASA core banking system, which is scheduled for implementation after January 2029. By integrating with Daishi Hokuetsu FG, which already utilizes this system, we will be able to standardize business subsystems and applications, facilitating the unification and streamlining of back-office operations that were previously unattainable through the alliance.

Looking ahead, we will work together to demonstrate our superiority in scale, network, and information connectivity, capitalizing on our individual strengths. To maximize synergies and ensure the sustainable development of our customers, the region, and both companies, we are committed to leading this integration to success.

Assuming the business integration process progresses smoothly, we will become one integrated company by FY2027, the final year of the new mid-term business plan. We will implement management with an awareness of capital cost, enhance corporate value, and embrace this transitional period with full readiness.

We sincerely appreciate your continued support and look forward to your ongoing cooperation.

July 2025

Akihiko Fukai
President

