

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## The Gunma Bank, Ltd. (security code: 8334)

### <Affirmation>

Long-term Issuer Rating:	AA
Outlook:	Stable
Bonds (Tier 2 with loss absorption clause):	AA-

### Rationale

- (1) The Gunma Bank, Ltd. (the "Bank") is a regional bank headquartered in Maebashi City, Gunma Prefecture with a fund volume of nearly 8 trillion yen. As the prefecture's leading bank with a far greater market share for deposits and loans than that of the second-largest and smaller rivals, the Bank maintains a solid business foundation in its locality. It is expanding its foothold also in Saitama Prefecture and Tokyo where the market is large. Ratings are supported by the evaluation of such business foundation and also by good-quality loan assets, sufficient capital and large valuation gains on securities. That said, basic earnings capacity excluding gains on cancellation of investment trusts, etc. has been declining gradually, which needs to be curbed.
- (2) Core net business income excluding gains on cancellation of investment trusts for the April-December period of the fiscal year ended March 2021 (FY2020) inched up by 0.2 billion yen over the year to 19.1 billion yen; a sharp drop in interest on loans in the overseas division and a decline in interest and dividends on securities partly because of the redemption of high-yield bonds were offset by reductions in foreign currency funding and other costs and growth in net fees and commissions. Yet, annualized ROA based on the core net business income for the first half of FY2020 was as low as below 0.3%. As the redemption of relatively high-yield bonds will continue into the near future, the Bank should work to curb the fall in basic earnings power by stepping up its own efforts to improve profitability for individual companies, boosting non-interest business profits and implementing other measures under the medium-term business plan and also by reducing costs and streamlining its operations through the TSUBASA Alliance it participates in.
- (3) Non-performing loans ratio disclosed under the Financial Reconstruction Act as of December 31, 2020 was 1.96%. Considering that partial direct write-offs have not been implemented, this is in fact low. Credit costs are expected to rise sharply in FY2020 as the ADR (alternative dispute resolution) procedure by a large local company could now make debts unrecoverable or cause delays in debt collection, and even without this factor they are still on the rise. Reclassification of debtors into lower categories due to the COVID-19 pandemic is also pushing up these costs, and continued close attention must be paid to future trends.
- (4) For securities investments, the Bank is investing more in government and local bonds with a duration of 10 years or longer in terms of domestic bonds. Consequently, the amount of interest rate risk is growing but is nevertheless kept low relative to capital. The Bank is also increasing foreign bonds, especially GNMA bonds. As regards investment trusts, it is working to enhance income gains by replacing the portfolio with domestic REITs. Even though the amount of price fluctuation risk for stocks, investment trusts, etc. is somewhat high relative to capital, JCR views it controllable in light of the Bank's prudent investment stance, large unrealized gains on securities and so forth.
- (5) Consolidated common equity Tier 1 capital ratio as of December 31, 2020 was decent at 11.65%, but, when adjusted for accumulated other comprehensive income, etc., this comes to around 10%, which is rather unfavorable. Even so, equity capital is sufficient against such risks as credit risk and interest rate risk. Going forward, JCR will closely watch whether the Bank can improve the adjusted equity ratio by improving earnings power by, for instance, expanding non-interest business profits, without utilizing assets.

Hajime Oyama, Atsushi Kato

## Rating

Issuer: The Gunma Bank, Ltd.

### <Affirmation>

Long-term Issuer Rating: AA Outlook: Stable

Issue	Amount (bn)	Issue Date	Due Date	Coupon	Rating
Callable Bonds no. 2 (Tier 2 with loss absorption clause)	JPY 10	Apr. 28, 2017	Apr. 28, 2027	(Note 1)	AA-
Callable Bonds no. 3 (Tier 2 with loss absorption clause)	JPY 10	Apr. 27, 2018	Apr. 27, 2028	(Note 2)	AA-
Callable Bonds no. 4 (Tier 2 with loss absorption clause)	JPY 10	Apr. 26, 2019	Apr. 26, 2029	(Note 3)	AA-
Callable Bonds no. 5 (Tier 2 with loss absorption clause) (green bonds)	JPY 10	Nov. 26, 2019	Nov. 26, 2029	(Note 4)	AA-

### Notes:

1. 0.50% until and including Apr. 28, 2022. It will switch to 5-year yen swap mid-rate + 0.43% after that date, rounded up to two decimal places.
2. 0.40% until and including Apr. 27, 2023. It will switch to 6M Euroyen LIBOR + 0.29% after that date.
3. 0.48% until and including Apr. 26, 2024. It will switch to 6M Euroyen LIBOR + 0.48% after that date.
4. 0.37% until and including Nov. 26, 2024. It will switch to 6M Euroyen LIBOR + 0.42% after that date.

Rating Assignment Date: April 26, 2021

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014), "Banks" (May 8, 2014) and "Rating Methodology for Financial Institutions' Capital and TLAC Instruments" (April 27, 2017) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

## Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	The Gunma Bank, Ltd.
Rating Publication Date:	April 30, 2021

1

The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

2

The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release. If the credit rating is a private rating, please see the report for private rating.

3

The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Business Bases

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

B) Financial Grounds and Asset Quality

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

C) Liquidity Positions

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as parent company, subsidiary, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Audited financial statements presented by the rating stakeholders
- B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the warranty made by the issuer, the publication by the issuer, some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.
- If the credit rating is an Indication, please see the report for Indication.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of public or private credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's parent company or subsidiary, guarantor or other provider of credit enhancement, or the government of the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

F) Rise and Fall in General Economy and Markets

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

G) Various Events

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

## 12

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

## 13

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Business Bases

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

B) Financial Grounds and Asset Quality

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset

quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's parent company or subsidiaries, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

## The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
The Gunma Bank, Ltd.	Issuer(Long-term)	September 28, 2001	AA-	
The Gunma Bank, Ltd.	Issuer(Long-term)	February 28, 2002	AA-	
The Gunma Bank, Ltd.	Issuer(Long-term)	March 25, 2003	AA-	
The Gunma Bank, Ltd.	Issuer(Long-term)	February 19, 2004	AA-	
The Gunma Bank, Ltd.	Issuer(Long-term)	March 10, 2005	AA-	
The Gunma Bank, Ltd.	Issuer(Long-term)	May 12, 2006	AA-	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	March 7, 2007	AA-	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	March 25, 2008	AA-	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	March 18, 2009	AA-	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 26, 2010	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 27, 2011	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 24, 2012	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	May 22, 2013	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 25, 2014	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 10, 2015	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 8, 2016	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	March 15, 2017	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	March 15, 2018	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 11, 2019	AA	Stable
The Gunma Bank, Ltd.	Issuer(Long-term)	April 16, 2020	AA	Stable
The Gunma Bank, Ltd.	Bonds no.2(Subordinated)	April 14, 2017	AA-	
The Gunma Bank, Ltd.	Bonds no.2(Subordinated)	March 15, 2018	AA-	
The Gunma Bank, Ltd.	Bonds no.2(Subordinated)	April 11, 2019	AA-	
The Gunma Bank, Ltd.	Bonds no.2(Subordinated)	April 16, 2020	AA-	
The Gunma Bank, Ltd.	Bonds no.3(Subordinated)	April 20, 2018	AA-	
The Gunma Bank, Ltd.	Bonds no.3(Subordinated)	April 11, 2019	AA-	
The Gunma Bank, Ltd.	Bonds no.3(Subordinated)	April 16, 2020	AA-	
The Gunma Bank, Ltd.	Bonds no.4(Subordinated)	April 19, 2019	AA-	
The Gunma Bank, Ltd.	Bonds no.4(Subordinated)	April 16, 2020	AA-	
The Gunma Bank, Ltd.	Bonds no.5(Subordinated)	November 19, 2019	AA-	
The Gunma Bank, Ltd.	Bonds no.5(Subordinated)	April 16, 2020	AA-	



## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Shozo Matsumura, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

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Shozo Matsumura

General Manager of Financial Institution Rating Department

**Japan Credit Rating Agency, Ltd.**

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan  
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026