Principal Questions and Answers

Small Meeting for the Three Months Ended 30 June 2024 (7 August 2024)

Q The Bank of Japan ended its negative interest rate policy, which caused interest rates to rise. What is the penetration rate of interest rate renewals? What is your outlook for future increases in the short-term prime rate?

A ・Most corporate loans have already been shifted from loans linked to the short-term prime rate to loans linked to market interest rates, so the increase in market interest rates has been reflected in lending rates. In that regard, we assess that the reflection in lending rates is proceeding more smoothly than expected initially. However, we had assumed that the increase in the policy rate in March would be reflected in new transactions and interest rate renewals with customers where we have transactions on a short-term prime rate basis, even if we had not reviewed the short-term prime rate. Due to insufficient instructions to the sales division, the rise in interest rates has yet to be fully reflected in lending rates for some customers. We will raise our short-term prime rate but be sure to follow up on this area for improvement. The deposit interest rate will be raised by eight basis points (bps), bringing the pass-through rate to 53%. The increase in deposit interest, paid in advance, will be covered by interest income from the current steady loan increase. In addition, regarding fixed-rate loans, although we are not actively implementing new corporate loans due to the rising interest rate, we will thoroughly look to raise the interest rate by 25 bps when refinancing. For apartment loans, we have seamlessly negotiated a steady increase in the interest rate on each revision date.

Q What are your prospects for future business performance? Will it be revised upwards in light of the interest rate hike in July? Please let us know if you have any estimates for the impact of the interest rate hike.

A ・Since the first quarter went well, we forecast that the outlook for future performance may be better than expected. In the initial plan, which assumed one interest rate hike, we had forecast an annual consolidated profit of 35 billion yen. However, after this interest rate hike, we estimate that even if we only go with the flow, the profit will increase by 500 million yen. We intend to formulate a profit plan for the year's second half that will allow the bank to increase profits by around 2 billion yen from the 500 million yen increase through additional earnings from the current steady lending volume.

Q Please explain why interest rate increases on new loans vary by region.

A ・Regarding interest rates for new loans, Tochigi Prefecture saw a notable increase from 0.76% to 1.05%, but this was due to loans being made to large clients with low interest rates in the previous year. Another factor was that many loans were made to borrowers with relatively high interest rates this fiscal year (credit ratings).

Q What is your view on the sustainability of the growth rate of loans to small- and medium-sized enterprises (SMEs)?

A ・Regarding the sustainability of the loan growth rate, the current growth rate can be maintained, given the stock of loan projects. Our plan assumes that the growth rate of loans to SMEs will be about 3%, and this level can be maintained at least for the current fiscal year.

Q I understand that long-term interest rates on new loans to SMEs have been rising steadily. Could you tell us about the bank's challenges in negotiating higher interest rates?

A ・Following the policy interest rate hike, it was necessary to not only maintain the spread but also additionally raise the nominal interest rate (+10 bp in the previous case). However, the issue was that this approach was not sufficiently disseminated to the sales division.

Q Please tell us what actions the bank has taken in light of the current sudden drop in stock prices.

A ・Since our bank had lowered its stock position, it proceeded to buy stocks with invest-time diversification. Since long-term interest rates have also fallen slightly, the bank has bought bond-bear funds. Since the bank has not initially taken any positions in the foreign exchange market, it has not carried out any special operations.

・On the other hand, the interest rate was raised for the second time following the hike in March. We are concerned that sudden changes in the market will lead to widespread anxiety about future economic aspects and corporate performance. Therefore, we must proceed with interest rate negotiations while considering customers' mindsets.

Q With online banks currently taking the lead in raising mortgage rates, what challenges will regional banks face when handling mortgage loans in the future?

A ・Mortgage loans are the only area where their figure is below the mid-term target. There are several possible reasons for this. One reason is the decline in the number of housing starts in Gunma Prefecture due to material supply shortages. In addition, interest rate competition with online banks is also impacting Saitama and Tokyo. That said, our bank does not intend to relax its plan for mortgages with high RORAs and is devising its interest rate and product strategies for each region. Specifically, in Gunma Prefecture, our primary market, we focus on measures for housebuilders and other contractors without lowering interest rates. In southern Saitama, which is not our primary market, we have been operating with slightly lower interest rates since July. Although we are still considering new interest rates after the short-term prime rate is raised, we would like to extend mortgage loans with the same level of focus as before.

Q Will foreign securities be invested primarily in fixed-income bonds?

A ・Of the 653 billion yen book value of foreign securities, fixed-income bonds consist of about 380 billion yen of Ginnie Mae bonds, and not all foreign securities are fixed-income bonds.

Q Please tell us the impact of the U.S. interest rate cuts on securities management.

A ・Among foreign securities, fixed-income bonds are expected to generate positive earnings if the interest rates are lowered. We accumulated approximately 100 billion yen in fixed-income bonds in the first quarter.

Q The balance of yen bonds has been falling from the last fiscal year to this fiscal year. To what extent do you think the duration of yen bonds should fall?

A ・As for the duration of yen bonds, my personal opinion is to bring it to about four years, which is on par with the top regional banks. However, since our bank is considering settling loss cuts within the guidance range, it will be challenging to achieve the duration immediately. In fact, the impact of rising interest rates (for example, long-term interest rates of 2%) on the capital adequacy ratio is minimal and has already been non-problematic from a management perspective.

Q Does client performance affect interest rate increase negotiations? For example, is it difficult to raise interest rates for leading customers or clients with poor performance?

A ・In fact, there are cases in which our bank has not been able to raise interest rates for leading customers due to competition from other banks, but basically, we have been able to respond appropriately to interest rate increases. In addition, the bank also provides services other than interest rates (various financial solution proposals) to major local customers to avoid interest rate competition. We believe that raising interest rates to the current level would not be impossible, even for clients in challenging business conditions. We have estimated the impact of a 35 bps increase on borrowers with loan balances of 100 million yen or more in the lower tier of our primary usual borrowers. Nine of the 83 companies we surveyed might not withstand a 35 bps increase due to their current performance and asset positions. The nine out of 83-company ratio means rising interest rates would not significantly impact our corporate performance.

Q Please tell us about the bank's efforts to acquire individual deposits and its current challenges. Also, the ratio of individual fixed-term deposits is expected to increase. Can you provide a simulation about how the ratio will increase?

A ・Regarding the growth rate of individual deposits, our bank is slightly ahead of neighboring regional banks, and there is no cause for concern at this point. However, young people tend to choose online banks, so we are strengthening measures such as enhancing applications, but we recognize that this is an issue going forward.

・We have been monitoring customer trends since the negative interest rate was lifted in March. There have been no visible shifts to fixed-term deposits or outflows to online banks with relatively higher interest rates among customers, including large clients. However, if the policy interest rate rises to at least 1%, there may be shifts to fixed-time deposits or competition with other banks, so we will continue to monitor customer trends and take appropriate measures.

Q You mention that interest rate hikes have been largely passed on to lending rates without any problems. At what level will it become difficult to pass on the increase in interest rates?

A ・Problems lie not only in the level of interest rate hikes but also in their number and interval. If there is another rate hike within this year, following the increases in March and July, some difficulties may arise. If it occurs about six months from now, it will be fine overall, although it depends on the size of the hike.