

Principal Questions and Answers
Small Meeting for the Third Quarter of the Fiscal Year Ending March 2025
(February 10, 2025)

[Deposits and loans]

- Q. Please tell us what you perceive as risks when acquiring deposits.
- A. There is a risk of interest rate competition with deposits. In addition to interest rate competition primarily led by online banks, megabanks have recently started moving to attract corporate deposits of a specific size from other banks. Our bank will acquire deposits from customers with whom it has established a good relationship by offering a small premium interest rate rather than bidding on interest rates. However, if interest rate competition intensifies, our bank might not be able to acquire deposits as expected, which is considered a risk.
- Q. Are there any new initiatives to attract deposits from individuals?
- A. Our bank will strengthen its campaigns to attract new salary and pension recipients. Currently, around 70% of people who receive their wages through our bank accounts also use them to receive their pensions, and we are thinking of campaigns that will help to increase this percentage. For young people, data shows that the younger the age at which people open an account, such as at age 0, the more likely they are to continue using it. Thus, we will offer incentives to encourage people to open accounts at our bank as early as possible. After that, we will aim to capture stable deposits by performing initiatives that align with life events, such as encouraging high school students to obtain debit cards and later switch to credit cards, or by implementing campaigns that offer preferential ATM fees in convenience stores.
- Q. Regarding acquiring corporate deposits, has your bank completed its efforts to acquire deposits based on its loan share?
- A. Regarding our efforts to acquire deposits based on our share of loans, we have already made progress for our major clients. However, we are still unsatisfied with our results and will continue working on this. The idea of our deposit share being commensurate with our loan share does not mean that if our loan share is 50%, then our deposit share should also be 50%. We are negotiating a deposit share of over 50% for major clients because our bank holds their settlement accounts. Deposits have been increasing in line with corporate lending share, accumulating an average of approximately 6 billion yen per quarter, with corporate deposits showing a stable growth rate.

- Q. What is the weighted average pass-through of deposit interest rates for ordinary deposits and time deposits?
- A. The policy interest rate has been raised three times so far, but there has not been much of a shift towards fixed-term deposits in the composition of our deposits, and liquid deposits are still increasing. The pass-through rate at the previous increase in the policy interest rate was around 40% for ordinary deposits and 58% for time deposits, so the weighted average is around 45%. This rate is higher than we expected before the interest rate increases. However, our interest margin has been steadily expanding due to multiple interest rate increases, creating an environment where we can steadily expand our interest income.
- Q. About six months have passed since the interest rate hike in July last year. Please tell us if there have been any effects that differ from your initial expectations.
- A. Things are going as initially expected, including the increase in lending interest rates. Looking at our clients' situations, the impact of the rise in lending interest rates has not been particularly significant. However, many customers have not made progress in passing on soaring raw materials prices and rising labor costs due to labor shortages to their selling prices. In particular, the medical industry, which cannot control medical fees at its own will, is a sector that is greatly affected by this situation. Although this is not a trend that is unique to our bank, the number of clients we need to pay close attention to is increasing. As a result, our bank may need to recognize individual provisions for credit losses for some borrowers from the fourth quarter onwards. However, we do not expect the credit costs to result in a significant increase in provisions. Regarding future interest rate hikes, the policy interest rate has been raised three times in one year, and the burdens on customers may increase, so we must pay close attention to our customers.

[Credit costs]

- Q. Will inflation and labor shortages affect credit costs?
- A. We recognize that inflation and labor shortages will affect the provision. We are closely monitoring President Trump's policies because inflation is mainly due to overseas factors. Our bank has many clients in the automobile industry, primarily Subaru, on which the Trump administration will have both positive and negative impacts. For one thing, Subaru is not rushing towards EVs, so a slight slowdown in the shift to EVs will be positive for Subaru. On the other hand, there is also concern that the recovery of capital investment for EVs will be delayed due to the slowdown towards EVs. In addition, Subaru manufactures more vehicles in Japan than in the United States, so tariffs will also affect Subaru.

- Labor shortages are also becoming serious in Gunma Prefecture. Our consulting subsidiary provides personnel placement services and closes more deals than it has targeted. There are indeed an increasing number of cases where companies cannot cover rising labor costs due to labor shortages, in addition to increasing energy and material prices. Thus, we will continue to monitor credit costs closely.
- Q. Regarding credit costs, you revised your estimate from the initial 3 billion yen to 1.8 billion yen this fiscal year. What level do you expect for the next fiscal year?
- A. We expect credit costs to be 1.8 billion yen this fiscal year. However, it may increase and reach the initially estimated 3 billion yen. We are considering keeping it at a similar level for the next fiscal year and beyond.

[Securities]

- Q. Regarding unrealized gains and losses on securities, regional banks are increasingly dependent on yen-denominated bonds, and there is growing concern that unrealized losses on yen-denominated bonds will occur again next fiscal year. Given the possibility that unrealized gains on shares will decrease in the future due to the sale of cross-shareholdings, what kind of portfolio will your bank be building?
- A. As for securities, we have a reasonable purchasing capacity because we have reduced a significant amount of Japanese government bonds to date. However, as loans are growing in the overall portfolio, we are not considering purchasing bonds immediately. In addition, we still have some low-yield domestic bonds. Their balance is decreasing and is not at a level that would affect our business. However, considering the level of future deposit interest rates, from the standpoint of the director in charge, I would like to dispose of them a little more. Our bank assumes a stop-loss threshold of 0.3%.

- Q. Will you continue cutting losses on foreign and Japanese bonds in the third quarter? From an analyst's perspective, there is a negative feeling about how long you will continue to cut losses. Your bank still seems to have a reasonable number of government bonds with yields of 0.3% or less, but how will you respond to these bonds as interest rates continue to rise? You could consider raising the yield level by purchasing new bonds.
- A. In the third quarter, our bank cut no losses on foreign bonds but sold some low-yield government bonds with yields below 0.3% at a loss.
- Our bank is taking a proactive approach to reduce risk in anticipation of rising interest rates. However, we understand that continuing to cut losses could be taken negatively. As I mentioned earlier, the impact of future interest rate hikes on the capital adequacy ratio is minimal. We have a reasonable amount of non-interest-bearing current account balance. Thus, there is also the view that we do not need to worry too much about continuing to hold low-yielding government bonds and do not need to cut any more losses. On the other hand, as the director in charge, I would like to proceed with disposals as much as possible as long as they are within the scope of the guidance. In any case, we would like to consider this issue when formulating the securities investment plan for the next mid-term management plan.
- Q. The duration of the bonds that your bank holds seems to be extended. Is there a target level?
- A. We would like to shorten their durations to the same level as other banks, but we have not set a specific target. We also hold bear funds, so we would like to respond flexibly, such as selling them all at once when interest rates rise.

[General management]

- Q. In your earnings forecasts for the next fiscal year and mid-term management plan, are you assuming a policy interest rate of 0.5%, or are you basing your estimates on the possibility of one or two interest rate hikes?
- A. We are formulating the plan that will be the basis for our earnings forecast for the next fiscal year, assuming that the policy interest rate will rise to 0.75% in October of this year. We are calculating the medium-term management plan based on three neutral interest rates of 0.5%, 0.75%, and 1.00%. However, we are considering keeping the primary neutral interest rate at 0.75%, which is slightly conservative.

- Q. What challenges have you identified in corporate fee income regarding non-interest business profit?
- A. Our corporate services are still weak compared to regional banks of the same size and higher-ranking banks. In particular, we recognize that the slight delay in developing and closing business succession deals, which produces growing demand, is an issue. This is because such deals are steadily increasing, but there is a shortage of personnel at headquarters in charge of them. Although there are specialists at our bank, they are struggling to handle all of the deals. In the next mid-term management plan, we will have to increase the number of personnel in this area quickly. In addition, we would like to assign the headquarters' experienced personnel to sales branches as managers so that sales branches can handle business succession deals appropriately. However, the reality is that our bank has not yet established this cycle, and we are considering building a system that will allow sales branches to handle business succession deals to some extent.
- Q. You have announced an expansion of your shareholder benefits program. What do you think about the necessity of the benefits program? To what extent do you want to increase the number of individual investors?
- A. Our bank considers individual investors as an essential base for absorbing the unwinding of cross-shareholdings and believes that the shareholder benefits program effectively strengthens the individual investor base. We also hold company information sessions for sales representatives of securities companies, and many of them have requested that we expand our shareholder benefits program. Our share price has risen, so we have developed the program this time to lower the criteria for shareholder benefits and retain long-term shareholders.
- Although there is no clear target for the number of individual investors that we want to increase, we strongly wish to have local people, in particular, to hold our bank's shares as recipients of cross-shareholdings. The information sessions for sales representatives of securities companies and IR for individual investors are intended to increase the number of such individual investors.