## Main Questions and Answers

## at the "Fourth Medium-Term Group Business Plan" Briefing

### Held on April 14, 2025

**Q: How do you currently view the impact of macroeconomic changes, such as rising domestic interest rates or U.S. reciprocal tariffs, on achieving the management targets set out in the 4th Medium-Term Group Business Plan (4th MTP)? If negative changes occur, are you confident in countering them?**

**A:** We expect the macroeconomic environment over the 4th MTP period to generally follow a growth trajectory, despite potential waves of impact such as U.S. reciprocal tariffs. Our assumed policy rate scenario for the final year of the 4th MTP, FY2027, is 0.75% for Japan and 3.5% for the U.S. The main risks we see are that Japan's policy rate may not rise from the current 0.50%, and the U.S. policy rate may not decline. The potential impact under this scenario could reduce profit by approximately ¥10 billion in FY2027.

Another risk is credit costs, which we expect to be around ¥10 billion annually during the 4th MTP period. Considering COVID-19-related precautionary provisions and current credit cost levels, we view this as a buffer. While accurately quantifying the impact of U.S. reciprocal tariffs is difficult at this time, and uncertainty about the economic outlook has increased, we aim to stay close to our business clients based on the social issues solution strategy, which is one of the core strategies of the 4th MTP. Over the next three years, we intend to seriously consider how to respond to negative environmental changes while monitoring their impact on regional economies.

**Q: If domestic interest rates do not rise as assumed in the 4th MTP scenario, would you consider allowing a downward deviation in the FY2027 net income target of ¥90 billion?**

**A:** Even if interest rate assumptions change, our responsibility as management is to devise and implement strategies to achieve the FY2027 net income target of ¥90 billion. We have no intention of giving up. While gains from sales of strategic shareholdings are expected to contribute to income to some extent during the 4th MTP, we aim to achieve this target mainly by strengthening core earnings, such as loans and fees income from customers.

**Q: In the composition of consolidated ordinary profit, isn't the growth of fees income from customers relatively small compared to interest income?**

**A:** Fees income from customers is a flow-based business, and therefore significant increases are difficult to expect. While the increase in derivative contracts driven by recent foreign exchange fluctuations has temporarily boosted fees income from customers, this is not factored into the 4th MTP numerical plan. Nevertheless, we remain committed to strengthening consulting sales and expanding solutions, and we expect growth in fees income from customers to remain at the same level as the 3rd MTP during the 4th MTP period.

**Q: Do you believe achieving net income exceeding ¥100 billion in the medium to long term is possible?**

**A:** We are certainly mindful of the ¥100 billion figure. However, our priority in the 4th MTP is regional economic revitalization and the social impact we can deliver. We do not intend to pursue profit in isolation; our growth will be driven by supporting regional economic development.

**Q: What is the basis for the FY2027 target increase of ¥600 billion in yen-denominated deposits (average balance)?**

**A:** Under the 4th MTP, we anticipate individual deposits increasing by ¥400 billion at an annual growth rate of 1.1%, and corporate deposits by ¥200 billion at 1.4%. Since the COVID-19 pandemic, deposit growth has slowed, and our plan assumes this trend will continue. We will focus on building a stable deposit base by acquiring salary accounts and transaction accounts to accumulate sticky deposits. Regarding inorganic strategies and M&A, we expect deposit-centered consolidation to intensify in the future. The population decline in our business area is slower than the national average, which mitigates deposit reduction. Nevertheless, we will closely monitor regional deposit trends given accelerated population decline in other areas.

**Q: Under the 4th MTP, you plan to maintain total headcount while shifting 150 personnel to priority areas. Which areas specifically, and how many personnel for each?**

**A:** Personnel will be shifted to consulting sales, DX, structured finance, and new business areas. Unlike the 3rd MTP, where staff reductions occurred naturally, the 4th MTP aims to maintain headcount at current levels, strengthen mid-career recruitment, and actively hire specialized professionals from external sources.

**Q: You plan to continue reducing strategic shareholdings during the 4th MTP. Are gains from share sales included in the numerical plan?**

**A:** We have publicly set a target to reduce strategic shareholdings by ¥30 billion at market value from March 2023 to March 2028. During the 4th MTP, we will continue efforts to resolve cross-shareholdings, and gains from strategic share sales are partially incorporated into the numerical plan.

**Q: In the corporate segment, which industries are expected to drive loan growth?**

**A:** Even within the same industry, there is a clear division between growing and non-growing companies. Rather than focusing on industry categories, we prioritize understanding each individual company's challenges and supporting their growth. The 4th MTP targets approximately 6,000 businesses spread across various industries. A key point is increasing the number of core regional companies. We also recognize that some companies may decline due to labor shortages, making it important to consolidate regional management resources toward core companies. Supporting growth through capital investment and M&A will be a major driver of loan expansion.

**Q: In the business portfolio strategy, you plan to increase core gross profit by ¥53 billion, of which ¥25 billion comes from strategic effects. Which business segments will lead this?**

**A:** The main drivers are corporate (local) and retail segments. In structured finance, we will also focus on providing risk capital for high-quality projects, including mezzanine finance.

**Q: In the business portfolio strategy, you show targets for core gross profit by segment for FY2027. Where is the deposit spread (the interest income obtained by investing funds raised through deposits in the short-term money market) recorded?**

**A:** Core gross profit by segment is calculated based on the earnings from loans and securities using "balance × (nominal yield – average deposit rate)." Deposits are treated as a cost; therefore, the deposit spread is not included.

**Q: The 4th MTP plans to increase risk assets to ¥810 billion by FY2027. Does this include increases from inorganic investments?**

**A:** Risk assets under the 4th MTP will mainly be increased in six areas: corporate (local), individual, public sector, structured finance, corporate (urban), and securities. Inorganic investments are treated separately.

**Q: How do you view the risk of increased credit costs from strengthening structured finance?**

**A:** Mezzanine finance mainly targets real estate non-recourse loans. We conduct sufficient stress tests using indicators such as LTV (the ratio of borrowings to the asset value, such as real estate) to avoid excessive risk-taking. Through our extensive experience in handling a wide range of transactions, we have accumulated both the expertise and a clear understanding of where risks reside. Leveraging this enhanced capability for risk assessment, we will continue to manage our operations in a manner that prevents an increase in credit costs.

**Q: Regarding securities investments, you plan to build risk assets in growth areas while controlling risk. What specific assets are considered risk assets?**

**A:** We consider fund investments that include equities to be the main type of risk assets.

**Q: Considering the fluctuations in the equity market and the U.S. Treasury market since April, what is the current unrealized gain/loss position of the securities portfolio? In addition, what do you consider to be the worst-case scenario regarding securities investment?**

**A:** We consider stagflation as the worst-case scenario, but we have sufficient resilience to withstand sharp rate hikes and stock price declines. The duration of our yen-denominated bonds has been shortened to around three years, allowing for flexible management. In addition, we have already significantly reduced our U.S. dollar bonds, and the proportion of floating-rate bonds has been increased, resulting in a portfolio that is less sensitive to U.S. interest rate fluctuations. From the perspective of unrealized gains and losses, unrealized losses on yen-denominated bonds due to domestic long-term interest rate rises have a greater impact. However, simulations confirm that even if yen-denominated bonds are sold in scenarios of widening unrealized losses, the capital adequacy ratio can be maintained at 8%.

**Q: To achieve both the ROE target and net income target, it seems necessary to conduct active capital management or exceed ¥90 billion in net income. Is the April 2025 share buyback part of this capital management approach?**

**A:** With a target capital adequacy ratio in the mid-11% range for FY2027, excess capital above the level required for regional and sustainable growth will be managed through inorganic investment, risk-taking to increase top-line, or additional shareholder returns. The April 2025 share buyback aligns with this capital management approach. The recent share buyback included not only regular open market purchases but also acquisitions from insurance companies through off-market transactions. This approach was implemented in part to alleviate potential market concerns regarding selling pressure from insurance companies.

**Q: Regarding raising the dividend payout ratio to 40% or higher by FY2027, what is the timeline? How should we interpret "flexible" share buybacks?**

**A:** No specific timing for dividend increases has been decided; a gradual increase is the Board's approach. The FY2025 dividend forecast will be announced with the May financial results announcement. Share buybacks will be implemented flexibly in terms of timing and amount based on capital management considerations.

**Q: What is the rationale for setting the target the capital adequacy ratio at the mid-11% range by FY2027?**

**A:** In the event of a Lehman Shock-scale crisis, the impact on capital adequacy ratio is estimated at around -3%. Even in such a scenario, it is assumed that capital adequacy ratio will be maintained above 8%, and accordingly, the target is set in the mid-11% range.