Main Questions and Answers

at the FY2025 Q1 Financial Results Briefing (Small Meeting)

Held on August 25, 2025

Q.Recent business performance is strong, and the growth rate of core business net profit is higher than that of other banks. In this context, what are the potential risk factors for this fiscal year's performance?

A.We recognize deposits, credit costs, and securities investment as the major risk factors for this fiscal year and the next.Regarding deposits, we will not engage in excessive interest-rate competition but will continue steady efforts to secure deposits. For assets under custody, revenues, particularly from investment trusts, have been stagnant, and rebuilding customers' portfolio business that combines deposits and investment products remains a key challenge. Based on recent credit cost trends, rating downgrades among companies with March fiscal year-ends have been concentrated mainly in the construction and healthcare sectors. We will continue to provide individualized support aimed at improving the management of these companies. Although we had expected the manufacturing sector to fall into the red due to persistently high labor costs, the actual impact has been less severe, and no significant downgrades have occurred. While price pass-through has progressed to a reasonable degree, the impact of U.S. reciprocal tariffs has not yet materialized, so we will continue to monitor developments. The greatest risk factor is a market correction triggered by changes in policy interest rates. However, because we have already shifted our securities portfolio toward greater interest-rate-risk resilience, we believe there is no immediate cause for concern.

Q.If the bank continues to hold short-maturity assets to match settlement deposits through to maturity, the need for large-scale loss-cutting will remain low and overall earnings should progress favorably. In this context, is there a possibility of revising up the full-year forecast?

A.Loan growth above our original plan indicates solid upside potential, increasing the likelihood of achieving the current ¥70 billion net profit target for this fiscal year. We are currently reviewing our full-year outlook and will provide an update once the outlook becomes clear.

Q.While banks are currently benefiting from rising interest rates, the rate-hike cycle is expected to plateau over the medium to long term, and topline revenues may eventually decline. In this environment, what is necessary to achieve sustainable bank management?

A.We consider the two main things are investment in human capital and investment in DX. With respect to human capital, it is not a matter of increasing investment indiscriminately. The key is to ensure that employees' skill enhancement is visible and that it translates into tangible sales performance, and then to allocate investment toward areas where returns can reasonably be expected. The most challenging aspect of human capital investment is ensuring the sustainability of wage increases. Over the past three years we have implemented substantial improvements in compensation, including base salary increases, but to maintain and enhance current levels, organizational streamlining will be essential. To achieve this, we must improve marketing precision through DX investments, and strengthen operational efficiency and productivity. We will continue to build a leaner structure driven by productivity gains from DX. From a cost perspective, as we have advanced branch consolidation and downsizing, we also intend to convert the remaining small branches—currently cost centers—into profit centers.

Q.If inflation accelerates and the operating environment shifts significantly—through yen appreciation, higher interest rates, or weaker business sentiment—will regional SMEs continue to have funding needs?

A.Our two group banks have conducted interviews with client companies regarding their capital investment plans for the next three years, and the latest results indicate approximately ¥1.5 trillion in planned investments. While some projects are being postponed due to the impact of U.S. reciprocal tariffs, we expect steady funding demand to continue into next fiscal year. In addition, due to rising prices, resource costs, and labor costs, working capital demand among SMEs is likely to remain solid overall.

Q.Although individual deposits appear to be declining at the macro level, what do you view as an appropriate growth rate going forward?

A.Inflows of deposits have not declined; rather, outflows—such as shifts to credit card payments and assets under custody—have increased. The apparent decline in individual deposits at the macro level was largely a COVID-19-related illusion, and we believe that deposits in Japan as a whole may now be entering a genuine phase of contraction. Owing to inheritance and demographic trends, deposits are decreasing particularly in regions distant from metropolitan centers, and we aim to minimize this decline. From an ALM perspective, this is also a phase in which we must focus on balance-sheet stability, while continuing discussions on asset liquidity and funding diversification.

Q.Your policy is to secure a deposit share commensurate with your loan share in corporate deposits. However, as other banks pursue the same strategy, isn't there a high risk of a zero-sum game? What is your strategy for acquiring corporate deposits?

A.Although all banks seek to grow their corporate deposit share, the key is to become indispensable to clients in settlement-related transactions—an area in which we enjoy a significant regional advantage. With respect to public-sector deposits, we will not engage in interest-rate competition, but we will secure them as deposits that should be maintained.

Q. At the FY2024 financial results briefing, you stated that surplus capital during the Fourth Medium-term Group Business Plan would be around ¥50–60 billion. Given stronger earnings capacity, surplus capital may increase further. How do you intend to utilize capital, including shareholder returns?

A. We see three main avenues for capital deployment:

1. Increasing risk assets through investment and lending in growth sectors and regions
2. Exploring inorganic investment opportunities
3. Enhancing shareholder returns, including share buybacks

We will consider specific measures in conjunction with our review of the annual outlook.

Q. What is your view on the impact of the business integration between Gunma Bank and Daishi Hokuetsu Bank?

A. At Ashikaga Bank, we have a collaborative relationship with Gunma Bank in the Ryomo region, where there are many clients for whom the combined share of the two banks exceeds 70%. Rather than competing, cooperation is more beneficial, and we see no need to alter our current relationship. Even within the same region, inefficiencies in the competitive environment, such as intensified deposit competition, can lead to further consolidation and alliances. Our group intends to maintain an open-minded and flexible approach.