

Main Questions and Answers

at the FY2026 1st Quarter Financial Results Briefing (Small Meeting)

Held on: August 25, 2026

Q. Looking ahead in bank management, what do you see as the key risks related to macro factors and company-specific factors?

A. In terms of macro factors, we see two key risks: credit risk and interest rate risk.

Regarding credit risk, we are concerned about factors such as the prolonged situation in the Middle East, and if conditions were to deteriorate, we believe this could have a certain impact on credit costs. At present, bankruptcies are occurring mainly among small businesses, and we do not see this as having a significant impact on the overall economy at this stage. However, as the rise in the corporate goods price index associated with yen depreciation is putting pressure on corporate earnings, we believe close monitoring is necessary.

With respect to interest rate risk, we remain vigilant regarding a potential rise in long-term interest rates driven by inflation and market concerns over fiscal conditions. We frequently conduct stress tests, particularly on securities, and simulate the extent to which our capital adequacy ratio could be affected. If market conditions were to develop in a stagflationary manner, there is a risk that the inverse correlation function within the portfolio may not work, resulting in unexpected losses. We therefore manage operations while taking such risks into full consideration.

In addition, we are closely monitoring external factors such as cybersecurity, money laundering, and the growing incidence of financial crime, all of which we regard as material risks that could affect the Group's sustainability.

As for company-specific factors, we recognize as an issue how to control expenses and investments when the current phase of rising interest rates eventually runs its course and top-line growth begins to slow. On this point, as major initiatives such as system modernization and the rebuilding of our head office are scheduled over the coming years, we believe it is important to advance disciplined management and careful planning with a view to the medium to long term.

Q. Views on the terminal rate for domestic policy rates appear to be changing recently. Do you think there is a possibility that the terminal rate could exceed market expectations and rise to 3% to 4%? Also, before reaching such a level, what kind of negative effects do you think could emerge for the Japanese

economy? In addition, are there any industries in the local economy that you believe would be particularly vulnerable?

A. If we assume Japan's real GDP growth rate to be around 1% and inflation at around 2%, nominal GDP growth would be around 3%. A situation in which the policy rate is raised beyond that level would be abnormal, and ideally, we believe it should be kept below the nominal GDP growth rate.

If the policy rate were to rise to 3%, it would likely be accompanied by rapid inflation, and this could lead to pressure on the livelihoods of non-regular workers, greater burdens being passed on to subcontractors, and the surfacing of social security issues. We understand that the Bank of Japan's indication of a moderate path of growth up to around 2% also reflects consideration for socially vulnerable groups, including pensioners. For that reason, we believe tighter monetary policy beyond that level would have a significant negative impact on the Japanese economy as a whole.

As for sectors that would be more sensitive to rising interest rates, we believe these would be industries and companies that have operated with high leverage under the prolonged low-interest-rate environment, such as real estate developers. On the other hand, local SMEs are generally not operating with particularly high leverage. Therefore, if they are able to pass on higher costs, we believe they could withstand even a policy rate of around 3%. We will continue to closely monitor developments among companies that are more susceptible to the effects of rising interest rates.

Q. Could you share your sense of progress regarding the deepening of synergies between the two subsidiary banks? Also, we would appreciate it if you could consider disclosing numerical targets going forward.

A. In terms of specific initiatives, in the corporate business we have re-strengthened collaboration between the two banks in M&A and business succession from this April. In the retail business, we are preparing for the joint rollout of the testamentary trust business, with the organizational framework to be put in place by the end of September and full-scale operations scheduled to begin in October.

In implementing these initiatives, we would like to align the two banks from the very foundation of how they think and operate, and we are therefore making preparations such as joint study sessions and trainee exchanges between the two banks.

From the standpoint of improving management efficiency, we are also promoting modernization of the system infrastructure, including the renewal of our OA platform and joint investments aimed at enhancing access control and strengthening monitoring frameworks based on the zero-trust concept as part of cybersecurity measures. Rather

than simply aligning one bank with the other as we have done in the past, we aim to create a high level of synergy by building a new common platform for the Group. Going forward, we also intend to move beyond the perspective of each individual subsidiary bank or subsidiary company and review our governance framework from the standpoint of how Mebuki FG as a whole can enhance profitability and better meet customer needs.

As for specific numerical targets for synergy, we will continue to study the matter so that we can present them quantitatively in the next medium-term management plan, which will begin in FY2028.

Q. Loans have been growing steadily recently. What is your outlook for future funding demand? Also, in light of that outlook, how do you intend to respond from the perspectives of ROE, ROA, and balance sheet control?

A. Demand for equipment investment remains firm, including maintenance and replacement investment, AI-related investment, and rationalization and labor-saving investment, and loan performance is tracking above our initial plan for the fiscal year. In addition, among mid-sized and larger companies, we are beginning to see production capacity expansion investment, which had previously been limited, and we believe this type of equipment investment demand will continue for around two years.

We believe that the annual growth rate of loans needs to be at least around 3%, broadly in line with nominal GDP growth. At present, the annual growth rate is around 4% to 5%, but over the medium to long term, we expect it to settle at a cruising speed consistent with economic growth.

Under our business portfolio strategy, we are managing operations with a strict RORA discipline in order to secure returns in line with our shareholders' cost of equity of 8% to 9%. We have already begun selecting transactions based on RORA as a benchmark, including loans to large corporates in the Tokyo metropolitan area and loans to local governments and other public-sector entities.

Q. With respect to deposits, competition is intensifying not only among banks, but also beyond the banking sector, given such factors as the shift of public-sector deposits into bonds and the broader trend of moving from savings to investment. In light of this environment, do you have any specific countermeasures?

A. In addition to higher household expenditures associated with inflation, the shift of funds from deposits into NISA (the Nippon Individual Savings Account program) and Japanese government bonds for retail investors has become increasingly pronounced. Under these

circumstances, our Group is focusing on acquiring new accounts among younger customers.

Salary transfer accounts, which are regarded as highly sticky deposits, tend to be accounts opened at a younger age and then used continuously over time. For this reason, we are also implementing initiatives to raise awareness among younger people, such as sponsoring e-sports. We do not necessarily expect these efforts to produce large results immediately, but we believe that maintaining touchpoints with younger customers will lead to account retention and acquisition over the medium to long term.

In addition, we believe it is important not only to acquire deposits themselves, but also to increase our share of each individual customer's portfolio, including customer assets under custody. In particular, we will further strengthen our wealth management business for affluent customers, including asset succession and business succession, and pursue a strategy aimed at maximizing the total balance of deposits and customer assets under custody.

Q. If domestic policy rates continue to rise, is it fair to assume that deposits will continue to become more attractive as well?

A. If the policy rate were to rise to around 3%, individuals' asset management methods would likely become more diversified. As a result, there may be situations in which the relative attractiveness of deposits diminishes, even as the pass-through rate on deposits rises.

Therefore, from our Group's perspective, it is important to focus not only on deposits on a standalone basis but on the total balance including customer assets under custody, and we will continue to make portfolio proposals through a broad product lineup.

Q. Could you explain your investment policy for domestic bonds and your thinking on duration?

A. At present, we are controlling duration at around 3.5 years. However, once we enter a phase in which the terminal rate for the policy rate becomes more visible, our policy will be to lengthen duration.

That said, it remains difficult at this stage to determine the terminal rate. Accordingly, while maintaining appropriate duration, we are rebuilding the portfolio by gradually replacing existing low-yield bonds with higher-yield bonds of similar maturities.

Q. In your FY2026 earnings forecast, securities income appears somewhat conservative, given that you have already been advancing securities portfolio maintenance on a certain scale. Is there further upside potential?

A. The main source of upside potential is additional rate hikes. For example, if the policy rate were raised to 1.25% in December this year, we estimate the impact on final profit for FY2026 would be approximately +¥2.5 billion. If the timing of the rate hike were brought forward to September or October, this impact would be expected to expand. In addition, with regard to securities income, we have been replacing bonds with yields of 0.6% or less in preparation for a rise in the policy rate up to 1.5%. More recently, with an eye on a policy rate of 2.0%, we have also begun replacing bonds with yields of 0.8% or less. Since the effect of these replacements has not yet been fully incorporated into our current simulations, we believe this could become a source of upside going forward.

Q. Your capital adequacy ratio is currently above 13%, and it appears that you have a certain level of capital capacity. How are you thinking about capital allocation going forward, particularly with respect to risk-taking (lending and investment), growth investment, and shareholder returns?

A. In the first quarter, we believe the capital adequacy ratio rose to above 13% because risk assets temporarily declined as we sold stocks and investment trusts in parallel with bond portfolio maintenance. Going forward, however, risk assets are expected to gradually accumulate again through the rebuilding of equity-related assets and the increase in loans, and we expect the capital adequacy ratio to converge to around 12%. That said, there is still some distance to our target level in the mid-11% range, and we will consider appropriate capital control while closely monitoring market conditions. As for share buybacks, while we recognize that they need to be considered carefully in an environment where we are aiming to achieve a PBR above 1.0x and ROE above the cost of capital, our policy is to act decisively and implement them flexibly without hesitation if distortions arise in the stock market.

Q. From your perspective as a bank executive, do you have a sense of whether interest rates have reached the neutral rate?

A. It is extremely difficult for management to directly perceive the “neutral rate” in the real economy. In theory, one could say that the economy is close to the neutral rate when it is expanding sustainably and stably, and when all economic participants are in a generally comfortable state.

However, it is hard to know in practice how long such a condition would need to continue before it can truly be recognized. In our view, it is something that can only be identified after experiencing a period of moderate and stable economic growth.