

Small Meeting with the CFO (August 18, 2025) Main Questions and Answers

speaker: Executive Officer and CFO Hiromitsu Umehara



Q1	If long- and short-term interest rates in Japan diverge still further, could it affect the current environment for banks to attract deposits? For example, given high market rates, would some banks try to offer higher fixed interest rates for long-term deposits?
A1	<ul style="list-style-type: none"> • Amid intensifying competition on interest rates, certain financial institutions might, for example, offer rates exceeding 1% on time deposits. But since depositors can withdraw time deposits early, deposits would offer no advantages in stability compared to bonds or other instruments generally considered stable ways to raise funds. For this reason, we need to make appropriate judgments on the question of whether to reflect rising market interest rates in deposit interest rates immediately, based on comparative consideration of other fundraising methods. As for callable fixed-time deposits or other similar products that apply higher interest rates under certain restrictions on early withdrawal, we've heard from our salespeople that attracting institutional investors and other large-scale depositors is actually difficult due to restrictions on negotiability. • We do expect strategic differences will appear among financial institutions in the future as competition for deposits intensifies, but we plan to respond appropriately while considering the importance of fundraising stability.
Q2	The yen has been appreciating as domestic interest rates rise and US rates fall. Is it possible the strong demand for funds among businesses in the region could change if the economic sentiment were to worsen?
A2	<ul style="list-style-type: none"> • Since the yen has depreciated significantly over the past few years compared to levels four or five years ago, at this time we are relatively unconcerned about worsening economic sentiment due to yen appreciation. • Depending on conditions for individual companies, importers generally seem to be targeting an exchange rate of about 135 yen to the dollar and considering long-term hedging to safeguard against further yen depreciation. Personally, I believe an exchange rate of about 135 yen to the dollar would not present undue hardship for either exporters or importers. As current exchange rates remain distant from that level and it is hard to assume rapid yen appreciation, we expect corporate demand for funds to continue to be stable for the time being.
Q3	I think it would be difficult to proceed with reducing strategic shareholdings as a percentage of net assets while the market value of shareholdings increases. Is it possible you will decide to change the pace at which the strategic shareholdings are reduced?
A3	<ul style="list-style-type: none"> • It is typically difficult to reduce strategic shareholdings during the first quarter because many listed companies hold their general meetings of shareholders. But we were able to record steady gains from sale as share prices rose. Since bank share prices have been rising recently, this would be a good time for our business partners to sell their holdings of our shares. We expect to be able to accelerate the pace of reductions further in the second quarter and beyond.

Small Meeting with the CFO (August 18, 2025) Main Questions and Answers

speaker: Executive Officer and CFO Hiromitsu Umehara



Q4	<p>During the remaining period of the Medium-term Business Plan, the estimated total payout required would be about 70% as you are moving toward the target of controlling the CET1 ratio to about 13% in the final fiscal year of the plan. Given recent increases in capital levels, is it possible shareholder returns could increase still further in the future?</p>
A4	<ul style="list-style-type: none"> • Our policies remain unchanged, with a target of around 11.5% for shareholder equity and around 1.5% for valuation difference on available-for-sale securities while aiming for a CET1 ratio of 13%. To realize this composition, we will need to record significant gains on sale of stock over several years in order to reduce the weight of shareholdings. Our internal estimates also show the need to pay shareholder returns that match rising profits. • While we cannot promise that the total payout ratio will increase, given the need to strike the appropriate balance with the rise in risk assets, we will continue to proceed steadily with the capital controls needed to achieve the ROE targets already announced while revising capital composition.
Q5	<p>What efforts do you plan to make to attract more individual deposits? Do you have anything in mind to increase your share of the regional market?</p>
A5	<ul style="list-style-type: none"> • We are facing issues in connection with securing individual deposits. A major factor is that we have not prioritized securing deposits because deposits have simply grown as a matter of course. In the future, we plan to address this subject strategically while allocating management resources to related efforts, including the cost of raising funds, investment, and personnel. • Even in Shizuoka Prefecture, which accounts for about 80% of our deposits, our share of transactions is just 40%. Since credit unions within the prefecture still hold about 10 trillion yen in deposits, we believe plenty of room remains to grow deposits within the prefecture. • In general, deposits tend to be concentrated on accounts accompanied by transactions such as salary receipts, credit card payments, receipts of pension benefits, and fund transfers. This points to the importance of promoting a shift toward combined savings and current account transactions. And since most of these transactions can now be conducted through apps, continued investment in improving convenience is essential, alongside sales to secure settlement accounts. On this point, we believe we have advantages over other financial institutions in the region. • By balancing efforts to secure such highly sticky deposits and provide attractive deposit products, we plan to adapt to liquidity regulations and to enable more stable fundraising to support growth on the assets side.

Small Meeting with the CFO (August 18, 2025) Main Questions and Answers

speaker: Executive Officer and CFO Hiromitsu Umehara



Q6	In light of recent increases in share prices, how will you apply gains on sale of stock to efforts to increase ROE? Also, given that dividend yields will decrease as the market value of shareholdings will rise, will there be any change in your policies on holding and selling shares held as pure investments?
A6	<ul style="list-style-type: none">• It's possible some could be allocated to tasks like reshuffling bonds with low profitability, but we see no need at this time to rush to dispose of them. Regarding new purchase of Japanese bonds as well, we plan to proceed with care while ascertaining interest rate trends, rather than investing a large amount all at once. We will reshuffle our bonds based on consideration of holding period returns. Although we cannot disclose specific details of our policies for making use of our gains on sale of stock, we plan to control them to achieve our ROE target while paying close attention to the impact of rising share prices on capital.• As for our pure investment shares, you may be correct when looking at dividend yields only, but we also need to consider their qualities as assets with high liquidity and low risk of impairment due to their low acquisition costs. We sold some pure investment shares again this year, and if yen bonds would be more advantageous from a risk-weighting perspective—for example, if dividend yields on stock holdings were to fall below those on 20- or 30-year bonds—we would move toward further sales of pure investment shares. Decisions on this point will be made as the need arises, based on an economic rationale.
Q7	Is there a possibility of a course correction in your current policy of prioritizing alliances if, for example, the guidelines of the financial authorities were to identify new financial advantages of merging financial institutions?
A7	<ul style="list-style-type: none">• I would like to refrain from commenting on hypothetical policies of the financial authorities. Our current alliances are based on cooperating in fields that offer advantages to all partners while maintaining our management independence. We are not assuming integrated management. As we consider alliances to be the optimal course at this time, we see no current need to change course.

Small Meeting with the CFO (August 18, 2025) Main Questions and Answers

speaker: Executive Officer and CFO Hiromitsu Umehara



Q8	<p>While rising yen interest rates have resulted in a business environment in which Japanese banks can finally target 10% ROE, banks overseas are targeting even higher ROE levels. In light of this point, can you pursue management that would exceed investor expectations without relaxing your awareness of the obligation to increase ROE even under conditions of favorable tailwinds in the business environment?</p>
A8	<ul style="list-style-type: none"> • ROE is the product of RORA and financial leverage. If we compare ROE in the banking business in Japan, where interest rate levels are absolutely very low, with the US or other markets, there will obviously be limits on reasonable targets. Since we have yet to achieve a PBR of 1 and our ROE has not yet reached 8%, which is generally considered the cost of capital, we believe we must first fulfill our responsibilities to market participants by achieving the management targets of our current Medium-term Business Plan, particularly the target ROE level of 8.5%. • It would be hard to achieve an ROE exceeding 10% simply by maintaining our current course. It would require various changes, including significantly expanding the scale of assets from current levels or adding businesses that will serve as new drivers of earnings to the Group. Now we enjoy positive tailwinds due to rising interest rates, but our discussions are focusing on the form of our next growth phase without relaxing awareness of the need to increase ROE.

Q9	<p>Given an environment in which growth is slowing on the fund-raising side, centered on deposits, would it be hard to increase the spread on the investment side beyond current levels?</p>
A9	<ul style="list-style-type: none"> • The balance sheet management faces higher hurdles in a world of positive interest rates than in a world of zero interest rates. While some banks try to reduce the loan-to-deposit ratio in response to liquidity regulations, I think what's more important is selectivity in building up assets. Choosing transactions to increase ROA and revising rates are effective approaches, but it is not easy to control rates as they are determined by intense competition. We recognize this as an issue to be addressed moving forward. • One current topic of internal discussion is our approach to mortgage loans. While these assets help build long-term transaction relationships with retail customers, they aren't very efficient investment assets. Mortgage loans, which total about 3 trillion yen, make up a considerable portion of our total asset holdings of 16 trillion yen. Since interest rates on new mortgages remain lower than current stock market yields, this poses an issue from a balance sheet control perspective. One approach we are considering involves converting assets characterized by low investment yield into funds by turning them into securities and selling them. Securing new deposits is an effective means, but we will consider various means of raising funds and will identify our fund-raising strategies in the Medium-term Business Plan, which we are currently revising. • In any case, we recognize the need to allocate cash to assets with greater investment efficiency. We expect future growth to be impacted by how well we control the balance sheet.

Small Meeting with the CFO (August 18, 2025) Main Questions and Answers

speaker: Executive Officer and CFO Hiromitsu Umehara



Q10	With regional banks gradually starting to appear with market capitalizations exceeding 1 trillion yen and PBR exceeding 1, what are your thoughts on the stock market's assessment of the regional banking sector right now? Additionally, growing numbers of regional banks appear to be aiming to expand business scales through M&As and other activities. What are your thoughts on positioning for the future?
A10	<ul style="list-style-type: none">• Due in part to changing environmental conditions, stock valuation for the overall sector is positive. I think how to maintain this trend is a key issue. In this respect, while growing the scale of assets is an important growth factor, I think the composition of the assets matters just as much. For example, there might be a major difference in business efficiency between banking groups of similar asset scales depending on whether they involve multiple banks arranged on an equal footing under a holding company or multiple banks led by a core bank.• We aren't ruling out the option of expanding business scale through M&As, and we're continuing to look for opportunities to make growth investments on the condition of mutual growth in our corporate value.