

Fukuoka Financial Group: First Quarter Investor Presentation

Key Q&A

[Deposits]

Q Deposit growth appears somewhat weak. MUFG plans to launch a time deposit campaign at 1% interest (up to 1 trillion yen), and other regional banks may follow. What is FFG's view on acquiring deposits?

A Given our strong market share in our operating area, we do not intend to initiate an interest rate war. Instead, we are using our banking app and network of nearly 400 branches to acquire basic business like salary transfers. In addition, we are also proceeding with deposit acquisition by promoting features other than interest rates, such as our Hawks Support Time Deposit, V-Varen Nagasaki Support Time Deposit, and Green Deposits. On the other hand, we are very aware of the changing competitive environment, and we are currently examining our pricing strategy, including whether or not to add an interest rate bonus.

[Loans]

Q Regarding the renewal of interest rates for fixed-rate loans, what is the status of your negotiations with customers for an interest rate increase?

A Out of 15 trillion yen in yen-denominated loans, about ¥1 trillion are floating-rate loans that require negotiation. We have been able to raise rates on roughly 90% of those. Please understand that negotiations on fixed-rate loans are progressing in a similar manner. In addition, to avoid excessive competition, we are not building up our balance with low-interest loans.

Q Regarding the loan growth rate, could you provide some additional information on regional trends?

A The annual loan growth rate (based on the balance at the end of each period) for each subsidiary bank, excluding loans to Government, is +2.1% for the Bank of Fukuoka, +5.5% for the Kumamoto Bank, and +1.1% for the Juhachi-Shinwa Bank. These figures are consistent with the loan growth in each respective prefecture. (According to Bank of Japan statistics, the annual loan growth rates for each prefecture are: Fukuoka Prefecture +2.4%, Kumamoto Prefecture +4.2%, and Nagasaki Prefecture +0.6%.)

[Non-interest Income]

Q Corporate-related fees have decreased slightly year-on-year. What is your outlook for corporate-related fees going forward?

A Starting in FY2025, we are consolidating our M&A business into our affiliate company, FFG Succession. As a result, M&A-related revenue will be recorded under subsidiary income instead of corporate-related fees. Excluding this factor, our first-quarter performance for corporate-related fees was flat year-on-year. Going forward, we expect corporate-related fees to grow, as they tend to build up toward the end of the fiscal year.

[Investment Banking Business]

Q Could you tell us about the progress of your “investment banking business” that was listed as a priority initiative in your medium-term management plan?

A Within our investment banking business, we are seeing a steady increase in M&A pipelines, and we expect that they will start to generate revenue toward the end of the fiscal year. As for fund investments, our plan is for about 3.0 billion yen in revenue this fiscal year, but there may be some upside potential. Across the entire investment banking division, we are strengthening our team by increasing personnel, including through mid-career recruitment.

[Market Operation]

Q Your unrealized losses on domestic bonds, after considering hedges, are around 150 billion yen. According FFG Disclosure 2025, bonds with maturities of over 10 years are shown as just under 1 trillion yen and bonds with maturities of 7–10 years as approximately 300 billion yen. Is there a risk in holding these bonds as long-term interest rates rise? Could you explain your approach to managing your domestic bond portfolio, taking into account your hedging situation?

A Since bonds with maturities of over 10 years are almost fully hedged with interest rate swaps, we are able to control interest rate risk to a certain extent. Duration has also been shortened to under two years. In anticipation of further interest rate increases, we are currently operating with short-term bonds and loans to Government. Given that we are in a rate hike phase, it is inevitable that unrealized losses will expand to some extent, but we are managing our portfolio with the aim of preventing such losses from expanding.

[Risk Assets]

Q I understand that your policy in the medium-term management plan is to build up risk assets in the markets division and investment banking division. Could you please tell us about the current progress?

A Regarding the markets division, while it is not directly related to risk assets, we are investing cautiously in domestic bonds while controlling the risk of rising interest rates. On the other hand, we are continuously promoting diversified investment and have built up a certain level of risk assets. With regard to structured finance in the investment banking division, we were somewhat watchful in the first quarter due to the impact of U.S. tariff policy. As the situation has gradually become clearer, we will build up structured finance transactions.

[Credit Cost]

Q Credit cost is tracking low. Could this be a factor for an upturn in profits in FY2025?

A Our full-year forecast for credit cost in FY2025 is 11.0 billion yen (banks total basis). This is about 5 billion yen higher than our long-term trajectory and is the result of taking into account such factors as the potential impact of U.S. tariff policy. Currently, we are seeing an increase in bankruptcies among small business customers in the service and construction industries, but bankruptcies have not yet surfaced among large borrowers. On the other hand, many of our clients are in the automobile and semiconductor-related industries, and there is concern that credit cost could increase due to the impact of Trump's tariffs. Therefore, while this could become a factor for upside in the current fiscal year, we will need to continue monitoring the situation closely.

[Minna Bank]

Q When looking at the first-quarter results for Minna Bank, it is difficult to see how you will achieve your FY2025 targets (2 million accounts, loan balance of 38 billion yen). How do you view the likelihood of achieving these targets? Also, regarding external system sales, are there any additional pipelines, and what is the potential for external system sales going forward?

A While our current progress against the FY2025 targets may appear challenging, we are beginning to see the effects of various initiatives to acquire accounts and loans. In addition, our FY2025 plan also incorporates to a degree the effects of business collaborations with partners that have a large customer base. Going forward, we hope to demonstrate the feasibility of achieving the targets through our numbers in the future. Regarding external sales, since we announced the sale to MUFG Bank, we have been receiving inquiries, particularly

from overseas. For overseas external sales, we are developing clients through our business partners, Accenture and major trading companies. Potential buyers have emerged, but it will take a certain amount of time before negotiations can be finalized.

Q Regarding external system sales of Minna Bank, will the sales amount per transaction be similar to this time? Or does it change depending on the client or on whether the full system or only part of it is sold?

A We have no intention of engaging in dumping, but adjustments may be necessary to align with the pricing expectations of the client. Basically, we would like to sell systems for a similar price. Modular sales of specific functions are possible, but if the client's purpose is to launch a new bank, we believe that a full system package would be necessary.

Q With respect to external system sales, have any been incorporated into the current medium-term management plan?

A Only the external sale to MUFG Bank has been incorporated into the medium-term management plan.

Q Regarding external system sales, is the recurring revenue model a potential option?

A Depending on the client, it may be possible to earn ongoing revenue by handling maintenance and operations. However, at present, we would like to focus our resources on business collaborations with partners that have a large customer base. Also, there are currently no potential clients with whom discussions have advanced to that level of detail.

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