

Key Q&A

[Improving Corporate Value]

Q In aiming to achieve net income of 100 billion yen in three years and further growth beyond that, I recognize that growth investments will be critical. Could you share your thoughts on growth investments and the scale involved?

A (Goto) First, in terms of investment in system infrastructure, we are working to modernize our core systems. By the final year of our medium-term management plan, we expect system-related costs (amortization plus running costs) to be around 25 billion yen. In addition, DX-related investments, such as apps and SFA, will be close to 10 billion yen. While topics such as generative AI and AI agents are being discussed today, over the next ten years, research and development into new technologies like quantum computing and stablecoins will also be important. While consideration will be given to how to incorporate these into our capital policy, in any case, appropriate levels of investment will be necessary to drive top-line organic growth. Furthermore, on the human resources side, while we will continue to consider the optimal allocation of personnel, increases in base pay are expected to add around 2–3 billion yen per year in personnel expenses. From the perspective of inorganic growth, while we do not have any specifics at this stage, we will separately consider M&A and alliances, not limited to the financial sector.

Q How do you plan to grow the M&A business over the medium to long term? Could you also tell us about any changes in the sentiment of business managers?

A (Goto) In meetings with client CEOs, we often hear more about their buying needs than selling. In particular, I get the impression that many midsize companies are eager to grow their businesses through M&A. Given challenges such as labor shortages, wage increases, and digital transformation, our clients feel that a certain scale is necessary for growth. With M&A-related inquiries on the rise, FFG aims to expand this business by incorporating the expertise of firms that do M&A globally, while also providing thorough follow-up through to PMI.

Q In fund investments and structured finance, which areas do you plan to grow over the medium to long term?

A (Goto) In fund investments, while buyouts and turnarounds are common, we are also investing broadly in areas such as real estate, infrastructure, mezzanine, and debt—all of which are on an upward trend. As for structured finance, deals in sectors like ships and real estate are becoming larger in scale. The key challenge is how to diversify risk for these large deals. At the same time, we have been making progress in developing internal talent, and I believe that—with thorough risk management—we can continue to grow both balances and income.

Q While the number of main bank clients is increasing, your loan growth seems somewhat weak. What is your outlook for future loan growth?

A (Goto) Loan growth is at the same level as the loan growth in each prefecture of our sales area—slightly above 2% in Fukuoka Prefecture, about 5% in Kumamoto Prefecture, and almost flat in Nagasaki Prefecture. With expectations for rising interest rates, interest rate competition is emerging, especially in large-scale deals. At FFG, we are not engaging in interest rate competition to simply increase balances, but rather responding while maintaining appropriate interest rates. That said, we do not make decisions based solely on the level of interest rates; we respond flexibly while considering overall profitability, including employee-related transactions, and with the perspective of protecting our main bank clients.

Q Do you see potential for increasing business with major semiconductor companies in the future?

A (Goto) More than direct transactions with large corporations, our main strategy is to firmly support Tier 2 and Tier 3 companies. For local companies, the hurdles to entering the supply chains of major corporations are high, with challenges such as differences in business practices. We are working to address these issues. In addition, with cases emerging of Taiwanese companies establishing joint ventures with domestic companies, we plan to take action toward these joint ventures and also pursue initiatives such as attracting design and IC design companies.

Q Currently, your management is on an entity-by-entity basis, such as the Bank of Fukuoka and Kumamoto Bank. From the perspective of FFG as a whole, however, perhaps resources could be allocated in a more efficient way. What is your view on the ideal management approach for Group-wide operations, including the possibility of expanding the CxO system to divisions such as commercial banking and investment banking?

A (Goto) It is important to evaluate each region and division in terms of profitability and growth potential, and to allocate resources optimally within a single platform. For example, in the commercial banking division, we assess the profitability and growth potential of each segment—large companies, SMEs, and so on—within Fukuoka, Kumamoto, and Nagasaki prefectures. Similarly, in the investment banking and markets divisions, we consider what kind of operations are necessary based on their profitability and future prospects. Each CxO is entrusted with the authority and responsibility to allocate resources.

Q Encouraging participation in the employee shareholding association seems highly desirable. In this context, if you are conducting internal IR, could you share how employees have reacted?

A (Goto) We haven't started internal IR yet, but since last year we have been engaging in dialogue with employees at the branch manager level as we discussed the FFG principles, long-term strategy, and medium-term management plan. Going forward, it will be important to clearly communicate through internal IR that achieving our various KPIs will lead to an increase in corporate value and stock price, and that the rise in stock price will, in turn, lead to greater employee engagement. We have also been encouraging employees to read the Integrated Report, not only investors. We need to provide more structured explanations and ensure that this understanding permeates down to individual staff members.

[Business Strategy for Minna Bank]

Q I understand from today's presentation that Minna Bank is working to diversify its revenue sources. You previously gave account numbers and loan balances as a guide for breaking even in three years. Are there any other benchmarks we should look at?

A (Nagayoshi) Up until now, we have communicated profitability targets of 5 million accounts and 150 billion yen in loan balances, but this benchmark assumed a business model centered on loans. As the API economy expands, however, we believe that if we can monetize API usage fees and so on, that would serve as a positive factor toward achieving profitability.

Q With respect to B2B2X, is it correct to understand that you plan to expand your business to corporate settlement fees in the future?

A (Nagayoshi) Yes, that is correct. We are already providing corporate accounts to our BaaS partners, and corporate settlement transactions are taking place. Looking ahead, we believe we can monetize this area as well by also offering mechanisms that can handle large volumes of general-purpose transfers.

Q Could you elaborate on your approach to stablecoins and Web3?

A (Nagayoshi) Regarding stablecoins, we are still in the exploratory stage, so concrete outputs are yet to come. We are considering whether we could issue something like a deposit token, but use cases are critical, and we are working with external partners to review the situation. With A2A payments in our BaaS business, settlement costs are kept low, so the use cases for stablecoin settlements are limited. They would need to add functions beyond what ordinary yen can provide. For example, Minna Bank does not offer time deposits, but since stablecoins have a lock function, we believe a fixed deposit service could be designed with relative flexibility. Another interesting possibility could be enabling tokenized assets within the digital economy to be exchanged with stablecoins. At this point, however, this remains at the R&D level, in ongoing discussions with external partners.

- Q As you work to advance account linkage between Minna Bank and the Group banks, is there a possibility of cannibalization between the two?**
- A (Goto) We will grow our customer base across FFG as a whole through cross-selling. For instance, for the younger customers of our existing banks, we will promote the convenient functions offered by Minna Bank, and for Minna Bank customers, we will offer financial functions that Minna Bank itself does not have.
- A (Nagayoshi) Only about 14% of Minna Bank's users are in Kyushu, so any cannibalization with the Group banks, which primarily cover northern Kyushu, is not significant.
- Q Could you elaborate on the in-house development of your credit-screening model?**
- A (Nagayoshi) Our in-house data science team is building a proprietary credit-screening model by combining data from external credit reporting agencies, Minna Bank's service usage data, and data from SaaS solutions we have introduced. In addition to initial credit screening, we have fine-tuned the model for ongoing credit monitoring, making it more sophisticated and accurate. The ability to build our own models is a strength, and we plan to explore utilizing them within the Group in the future.
- Q Is there a difference in profitability between B2C accounts and accounts acquired through BaaS?**
- A (Nagayoshi) It varies greatly depending on the type of business our BaaS partner is engaged in. At present, users who take out loans are by far the most profitable, so proportionately high-yield accounts can be acquired from partners that are in a business close to lending. Also, if an HR tech partner, for example, uses Minna Bank for services such as salary advances or instant payroll, those accounts could become the customer's main bank, which would also increase profitability. While I cannot say definitively which type of account is more profitable, BaaS-derived accounts are more likely to be tied to specific services and have the potential to be more profitable. This is an area we intend to work on.

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