Fukuoka Financial Group: Investor Meeting (November 26, 2025)
Key Q&A

[Financial Results for First Half of FY2025 and Full-Year Earnings Projection]

Q **While many regional banks are raising their full-year earnings projections based on their first-half results, looking at FFG's revised projection, you have revised upward core gross business profit and gains on sales of stocks, whereas the bottom-line earnings projection remains unchanged due to a downward revision in gains on sales of bonds and an upward revision in overhead expenses. Could you explain the reasoning behind structuring the earnings projection in this manner?**

A Polarization in corporate performance is progressing. While many companies are performing well, in regional areas, we are seeing an increase in companies facing difficult conditions, regardless of their industry. Recently, the number of bankruptcies, particularly among SMEs, has also been on the rise. Under these circumstances, and in order to ensure we can continue providing financial support, we believe it is necessary to maintain a conservative estimate for credit cost for a little while longer. Although we have not yet seen a significant impact from the U.S. tariff policy, we are hearing from some companies that they are being affected. There are also companies for whom the continued weakening of the yen has caused procurement costs to become a considerable burden. We intend to make a call regarding our second-half performance as we approach the end of the fiscal year. This will be done by assessing the level of credit cost and taking a comprehensive view of factors such as the second-half growth in core business profit, the expected recording of gains on sales of strategic shareholdings, and operations in the markets division in light of the pace of interest rate hikes.

Q **Could you please share the FY2025 first-half results and second-half projection for core gross business profit in the investment banking division and the markets division?**

A For the investment banking division, first-half results were 11.6 billion yen, and the second-half projection is 14.0 billion yen. Although the first half fell short of the projection by 1.1 billion yen due to a downward swing of net interest income, on a full-year basis, we expect performance to be in line with the initial projection. As for the markets division, first-half results were 32.0 billion yen, and the second-half projection is 31.1 billion yen. In the first half, results exceeded the projection by 3.1 billion yen driven by stronger net interest income, and we anticipate the full-year results to exceed the projection by a similar amount.

[Long-Term Strategy, 8th Medium-Term Management Plan Long-Term Strategy]

Q **Regarding the ROE target for FY2027—the final year of the Medium-Term Management Plan**

(MTMP)—you explained that your target is about 9% assuming a policy interest rate of 0.50%, and that a target of "about 10%" would come into view should the rate rise to 0.75%. You mentioned that loan growth and improved spreads are the drivers. However, considering that net interest income and fees and commissions are already exceeding the projection as of the first half of FY2025, I get the impression that an ROE of 10% might be achievable even without a rate hike, and that further upside could be expected if a rate hike occurs. Could you share your views on the ROE outlook?

A The impact on net interest income in the event the policy interest rate is raised to 0.75% is detailed on page 27. Net interest income includes loans classified under the commercial banking division and investment banking division (such as structured finance), and we anticipate that net interest income will increase across all divisions, including the markets division (via interest on securities). Taking these effects into account, we project an ROE of about 10% in FY2027. On the other hand, as you pointed out, our core earnings are currently exceeding the projection. We intend to thoroughly examine how much additional upside can be accumulated on top of the current target (ROE of about 9% in FY2027), even in a scenario where the policy interest rate remains at 0.50%.

Q **Regarding the target business portfolio on page 48, it states that market operations, investment banking, and new fields will account for approximately 60%. To realize this, it would seem necessary to raise the revenue of the investment banking division (which currently stands at around 10%) to approximately 30%. Could you tell us what is needed to achieve this and what the current challenges are?**

A For context, please understand that the ratio of "approximately 60% for market operations, investment banking, and new fields" in the business portfolio includes inorganic growth. FFG has been a pioneer in working on structured finance and fund investment (including venture investments). For several years, we have been promoting a cycle of dispatching personnel to external funds and bringing them back to FFG after they have developed as professionals. Nevertheless, we believe that human resources development needs further reinforcing.

In addition, since new investment opportunities such as data centers and storage batteries are expanding in Kyushu, there is a need to proceed with investments while taking appropriate risks. In sectors such as those related to semiconductors, industrial ecosystems need to be built through collaboration among industry, government, academia, and finance, which will lead to an increase in investment projects and human resources development. Therefore, we intend to proceed by actively incorporating expertise from the Tokyo metropolitan area and insights from overseas.

Q **Regarding your human resources portfolio on page 48, you mention a target ratio of 7:3 for generalists versus specialists. Could you share the current personnel structure?**

A In terms of the personnel structure across commercial banking, investment banking, and market operations, commercial banking accounts for approximately 90%, while investment banking and market operations combined account for about 10%. We also have over 600 digital human resources at Minna Bank and the DX Promotion Headquarters. If we count them as specialists, highly specialized personnel currently make up between 10% and 20% of our total workforce.

Q **Your PER appears somewhat low compared to other top-tier regional banks. What are the key factors identified in your analysis? Regarding the business portfolio in your Long-Term Strategy, you plan to raise the revenue contribution of the investment banking division and markets division to around 60% of the total. However, these areas are generally considered to have a high cost of capital. In the current environment, where interest rate hikes are anticipated and earnings improvements in the commercial banking division are expected, it could be argued that a "natural stance" (i.e., focusing on commercial banking) would have a more positive impact on PER. What are your thoughts on this?**

A We believe that one of the reasons for our PER being lower than other banks is the high volatility of our past performance. In recent years, this involved loss-cutting on securities, and over the longer term, we utilized capital for business integration and the subsequent disposal of non-performing loans, recording losses in the process. On the other hand, the various challenges and investments FFG has undertaken to date have steadfastly led to the growth of our bottom line since our establishment. I hope you understand our policy is to continue realizing the effects of these investments, grow profits even in an environment without interest rate hikes, and return those profits to investors. Regarding your point that, when viewed against the business portfolio, the markets division and investment banking division have a high cost of capital compared to commercial banking, these areas require fewer resources and offer a certain level of high profitability. We intend to increase the proportion of earnings from the markets division and investment banking division while maintaining robust risk management in each area.

Q **As you expand earnings in the markets division, it seems there is a risk that loss-cutting on bonds could weigh on bottom-line profit. Could you share your thoughts on how you intend to control volatility in securities investment?**

A By hedging our ultra-long-term domestic bonds, we guarantee that current unrealized losses on domestic bonds will not impose constraints on our future securities investment operations.

Recently, we have been examining the timing for investing in new fixed-rate bonds in preparation for future interest rate hikes. However, taking hedge costs and other factors into account, there is a possibility that we may consider selling ultra-long-term bonds and replacing them with higher-yielding bonds. We will carefully consider how to construct the overall portfolio of the markets division, including stocks.

Q **Could you tell us about the current status and future plans for FFG's AI initiatives?**

A We have positioned AI at the core of our digital strategy. In addition to our partnership with OpenAI, we are advancing discussions on the utilization of AI with various other system vendors. Internally, we have already conducted over a dozen pilot trials for AI, and a few of these have now advanced to the business implementation phase. However, we believe the current level is far from adequate, and we intend to accelerate our efforts further. Led by the DX Promotion Headquarters, we will drive operational reforms while leveraging AI agents.

Q **Regarding the personnel plan mentioned on page 25, could you tell us the reason for lowering your plans for recruitment?**

A The plan now includes the reduction of headquarters personnel through operational efficiency improvements. We have expanded the target for freeing up personnel during the 8th MTMP from 150 to 550, and the majority of this increase comes from the reduction of headquarters personnel. The key to proceeding with the reduction of headquarters personnel lies in integrating AI and AI agents into our operations and determining the extent to which we can drive efficiency. I am personally leading this initiative as a top-down directive. As the reduction of headquarters personnel progresses, we will be able to control the total headcount at a flat level by monitoring the gap between recruitment and attrition. This is the reason we have reviewed the recruitment plan at this time.

[Minna Bank]

Q **Regarding Minna Bank, how is the alliance with Merpay positioned within the company, and what is its importance? Also, what are your expectations?**

A Since this matter involves a partner, I cannot give a specific timeline at this moment, but we are currently in the stage of finalizing the details of the service launch with Merpay. We will speak specifically about the impact of this alliance in the future. At the very least, we believe that the impact will be on a much larger scale than any of the BaaS partnerships we have undertaken to date. Detailed information will be disclosed in due course.

Q **Regarding Minna Bank, while the balance of loans is growing, the balance of deposits (32.3 billion yen as of the end of September 2025) has remained flat. As you grow loans toward the break-even point, will the weak growth in deposits become a constraint? Will you be able to acquire enough deposits to match the increase in loans through future BaaS partnerships, including the alliance with Merpay?**

A To expand its customer base, Minna Bank is acquiring deposits by utilizing interest rate campaigns targeting digital natives and customers highly sensitive to interest rates. Therefore, the balance of deposits is subject to fluctuations dependent on whether campaigns are active. Although the growth of the deposit balance has slowed recently, we believe we can expand the deposit base through collaboration with Merpay and other partners. Regarding the initiative with Merpay, while we cannot disclose details at this moment as it involves a partner, we can say that we are designing a framework that will, for example, eliminate withdrawal fees (which are a burden for Mercari users) through collaboration with Minna Bank, and allow Merpay balances to be retained within Minna Bank while still being usable for payments within Mercari. We believe this will enable us to acquire a substantial amount of deposits. Their app has over 23 million monthly active users. We are preparing a scheme that will be a win-win for both Minna Bank and Merpay. Detailed information will be disclosed in due course.

[Capital Policy]

Q **I would like to ask about your policy for utilizing the additional capital (in excess of MTMP) shown in the capital allocation diagram for the 8th MTMP on page 29. It seems your intent is to raise the capital adequacy ratio. However, if profits expand due to additional rate hikes or the sale of strategic shareholdings, what is the order of priority for utilizing this capital among options such as capital accumulation, loss-cutting in the securities portfolio, growth investments, and shareholder returns.**

A As you point out, we are currently in a phase of capital accumulation. Given that the uncertain

environment will likely continue, we are considering a certain level of capital buildup to ensure sound management. However, whether a capital adequacy ratio of 11% is absolutely necessary is a management decision that must take various factors into account. As outlined in our Long-Term Strategy, growth investment is crucial to realizing continuous profit growth over the next 10 years, even without interest rate hikes. We also intend to carefully consider the best approach for shareholder returns. While capital soundness remains our top priority, we intend to consider the optimal utilization of any subsequent surplus earnings, taking into account factors such as the pace of capital accumulation and the prevailing business environment.

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