

Hirogin Holdings, Inc. Summary of Q&A – Investor Briefing
December 22, 2025

1. Interest Rate Environment & Macro Outlook

Q1. If the policy rate terminal level reaches 1.5% or higher, would rising rates still be positive for bank earnings?

A1. We believe rate increases up to around 1.5% would remain broadly positive for earnings. However, if rates were to rise materially beyond that level, the negative impact on the regional economy could become more pronounced, potentially outweighing the benefits for bank profitability.

Q2. What specific downside risks do you foresee at higher rate levels?

A2. Key risks include lower loan repricing pass-through, an expansion of unrealized losses on JPY bonds within our securities portfolio, and broader economic pressure on the regional economy. In particular, SMEs may face increased funding strain, which could lead to higher credit costs.

Q3. Given potential government support for specific industries, which sectors do you view as most promising?

A3. We are particularly optimistic about the shipbuilding sector. The Setouchi region accounts for approximately 40% of Japan's shipbuilding output, and support for this industry would have significant spillover effects across the regional economy. In the semiconductor sector, demand is expected to expand around Higashi-Hiroshima, where a major memory manufacturer operates. This should stimulate broader infrastructure needs, including transportation, accommodation, and housing.

Q4. Some argue that in a negative real rate environment, credit costs are less likely to materialize. What is your view?

A4. We do not believe such a simplified view applies to regional economies. Our client base consists largely of SMEs, where differences in business resilience and structure are more critical than interest rate levels alone.

We expect that some SMEs will struggle to adapt to changing conditions, and accordingly, we plan for credit costs equivalent to approximately 1% of our business loan balance.

2. Securities Portfolio & ALM

Q5. What is your strategy for repositioning the JPY bond portfolio?

A5. We will gradually replace lower-yielding bonds first. Our target is to build a ¥2 trillion securities portfolio with a yield of approximately 1.1%, executing replacements within a

manageable loss-absorption range.

Q6. Where are unrealized losses concentrated within the JPY bond portfolio?

A6. They are concentrated in medium- to long-term maturities. Short-term bonds are approaching maturity and will naturally roll off, so replacement priority is lower.

Q7. Have you considered reclassifying JPY bonds with unrealized losses into held-to-maturity to improve valuation reserves?

A7. No. If bonds are intended to be held to maturity, that decision should be made at the outset. We do not believe in changing classifications after the fact. While eliminating unrealized losses entirely is unrealistic, we will continue portfolio adjustments within reasonable limits.

Q8. You plan to increase financial leverage to 9x. Is that excessive?

A8. No. The plan has been formulated with careful consideration of overall balance and risk tolerance.

Q9. Given the regional bank mission of supporting local clients, shouldn't capital levels be higher? Isn't a 10% capital ratio somewhat low?

A9. We prioritize balance among profitability improvement, shareholder returns, and financial soundness, and therefore set 10% as the minimum threshold. Ideally, we would prefer to maintain a capital ratio in the 12–13% range. However, considering overall balance, we have established 10% as our operating benchmark.

Q10. How are you addressing the expected decline in capital ratios due to Basel III output floor implementation?

A10. The recent issuance of senior bonds was undertaken in anticipation of risk-weighted asset expansion and the impact of Basel III implementation. Even with RWA growth, we expect to maintain a capital ratio above 10% and preserve adequate financial soundness after full implementation.

Q11. As you expand risk-weighted assets following senior bond issuance, what do you prioritize?

A11. While it is not feasible for every individual transaction to achieve high returns, we manage the portfolio with strong discipline around RORA. We will prioritize capital-efficient transactions that contribute to achieving ROE above 10%.

Q12. How do you approach capital allocation to ship finance?

A12. Shipbuilding and shipping are core industries in our region and represent strategic focus areas. We target an outstanding balance of ¥1.1 trillion by the final year of the medium-term plan and allocate capital accordingly.

Q13. What is the appropriate level of BOJ current account balances?

A13. We do not set a fixed numerical target. Our priority is allocating capital to higher-value

assets, particularly lending to local clients.

Q14. What are the trends in inheritance-related inflows and outflows of retail deposits?

A14. Outflows to other prefectures significantly exceed inflows. While it is difficult to fully prevent inheritance-related outflows, testamentary trust services are an important mitigation tool.

3. Digital Transformation & Human Capital Investment

Q15. What is driving the increase in digital investment, and what is your future policy?

A15. Our increased digital investment reflects a strategic shift toward a more data-driven operating model. We are building a centralized data platform to enable integrated data management and more sophisticated customer engagement.

At the same time, we are deploying generative AI to enhance productivity and streamline operations. These initiatives will allow us to optimize head office functions and reallocate talent to frontline and revenue-generating roles.

Q16. How is your digital transformation governance structured?

A16. We have established a dedicated Digital Strategy Division to oversee and coordinate group-wide digital initiatives. We are strengthening capabilities through targeted mid-career hiring and the recruitment of digital talent at the entry level, and we will continue to build out this specialized team.

Q17. Regional banks often rely heavily on system integrators. What is your stance?

A17. While it is neither realistic nor efficient to eliminate reliance on system integrators entirely, we are committed to strengthening our in-house technology capabilities. Working closely with Hirogin IT Solutions, we are deepening internal digital and IT expertise to enhance long-term competitiveness.

Q18. Despite positive sector trends such as higher interest rates, what concerns do you have?

A18. Our primary challenge is mindset transformation among employees. We emphasize shifting from short-term to medium- to long-term thinking, from results-only focus to process discipline, encouraging calculated risk-taking, maintaining an external perspective, and fostering independent decision-making.

Through this cultural transformation, we aim to strengthen organizational capability.

Q19. How do employee engagement initiatives relate to mindset reform?

A19. The majority of employees understand the need for change, though a minority still retain traditional mindsets.

Through town halls and internal briefings, we actively engage employees in direct dialogue to align awareness and strategic direction.

4. Other Topics

Q20. What aspects of the Financial Services Agency's regional finance strengthening plan are most noteworthy?

A20. We are particularly attentive to frameworks that facilitate industry consolidation, as further restructuring within the sector remains possible.

Q21. What is your current stance on mergers or consolidation?

A21. We are not considering such measures at this time. Our priority is improving ROE rather than expanding scale.

Q22. Why prioritize ROE improvement over scale expansion?

A22. Given our current positioning within the regional banking sector, competing on scale alone would not be compelling to investors. Enhancing efficiency and profitability—namely ROE—is therefore our top priority.

Q23. Even if PBR exceeds 1x, do you intend to further raise ROE?

A23. Achieving a PBR above 1x is not our ultimate goal. To enhance investor confidence and valuation, we aim to raise ROE to 10% as early as possible.

Q24. What has been the impact of abolishing the branch-level performance evaluation system?

A24. The removal of internal competition has improved information sharing and personnel mobility among neighboring branches. Most importantly, it has enabled a more customer-centric approach to sales activities.