Summary of Small Meeting on August 20, 2026

Q&A

Q1: Unrealized gains on investment trusts in securities portfolio management have increased compared with the end of March 2026. Is this mainly attributable to ETFs related to Japanese equities? Also, how do you plan to utilize unrealized gains on securities going forward, including for upward revisions to earnings forecasts or the disposal of low-yielding bonds?

A1: The increase in unrealized gains on investment trusts is mainly attributable to equity ETFs. As for unrealized gains on securities, our first priority is to utilize them to improve the quality of our securities portfolio. We intend to continue selling low-yielding bonds with yields below 0.5%, while also utilizing gains from the sale of cross-shareholdings. We will determine the amount and timing of such sales flexibly, taking into account market conditions and other factors.

Q2: What impact do you expect the business integration between The Iyogin Holdings and The Ehime Bank to have on your ship finance business?

A2: If the two banks are integrated, their combined ship finance balance would exceed ¥2 trillion, placing them among the largest Japanese banks in this field. However, in ship finance, shipowners often diversify their banking relationships on a vessel-by-vessel basis under a “one ship, one bank” approach. We therefore do not expect the existing practice of transactions being brought to multiple financial institutions, including ourselves, to change significantly, and do not anticipate any sudden material impact on our ship finance business. There may be cases where transactions that The Iyo Bank was previously unable to undertake due to large exposure regulations could be handled by The Ehime Bank following the integration. Nevertheless, we do not expect a significant decline in the number of transactions brought to us.

Q3: What is your view on consolidation and business integration among regional banks?

A3: We do not rule out consolidation itself. At present, however, we believe that our local market, centered on Hiroshima Prefecture, is sufficiently large, and our priority is to continue steadily expanding our business in this market. At the same time, over the longer term, a contraction of the market due to population decline is unavoidable, and we believe that future consolidation should remain one of the options available to us. There are currently no specific discussions underway, but we will continue to monitor changes in the business environment so as not to limit our strategic options in the future.

Q4: How do you manage interest rate risk associated with fixed-rate lending, such as corporate loans and housing loans?

A4: Given the current level of core deposits and other funding sources, we believe that we currently have a certain degree of capacity to absorb interest rate risk, and therefore do not see a strong need to undertake large-scale hedging of fixed-rate loans.That said, with long-term interest rates rising, we are using interest rate swaps for a portion of our exposures, although the scale remains limited. We will continue to respond flexibly as necessary, taking into account interest rate trends and our capacity to absorb interest rate risk.

Q5: When customers have demand for long-term fixed-rate financing, which is more common: providing a floating-rate loan combined with an interest rate swap, or lending directly at a fixed rate?

A5: We do not have a general preference for either approach. We determine the appropriate structure on a case-by-case basis, taking into account each customer’s needs.

Q6: Corporate deposits have been growing strongly. Is this mainly a natural increase reflecting the strong business performance of local companies, or are you gaining deposit share from other banks? What types of customers, regions, and deposit products are driving the increase, and how sustainable do you expect this growth to be?

A6: The increase in corporate deposits has mainly come from local corporate customers, particularly our lending clients. We are seeing more cases in which surplus funds that had previously been held in demand deposits are being placed in time deposits. We are also receiving time deposits and other funds from important customers such as medical corporations and educational institutions. Rather than acquiring deposits by offering high interest rates through competitive bidding, our deposit growth is primarily relationship-driven. As part of our efforts to strengthen ALM, we have also revised our internal earnings management framework and transfer pricing rates so that deposit acquisition contributes more directly to branch profitability. This has increased the focus of our branches on attracting deposits. As a result, we are approaching corporate customers more proactively, including those with whom we had previously not engaged sufficiently, and encouraging them to transfer funds held with other banks to our Group. While we do not expect corporate deposits to continue growing at the same pace indefinitely, we believe there remains scope for further growth through these initiatives, as well as through increases in deposits accompanying the growth in sales and business activity of our corporate customers.

Q7: Credit costs were low in the first quarter and remain well below the full-year forecast of ¥7.0 billion. Based on the current environment, what is your outlook for credit costs for the full year?

A7: We are forecasting full-year credit costs of ¥7.0 billion, but at present there are no significant exposures of particular concern. Unless unexpected events occur, we currently expect credit costs to remain comfortably within our full-year forecast.

Q8: Your Singapore operation is structured as a local subsidiary rather than a branch. What limitations does this structure impose on your ship finance business?

A8: In general, a branch can conduct a broader range of activities, including directly accepting deposits and providing financing locally, which can offer advantages in terms of customer service. In our case, however, the transition from a representative office to a local subsidiary has expanded the range of services we can provide compared with the previous structure and has enabled us to generate fee income. One advantage is that we can earn such income without making significant use of capital. Financing itself can be provided cross-border from Japan, and we therefore do not believe that the current structure causes significant inconvenience to our customers. Banks with branches in Singapore may provide financing directly not only to the local subsidiaries of Japanese companies but also to overseas ship operators. However, competition in that market is intense and spreads have narrowed considerably. As a result, we do not currently view that market as particularly attractive for us.

Q9: Even if the policy rate rises above 1.5%, for example to 4%, is it reasonable to assume that higher interest rates would generally remain positive for bank earnings, although the pace of earnings growth would slow due to higher deposit funding costs?

A9: From the perspective of net interest income, that understanding is broadly correct. Because the pass-through of policy rate increases to lending rates differs from that to deposit rates, higher interest rates generally result in higher net interest income. On the other hand, higher interest rates increase borrowers' interest burdens. If the profitability of companies with high reliance on borrowings deteriorates, credit costs could increase. Certain sectors, including real estate, may be particularly affected by higher interest rates, and we therefore need to monitor them carefully. Accordingly, while higher interest rates are generally positive for net interest income, we do not expect overall earnings to increase in direct proportion to increases in the policy rate.

Q10: You have indicated that you will continue to sell low-yielding bonds with yields below 0.5%. If the terminal rate rises, however, the yield level at which bonds become negative-carry assets will also rise. Over what time frame do you intend to proceed with the disposal of low-yielding bonds?

A10: Following the sale of low-yielding bonds, we have primarily been reinvesting in shorter-dated securities, and the duration of our yen-denominated bond portfolio has continued to shorten. Going forward, as interest rates rise, we intend to assess the terminal rate carefully and, at an appropriate timing, reinvest proceeds from maturing short-term bonds into longer-dated securities. Through this approach, we aim to avoid increasing the amount of bonds that could become negative-carry assets as interest rates rise. In addition, a meaningful portion of our longer-dated yen-denominated bond holdings is hedged against interest rate risk through the use of asset swaps.