

Explanatory Material for Revision of the Financial Results Forecasts

for the Fiscal Year Ending March 31, 2025

(February 26, 2025)

Financial Results Forecasts and Dividend Forecast for the Fiscal Year Ending March 31, 2025

Revision of the financial results forecasts for FYE 3/2025

(Billions of yen)

		Previous forecasts (May 10, 2024)	Revised forecasts	Change
Consolidated	Ordinary income	43.0	45.8	2.8
	Ordinary profit	5.9	(23.8)	(29.7)
	Profit attributable to owners of parent	3.6	(22.3)	(25.9)
Non-consolidated	Ordinary income	37.0	40.0	3.0
	Ordinary profit	5.3	(24.4)	(29.7)
	Profit	3.3	(22.6)	(25.9)

Dividend forecast (No change)

	Annual dividends		
	2nd quarter-end	Year-end	Total
Fiscal year ended March 31, 2024	3.0 yen	3.0 yen	6.0 yen
Fiscal year ending March 31, 2025	3.5 yen		
Fiscal year ending March 31, 2025 (forecast)		3.5 yen	7.0 yen

Capital adequacy ratio

	Fiscal year ended March 31, 2024	Fiscal year ending March 31, 2025 (forecast)
Consolidated capital adequacy ratio	11.43%	Around 9.7%

Reason for recording loss on sale of securities at this time

- Due to factors such as the reverse spread of low-yield bonds and foreign bond funds purchased in a low interest-rate environment, the Bank's securities portfolio has experienced stagnation in investment returns and is currently carrying unrealized losses. To date, we have been conducting systematic replacements to improve the portfolio within its single-fiscal-year budgets.
- As the rise in Japan's policy interest rate has made it possible to replace yen bonds with short maturities, and also because of renewed concerns about inflation in the U.S., we have decided to accelerate the replacement of our portfolio at this time.
- As a result of this portfolio replacement, unrealized losses that had been recorded on the balance sheet as "Valuation difference on available-for-sale securities" until now have been realized as losses with the sale, but as there is no significant change in substantive corporate value. Rather, with the improvement of the securities portfolio, both profitability and risk resilience will increase, resulting in a healthier balance sheet.

Objective

- Use the surplus risk-taking capacity created by the portfolio replacement for the sake of the further growth of our customers and the regional economy.
- We believe that this action will increase the Bank's sustainability and that it is a crucial step forward in terms of the demonstration of our financial intermediary roles into the future as a regional financial institutions.

Main Securities Subject to Sale and Trends in Valuation Gains (Losses), Gains (Losses) on Sale, etc.

- Yen bonds (>10 years): Sold/sell due to low yield and long current maturities
- Yen bonds (RMBS) (Note 1): Sold/sell due to difficulty in appropriate hedging, as well as concerns about expansion of valuation losses due to rise in domestic interest rates
- Foreign bond funds, etc.: Sold/sell, as recovery to book value cannot be expected due to reverse spread occurring between investment returns and currency hedge costs
- Yen bond bear funds: Sold/sell in line with divestment of main hedged assets such as yen bonds (10+ years), in addition to significant costs of holding

Securities subject to sale and trends in their balances and valuation gains (losses) (Note 2) (Billions of yen)

	Balance on March 31, 2024		Sold Apr. – Dec. 2024 (Note 3)		Sold Jan. – Mar. 2025 (forecast) (Note 3)		Total (forecast) sale amounts (Note 3)		Projected balance after sale	
	Balance	Valuation gain (loss)	Sale Amount	Gain (loss) on sale	Sale Amount	Gain (loss) on sale	Sale Amount	Gain (loss) on sale	Balance	Valuation gain (loss)
Yen bonds (>10 years)	63.4	(7.2)	—	—	63.4	(10.4)	63.4	(10.4)	—	—
Yen bonds (RMBS)	58.6	(3.5)	—	—	55.2	(5.7)	55.2	(5.7)	—	—
Foreign bond funds, etc.	198.3	(14.0)	14.4	(1.2)	175.2	(12.5)	189.6	(13.7)	14.9	(0.4)
Yen bond bear funds	63.2	(6.8)	12.5	(0.2)	50.7	(0.3)	63.2	(0.5)	—	—
Main securities sold total	383.5	(31.5)	26.9	(1.4)	344.5	(29.0)	371.4	(30.4)	14.9	(0.4)
Yen bond asset swaps (Note 4)	—	—	—	—	—	—	—	—	29.5	(Note 5) (1.3)
Yen bonds (≤10 years)	228.3	(3.6)	12.0	0.1	—	—	12.0	0.1	265.5	(8.8)
Equity-related assets	22.7	1.3	23.4	(1.6)	—	—	23.4	(1.6)	14.4	1.0
Other	1.0	(0.0)	—	—	—	—	—	—	12.0	(0.0)
Total	635.5	(33.7)	62.2	(2.9)	344.5	(29.0)	406.8	(31.9)	336.3	(Note 5) (9.5)

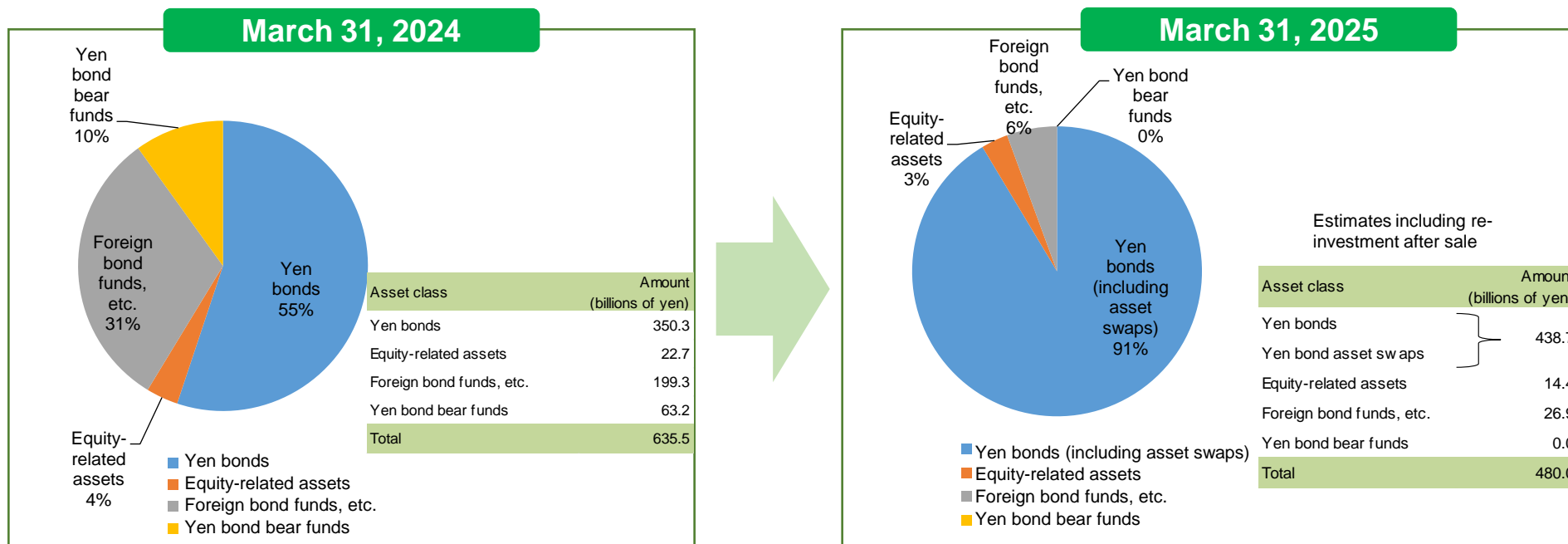
Notes

1. Loan-backed HFA bonds (mortgage-backed securities) issued by Japan Housing Finance Agency, with an average current maturity of approx. 8 years.
2. Gains (losses) on sale for Jan. – Mar. 2025 and valuation gains (losses) as of March 31, 2025 are estimated based on market values on February 17, 2025. Actual sale amounts, gains (losses) on sale, and valuation gains (losses) after sale may differ due to market fluctuations and other factors.
3. Excludes purchased and redeemed portions.
4. Transactions in which interest rate swaps with the same maturity (paying a fixed interest rate) are sold at the same time as purchases of government bonds (20-year bonds) to offset interest rate risk while securing a profit margin.
5. Separately, there is around 1.4 billion yen in valuation gains from interest rate swaps.

Main sold securities

Securities Portfolio After Sale

- Valuation gain (loss) of securities on March 31, 2025 will have improved by around 24.0 billion yen, and yen bond duration will have been shortened to around 3 years.



Scale of Improvement

	March 31, 2024	March 31, 2025
Valuation gain (loss) on securities	(33.7) billion yen	(Note) (9.5) billion yen
Yen bond duration	6.7 years	2.9 years



Improvement
Valuation loss of securities reduced by around 24.0 billion yen
Yen bond duration shortened by just under 4 years

Note: Estimated based on market value on February 17, 2025. Separately, there is around 1.4 billion yen in valuation gains from interest rate swaps.

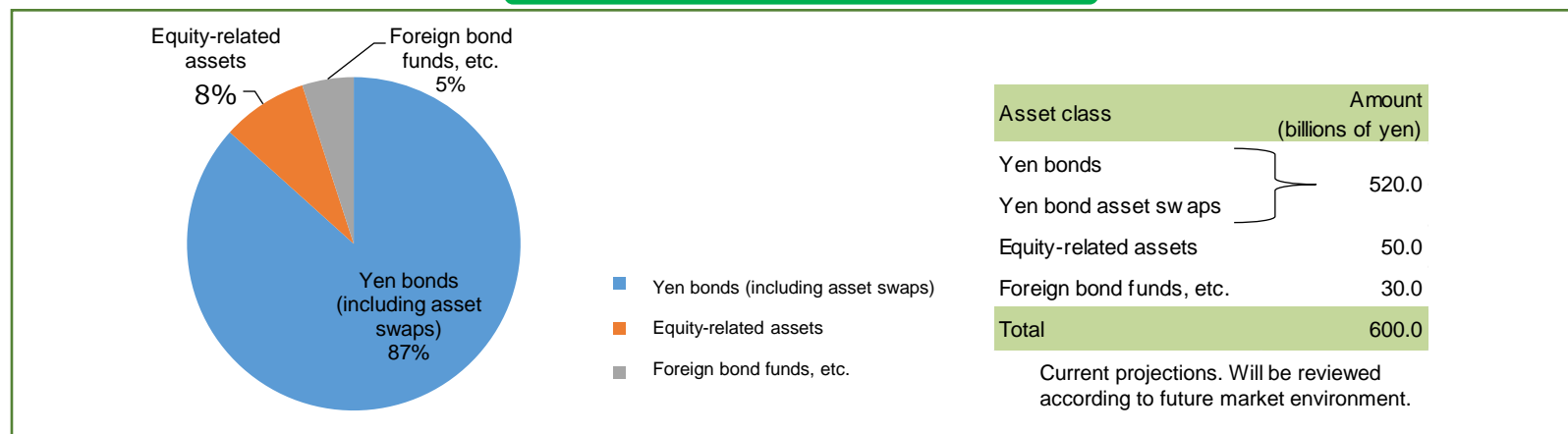
Restructuring of Securities Portfolio

- As domestic interest rates are expected to rise in stages going forward, we plan to re-invest mainly in medium- to short-term government bonds (2–5 years) and asset swaps.

Target Indicators

	March 31, 2025	After 3–5 years
Yield on securities (excluding gains from cancellation of investment trusts)	0.43%	Improve by around 1% from FYE 3/2025
Yen bond duration	2.9 years	Around 3–5 years

Portfolio to Aim For



[Strengthening of Governance Structure]

The management team will secure both the soundness of invested assets and stable profits, and lead the strengthening of risk management systems, including improving the ability to analyze risk in market sectors (front and middle), and consideration of a diverse range of stress scenarios and countermeasures. They will also identify the risks hidden in bank management, such as market risk and credit risk, and conduct programs aimed at improving the management team's ability to confront such risks. In such ways, they will raise the effectiveness of risk governance.

Changes in Net Assets Section

Since the negative balance (i.e., valuation loss) of “Valuation difference on available-for-sale securities” will be transferred to a reduction in “Retained earnings” in net assets on the balance sheet, there will be no significant change in net assets, and the Bank’s corporate value will not change.

Net Assets on Balance Sheet (Consolidated)

(Billions of yen)

(Valuation loss)	March 31, 2024	March 31, 2025 (forecast)	
Valuation gains (losses) on other securities	(33.7)	Approx. (8.1)	(Note 1)
• Deferred tax assets	6.0	Approx. 2.5	(Note 2)
• Valuation difference on available-for-sale securities	(27.7)	Approx. (5.6)	

- Valuation losses recorded in net assets. Amount obtained by subtracting deferred tax assets from **valuation difference on available-for-sale securities** is recorded.
- * Deferred tax assets: Asset item used in tax effect accounting for recording amounts predicted to reduce taxable income (reduce income taxes, etc.)

[Forecast for March 31, 2025]

(Billions of yen)

	March 31, 2024		March 31, 2025 (forecast)
Share capital	27.4	Profit (forecast)	27.4
Retained earnings	119.4	Approx. Down 22.3	Approx. 97.1
⋮	⋮	Loss on sale	⋮
Valuation difference on available-for-sale securities	(27.7)	Approx. Up 22.1	Approx. (5.6)
⋮	⋮	Valuation loss	⋮
Total net assets	151.7		Approx. 151.5

(For change in net assets, only expected profit and changes in valuation difference on available-for-sale securities and deferred gains or losses on hedges are considered)

Notes

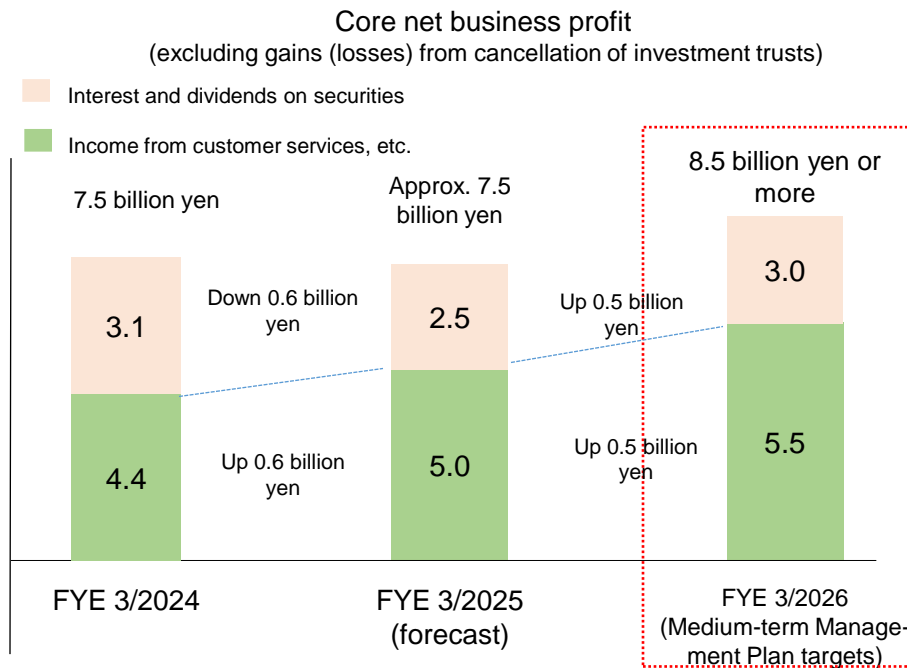
- Approx. (8.1) billion yen if valuation gain on interest rate swaps (approx. 1.4 billion yen) is included; approx. (9.5) billion yen if not included.
- Valuation difference on available-for-sale securities includes deferred gains or losses on hedges, etc. accompanying interest rate swaps.

Income Forecast/ROE for the Fiscal Year Ending March 31, 2026

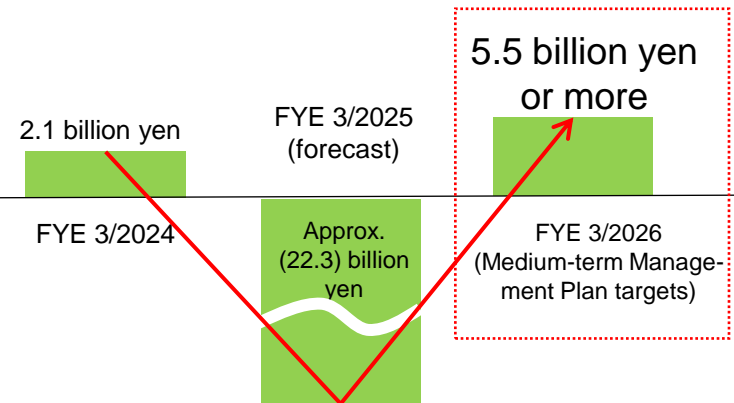
Core net business profit for the fiscal year ending March 31, 2026 (excluding gains (losses) from cancellation of investment trusts) and profit

Core net business profit, which indicates the income from the Bank's main business, and consolidated profit are expected to achieve the targets of the 11th Medium-term Management Plan.

* See "Sales Strategies" on the following slides for details.



Profit attributable to owners of parent



ROE (Consolidated/Net assets basis)

Fiscal year ended March 31, 2024	Fiscal year ending March 31, 2025	Fiscal year ending March 31, 2026 (Medium-term Management Plan target)
1.38%	—	3% or more

• We will consider increasing shareholder returns based on future improvements in business performance.

Restore risk-taking capacity by restructuring the securities portfolio to actively enhance SME loans

Sales strategy

Area-based support for the development of key industries

[Tochigi]

Manufacturing, transportation, healthcare, tourism, agriculture and forestry, real estate, construction, etc.

[Saitama]

Real estate, construction, transportation, healthcare, manufacturing, etc.

By FYE 3/2030,

Balance of SME loans Up 20% from FYE 3/2025

Earnings from solutions Up 30% from FYE 3/2025

Business direction – Gain the region's trust

Regional communities / Customers / Issues



Consulting Solutions

Enhance SME loans Enhance consulting business

Support development of key industries depending on area characteristics, strengthen consulting capability to enhance value of customer companies based on business feasibility. Create new financing needs through solutions to issues.

Systems/Human resources

System development/HR development

- Area head office system/Branch office grouping → Assign personnel according to area, improve operating efficiency in external relations and in-office clerical work
- Strengthen personnel capacity by improving operating efficiency → Strengthen face-to-face sales
- Strengthen head office personnel for area-based and industry-based strategies → Assign area-based and industry-based staff
- Streamline (reduce) clerical work and strengthen customer contact through DX
 - Non-face-to-face: Apps, internet branch, VR branch office, etc.
 - Indirect face-to-face: Support centers for individual/corporate customers
- Develop personnel with strength in business support → Enhance business support and management improvement support

Marketability

Market environment of the Bank's sales area

[Tochigi]

• High potential in a wide range of industries, such as manufacturing, transportation, healthcare, agriculture and forestry, and tourism-related industries. Large-scale redevelopment projects, such as LRT extension in Utsunomiya City, are actively underway in each area.

[Eastern Saitama]

Our second key operating base. Being within commuting distance of Tokyo, this area is expected to see only moderate population decline and an increase in the number of households in the immediate future. It is being developed as a distribution center with an advanced highway network.

Create financing demand through thorough consulting focusing on area-based and industry-based strategies that factor in the characteristics of and industry distribution in each sales area to enhance SME loans for regional communities.

Area-based strategy

- Analysis of regional characteristics and industry trends of each sales area
→ Clarify area-based promotion policy and targeting
- Collaboration between head office and branch offices to target regional core companies
- Flexible goal setting according to market characteristics
→ Support development of regional economy, increase loan share in regions

By FYE 3/2030 Increase SME loans balance by 20% (170.0 billion yen) compared with FYE 3/2025

Breakdown of balance

Tochigi	70%
Saitama	30%

Industry-based strategy

- Promotion of strategies for specific industries based on industry distribution in regions (manufacturing, transportation, tourism, agriculture and forestry, etc.)
- Support for SX, GX, etc. across entire supply chain (SX/GX support for SMEs in regions, with focus on core companies)
- Deeper risk-taking based on industry characteristics, etc.

By FYE 3/2030 Increase SME loans balance by 20% (170.0 billion yen) compared with FYE 3/2025

Breakdown of balance

Manufacturing	30%
Transportation, healthcare, real estate, construction, etc.	10-20% each

Solutions to issues

Solutions to issues

- Recognition of issues based on business feasibility assessments
→ Enhance consulting business
→ Create new financing demand from solutions

- Business succession
- Sales channel expansion
- Capital and operating funds
- Stronger collaboration with affiliate, C&C
- M&A
- Recruitment services
- Business plan development
- Equity investment

By FYE 3/2030 Increase earnings from solutions by 30% compared with FYE 3/2025 (consulting-related, finance-related)

Become Customers' Main Bank

- Thorough accompanying support for customers
- Promote compound transactions (business owners, corporate employee transactions, deposits, etc.)

- ⇒ Approx. 10,000 customers with Tochigin as main bank: Increase loan share by 10-15% per company
- ⇒ Approx. 10,000 customers with Tochigin as non-main bank: Increase loan share by 20-30% per company



The financial results forecasts and other information in this document are based on information available and certain assumptions that can be reasonably made as of the date of announcement of this document, and actual financial results may differ significantly from these forecasts depending on various factors.

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