

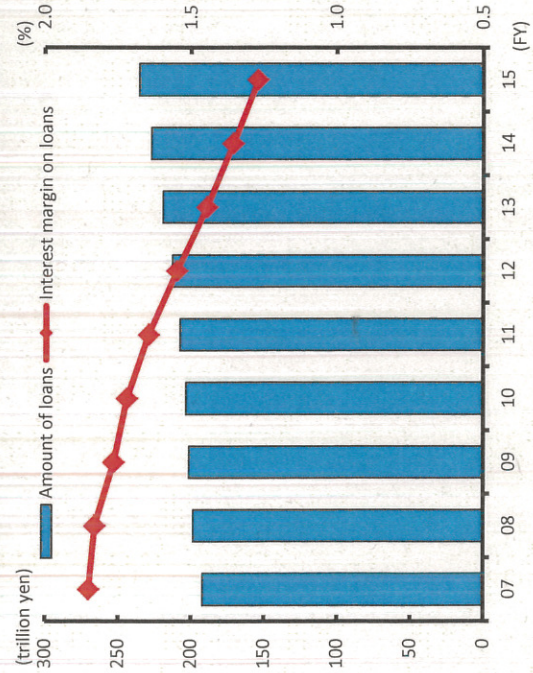
II. PROGRESS AND ASSESSMENT OF THE STRATEGIC PRIORITIES

II-1. Efficient and Effective Financial Intermediation and Sound Financial System

Regional Banks

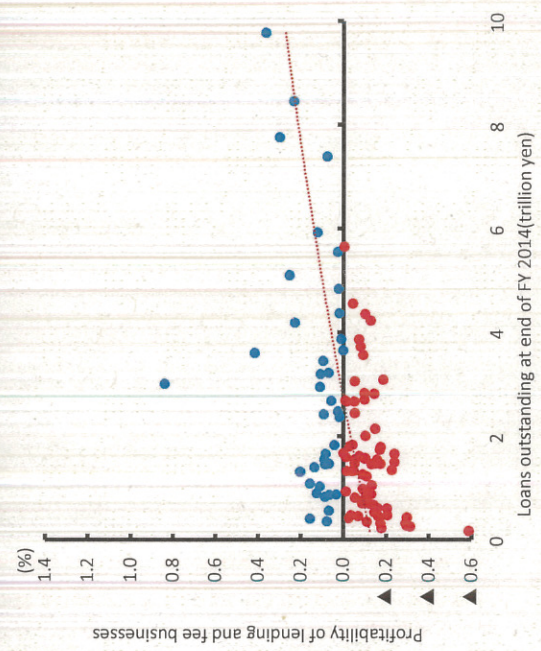
- Under the prolonged low interest rate environment, regional banks face difficulty in offsetting compressed loan margins by increasing lending volume. The profitability of the simple lending business model that largely relies on collaterals and guarantees may be diminished further as continued decline of credit demand is still anticipated due to the depopulation in Japan.
- Some banks have constructed the business model that makes profits by having better understanding of customers' businesses, satisfying their business needs, and contributing to increase in corporate value among customers.
- Corporate customers also have a tendency to prefer an offer of lending based on deep understanding of their businesses and/or support for business improvement, to that of lending at lower interest rates.

Lending margin and loans outstanding (Regional banks)



Source: JFSA

Estimated profitability of lending and fee businesses in 2025

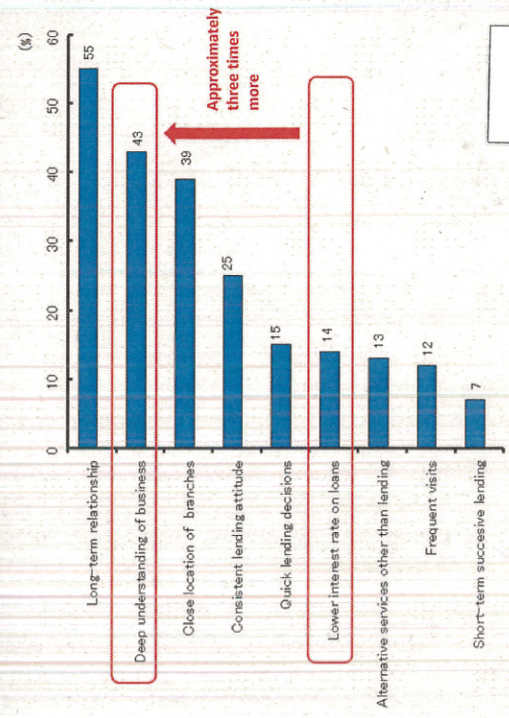


Rates of profit from loans and fee business = $\frac{\text{Profit from loans and fee business}}{\text{Outstanding amount of deposit}}$

Note: Profitability of banks should account for returns from securities investment, in addition to profit from loans and fee business.

Source: JFSA

What corporate customers expect from their main-banks



Source: JFSA