Main Questions and Answers

Part 1: A small meeting with the CEO

Q1	Efforts to boost ROE and future topics
A1	We need to continue to expand risk assets to achieve our target ROE of 6%. For this reason, we will aim to raise the top line while strategically building up traditional loan assets, such as corporate lending and home loans, as well as venture debt and other assets with relatively high yields. Strategies vary by asset class. For example, while we've steadily built up balances of market credit investment to date, we're also considering securing revenues through partial resale as a future option. For real estate finance, in addition to lending, we've built up assets via REITs and private investment funds. Henceforth, we also plan to tackle the asset management business via SFG Real Estate Investment Advisors, a newly established company. If we can achieve the asset allocation targets of the First Medium-term Business Plan, we may well be able to achieve net income of 80 billion yen, the level required to increase ROE to 8% even without taking rising interest rate factors into consideration. Ultimately, with the addition of rising interest rate factors, we expect to achieve ROE exceeding 8%. An emerging issue in securities investment involves rebuilding portfolios after writing off assets during 2016-2017 in which we recorded losses on foreign bonds. Under the First Medium-term Business Plan, we're working with a policy of further expanding the current balance of roughly 3 trillion yen in securities. We will continue to build the balance sheet while appropriately identifying market trends.

Q2	Reasons for efforts in areas such as low-ROA corporate lending
A2	While ROA is low on corporate lending and home loans, these are low-risk assets with which we can secure adequate RORA. We expect them to grow even more profitable as interest rates rise. To prepare for the future, we review the profitability of assets as a whole by shifting lending toward more profitable assets and by continually replacing securities to improve yields in the portfolio building process. However, the difficulty of raising interest rates on highly competitive home loans is a simple fact. One option in asset replacement is securitization. We need to seek out optimal solutions while maintaining a balanced portfolio as a whole—for example, by comparing the profitability of continuing to hold home-loan assets versus replacing them with other assets while securing revenues through securitization.

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Q3	**Approach to capital controls and capital utilization (M&A, regional bank reorganization) toward 8% ROE**
A3	We're currently conducting deliberations on matters including returns to shareholders, with regard to appropriate capital adequacy levels, on which we will provide additional explanations, together with results of considerations, in our future IR activities. With respect to M&As as an option for putting capital to use, there's room to consider options such as M&As by Group companies like Shizugin TM Securities and Shizugin Lease, in addition to the Bank. We would also like to take a forward-looking approach to considering investments in highly profitable nonfinancial fields. As explained previously, in considering regional bank reorganizations, we believe it's crucial to carry out investments acceptable to all stakeholders. This outlook remains unchanged. We need to consider various options while accounting for the changing environment, including rising interest rates and the growing importance of deposits.

Q4	**Appropriate capital adequacy ratio levels**
A4	The current capital adequacy ratio remains at the 13% level after accounting for the effects of the full-scale application of the final Basel III standards. This is about three percentage points above the regulatory 10.5% for banks operating under uniform international standards. The outlook on appropriate capital adequacy differs between managers and investors. From a management perspective, we believe we need to set aside a certain amount of buffer capital to continue to provide stable financial intermediary services to customers in the region. This reflects consideration for past risk events such as the 2008 global financial crisis and the Great East Japan Earthquake in 2011 and for earthquake and other risks specific to Shizuoka Prefecture. At the same time, from their viewpoint, investors prefer to see capital efficiently prioritized as much as possible. We're proceeding with internal discussions intended to reconcile these two perspectives. We would like to explain this point during briefings on capital policies in the third quarter and later.

Q5	**Use of external capital (insurance) to address earthquake risks**
A5	In anticipation of potential damage due to a massive earthquake, we're calculating necessary capital amounts for earthquake risks, divided into direct damage to buildings, facilities, people, etc. and indirect damage centered on rising credit risk. Since our estimates show that indirect damage accounts for most of the funds required to prepare for earthquake risks, the share of direct damage, which is covered by non-life insurance, is relatively small. We expect the extent controllable using insurance is therefore limited.

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Q6	**Outlook on risk diversification through alliances with other regional banks**
A6	In the past, nine regional banks from the Kyushu to Tohoku region formed an alliance for mutual referral of cooperative projects in lending outside their territories and the like, seeking to grow their loan assets and diversify risks. However, since each bank held its own view on individual projects, we felt that it would be ultimately better for each bank to pursue its internal efforts respectively. Currently, we have joint projects as the arranger in alliances with Yamanashi Chuo Bank and the Bank of Nagoya. We believe these alliances are proceeding well in terms of risk diversification and for other reasons. In internal risk management, we are also taking steps to diversify risks through means including investment in industrial and corporate bonds instead of solely loans.

Q7	**Background to establishing SFG Real Estate Investment Advisors and revenue projections**
A7	Since Shizuoka Bank's 10th Medium-term Business Plan, we've expanded our real estate finance initiatives ranging from real estate nonrecourse loans to mezzanine loans, equity investments, and others. We've expanded equity investments in particular as a business area in which we can draw on our equity capital to secure relatively high earnings, which would be difficult for other companies. Given this background, we've established this real estate investment advisory firm as the next stage. In the future, we will engage in asset management business at more upstream levels by leveraging the resources such as real estate networks and specialized skills we've built up to date, rather than simply building up assets. In the process of seeking out ways to involve the Group in real estate development projects in the community given the restrictions imposed on the real estate brokerage business under the Banking Act, a staff member who worked in real estate finance for years proposed launching a new company. This was the impetus for establishing SFG Real Estate Investment Advisors. Its business plans call for achieving 50 billion yen in asset size and approximately 500 million yen in revenue in three years and growing the business to generate revenue of about 1.0 billion yen in five to six years. However, given the state of development projects currently under consideration and other conditions, we expect it to show considerable business growth at a somewhat earlier stage.

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Q8	**Market credit investment policies and origination ratio**
A8	Our market credit investment assets are nearly at 1 trillion yen, if investments and other transactions are included. Loans alone make up about 800 billion yen of this total. Our origination ratio is about 20%. While we're involved in the origination of nearly all real estate nonrecourse loans, the other assets are mainly referred from external sources. Underlying our efforts in this field is the need to maintain smooth financial intermediary functions, branches, personnel, and other resources in the region to fulfill our roles as a regional financial institution amid changing business conditions. We consider this a field in which we can secure revenues for this purpose, and handle transactions such as market credit investment and asset-building loans in the greater Tokyo area. While in market credit investment we can increase balances by lowering interest rates, simply growing balances is not our goal. We're working to secure risk-appropriate revenues with an awareness of ROA and RORA.

Q9	**Outlook on the competitive environment and risks/returns in the market credit investment field**
A9	In market credit investment, it's possible to secure more transactions by lowering acceptable interest rate levels. But we're targeting something more than just increasing the balance haphazardly. In the phase of rising interest rates in the near future, we will manage market credit investment by maintaining a certain level of balances and considering generating revenues from sale of past assets, while replacing transactions with more profitable ones based on appropriate risk taking. While we have no clear target balance figures right now, we feel that balances are growing steadily, as there have been no major risk events through now. In consideration of burdens like monitoring costs due to higher balances, we want to grow this field over time, concerning matters including staffing and other structural improvements. We recognize that recently there have been numerous low-profit transactions in the market, like LBO loans and ship finance, but we're not considering hastily taking up such transactions. We consider this a field that individual banks should approach while maintaining their own policies and interest rate perspectives as they become more active in the field.

Q10	**Describe your targets for not just the final year of the Medium-term Business Plan but the midpoint two or three years from now as well.**
A10	With the First Medium-term Business Plan, we introduced sustainability KPIs and extended the plan's period from three to five years. Underlying this is the concept of presenting goals at hand by backcasting from our medium- to long-term vision and revising plans flexibly in response to changing environmental conditions to achieve the targets set for the final fiscal year. For this reason, since presenting the plan as a detailed time series would depart from our policies and outlook regarding the Medium-term Business Plan, we want to adjust the content of descriptions in future disclosures and dialogue.

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Part 2: Initiatives to implement sustainability management (efforts to maximize environmental and human capital)

Q1	**Advantages of the customer support options in the Shizuoka Financial Group, revenue opportunities from the deployment of Shizuoka GX Support**
A1	The Group is the only company in Shizuoka Prefecture capable of providing a diverse range of decarbonization support services on a groupwide basis. We believe our promotion structure leveraging this advantage is highly effective in developing wide-area activities from local initiatives, in cooperation with local governments. We have begun by offering Shizuoka GX Support first to companies with which we have credit transactions. More than 300 customers began using it within the first month after its release. In the city of Hamamatsu, other financial institutions also provide Shizuoka GX Support to their customers and share the data collected. We expect business opportunities to expand as we provide support options other financial institutions do not offer.

Q2	**Impacts on revenues and the credit portfolio of Scope 3 emissions reduction policies and analysis results**
A2	At the current stage, we have finally completed calculations for Scope 3 emissions. Initiatives based on the reduction policies and the results of analysis will be taken in the next step. We recognize this as an issue and will start considering specific measures.

Q3	**Measuring the effects of human capital investments**
A3	For human capital investments, it's essential to check how such investment leads ultimately to profits. We expect these results to appear first in long-term trends over three to five years. Rather than evaluating human capital investments by amounts of money for numbers of training sessions or costs, we need to examine how such investments are connected to strategies and to resulting profits on a timeline. As we move forward on building the HR portfolio, we believe increases in human resources such as those ranked highly in in-house certification programs and the value-creating HR called for in the First Medium-term Business Plan can be used as yardsticks to measure the effects of human capital investments.

Q4	**Outlook on hiring costs for building the HR portfolio**
A4	In expanding the ranks of strategic human resources such as value-creating and digital HR, we see a need to promptly verify the validity of the salary structure. Previously, the salary structure had been unilinear. Currently, we have adopted a partially multilinear structure. We are also considering applying pay tables to enable specialized human resources to earn remuneration corresponding to actual results. Salary levels are rising for specialized human resources, centered on digital domains. We sense the need for a timely review of their remuneration in the Company as well. A look at results of midcareer hiring shows 57 hires in the last fiscal year. We are on track to exceed that number this year, with 32 already hired as of the midpoint in the year. However, we believe building the HR portfolio envisioned for the final year of the Medium-term Business Plan would require us to proceed with hiring about 100 midcareer hires per year. We plan to expand midcareer hiring while considering various means such as referral hiring and use of alumni networks.

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Q5	Negative effects of revision of the HR evaluation system (decrease in quantitative evaluation ratio)
A5	In fact, despite concerns that the adoption of the new evaluation system would increase the number of branches unable to achieve performance targets, most employees see the new evaluation system in a positive light. This is a positive approach connected to customer-oriented business operations. We see no negative consequences at present.

Q6	Efforts to permeate a reform mindset among employees
A6	Following the introduction of sustainability KPIs in the First Medium-term Business Plan, we're making various efforts to enable executives and employees to understand our strategies and perform their duties with a true sense of growth. These include use of impact road maps that connect everyday duties to social impact and My Sustainability Books in which employees keep notes that reflect their understanding of the Medium-term Business Plan and connect them to personal growth. Recently, we have continually held townhall meetings for dialogue between management and employees. However, in certain aspects, it would appear that the management message is not being fully communicated to employees. We recognize numerous other remaining issues as well, including the need to overcome barriers between the Bank and other Group companies. Efforts to permeate this mindset among employees, apart from opportunities for direct communication by management, include one-on-one meetings in the workplace. We see it as especially important for workplace superiors to make time for subordinates and provide support for career development and job duties.

Q7	Outlook on management diversity and succession plans
A7	We believe diversity refers to human resources who have diverse experiences, not just gender diversity. We consider diversity essential to generating innovation. Recently through midcareer hiring, in addition to younger employees, human resources with varied experiences, including midcareer hires in their fifties who have built their careers with other firms, have come to play active roles in specialized areas. While these human resources are unlikely to play management roles immediately, we will continue to develop them as they learn the corporate culture. Until now, those who have served as presidents and directors of Group companies have been typically Shizuoka Bank veterans. From this point forward, we expect to see the appointment of human resources who have established track records in other industries, through midcareer hiring. Since numerous representatives of Group companies were reaching retirement age during the two-year period before and after last year's transition to a holding-company structure, we have sought to invigorate the organization by appointing human resources from the level of head office line heads and branch general managers as presidents. Some companies at which presidents were promoted from younger human resources have shown positive effects such as improved engagement survey scores and business results. We plan to continue efforts to make the Group a place where our human resources with diverse work backgrounds can work with peace of mind, regardless of age or gender.

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Q8	**Difficulty of achieving the KPI of percentage of leadership positions filled by women (40%)**
A8	While the general target for women as a percentage of officers is 30%, since about 40% of Company employees are women, we set this goal because we see it as necessary to match this percentage among officers. Targeting a KPI of 40% in the subsidiary Shizuoka Bank alone may be impractical. Practically speaking, we wish to achieve this KPI through Groupwide efforts, rather than at the Bank alone. The percentage of new hires who are women has grown to about 50%. An important current topic is increasing the number of female employees more willing to tackle challenges than at present, while developing all female human resources as a whole.

Q9	**A governance structure to achieve effective sustainability management**
A9	As we make sustainability central to our management, based on the recognized need to consider all projects from a sustainability perspective, we have renamed the executive organization responsible for management from the Management Execution Committee to the Sustainability Committee. This also facilitates reforms in the executive organization. For example, when launching a new service, we incorporate sustainability perspectives in deliberations at meetings, considering whether the service system is sustainable for not just the Group, but the community as well. We have established specialized committees in each of the areas of the environment and human capital: we established the Environmental Working Group under the Environmental Committee and three working groups—on HR development, DEI, and wellbeing—under the Human Capital Management Committee. Under this structure, details of deliberations in each of these bodies are ultimately reported to the Board of Directors.