Main Questions and Answers

SHIZUOKA FINANCIAL GROUP

Q1	**What are your thoughts on the meaning of holding the stock portfolio and its balance in terms of economic capital from the perspectives of (i) balance with hedging against interest rate risks, (ii) volatility management for equity capital, and (iii) the downside risks of a crisis?**
A1	While we estimate surplus equity capital from an economic-capital perspective to be about 300.0 billion yen at a capital cost of 8%, the capital level required to maintain a surplus of 2–3% over the regulatory capital needed for stable management is about 200.0–250.0 billion yen after deducting 7.5 trillion yen in risk assets. Since this is about the same as the gain/loss on the valuation of our share holdings, we consider the current balance of shareholdings to be appropriate, based on the thinking referred to earlier. Although 200.0–250.0 billion yen may seem high when considering stocks as hedging of bonds from an interest rate risk perspective, our thinking on the meaning of bond holding differs from that for stock holding. Decisions concerning bond holdings are made based on considerations on interest rate risks in both deposits and loans, as they should play a role to achieve stable management in the gap between deposits and loans. In the case of the Shizuoka Financial Group, gains/losses on the valuation of bonds are much smaller than gains/losses on the valuation of stocks. For this reason, it would be unrealistic to strike a balance in amounts held between stocks and bonds. As for managing the volatility of equity capital, in our case, we conduct capital allocation in the amount minus unrealized gains on stocks. Thus, the stock volatility does not affect our risk tolerance. Also, since the level of the Nikkei Average at which gains on valuation of our stock holdings would be zero is about 6,500 yen, we believe the downside risk is extremely limited.

Q2	**Do you plan to disclose the amount of dividend income on stocks? Also, in this announcement, you stated that in determining year-end dividends, you considered about 50% of dividend income on stocks. What is your thinking on dividend amounts for the next fiscal year and beyond?**
A2	At this time, we do not expect to disclose the amount of dividend income on stocks to the public. Under the tax rates in effect, the amount of dividend income on stocks divided by the current number of shares issued and outstanding is about 10 yen per share. In this revision, in determining year-end dividends, we considered an amount of five yen per share, or 50% of that amount, in connection with the resolution being passed in the second half. I can’t comment at this time on dividend amounts for the next fiscal year and beyond, but our basic thinking calls for making dividend decisions based on a comprehensive consideration of dividend income on stocks with regard to full-year dividends.

Q3	**Future cooperation with the Monex Group**
A3	At this time there has been no particular change regarding the Monex Group. The deal with NTT Docomo was just completed in January 2024.

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Q4	**Assuming a target dividend payout ratio of 50%, is there any chance the total payout ratio might exceed 50% if you happen to acquire treasury stock in the future?**
A4	Our policy is to strive to achieve this target by progressively increasing the payout ratio. In doing so, we expect to continue to acquire treasury stock dynamically, keeping in mind the difference between the total payout ratio and the dividend payout ratio. While we're seeking to increase the total payout ratio over the medium to long term, it might also surpass 50% on a single-year basis at times. This policy has made our approach emphasizing dividends clearer, but it is not intended to rule out the acquisition of treasury stock. However, doing so would also require consideration of other matters, including share liquidity.

Q5	**What kind of discussions are proceeding concerning efforts to increase ROE from the perspective of increasing profitability?**
A5	At this stage, we are proceeding with studies while reviewing the scenarios of the Medium-term Business Plan. We hope to disclose these efforts in the large meeting planned for May. While we aren't adding any large-scale factors like new fields, SFG Real Estate Investment Advisors, which was established last year, was duly authorized and is now prepared to begin operations in April. This is a field for which there are high expectations in the region as well. We will prioritize this as we move forward.

Q6	**Does the dividend income on stocks that you're considering as a funding source for dividends include shares transferred from cross-shareholdings to pure investments? You've identified reducing cross-shareholdings as a basic policy from a corporate governance perspective. Is this consistent with your new policy on shareholder returns and your thinking on holding shares of stock?**
A6	Shares held after transfer from cross-shareholdings to the pure investment category are considered shares that we decided to continue to hold based on investment efficiency. We do consider dividends from these shares as a source for returns to investors. Our policy on holding cross-shareholdings is to clarify the meaning of holding each, such as business investments, enhancement of transaction relationships, and contributing to the community. We plan to accelerate reduction in our holdings of shares for which shareholding no longer appears meaningful, and we consider this policy to be consistent with our basic policy of reducing cross-shareholdings in accordance with the Corporate Governance Code.

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Q7	**Will the pace of reducing cross-shareholdings and levels of ROE targets be included in future revisions of the Medium-term Business Plan?**
A7	We're considering revising the Medium-term Business Plan in light of changing external environmental conditions, centered on domestic and overseas interest rate scenarios. We do not, at this point, expect anything like a sharp increase in the ROE target from six to eight percent. We do, however, consider matters like the details of investments and expenses to be subject to revision, in addition to interest on loans, fees and commissions, and Group company earnings.

Q8	**On what point did the Board of Directors demonstrate the widest divergence of opinion in the process of deliberations on revising financial targets and shareholder return policies?**
A8	The Board repeatedly deliberated on matters such as how to increase ROE and PBR while stably demonstrating our financial intermediary functions as a regional financial institution and maintaining our policies on holding and reducing cross-shareholdings. Outside directors have commented that the recent revisions made to the capital policies were beneficial. Some have also commented that directors need to be determined to envision a fairly resolute growth strategy and continue to grow profits in order to increase dividends and returns to shareholders as shown this time.

Q9	**What points of this disclosure do you think most reflect your aspiration as CEO?**
A9	While we've pursued management to continually boost value per share in the form of EPS and BPS, unfortunately these efforts have not been reflected in share price, and our market capitalization has decreased as a result, which has concerned me. We don't know yet how the market will react to this revision, but we hope our shares will be held by investors who understand and support the Shizuoka Financial Group's initiatives and thinking. We will also seek to achieve a virtuous circle in which we consider dividend payout as a key to the shareholder returns policy while various stakeholders in the region, including local customers and Group personnel, hold our shares, and our dividends contribute to the wellbeing of all shareholders. In this way, I believe these capital policies reflect our vision embodied in the First Medium-term Business Plan.

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Q10	**Will there be some years in which you will not acquire any treasury stock under the change in the shareholder returns policy? Also, why did you choose FY2027 as the target year for achieving a payout ratio of 50% or higher?**
A10	We will consider the acquisition of treasury stock annually while taking into consideration various factors, including share price levels, earnings forecast, and risk events, keeping in mind the medium- to long-term total payout ratio. From the management's perspective, we definitely do not consider the target dividend payout ratio of 50% to be low. Since our policy is to pay dividends progressively without reducing them, this revision will not change our basic thinking, even if dividend income on stocks fluctuates. We have also decided to continue targeting progressive increases through FY2027 to demonstrate the management pursuit of steadily and progressively growing dividends.

Q11	**Reasons for revising the shareholder returns policy at this timing**
A11	We decided on the timing of implementation with consideration for various factors in addition to the results of internal discussions concerning matters such as capital costs and share prices. For example, on the topic of the progress of the Medium-term Business Plan, we considered the steady expansion of the Plan's measures in areas like DX initiatives and responding to community issues through support for decarbonization and other efforts, in addition to steady progress in profit from our main businesses due to growth in loans, deposits, and fees and commissions. On the topic of growing new business domains, a Groupwide issue, each Group company is moving in a positive direction under its own steady efforts. We have reached a state at which we are confident about future growth. Furthermore, a new NISA system was launched in January 2024. We consider these revisions an excellent opportunity to interest customers in stock as asset building investments by making them more attractive. With this Medium-term Business Plan, we're seeking to enhance returns not just to shareholders, but to the region and Group personnel. We expect to proceed with various studies in the run-up to April; this is why we have chosen this timing for the revisions.