

Small Meeting with the CFO (February 19, 2026)
Main Questions and Answers
Speaker: Executive Officer and CFO Hiromitsu Umehara



Q1	With differences emerging among regional banks with respect to balance sheet management, what trends do you see emerging in relation to boosting deposits and securities? Also, how would you assess your own balance sheet management?
A1	<ul style="list-style-type: none"> • In a world of positive interest rates, while net interest income is growing, ways to secure deposits and the rate of growth of these deposits are also changing. We expect future profit growth to vary widely depending on balance sheet management. I'm in no position to comment on the strategies of other banks, but since growth in net interest income depends on the rate at which deposit interest rates track policy interest rates, it's important to carefully control the pass-through rate in determining deposit interest rates and JPY fundraising costs overall. • Also, fundraising restricts balance sheet growth. Given that it's essential for banking businesses to manage highly liquid assets at certain levels based on liquidity regulations, we believe the presence or absence of a clear vision for building the securities portfolio will result in a significant difference in the earnings composition of a few years into the future. Now we are building the portfolio with an eye on prospects for the terminal rate a few years in the future. For the time being, we can say we're able to carry out balance-sheet management with some leeway for investment.

Q2	What progress have you made in considering profit levels and capital policies for the next Medium-term Business Plan?
A2	<ul style="list-style-type: none"> • In the next Medium-term Business Plan, we'd like to adopt strategies based on an awareness of the need for continual growth in ROE while incorporating inorganic growth in addition to organic growth centered on our core businesses. We also recognize appropriately controlling the level and composition of equity capital as an ongoing issue. I'd like to refrain from discussing the details of capital policies at this time, but we do plan to hold a briefing on them in April.

Q3	How will you proceed with yen bond replacement operations going forward?
A3	<ul style="list-style-type: none"> • We've made steady progress with sales of low-yield bonds while taking a very cautious approach to purchases, given the uncertainty about long-term interest rate trends. As such, we have some leeway for investment in the securities portfolio as a whole. • Since high stock prices are boosting unrealized gains on shareholdings, we're considering additional replacements of yen bonds while keeping an eye on the results at the end of the fiscal year. We'd like to make the portfolio sounder and more efficient to increase net interest income in the next fiscal year and beyond.

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Q4	As valuation differences on securities show an increasing trend, will your CET1 ratio target and control policies change?
A4	<ul style="list-style-type: none"> The current value of the balance of shareholdings is increasing more than anticipated due to rising stock prices, but there's no change at this time in our CET1 ratio target or our policy of reducing the ratio of valuation differences on securities to equity capital. We also see accelerating the pace of sale of shareholdings to be an issue for the future from the perspective of reducing strategic shareholdings.

Q5	In structuring the yen bonds portfolio, has there been any discussion on proceeding with the purchase of variable rate bonds in light of projected future interest rate hikes? Do you anticipate any risks if you do increase variable rate bonds?
A5	<ul style="list-style-type: none"> We aren't excluding variable rate bonds from our investment assets, and we hold some right now. But they need to be held with care, because they can lead to valuation losses, depending on trends in swap rates and other matters. From an interest rate risk perspective, we believe that increasing investment at fixed interest rates at this time would be a better option because of its balance sheet structure with close to neutral interest rate risk. So, from a risk-management perspective there's no need to increase variable rate bonds at this time.

Q6	What risks do you anticipate in association with the increases in policy interest rates and the Shizuoka Financial Group stock price? And what factors are involved in further increasing the Shizuoka Financial Group stock price in comparison with competitors in the industry?
A6	<ul style="list-style-type: none"> We anticipate that it would become harder to expand the balance sheet as the pass-through rate rises, given the growing difficulty of securing deposits. Going forward, we will need to carry out cost controls for JPY fundraising overall while considering supplemental methods of raising funds other than deposits. We recognize yields on Shizuoka Financial Group stock to be at a low level compared to PBR, and we need to act to increase yields to encourage even more investors to hold our stock. We'd like to add shareholders as the composition of shareholders changes with decreases in cross-shareholdings and other factors. Compared to the stock prices of others in the industry, it will be important in respect of stock price to reliably achieve our profit targets, even as balance sheet management grows increasingly difficult. We believe the current stock price reflects expected profit growth from rising policy interest rates to some degree. Whether we can keep up with market expectations is an important point.

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Q7	What are your thoughts on the ratio of valuation differences on securities to CET1?
A7	<ul style="list-style-type: none"> Based on our experience in overcoming various risk events, we consider a CET1 ratio of about 13% to be the level of equity capital we need for stable management. Since most assets held in the banking business are assets at risk, and there's a risk that asset values may be damaged by fluctuations in current values or rising credit risks in the event of an economic crisis like the 2008 global financial crisis, holding a degree of assets with high liquidity and unrealized gains, like our shareholdings, serves as an important buffer for stabilizing management. But since rising unrealized gains on stocks pushes ROE down, we want to achieve the target ROE through profit growth centered on core businesses.

Q8	Will it be possible to grow Shizuoka Financial Group's profits and increase its share price continually even as ROE growth slows in the future due to rising interest rates?
A8	<ul style="list-style-type: none"> Recent rising share prices in the banking sector are due in large part to an interest rate bonus associated with rising policy interest rates, and as you point out, we expect the rate of growth to slow with any slowing in rising JPY interest rates. To achieve ROE at the 10% level while growing profits in the future based on this assumption, we understand we will need to incorporate non-interest inorganic growth from outside our existing business domains. We plan to invest actively in growth to generate higher corporate value.

Q9	What will you need to do to increase net interest income, given that your volume of deposits is relatively small among leading regional banks?
A9	<ul style="list-style-type: none"> Growth in net interest income comes from a combination of growing asset-liability margins and increasing deposit balances. The volume of deposits and their rate of growth, which are the sources of growth, differ between metropolitan and rural areas. Under the next Medium-term Business Plan, we plan to carry out balance sheet management through liability allocation to control the pass-through rate of JPY fundraising costs overall, combining supplemental means of raising funds in addition to deposits.

Q10	To what degree will you control the pass-through rate of JPY fundraising costs overall?
A10	<ul style="list-style-type: none"> The pass-through rate of ordinary deposits to rising policy interest rates is about 40%. We plan to diversify fundraising while controlling the pass-through rate of overall JPY fundraising costs to about 50%.

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Q11	Are you considering revising methods for providing for allowances for doubtful accounts to avoid potential future risks?
A11	<ul style="list-style-type: none">• Even under the current conditions, we can keep credit costs stable at low levels by providing for preventive reserves based on the DCF method for borrowers at risk of a certain size. We haven't made any decisions on revising our methods of providing for reserves, but we plan to continue to study ways to stabilize credit costs—for example, by considering whether we need to broaden the preventive reserves framework to include not just individual borrowers, but entire industries. The tourism industry, for example, was dramatically affected by COVID-19 across the whole industry.

Q12	Is it possible to apply a method that would incorporate the probability of events in calculating allowance for doubtful accounts?
A12	<ul style="list-style-type: none">• Since audit firms generally employ future estimates based on actual past rates of failure, there's a high hurdle for incorporating future forecasts or hypothetical elements into the bases used to calculate allowances for doubtful accounts. The focus is on the track record. We believe that in the Japanese banking industry calculating allowances for doubtful accounts based on independent standards is a rare practice.

Q13	What's your assessment of holding foreign bonds while yen bonds become more profitable with rising JPY interest rates?
A13	<ul style="list-style-type: none">• Since gains on investment in yen bonds were low during the years of negative interest rates, we secured gains on foreign currency through investments in foreign bonds. But given recent rising JPY interest rates and the gap between long- and short-term USD interest rates, this isn't the time for growing the foreign bonds portfolio. In addition, while we've used JPY to date to raise foreign currency through transactions like forex swaps, as JPY fundraising becomes increasingly important going forward, we want to pursue an approach to portfolio management with balance in mind by basically raising foreign currency funds for investing in foreign currencies.

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Q14	What are your views on the results of the alliance strategy and its future growth potential?
A14	<ul style="list-style-type: none"> One area where the alliance strategy contributes significantly to profit is structured finance. Since our alliance partner banks have a relatively bare track record in this field, their participation in transactions structured by us generates earning opportunities for both sides. Numbers of real estate nonrecourse loans structured with support from SFG Real Estate Investment Advisors have recently grown. Since we can participate in structuring real estate development projects ourselves as a financial group, we're building cooperative relations in which we earn gains on structuring transactions while alliance partner banks contribute funds. We consider this to be a unique benefit of our alliance strategy. Additionally, solutions to common regional issues like declining populations are an important theme of the Mt. Fuji-Alps Alliance, and we're working with local public agencies to encourage relocation to the three prefectures of Shizuoka, Yamanashi, and Nagano. These are long-term efforts, which will take time to measure their results, but we want to continue focusing on solutions to regional issues.

Q15	In what specific fields will you realize inorganic growth under the next Medium-term Business Plan?
A15	<ul style="list-style-type: none"> Among the three business domains we plan to promote under the next Medium-term Business Plan (co-creation, growth, and challenge domains), we consider challenge domains to be the main sources of inorganic growth. Examples of business fields related to finance include not just banking, but businesses like funds settlement, including the lease and BaaS businesses. We plan to broaden our business domains by means such as external resources incorporated through M&As, in addition to ones created internally from a clean slate.

Q16	What are your thoughts on investment and cost discipline in the next Medium-term Business Plan?
A16	<ul style="list-style-type: none"> We plan to continue to invest in fields required for future growth, like human capital and IT systems, with all due financial discipline. For human capital investments, in addition to continuing to consider base pay increases and other ways to secure capable human resources, we also plan to develop working environments in the greater Tokyo area to enable employment even outside Shizuoka for certain job responsibilities. We plan to proceed with steady investment in IT systems, starting with high priorities, while balancing offensive and defensive approaches. From a defensive approach, we consider it important to invest in areas like cybersecurity, based on examples of cyberattacks on other companies.

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Q17	What actions are needed to realize continual growth in ROE?
A17	<ul style="list-style-type: none"> In light of recent financial conditions and other factors, we recognize this to be the time for proceeding with sales of shareholdings to rectify capital levels and composition. In recent years, gains on sale of stock have accounted for a considerable proportion of final profits. But it's important to allocate gains on sale of stock to operations that will generate future top-line growth, rather than just driving up profit levels temporarily. We'd like to aim for a state in which core business profits not including gains on sale of stock continue to grow.

Q18	How do you position home loans in balance sheet management in a world of positive interest rates?
A18	<ul style="list-style-type: none"> Since home loans lead to long-term transactions with household customers, they represent an important asset for building the customer base. At the same time, since loan interest rates remain low even in a phase of rate hikes, we don't consider them to be efficient investment assets. In times of negative interest rates, ultimately it was preferable to add any assets with positive interest rates to the balance sheet. But in a world of positive interest rates, we may need to choose other options, like moving them off the balance sheet while considering securitization of assets or other methods if their efficiency is low.

Q19	What are your views on the significance of a regional bank with a securities subsidiary?
A19	<ul style="list-style-type: none"> Shizugin TM Securities has a history of more than 20 years, centered on sales to retail investors. Its lines of business are extensive compared to the securities subsidiaries of other regional banks, and it consistently generates a high level of business performance. One way having a securities subsidiary matters to us is in the capacity it provides to meet a broad range of customer needs. As a securities company affiliated with a regional bank, many of its clients prefer instruments that can promise stable returns above stocks subject to significant price fluctuations. In addition to general financial instruments, we partner with Shizugin TM Securities to offer investment trusts related to trade finance, which we structure. We plan to continue to take the steps necessary to ensure it functions as a securities company that offers one-of-a-kind instruments that meet customer needs.

Q20	How will the wave of industry reorganization among regional financial institutions affect Shizuoka Financial Group's competitive advantages?
A20	<ul style="list-style-type: none"> There's been no specific talk of industry reorganization in Shizuoka Prefecture yet, but in a world of positive interest rates, there's going to be a need to reform the business structure, especially at smaller financial institutions. Even in the event of a reorganization of regional financial institutions, we believe financial institutions like us, with a certain business scale and competitive strengths in the region, will retain their competitive advantages.