(June 26, 2026) Main Questions and Answers from Small Meeting with Outside Directors

(Speakers: Directors Kumi Fujisawa, Kazutoshi Inano, and Kazuto Tsubouchi)

SHIZUOKA FINANCIAL GROUP

Q1	In the banking business environment, everything appears to be going extremely well. Given such environment, what management risks do you see? What measures and issues do you think the management team needs to address over the next five to ten years?
A1	(Director Inano) ・ Both megabanks and regional banks tend to view the banking business in relative terms, in comparison to other banks. However, repeated comparison to one's competitors on an everyday basis may lead to self-contradiction in a bank's perspectives, resulting in a tendency to cling to conventional industry or corporate perspectives. These perspectives aren't automatically wrong. But in a time of dramatic change, they can lead to missteps. The question becomes how to look at ourselves objectively while maintaining our pride and confidence in our company. Although it's hard to predict the world five or ten years into the future, brand new competitive schemes are likely to emerge. Keeping this in mind, it will be critical to improve our capacity to think independently, without falling into self-contradiction. I think the Shizuoka Financial Group has the potential to adapt to various changes. (Director Fujisawa) ・ One issue we need to recognize for the medium to long term is the changes in industrial structures AI will generate. There's a move toward regulatory reforms in various domains based on the presumed progress of AI. Since it's part of a regulated industry, a financial institution needs to seriously consider what roles it will play above and beyond existing regulatory frameworks and how its business model might change. Personally, I see the role of a financial institution changing into one resembling a trading company that manages regional assets. But we need to discuss in greater detail what functions will be needed going forward while envisioning future developments, including my scenario. ・ The management team, myself included, needs to send out feelers across industry boundaries, both domestic and international. We need to consider the future of the Group from the perspectives of the industrial structures and consumer behaviors that might emerge in the era of the AI revolution and how to strengthen Japan's economy. To do this, we'll need to develop management human resources that strengthen Group management. We must strive to develop a reliable pool of future management, envisioning a point in time five to 10 years from now while continuing to pursue new challenges. (Director Tsubouchi) ・ The greatest risk is that banks themselves will disappear. Finance has various components. I think each of these component functions will themselves remain in demand, but the form of banks may not prove to be the ideal way to handle these functions. There's a real possibility that banks as we currently understand them may no longer be needed. ・ For example, the telecommunications industry, where I worked, was a world exposed to game-changing technologies in which current standards become utterly obsolete within a decade. We were forced to learn to accept cycles of adapting to change, taking an approach to development that looked 20 years into the future simply to remain viable 10 years into the future. As the AI footprint expands, we need to imagine a future in which other industries develop and provide some financial services traditionally provided by banks. We need to cultivate a sense of urgency that recognizes that the emergence of competitors from other industries, with no regard for the existing financial industry's rules and conventions, might threaten the survival of the bank itself. I sense that management has some awareness of these potential developments, but I think rank and file employees lack the awareness that their own jobs might very well disappear. ・ I agree with Director Fujisawa that the first step toward finding a solution is to familiarize ourselves with and to become more sensitive to AI and other technologies, keeping our eyes focused on a future five to 10 years from now. In a highly uncertain world in which we are unsure what will transpire, it's important to increase the vitality of the Group by broadening our business domains into areas we recognize to be promising and to establish a cycle of accurately evaluating and promoting human resources who contribute to results.

Q2	As part of the revisions of the executive remuneration system, you’ve added evaluations by ESG rating agencies as a new nonfinancial KPI. Don’t you think it may impede proper allocation of management resources if winning better evaluations from ratings agencies becomes the goal? It seems to me—for example—that things like regional co-creation and social impact would be suitable KPIs from an ESG perspective. But how do you assess the relationship and balance between increasing corporate value and external ESG evaluations?
A2	(Director Tsubouchi) ・ We’ve repeatedly discussed revising the executive remuneration system in the Nomination and Remuneration Committee. It’s a topic that draws various opinions and perspectives. It’s true that the markets value companies who focus on ESG evaluations. But, personally, I think it’s preferable to have clear and simple evaluation standards. By this I mean that what really matters is real world growth in corporate value. I think we should be careful about relying too much on qualitative evaluation criteria if we use any. I believe recent revisions come from keeping this balance in mind. (Director Fujisawa) ・ I basically see ESG topics as topics to be addressed as a matter of course. A good faith approach to ESG is essential to realizing corporate visions. But as you point out, allocating undue management resources to improving evaluations from outside agencies puts the cart before the horse. Management needs to avoid such situations. Recently, AI and other technologies have emerged to support tasks like data collection and materials preparation. I’d like us to keep moving forward toward optimal management while making effective use of these new resources. (Director Inano) ・ Qualitative KPIs seem to lack stability as evaluation criteria. It’s hard to generate useful evaluations if we give them weight equal to quantitative evaluations. ・ That’s why we want to see progress in how external agencies perform their evaluations. As a user of these evaluations, we need to find ways to handle the results in combination with other quantitative evaluations. I believe, for now, that qualitative evaluations should be given lesser weight. That’s been my recommendation in internal discussions.

Q3	You seem to be promoting AI use from a bottom-up approach. How do you plan to apply AI at the management level—for example, in the activities of the Board of Directors?
A3	(Director Fujisawa) ・ The Board of Directors isn't really making active use of AI at this time, but I think we'll need to do so at some point. I also serve as an outside director at other companies. Some of them use AI in board meetings by having AI read all meeting materials and identify agenda items before discussions. Since we already have the option of using business smartphones to ascertain internal information and the state of various discussions, we can add an AI layer to have smartphones automatically generate and present the latest topics. We can think about many potential AI applications, and I'm planning to consult with the secretariat regarding what we can do. ・ Even before using AI itself, I think management needs to strengthen its insights on how AI might transform industrial structures and the financial industry. Since this will require experiencing how AI is used and how it contributes to decision-making, we should establish a framework for actively applying AI. (Director Tsubouchi) ・ AI presupposes databases. But some business execution sections report that some of our internal information hasn't been digitized yet in forms suitable for AI use and that it would be time- and cost-consuming to undertake the preliminaries needed to harness AI. I've pointed out that we're somewhat behind the times in this respect. But building a database is a massive endeavor. First of all, we plan to take certain steps, including integrating in-house databases, while proceeding with the work underway to migrate to an open accounting system as part of IT investment. As noted earlier, it looks like it's going to take more time to make strategic use of AI. But as this plays out, I think we can keep an eye out for new technologies and become more sensitive to their potential applications and risks. (Director Inano) ・ I agree with the perspectives the other two Directors gave just now on using AI at the management level. The only thing I would add is that in light of the future growth potential of the AI business, the companies and groups involved in AI are likely to become increasingly important presences as customers. Shizuoka Financial Group is making progress on networking with and gaining insights from AI-related firms through various activities, including organizing TECH BEAT Shizuoka. I believe management needs to maintain this perspective.

Q4	Have you put the brakes on any matters submitted from business execution sections during discussions at the Board of Directors? If so, what were the reasons? Likewise, have you chosen to hit the accelerator on any projects that had been delayed?
A4	(Director Tsubouchi) ・ I'll refrain from commenting on specific projects. But I'd like to point out that I had doubts about targeting an ROE of 10% over the medium to long term when we were considering the Second Medium-term Business Plan. I could imagine an ROE of up to around 9% without incorporating the bonuses generated by rising interest rates, but it was hard at that time to envision anything beyond 10%. I went over all of this in great detail with the CFO. It's about thinking about how we decide on target profit levels. So I think it's necessary to request a clear explanation for any ambiguity. ・ My second example was about our approach to considering new business projects. Frankly speaking, some cases failed to strike the necessary balance between profitability and social contributions. There were projects with the focus obviously on creating social value and an implicit sense that losses would be unavoidable. I tapped the brakes on such overly optimistic projects and presented my opinions. Regarding such sense of balance, there seems to a slight distance in perspective between those who've spent their whole careers in banking and us as outside directors. (Director Fujisawa) ・ Like Director Tsubouchi, I've tapped the brakes in considering new business projects. I'm not fundamentally opposed to new businesses, but I had the strong feeling that the risk management perspective was lacking. When consulting the Board of Directors, those who propose new projects should identify and assess various related risks beforehand and explain to us why they want to move forward despite the need of measures against risks. ・ From a similar point of view, I hit the accelerator during discussion on authorizing the Group company representatives. I emphasized my desire to give them the authority they need as managers of their companies and to take more aggressive initiatives. (Director Inano) ・ I agree with what the other Directors have said. My example also involves new business initiatives. I have my doubts about the tendency for business plans to become something like a neatly organized program. New business development requires a more ambitious and energetic approach. ・ I'm not opposed to bringing up a lot of new business proposals. Not all of these will make it past the stage of discussions. But rather than simply drafting plans, I think adding some passion and aspiration to them might help generate even more promising new businesses.

Q5	Among the megabanks, there’s been a trend for top management to issue statements on a specific vision that their organizations aim for. What kind of discussions do you engage in to determine the vision of the Shizuoka Financial Group?
A5	(Director Inano) ・ Right now, The Shizuoka Bank is a dominant organization under the holding company structure, and business integration with The Bank of Nagoya is approaching. Given all this, our most important topic for the future will concern how we should handle the relationship and balance between banking and other businesses. The structure after the integration will involve two banks. But if opportunities emerge to grow the banking business further, would it be possible to integrate an additional one or two banks in different regions? That seems simply improbable given current conditions, but we need to explore what kinds of conditions would make it happen. In this way, we must discuss the future of the Group in various aspects. ・ If so, we would need to discuss how to position KPIs like ROE and business scale, including total assets, based on an overview of overall industry trends. As I mentioned in last year’s meeting, ongoing considerations of the ideal scale for the Group should produce a range of answers. (Director Fujisawa) ・ Various topics are prompting internal discussions about what directions Shizuoka Financial Group should take. One answer is the recently published Second Medium-term Business Plan, which sets forth our ambitions to build the region’s future under the slogan of “Kick off your future,” while contributing to the region’s growth and enrichment and targeting various KPIs, including ROE. ・ With the upcoming business integration with The Bank of Nagoya, we are going to play a role supporting the growth of a region central to Japan’s economy. To earn the support of even more stakeholders, we need to act so that we meet expectations regarding the KPIs and make the most of new technologies. ・ You asked about a specific vision we have for the future. I think the concept of being the world’s leading regional bank, a motto used by The Shizuoka Bank before the holding company structure, makes the vision easy to understand. Supporting regional economic growth is an essential cornerstone for this vision. (Director Tsubouchi) ・ Although it essentially appears as contradictory, I also think “the world’s leading regional bank” is a great catchphrase. Based on discussions with company management, I sense that they take their presence and reputation in the region very seriously. In the telecommunications industry, where I worked, there’s a tendency to subdivide companies by function. It’s considered commonsense to discuss integration and reorganizations in terms of function. But our management has a perspective essential to the financial industry, which is to consider whether the counterparty would be an appropriate partner and whether there’s any reputational risk. ・ I think setting the three business domains of co-creation, growth, and challenge in the Second Medium-term Business Plan is a very good approach, because it defines the co-creation domain not as a physical area, but as a market united by a relationship of coexistence and coprosperity. Shizuoka Prefecture is at the center, but if it has the potential for cocreating value, any project anywhere in the world, not just in the region, could be qualified for this domain. Similarly, projects in Shizuoka Prefecture can be qualified for the challenge domain. By establishing business domains along horizontal and vertical axes in this way, we can present the “the world’s leading regional bank” concept without being paradoxical. If a regional bank can advance into the world based on its specific strengths and properties, it has a chance to become a world-leading bank. ・ Another essential point toward this end is the success of Group management. Rather than a relationship in which the Bank is positioned at the center and Group companies orbit like satellites, I think it’s important to establish a number of Group companies who are peers of the Bank in quality and scale, each with its own distinct identity. I look forward to seeing some of those companies achieve remarkable success. Perhaps the name and logo of our Group should be revised then.

Q6	What future issues do you see in connection with Group governance, given the increase in numbers of Group companies and the upcoming business integration with The Bank of Nagoya?
A6	(Director Tsubouchi) ・ With the transition to a holding company structure, we got the Board of Directors to focus on a monitoring role. I think this function will be more important than ever. The integration with The Bank of Nagoya will involve placing two large banks with different corporate cultures under a single organizational umbrella. That will be a change we’ve never encountered. Ensuring effective governance given this structure is critical. The internal audit section is also addressing this with great care and attention. But since such a structure of multiple pinnacles is a way to be ready for a future when Group companies other than the Bank grow large in scale, I think that the integration with The Bank of Nagoya came at the perfect time for preparing the organization for that future. It may actually arrive a bit earlier than expected, but in my opinion we are just in time for it and can prepare the structure. ・ I see the roles of CXOs becoming even more important under this structure. In the domain under the CIO, for example, the mission will involve controlling the Group as a whole based on a clear vision of the systems The Bank of Nagoya has and how they need to change under the business integration. To put this another way, if a CXO doesn’t have the power to persuade the entire Group about issues and transformation in his or her own domain, then one would expect governance not to function fully. For this reason, I think we as Directors should focus on applying controls over management as a whole through the CXOs, while encouraging their growth. ・ I see Group company representatives in the same way. We must build relationships to enable practical discussions when matters come up, by securing opportunities for communication and visiting their companies and getting a feel on site as much as possible. In this way, I see my role as one of ensuring effective governance through a Groupwide approach based on ongoing communication with the top management of each section and company. (Director Fujisawa) ・ I agree with Director Tsubouchi about the Group structure. In my role as Outside Director, I’m forthright in speaking up if anything seems out of the ordinary in discussions with CXOs and Group company representatives. It’s important not to dismiss something just because it feels like a hunch. (Director Inano) ・ I see monitoring as a key topic in governance for the two-bank structure. Management might become less efficient if the integration with The Bank of Nagoya just doubles the volume of agenda items and reports for the Board of Directors. That’s why we need to secure an effective monitoring structure, including everyday oversight, rather than relying on regular reports to the Board alone. It’s also important to consider how to incorporate into monitoring a perspective to help avoid the fallacy of composition. ・ Regarding Group companies, while the current state is satisfactory and lets individual companies connect directly to the holding company, we’ll need a different governance structure if this structure grows. In general, one would expect multiple subsidiaries to be managed under divisions or other overarching organizations beyond corporate entities, in which case we will need to establish a new axis of governance. We need to talk about what we plan to do, since these are things we’ll have to address in the not-too-distant future.

Q7	Do you discuss AI security?
A7	(Director Fujisawa) ・ We see cybersecurity in general, not just AI, as a critical issue. We're working out approaches as quickly as possible while maintaining lines of communication with authorities like the Bank of Japan and the Financial Services Agency. I believe we've finally reached a point that could be described as a suitable standard for a financial institution. We can't defend ourselves based on countermeasures only. We need both defensive and aggressive approaches to security. The CIO, CRO, and CDXO are talking to various vendors and other parties to work out solutions. At the Board of Directors, we have ongoing discussions on these matters and have confirmed the course of actions we should take by monitoring the state of cybersecurity measures not just in Japan, but globally. I believe we're taking the measures necessary to achieve cybersecurity.