

Financial Results for FY2025 (May 25, 2026) Main Questions and Answers

(Speaker: Hisashi Shibata, CEO)



Q1	<p>Given factors like rising stock prices and growing loan demand, what are your thoughts about the areas where capital allocation should be prioritized or deprioritized from a risk asset control perspective?</p>
A1	<ul style="list-style-type: none"> • Regarding loans, for a long time, we targeted portfolios in two different ways: in pursuit of volume or in pursuit of profitability. Now that we're in a world of positive interest rates, the profit margin for each has started to change. For example, market credit investments, a pillar of earnings up to this point, and loans to large and medium-sized enterprises, which contributed to growth in volume, are now less attractive compared to other loans in terms of profitability, and loans to SMEs and home loans are more profitable on a RORA basis. Given these changes, our basic approach is to reduce less profitable assets and accumulate more profitable assets. • It's also going to be essential to consider liquidity in asset allocation. Transactions like home loans and apartment loans represent important points of contact with individual customers to secure personal deposits. Through familiarization with securitization schemes, in particular, we could use home loans to raise funds, and their positioning could change somewhat, going forward. Regarding corporate lending, we're considering focusing on credit-creation functions, given that our loans will serve as payments to suppliers or employee salaries, which will return to us as deposits. It's important for us to support the region by growing loans that lead to credit creation in our business territory. • As for bonds, at the end of the previous fiscal year, we held about 400 billion yen in yen bonds with yields of 1% or less. In FY2026, we adopted a plan to sell off about one-half of those bonds and replace them with high-yield bonds. By securing investment capacity in this way, along with reducing shareholdings, we plan to be able to control equity capital.

Q2	<p>Why did you delay an announcement on treasury stock purchases given the relatively little time you have due to the approaching business integration with the Bank of Nagoya? What growth investments are you considering for the future?</p>
A2	<ul style="list-style-type: none"> • As we explained in previous IR activities, our basic policy on capital is to allocate capital surplus not allocated to growth investments to purchases of treasury stock. Based on internal discussions, we decided to delay announcing this because starting the allocation of capital with the purchase of treasury stock at the start of the fiscal year would be inconsistent with this policy. While we understand that we have limited time to purchase treasury stock, we ask for your patience until an announcement is made. • In investing for growth, we plan to proceed by studying new business development and M&As. We consider four areas—restructuring of financial institutions, leasing, settlement services, and trust functions—to be priorities. The areas we will consider for future implementation include digital banking, fintech and BaaS, and agriculture, and we'd like to evaluate the business potential of these areas during this year, as well as the potential of Web3 and green transformation (GX), for which implementation testing is currently underway.

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Q3	What are your thoughts on the financial impact of securitization of home loans and room for additional implementation going forward?
A3	<ul style="list-style-type: none">• We executed securitization of 385 billion yen of home loan claims at the end of FY2025. In addition to retaining subordinated claims on about 20% as a buffer to maintain the securitization scheme, we're also retaining some claims until their sale to investors. For these reasons, the planned balance sheet incorporates an average balance of about 155 billion yen in fundraising in FY2026.• We also need to consider matters like the cost of securitization and lead times to execution. We're not planning any additional fundraising at this time, but we wish to consider optimizing allocation in combination with other approaches to fundraising, such as corporate bonds.

Q4	Do you plan to pursue additional bonds replacement operations if the anticipated gains on sale of stock in the Medium-term Business Plan continue to increase due to rising stock prices or other factors? And if so, do you see any potential for increased earnings?
A4	<ul style="list-style-type: none">• On IR Day in April (the briefing on the Medium-term Business Plan), we explained that we expect about 100 billion yen in gains on sale of stock during the three years of the plan. But our capital has grown in the past month. For example, valuation gains on shareholdings rose 46.5 billion yen. Further controls will be needed to achieve our targets, including those for CET1 ratio and ROE. In addition, since rising yen interest rates have increased valuation loss on bonds, we have identified about 200 billion yen in relatively low-yield bonds as subject to sale in FY2026—a measure not included in the Medium-term Business Plan. This will result in bonds with yields of more than 0.75% making up most of the yen bonds portfolio. Even then, we believe there will still be room for additional replacement measures to improve soundness and profitability, depending on future trends in stock prices and interest rates.• We estimate the increase in interest upon completion of the bonds replacement operations planned for FY2026 will be about 6 billion yen on an annualized basis. This should present upside profit potential in the final fiscal year of the Medium-term Business Plan. We expect any future implementation of additional operations not assumed in the Medium-term Business Plan to increase earnings.

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Q5	<p>The impairment loss in your cost plans is more than in the average year. What does the figure include? Is there room for further reductions in cost plans given the recording of impairment loss?</p>
A5	<ul style="list-style-type: none"> The impairment loss comes from the revision in FY2023 of the method for valuing fixed assets. It represents the accounting treatment of a certain percentage of amortization of working assets in advance as an impairment loss. Although we expect an increase in IT-related expenses in FY2026 in addition to impairment, due to several planned projects, including migrating the accounting system to the cloud, upgrading the loan application reception and screening systems, and releasing a new app, this advance accounting treatment will have the effect of restraining depreciation in the following fiscal year and beyond. We believe the pace of increase in costs in FY2027 and later years to be somewhat slower.

Q6	<p>Your plans called for keeping staff numbers in the final fiscal year of the Medium-term Business Plan relatively flat compared to the end of FY2025. Should the addition of about 100 personnel in FY2026 be considered a temporary factor? Also, are there any particular aspects you're paying attention to regarding future personnel assignments?</p>
A6	<ul style="list-style-type: none"> The personnel additions are intended to make it possible to accelerate strategy implementation in focus areas starting in the first fiscal year of the Medium-term Business Plan. We plan to reduce total personnel later through replacement and supplementation by AI. While we see temporary factors as playing a major role in the FY2026 increase, it's possible that future strategies, including establishing new companies or pursuing M&As, will affect the staff structure, thus we will revise the human resource portfolio as needed. Since growing numbers of human resources are midcareer hires or those with experience in secondment to external organizations, our thinking on personnel assignments calls for implementing transfers while integrating these talents with internal human resources.

Q7	<p>The Aichi Financial Group and the San ju San Financial Group announced a business integration in FY2027, which is one year before your proposed business integration with the Bank of Nagoya. How do you view it as a regional rival?</p>
A7	<ul style="list-style-type: none"> We don't see Aichi Bank as a rival because our branch networks in Shizuoka Prefecture only overlap slightly. But we do understand that Aichi Bank competes with the Bank of Nagoya in Aichi Prefecture. From my standpoint, I would like to refrain from commenting on their positions. Regarding the timing of the integration, since we have shareholders in the United States, we need time to review our business integration under US securities law. When I heard that Aichi Financial Group and San ju San Financial Group were proceeding with their integration under a tight one-year schedule, I was somewhat surprised by the rapid pace, even accounting for the differences in procedural requirements.

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Q8	<p>What's behind setting the anticipated pass-through of fixed deposits to 75% in FY2026? What are your thoughts on the recent structural shift from current deposits to fixed deposits?</p>
A8	<ul style="list-style-type: none"> The balance of fixed deposits increased as we introduced some time deposits with competitive interest rates last year, but we expect the pass-through rate to rise somewhat in FY2026 as well, which will help us strategically secure the funds needed to expand the balance sheet. We're offering high-yield deposit products while setting a maximum sales amount, and based on the fundraising cost guide, we will take a disciplined approach to controlling costs to keep the overall pass-through rate for fundraising within 50%.

Q9	<p>What initiatives will Shizuoka Bank or Group companies implement to target the Aichi Prefecture market through the integration with the Bank of Nagoya? Will you be able to build a structure that allows cross-boundary service deployment?</p>
A9	<ul style="list-style-type: none"> At this point, we don't really expect Shizuoka Bank itself to actively grow loans in Aichi Prefecture. Instead, we expect the use of Group company functions by customers in Aichi Prefecture to increase fees income. We're studying a broad range of services we can offer in Aichi Prefecture, such as exploring expanding Shizugin TM Securities branches to other Bank of Nagoya branches, in addition to the existing branch inside the Bank of Nagoya head office, whether Shizugin Management Consulting should open branches in Aichi Prefecture to capture the potential of M&A activities or business succession services, and whether the expertise of SFG Real Estate Investment Advisors could be put to use in regional redevelopment projects in Aichi Prefecture. Right now, we're at the stage of quantifying the impact of integration and planning details in monthly integration preparation committee meetings and at other opportunities. If any matters come up that we can explain to investors, we plan to share them through IR activities.

Q10	<p>I've heard some other banks maintain fairly high yield rates after implementing interest rate promotional campaigns on time deposits. Time deposits appear to be growing increasingly attractive as deposit products. How do you plan to proceed with time deposits going forward?</p>
A10	<ul style="list-style-type: none"> As deposit interest rates rise, time deposits are becoming more prominent investment options, chiefly among personal banking customers. In FY2025, we offered special plans that pay higher interest rates on deposits transferred from other banks. This had some effect, as more than 60% of the relevant funds were deposits transferred from other banks. In addition, Group subsidiary Shizugin TM Securities introduced plans to encourage action with a focus on securing new money, like providing internal incentives for the successful sale of investment products using deposits retained by other financial institutions. We plan to proceed appropriately with strategies to secure deposits while taking into consideration the competitive environment with other companies.

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Q11	<p>Although your business appears to be proceeding smoothly, due partly to positive effects of your strategies, including the business integration with the Bank of Nagoya, what do you see as management risks for the future?</p>
A11	<ul style="list-style-type: none"> • While it's true the recent interest rate increases are creating positive tailwinds across the banking sector, we plan to keep pursuing growth in corporate value without letting up. • One example of future business risks concerns the importance of cybersecurity. This isn't new, but we need to envision the risks specific to us posed by natural disasters, such as a Nankai Trough earthquake or Mt. Fuji eruption. We're targeting a management approach capable of adapting to such risks while considering buffer capital as a safeguard measure. • Regarding the business integration with the Bank of Nagoya, while the region's high concentration of manufacturing is a major strength, it also prompts caution due to the possibility of supply chain disruptions and other impacts of geopolitical risks. We therefore believe it is essential to address the various risks in multifaceted ways.

Q12	<p>The target human resource portfolio in FY2027 under the previous Medium-term Business Plan was 4,420 persons. The target for FY2028 in the Second Medium-term Business Plan, one year later, dropped to 4,200. Does this reflect factors like generative AI?</p>
A12	<ul style="list-style-type: none"> • Two major factors driving the early termination of the previous Medium-term Business Plan are the shift to a world of positive interest rates and the rapid progress of digital technologies like generative AI. The Second Medium-term Business Plan represents a reformulation to incorporate these new trends. Regarding the human resource structure as well, while the previous Medium-term Business Plan did not assume measures like expanding AI deployment and called for significantly increased staffing, under the Second Medium-term Business Plan we will aim for replacement and supplementation of human work by AI, which means we won't necessarily need to increase staffing. That's the background of this revision. • However, we might still consider increasing staff due to business expansion, going forward, depending on the progress of strategies in areas like implementing new businesses or establishing new companies. We plan to carry out flexible course corrections while formulating our annual plans.