(June 29, 2026) Main Questions and Answers from Small Meeting organized by Analyst Takamiya of Nomura Securities

(Speaker: Hiromitsu Umehara, Executive Officer & CFO)

Q1	Are there any major drivers you expect to contribute to reaching the ROA levels needed for a double-digit ROE? What risks do you anticipate in trying to achieve that target?
A1	・ We have estimated the ROA level needed for total assets of ¥16 trillion, and we consider controlling the asset mix to be one driver. Given that a large percentage of our lending is at variable interest rates, corporate lending will be able to reach levels relatively close to the targeted ROA levels. In the home loan segment, however, as interest rate competition continues with net banks, which hold large volumes of deposits, we plan to use securitization to control the effective asset size. ・ Another important factor concerns the kinds of yields with which we could build a portfolio of high-liquidity assets. Since of course it would not be possible to reach target ROE if the high-liquidity assets needed in bank management consist of BoJ deposits only, we have to consider what interest rate risks we can tolerate to build a high-yield portfolio, centered on high liquidity bonds. These assets should also provide underlying profit support when interest rates are falling. We intend to build an optimal portfolio while monitoring the economic cycle.

Q2	Regarding the core deposits internal model, wouldn't deposit retention periods grow shorter in a time of rising interest rates? What were the factors that led to your revision of the duration?
A2	・ In revising the core deposits internal model, our calculations were based on deposit inflow and outflow trends over the past 10 years with an assumption of rising interest rates. The model reflects various trends, including the shift toward time deposits while interest rates are climbing.

Q3	Under current interest rate levels, decreasing lending and increasing JGBs would contribute more to ROE, at least theoretically. From your perspective as CFO, what would you consider the ideal, and what are your actual policies regarding relative balances between both of these?
A3	・ We want to increase lending balances, but that depends on the customers. We cannot shrink lending volumes based solely on our convenience (for consideration of profitability). For example, a bank should be ready to take an opportunity if a customer needs to make a once-in-a-decade capital investment. At the same time, our goal is to have around 20% of our total assets in high-liquidity assets. In today's world of positive interest rates, we need to be sure what durations we can tolerate. We have no intention of building a slapdash yen bonds portfolio, but our policy is to control the balance sheet as a whole while also keeping in mind that a portfolio with significant holdings in JGBs and other fixed rate assets might help stabilize earnings if interest rates begin to decline.

Q4	I believe that the actions that sales personnel should take will change in a world of positive interest rates. How is management adjusting in areas such as HR evaluations?
A4	・ With the shift to a world of positive interest rates, we're revising measures related to deposits, including performance evaluations. As means of promoting efforts to secure deposits, in addition to deploying various strategic products, we're taking steps to visualize gaps between deposits and loans for individual branches and sales territories. In doing so, we're also revising management KPIs, both to raise awareness among sales personnel of the need for everyone to secure more deposits than loans and to incentivize concluding high-yield loans. ・ We also use two KPIs as balance sheet component ratios. One is the approach of controlling overall average fundraising costs to around 50% of the policy interest rate. If the current policy rate is 1%, we should be able to secure appropriate margins by keeping the total cost of deposits and other fundraising methods at about 0.5%. The other concerns how much of the funds are raised by supplementary methods. One target is around ¥3 billion, which is the balance of the securities portfolio. Although we don't plan to apply these KPIs linked as a pair, our overall goal is to grow both deposits and loans while remaining conscious of these two KPIs in ALM.

Q5	Do you expect your approach of keeping overall fundraising costs for yen loans to around 50% of the policy interest rate to change if trends in policy interest rates change?
A5	・ Since the pass-through rate for ordinary deposits, which account for the bulk of deposits, is around 40%, we believe implementing cost controls will suffice for most fundraising. For portions like time deposits that are secured based on product properties and those secured by paying a premium for stable fundraising, including issues of corporate bonds and securitization of home loans, we also need to consider the possibility that fundraising costs could rise with factors such as competitive conditions and premium levels. But for now, we believe we should proceed with efforts targeted at around 50% of the policy interest rate overall.

Q6	What Shizuoka Financial Group strengths would allow it to succeed in growing ROA?
A6	・ From an ROA perspective, we see non-interest revenues as an important factor. In bank management, it's important to grow domains where we can generate earnings without depending on the balance sheet. Comparisons among banks with total assets of more than ¥10 trillion show that larger banks tend to earn more revenue from fees and commissions. So, following the planned business integration with The Bank of Nagoya, it should be possible to generate solid non-interest revenue by using functions of our Group companies, and we can seek to grow together as a single financial group with solid earning capabilities. For net interest income, we believe we're implementing effective controls through asset allocation. Our strengths in ALM are a key factor that makes it possible to boost ROA.

Q7	Given that your NSFR is lower than at other banks, what do you think you should focus on in future balance sheet management?
A7	・ Looking back on our strategy to date, we've been able to keep ROA at a suitable level even in a world without positive interest rates by accumulating assets in new lending domains, including market credit investments and asset-building loans. At the same time, in some ways, the funds loaned in these domains are less likely to contribute to credit generation than loans to SMEs, where the money returns to the bank as deposits through means such as payment to suppliers or employee salaries. We can't really compare in this respect between us and other banks, but it's possible this is due to the fact that large number of loans that drove our earnings in a world without positive interest rates were not that effective in credit generation. Given the need to conform to banking regulations on the net stable funding ratio, it's going to be important to take steps such as diversification of supplementary means of fundraising other than deposits, while maintaining some control of the fields in which credit-generating functions are less likely to be demonstrated.

Q8	With regard to credit-generating functions, do you think it's possible to assess profitability for each customer firm in quantitative terms?
A8	・ It's hard to assess credit-generating functions in quantitative terms, but we can assess general profitability based on the total volume of transactions with customers and their employees.

Q9	What are your thoughts on duration and yield in managing the anticipated ¥3 trillion in high liquidity assets?
A9	・ It's hard to identify a terminal rate in the current interest rate environment. Since we'd like to diversify the timing of the purchases, we've allowed the yen bonds portfolio to fall temporarily to around ¥1.4 trillion. While about 20–25% of this is being floated through asset swaps, at this stage we are carefully discerning the composition of the ¥3 trillion in high-liquidity assets, such as their timing and breakdown. Given that we have been able to increase yields to about 1.7% through now by replacement operations centered on low-yield bonds, taking into consideration matters such as future redemption and additional purchases, we see sufficient potential to build a portfolio of ¥2 trillion with yields at higher than 2%. On the duration, we're thinking of roughly 5–6 years. Under current conditions, we think it's more feasible to build a portfolio of relatively short-term bonds, without purchasing long-term bonds, than it was before. Although some aspects are subject to change with future interest rate conditions, we will proceed with replacement and purchasing while envisioning our portfolio of the future.

Q10	Since home loans have relatively low yields and long durations, I would guess they would hinder ALM management. How do you expect to handle them?
A10	・ Home loans are important products for building the customer base, but on the balance sheet, they are assets with relatively low yields and long duration. That's why we've begun designing products to receive fees and commissions corresponding to their initial costs at the time of execution and then securitizing them after execution. While there's room for debate on whether the balance of home loans will need to be controlled going forward, in our case the balance of home loans makes up about ¥3 trillion of our ¥16 trillion in total assets, and we see this as a ratio that can be controlled.

Q11	What KPI would you focus on to determine if you're implementing appropriate controls for the anticipated interest rate sensitivity?
A11	・ To see how well we control the overall fundraising cost pass-through rate for a given policy interest rate, we've set a target of 50%. Since fundraising by premium time deposits would lead to the issue of durability, a part of funds will need to be raised even by bearing a premium for asset stability.