

Main Questions and Answers from Small Meeting with CFO (August 19, 2026)

(Speaker: Hiromitsu Umehara, Executive Officer & CFO)



Q1	How would you assess your financial results in the first quarter of FY2026. What future issues do you see?
A1	- Both growth in loan balances and improvements in yields are trending higher than anticipated. I think this shows we've been able to capture demand for funds and implement pricing at appropriate interest rate levels while demonstrating our competitive strengths. At the same time, regarding fundraising, the annual rate of increase in deposits is lower than for loans. It will be important to achieve a healthy balance while appropriately incorporating approaches to fundraising, including securitizing home loans and issuing bonds. - In FY2026, repayment of BoJ borrowings will proceed as they reach maturity. One future issue I see is the need to achieve stable fundraising to support increasing loan balances while keeping liquidity regulations in mind.

Q2	What do you think of the current efforts to move toward balance sheet controls in the banking industry as a whole, including other companies?
A2	- Investors have shown significant interest in balance sheet controls recently. Currently, we're getting many questions about the interest rate pass-through for deposits in particular. Deposits include the liquid deposits used mainly for settlement funds and the fixed deposits used as investments. The interest rate pass-through for fixed deposits has been growing recently. - Looking over the industry as a whole, while slight differences appear to be emerging in individual bank policies for securing deposits, I think our strategy of securing highly sticky deposits and securing fixed deposits in a supplementary manner is sound. I also think differences will start to appear in the process of rebuilding balance sheets through the buildup of assets under management between banks that consciously implement liability allocation, including approaches to fundraising other than deposits, and those that don't. - From a liquidity regulation perspective, the necessary responses differ between banks operating under domestic standards and banks operating under international standards. International-standard banks in particular need to be sensitive to regulations. How to go about securing stable fundraising is an issue shared by all such banks. I think the industry as a whole needs to be aware that some kind of shock or financial crisis may occur at any time.

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Q3	Given the recent environment for securing deposits, it looks like it would be difficult to expand holdings of risk-weighted assets at this time. How will you utilize surplus capital from a capital-control perspective? Also, how will you control the rising CET1 ratio?
A3	- Regarding capital policies, while many observers reacted favorably to the recently announced share buyback, we received numerous questions about the possibility of additional buybacks during the fiscal year. While we can't discuss future directions at this time, there is no change in our serious approach to shareholder returns. The total return ratio became somewhat high as a result of intentionally increasing share buybacks in FY2024 and FY2025, given the need to maintain a high ROE as an indicator of the balance between profit and capital. Our recently announced forecasts for FY2026 also foresee levels above 70%. - At the same time, the business environment has recently changed. We've reached a stage at which it is easier to increase profit levels based on expectations for higher policy interest rates. That is, we see the current environment as one in which we can increase ROE through profit growth in addition to equity capital adjustments and further increase profit levels by reinvesting funds generated from profits or using them to improve finances. This isn't to say that we will revise the total payout ratio. Rather, we believe we need to decide on the optimal capital policy on a case-by-case basis, by considering how to balance profit and capital. - Capital controls are becoming more challenging as valuation differences on securities account for an increasing share of capital due to rising stock prices. Still, it's important to keep capital to cost levels we can control ourselves at all times. While we do need to control the CET1 ratio to appropriate levels, since it is definitely not ideal for the ratio to be too high, we will make appropriate decisions on reinvestment in light of environmental changes. We also need to consider the state of liquidity. What we see as important now is to identify and execute the optimal balance sheet allocation.

Q4	What are your thoughts on the current state of discussions related to the business integration with the Bank of Nagoya?
A4	- Our discussions are going well. We are proceeding toward the final agreement scheduled for next March, when we will be able to announce quantitative aspects of synergy forecasts in addition to conditions for the business integration, including stock exchange ratio. - We believe our strengths and those of the Bank of Nagoya are complementary. For example, since we've historically focused on group management, we've steadily raised fees and commissions income earned from Group companies other than Shizuoka Bank. As a result, we have an unusually high ratio of consolidated to nonconsolidated results. The Bank of Nagoya doesn't have as many group functions as we do. But given the high potential of the base market in Aichi Prefecture, and because they have roughly the same number of corporate customers as we do, we expect to be able to achieve topline growth by expanding our management resources to Aichi Prefecture. At this stage, a specialized subcommittee we established for this purpose is proceeding to engage in discussions between the two companies. I would ask that you wait a little more before we announce the details of integration synergies.

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Q5	At the time of the announcement of first-quarter results, you made positive comments about revising performance forecasts upward, increasing dividends, and undertaking share buybacks. That may create the perception that you will run out positive catalysts prematurely. What explains that decision?
A5	We tend to issue well-grounded plans. Since the initial forecasts for financial results were on the conservative side, we made more progress than expected early in the first quarter. We had also confirmed our forecasts of steady results trends in the second and later quarters. That's why we decided to announce the upward revisions and capital policy together at this time. I don't believe we are running out of positive catalysts. We feel we can be confident in achieving the performance forecasts. We hope market participants will continue to look forward to favorable performance trends.

Q6	While the assumed policy interest rate in the Second Medium-term Business Plan remains unchanged at 0.75%, the revised performance forecasts incorporate the impact of a rate hike to 1.0%. How do you plan to adjust the Medium-term Business Plan going forward?
A6	We believe the target figures of the Second Medium-term Business Plan need to be revised, given the changing outlook on policy interest rates and these performance forecast revisions. Although some conservative perspectives persist internally, in light of growing expectations of a BoJ rate hike, we need to assume scenarios that reflect the environment and avoid excessive caution. We want to be in position to announce these after the IR activities for second-quarter financial results.

Q7	How will you manage the effects of fluctuations in share prices to approach an appropriate level of the CET1 ratio? How do you manage the difference between pure investment stocks and strategic shareholdings when selling stock?
A7	- In the banking business, the growing importance of valuation differences on securities, a factor contributing to fluctuations in equity capital, is a significant concern in terms of compliance with capital adequacy ratio regulations and risk buffers. For this reason, we must sell any issues whose share prices are highly volatile and that account for high percentages of valuation gains/losses as a whole and reduce these holdings to appropriate levels. - As for pure investment stocks, we are converting strategic holdings to those for pure investment following negotiations with issuers to allow us to sell them at our own discretion. We keep full records of the negotiation process and other matters to make sure the permission of the issuer is not required for any transaction.

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Q8	How will you manage loans as assets under management going forward, given the need to respond to liquidity regulations?
A8	- While balance sheet controls are growing more important since the start of the shift to a world of positive interest rates, corporate management itself tends to be somewhat rigid and prone to restrictions from a liquidity perspective. The loans themselves are assets with low levels of liquidity, so we recognize the importance of having ways to control their balances. This is one factor underlying last fiscal year's securitization of home loans. Some assets under management with low levels of efficiency under current interest rate conditions remain on the Bank's balance sheet. We believe having the flexibility to control these is key to success in the banking business. - Some see home loan transactions themselves as decreasing in value and performance as assets. But since personal deposits make up a considerable share of total deposits, transactions with personal customers are very important in terms of lifetime value. We see home loans as transactions that help build the customer base. Since they are not necessarily efficient from the perspective of the balance sheet results, we plan to continue to control our assets by improving our expertise with regard to securitization.

Q9	What opportunities and issues do you see related to investments in treasuries in light of recent increases in long-term interest rates?
A9	- For yen bonds, since the second half of FY2025, we've continuously replaced low-yield bonds by drawing on gains on sales of stock. Recently, we have prioritized sales of low-yield bonds in response to rising long-term interest rates. The balance of approximately 1.75 trillion yen before replacement has now dropped to about 1.35 trillion yen. - Government bonds are ideal investments for the balance sheet because they don't involve liquidity regulations. One key future issue will be securing high returns on this portfolio. In terms of striking a balance with interest rate risks, we believe we can build a portfolio of approximately 2 trillion yen. We expect to be able to secure yields of 2–2.5% at the ROA level needed if we target an ROE of 12%. We're putting sales of low-yield bonds first, which allows us to build capacity to make purchases when rates are rising. The timing of future purchases will be key.

Q10	There's a movement to revise the risk weight of equity investments to 100% under the government's growth investment/finance strategy. How can the Shizuoka Financial Group put that to use?
A10	- Equity investments offer high returns, but they also involve high risk weights and impose capital burdens. We consider them an area in which we have led the industry by demonstrating our strengths while utilizing our abundant capital. - Recently, we've also been engaged in M&As using equity investment. Demand has started to emerge for funds formed by the Group to hold shares of stock in investments temporarily, then secure gains on sale through trade sales. If this risk weight were to fall, we would be freer to participate in such transactions. That in turn may expand business opportunities.

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Q11	Yields on loans in the first quarter have already reached the levels identified in the annual plan. Why is that? What are your thoughts on the differential between loan yields and deposit interest rates?
A11	Market expectations for a rate hike in June were high in May, and market interest rates reacted in anticipation. We believe this is what led to the higher than anticipated increase in yields. Current expectations are for another rate hike in September. We're still estimating the potential impact internally. We plan to explain the differential between loan yields and deposit interest rates after the revisions at a future IR opportunity.

Q12	What risk factors do you see as CFO?
A12	- One risk factor would be a dramatic change in the fundraising environment. If, in addition to increasingly intense competition to secure fixed deposits, the extreme argument for excluding government bonds from inheritance tax to stabilize domestic demand for government bonds were to become reality, funds may shift away from bank deposits. The balance of personal deposits accounts for a considerable portion of overall bank deposits. Their importance is also high under the current liquidity regulations. So the actual design of the system for government bonds for individual investors could have a significant impact. - Some observers are also concerned about the outlook for credit-related expenses in an economic downturn. But it seems to me that comparisons of actual conditions to estimates based on risk scenarios for interest rate hikes and other factors show that the potential impact is not significant. We see improvements in corporate business performance outpacing growth in expenses. Given this and progress in passing on costs, we don't consider this a major risk factor at this time.

Q13	How do you expect the business integration with the Bank of Nagoya to affect the CET1 ratio?
A13	- In post-integration simulations, we're keenly aware of how synergy effects could boost ROE. In considering future capital policies based on profit levels, including synergies, we see considerable remaining room for investments with regard to equity capital. - While we should be able to maintain the CET1 ratio itself at satisfactory levels, we do need to consider how to respond to excessive level of equity capital. On this point, we plan to seek the capital policies needed to achieve the right balance between profit and capital, with a focus on increasing profits as far as possible in the current environment.

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Q14	Shizuoka Bank's name has come up as a creditor in a certain bankruptcy case. Are there any structural issues in your credit management structure?
A14	I'd like to refrain from commenting on individual cases. But, overall, I don't see any major issues in the credit management structure. We calculate allowances for doubtful accounts conservatively. For any major borrowers at risk, we record general allowances for doubtful accounts individually by the DCF method. This means that even if we needed to record individual allowances for doubtful accounts in the event of a bankruptcy, we can avoid the emergence of new credit-related costs by offsetting them through the general allowances for doubtful accounts already recorded. We adopted this method more than 10 years ago and have steadily expanded its scope. So, while the amount of the allowance recorded for doubtful accounts may appear large, we believe that makes it possible for us to respond to any credit-related costs and to avoid excessive fluctuations.

Q15	The share of deposits held by credit unions in Shizuoka Prefecture is declining. What is the competitive environment like?
A15	- Some credit unions invested in securities, chiefly long-term bonds, during the period of negative interest rates. This means they're prone to lending constraints as growing valuation losses on bonds reduces capital. Many of their customers are small businesses, a factor that could force them to apply a rigid management approach that would make it harder to invest deposits secured in loans. We believe we have advantages in the current environment. - Both loan and deposit balances have been growing in Shizuoka Prefecture recently. We would like to continue to demonstrate our competitive strengths in this our home market.

Q16	What discussions are underway in your company and the regional banking industry as a whole regarding the ideal form for regulations governing equity capital, liquidity, and other matters? Are there any calls for deregulation?
A16	- There are doubts about assigning much weight to unlisted shares with no market value when assigning risk weights for capital adequacy ratio regulations. Given the government policy to promote equity investment, there seems to be room for revisions on this point. - Regarding liquidity regulations, there was considerable leeway against regulatory values and therefore relatively little debate on the issue within the industry. However, individual banks appear likely to offer various opinions going forward. For example, under the current regulations, stocks are weighted at 50% as low-liquidity assets. But since listed shares held as pure investments have market value and can be sold easily, some think it would be appropriate to treat them as highly liquid assets, while considering a certain haircut relative to share prices. We want to communicate with the financial authorities while sharing this and other perspectives across the industry.

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Q17	The government is advocating an active investment policy. There seems to be a scramble for funds nationwide. For example, government bonds for individuals are drawing attention as non-institutional investors are emerging as an important funding source. How do you address the current environment?
A17	Given the pressure to sell yen, which is associated with the trend toward purchasing foreign stocks and bonds due to the spread of NISA accounts and the outflows of funds through overseas remittances by the growing numbers of foreign workers, it looks like it would be hard to expand the domestic yen market. In this environment, it's essential to look at funds trends from the macro perspective. The presence of a certain number of buyers for government bonds is also essential for stabilizing interest rates. In the banking sector, valuation losses from holding bonds can affect capital adequacy ratio regulations. The balance of holdings and timing of purchasing depends on each company's management capabilities. Securing buyers for government bonds under such conditions is a key issue in government fiscal management. If this point were to be covered using government bonds for individuals, bank lending capacity would decline as funds shift away from personal deposits. We hope the government will make appropriate decisions based on a broader perspective.

Q18	How would Shizuoka Financial Group need to respond if the pace of increases in policy interest rates were to accelerate and the terminal rate rose to 2%?
A18	We've just begun revising our plans given the additional BoJ rate hikes. Internally, we expect two rate hikes during the fiscal year to bring the rate to 1.5%. After that, if yen market exchange rates fail to show signs of returning to appropriate levels, we believe further rate hikes to 1.75–2% are possible. We're aware of approaches to balance sheet management that would put us in position to benefit from rising interest rates. But rate hikes pose risks for fundraising. Since deposits make up a large share of fundraising as a whole, we recognize the importance of how we secure funds as they shift from savings to investments. At the same time, we believe it will be effective to diversify approaches to fundraising other than deposits, including bonds and loan securitization.