

# Frequently Asked Questions



Below are the main frequently asked questions received by the Group since the financial results briefing on Nov. 14, 2022.

<b>Q1</b>	<b>What is the level of shareholder return in the next Medium-term Business Plan?</b>
<b>A1</b>	<p>We consider shareholder returns for the current fiscal year in line with the target of "shareholder returns of 50% or more over the medium to long term" set forth in the 14th Mid-Term Business Plan.</p> <p>At this time, we have no intention of making major changes to the shareholder return ratio itself in the first Medium-term Plan under the holding company structure. While aiming for stable dividends, we will raise the dividend payout ratio to acquire new shareholders such as regional shareholders, and flexibly implement share buybacks with monitoring the share price, etc., in order to maintain a shareholder return ratio of around 50%.</p>
<b>Q2</b>	<b>How do you intend to handle write-downs on foreign bonds in the second half of FY2022?</b>
<b>A2</b>	<p>We do not plan to actively record write-downs on foreign bonds at this time, as we expect the overall net interest income of the foreign currency portfolio to remain positive even if the terminal rate of the U.S. Federal Funds Rate rises to 5% or 5.25%. If terminal rates rise further or remain high for a prolonged period of time, we will consider selling stocks that are in reverse, taking into account the impact on periodic profit/loss, etc..</p>
<b>Q3</b>	<b>The reason for the decline in capital adequacy ratio after the full implementation of Basel III finalization is thought to be due to unrealized gains on strategic shareholdings. Based on this, is it possible to present a more quantitative plan for the reduction of policy strategic shareholdings?</b>
<b>A3</b>	<p>The factor that will cause the capital adequacy ratio to decline after full implementation of the Basel III finalization is that the capital floor, calculated based on the standard methodology, will be raised to 72.5% of risk-weighted assets.</p> <p>Although risk-weighted assets calculated using the internal rating method are low due to Shizuoka Bank's healthy assets, the capital adequacy ratio will decline as risk-weighted assets rise to the capital floor (standard method, 72.5%) after the full implementation.</p> <p>The internal target for the reduction of strategic shareholdings as of the end of March, 2023 is JPY 95.0bn (acquisition cost basis), and the actual figure as of the end of September, 2022 is JPY 96.0bn. In the next Medium-term Business Plan, we would like to explain our capital policy including our shareholder return policy in detail while clearly stating numerically our plan to reduce strategic shareholdings</p>

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<b>Q4</b>	<b>How do you intend to increase the earnings of group companies in the future as a result of the transition to a holding company structure?</b>
<b>A4</b>	<p>We have promoted group management with the keyword "independence and cooperation among group companies" since FY2005, and the total ordinary profit of group companies has expanded from JPY 2.9bn in FY2004 to more than JPY 10.0bn in FY2020 and FY2021.</p> <p>This has been driven by group companies such as Shizugin Credit Guarantee, Shizugin Lease, and Shizugin TM Securities, as well as the equity method investment profit of the Monex Group. In addition to cross-industrial collaboration and group synergies, it is important to further promote efforts to realize the benefits of alliances and develop each company's own customer base. We recognize the role of the holding company's management team in overseeing these efforts.</p>
<b>Q5</b>	<b>Why do you separate the president of the holding company and the president of the bank?</b>
<b>A5</b>	<p>In designing the organization under the holding company structure, we were conscious of the need to move away from a bank-centered approach and to resolve the dilemma that the allocation of human resources and funds are bank-centered while four subsidiaries are in positions parallel to the bank.</p> <p>In order to achieve JPY 90.0bn or JPY 100.0bn in consolidated ordinary income in the future, it is unrealistic to expect the bank to increase profit by JPY 10.0bn to JPY 20.0bn on a non-consolidated basis, and the key will be how to grow the earnings of group companies. From this perspective, the president of the holding company and the president of the bank were to be appointed by different persons.</p> <p>The reason for the separation between representation in the holding company and that in the bank is also to clarify the separation of supervision and execution.</p>
<b>Q6</b>	<b>What areas would you like to strengthen in the future, such as venture debt and alliances? Also, how do you want to differentiate Shizuoka Bank from other banks?</b>
<b>A6</b>	<p>Both venture debt and alliances are beginning to produce results, and we intend to accelerate our efforts in the future. Alliances can be formed in individual areas without a full menu, and we will continue our efforts with that perspective as well.</p> <p>The holding company has also established a Business Development Department under the direct control of the president, which will develop new businesses without being bound by conventional fixed concepts. It is difficult to make it a pillar of revenue in a short term, but we would like to add new menu items.</p> <p>The biggest point of differentiation from other banks is our group companies. No other regional bank group has total ordinary profit in excess of JPY 10.0bn, and we will continue to create a framework to increase the earnings of our group companies.</p> <p>As president of the holding company, I would like to make Shizuoka Financial Group a more unique company by paying attention to synergies among group companies and considering where to allocate management resources to increase corporate value.</p>

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<b>Q7</b>	<b>What is the background behind the alliance's better-than-expected results and what are the current issues? How do you plan to expand the alliance to group companies?</b>
<b>A7</b>	<p>The Shizuoka-Yamanashi Alliance is making progress in the areas of market credit investment, financing in the corporate sector, and the performance of Shizugin TM Securities after the opening of its Yamanashi head office. Group companies such as Shizugin Mortgage Services and Shizugin Credit Guarantee are also considering collaboration, and we see potential for collaboration not only among banks, but also among group companies.</p> <p>The Shizuoka-Nagoya Alliance is working together to address issues such as decarbonization and the shift to EVs in the automotive and other transportation machinery industries in order to support industrial transformation in the region. We think that M&amp;A, management improvement, and business revitalization support in this area will continue to advance.</p> <p>Collaboration involving group companies is also progressing in Shizuoka-Nagoya Alliance, such as the contracting of collateral valuation services through Shizugin Mortgage Services and the consulting agreement with Shizugin Management Consulting. I think that one of our strengths to have richer menu in group companies than other financial institutions enables those results.</p>
<b>Q8</b>	<b>How much of the JPY 3.0bn of trading revenues of Shizugin TM Securities in FY2021 was accounted for by revenues from structured bonds? How will this revenue be covered in the future?</b>
<b>A8</b>	<p>Of the JPY 3.0bn in trading revenues from Shizugin TM Securities in FY2021, JPY 2.7bn is from structured bonds.</p> <p>Currently, while we are not actively selling those bonds in the retail segment, we continue to sell to customers with needs for those bonds in the corporate segment by strictly enforcing sales rules. Thus, not all of the revenue from structured notes will be lost.</p> <p>In an asset management business, we intend to expand customer assets by selling savings trusts and wrap products as well as utilizing the iDeCo and NISA frameworks that the government will strengthen its promotion of in the future.</p>
<b>Q9</b>	<b>Other financial institutions are enjoying economies of scale by sharing IT systems. What are the relative advantages of Shizuoka Bank's next-generation banking system in terms of economies of scale?</b>
<b>A9</b>	<p>With regard to system sharing, I believe that dynamic moves will continue to occur in the future. Shiga Bank has decided to implement "Open Stage," Shizuoka Bank's next-generation banking system, and other financial institutions are also considering implementing the system. Together with Hitachi, we would like to support the introduction of this system.</p> <p>The next-generation system is now up and running, allowing us to be more agile. Cost reduction is expected after the completion of the 5-year depreciation period. With OHR of around 55% as our benchmark, we would like to utilize our capacity for expenses in strategic investments for other IT systems, etc.</p>

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<b>Q10</b>	<b>With the depreciation of the next-generation system yet to be completed, will DX investment be a factor for increase in expenses in the first Medium-term Business Plan?</b>
<b>A10</b>	<p>We make investments in IT systems through considering the impact each one has on overall expenses.</p> <p>With OHR of around 55% as one of our benchmarks, we actively engage in system development when incomes increase, and we reduce investment and control expenses when revenues do not increase.</p>

<b>Q11</b>	<b>What is the time horizon for human capital investments to lead to business model transformation and financial benefits?</b> <b>How are the executives and employees perceiving it?</b>
<b>A11</b>	<p>We introduced OKRs and 1-on-1 meetings last year. We have also introduced a system for employees to work at a side job or concurrently at other companies, and to create career routes through open recruitment. We have dispatched a considerable number of executives and employees to other industries outside of banking, and they will make a huge impact on us as well as take important role in moving away from a banker's mindset when they return to Shizuoka Financial Group.</p> <p>The effect of investment in human capital has not yet been visualized, but we hope to be able to quantify and demonstrate this in the next Medium-term Business Plan.</p>