Frequently Asked Questions

SHIZUOKA BANK

Below are the main frequently asked questions received by the Bank since the financial results briefing on May 23, 2022.

Q1	**Regarding the plan in FY2022, it seems that while gross operating profit is ambitious credit costs are conservative. What do you think of it?**
A1	Loss realized on the sale of foreign bonds of JPY 19.6bn yen (up JPY 14.4bn YoY) is included in the other operating profit in FY2021 of JPY -5.5bn. Without this factor, gross operating profit in FY2021 would have been higher than actual results. In the plan for FY2022, interest and dividends on securities and bond-related income such as JGBs, which are included in net interest income and in other operating profit respectively, are calculated based on certain assumptions including plans for capital gains from investment trusts and bonds. Although the breakdown may change, we do not believe that the level we are aiming for in terms of gross business profit is out of reach. While credit costs in FY2021 were low at JPY 5.5bn, we estimate them in FY2022 at JPY 11.0bn, which is higher than current average level (around JPY 5.0bn), taking into account factors such as credit rating adjustments for industries affected by COVID-19 pandemic, high oil prices, and surging raw material prices, and a conservative estimate of additional allowances based on DCF for companies in industries affected by the COVID-19 pandemic.

Q2	**What is your future policy on management of portfolio of foreign bonds?**
A2	We realized a loss on sales of foreign bonds of JPY 19.6bn in FY2021, thereby selling low-yielding fixed-income securities and switching to floating-income securities. The portfolio is designed to avoid negative spread even under the scenario where interest rates are expected to rise according to the FOMC's forecast. With interest rates rising, we will build a portfolio that can earn a solid carry profit by selling low-yielding bonds and replacing them with higher-yielding ones, while recording both losses and gains on sales in a reasonable manner.

Q3	**What factors will cause the capital adequacy ratio to decline as a result of the full implementation of Basel III finalization? What is the appropriate level of capital on a finalization basis, and what is your view on capital allocation in the future?**
A3	Based on trial calculation on the basis as of the end of Sep. 2021, the total capital ratio will rise once from 16.60% to the 18% level, and then decline by -1.1% to 15.50%. This is due to the capital floor. The capital floor in the first year of finalization is 50%, but it is raised in stages to 72.5% when the finalization is fully implemented, resulting in a larger denominator and a lower capital adequacy ratio. Besides, the CET1 ratio excluding unrealized gains on securities is calculated to be 11.77%. In light of Shizuoka's unique seismic risk and the recently disclosed climate change risk, the capital adequacy ratio is not excessive, and the key point will be how to reduce strategic shareholdings. We would like to increase dividends as much as possible, while maintaining the medium- to long-term shareholder return ratio of 50% or more, which we have indicated in the past. We will present our shareholder return policy in the first medium-term management plan to be formulated by the holding company.

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Q4	**Considering the impact of the finalization of Basel III, what is your view on the balance between shareholders return and investment for growth after the transition to a holding company structure? I recognize the shareholders return policy, but will the capital also be used for investment in systems and new businesses?**
A4	We do not intend to change our policy of "shareholder return ratio of 50% or more over the medium to long term". We will continue to raise the dividend payout ratio while adhering to this policy. We believe that we need to pay attention to dividend payout ratio and dividend yield in order to encourage various stakeholders, such as local individuals, customers, and employees, to hold our shares in the future. While we are still considering our capital policy for the next Medium-term Business Plan, we would like to present our view on shareholder returns and dividend payout ratio at the time of its announcement. Based on a 50% shareholder return, the remaining 50% will be used for strategic investments. Strategic investments, including system investments, cross-industry collaboration, and investments related to employee job satisfaction, will be presented in the next Medium-term Business Plan.

Q5	**What scale of system investment do you envision for the next Medium-term Business Plan? What is the timeline for the increased investment to contribute to top-line earnings and cost reductions?**
A5	We plan to reduce system-related expenses with its peak at JPY 26.0bn in FY2021, while at the same time making strategic investments. Specifically, mission-critical systems, such as Informational System and Batch System, will start operating in FY2024 and FY2025 following the Core System. In addition, a new sales support system that contributes to more efficient liaison activities and a loan support system that contributes to more efficient loan screening are scheduled to be launched in the next fiscal year. By implementing those investment premeditatedly, we would like to control overall expenses so that they do not become extremely large.

Q6	**Is it correct to say that system-related expenses will peak at JPY 26.0bn in FY2021?**
A6	System-related expenses should not exceed the figure in FY2021 of JPY 26.0bn. From FY2022 onward, we will control expenses by realizing cost reductions through DX, BPR, branch reductions, etc., which we have been working on to date. In addition, other expenses such as property costs will be reduced.

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Q7	**Why are the IT, credit guarantee, and card-related subsidiaries made bank subsidiaries under the holding company structure?**
A7	The composition of the group companies is only that of the starting point. As the company grows in the future, we expect that some of the companies that are bank subsidiaries at the start will become direct subsidiaries of the holding company. Shizugin IT Solutions mainly handles the systems division of Shizuoka Bank. In considering the regional DX that needs to be addressed in the future, creating a new system-related company is an option in addition to this company taking on this task. Five companies will be aligned with the bank at the start of the project, and new companies may be added to the list in the future. We will consider next steps through taking into account various factors such as the amount of capital to be used, the size of the business, and whether the customer base is bank-based

Q8	**How do you see Shizuoka Financial Group's competitors in 2030?**
A8	In naming the company "Shizuoka Financial Group," we purposely did not include the word "bank". The current 14th Mid-Term Business Plan also calls for a shift away from a focus on banking, and the transition to a holding company structure has been driven by a desire to expand in areas outside the banking business. I think that by 2030 the players will be different from what they are today. Although it is difficult to predict what the global and Japanese industrial structure will look like 10 years from now, it is likely that non-banks, leasing companies, and trading companies in the current industrial structure will be competitors.