

Main Questions and Answers



Q1	Extent of the permeation of RORA within the organization as a KPI of profitability
A1	<p>In formulating the Medium-term Business Plan and annual business plans, management and head office sections hold meetings based on RAF and analyze earnings using RORA to discuss in which fields to focus management resources, including capital and human resources. In this way, we formulate plans for various matters, including balances of loan assets and securities; and link these to business promotion efforts.</p> <p>While many employees working at branches and other sales staff may be more aware of ROA (which is based on actual figures) than risk-asset-based RORA, we are building a business structure to focus on improving profitability by integrating the awareness of those in the field with the perspectives of the head office staff and management who oversee business activities.</p>

Q2	In cost controls, do you focus more on the KPI of OHR or amounts?
A2	<p>We consider both to be important, but if we had to put one above the other, it would be amounts. We consider OHR to be a target in controlling amounts.</p> <p>During the period covered by the current Medium-term Business Plan, the number of investment projects proposed by each section will increase, in part as a rebound from restraints on development work on other computer systems before the launch of the next-generation accounting system in 2021. We use an OHR of 55% as a guideline in controlling these costs.</p> <p>Our basic concept consists of additional investments conditional on verifying the results of investments, assuming steady future earnings growth.</p>

Q3	Am I correct in understanding the ROE target in the Medium-term Business Plan to refer to return on net assets based on TSE standards, not return on shareholders' equity? What are management's thoughts on the fact that return on net assets is declining as share price rises?
A3	<p>We use return on net assets based on TSE standards as the ROE target in the Medium-term Business Plan.</p> <p>We feel we face a dilemma: return on net assets is constrained as it fails to keep up with increasing gains on valuation of stocks due to the recent increases in the share price despite making progress on reducing cross-shareholdings.</p> <p>We are currently revisiting and discussing the capital levels and shareholdings needed to demonstrate stable financial intermediary functions and to be prepared for major earthquakes and other risk events based on reviews of capital policies. In doing so, we sense a need to identify return on shareholders' equity separately from return on net assets.</p> <p>We intend to continue providing thorough explanations so that stakeholders can grasp our focus on continually increasing ROE.</p>

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Q4	Thinking on improving the profitability of home mortgages and securitization of loan claims
A4	<p>We believe home mortgages are difficult to price. We need to consider total profitability, including not just loan yields, but profits from future transactions spurred by home mortgages.</p> <p>We will also proceed with digital transformation (DX) efforts to improve the profitability of our businesses as a whole by promoting low-cost operations and reducing manual work as much as possible, while pursuing claim securitization in a balanced manner based on consideration of resulting reduced loan balances and effects on earnings.</p>

Q5	Do you feel you will exceed the profit target of 64.0 billion yen in consolidated net income in the final year of the Medium-term Business Plan without incorporating the effects of rising interest rates?
A5	<p>Deposit and loan balances are growing as economic conditions return to normal post-COVID. We expect to see steady future growth in light of various factors, including the recent state of lending-related costs. We are also laying the groundwork for the future by steadily advancing into new fields, including making TJS a subsidiary and establishing SFG Marketing and SFG Real Estate Investment Advisors. We will also consider additional business initiatives and efforts to expand business domains.</p> <p>As these efforts bear fruit, combined with the effects of rising interest rates, we expect to achieve the profit target of 64.0 billion yen for the final fiscal year of the Medium-term Business Plan ahead of schedule. In the final year of the Plan, we intend to achieve still higher profits.</p>

Q6	What business opportunities do you see as interest rates rise? How do your competitive strengths differ from those of other companies?
A6	<p>Since few Bank employees have direct experience with rising interest rates, we are preparing for future responses in various ways, including holding internal study meetings. At such times, the differences in how we have served customers and the relationships established with them will become apparent in the scope and scale of our of business opportunities.</p> <p>That is, we see differences in our capacity to build relationships, which allows us to broaden the services we can offer throughout the Group, will not just create the ability to adapt to rising interest rates, but lead to growth in business opportunities.</p> <p>In a world of positive interest rates, the scale of deposit and loan balances will generate massive differences in earnings. We are currently on track to have loans of more than 10 trillion and deposits of more than 11 trillion yen. We consider this to be a positive tailwind for our businesses and a source of competitive strength.</p>

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Q7	Competition for deposits with online banks and future strategies for securing deposits
A7	<p>It's difficult to see any benefits in competing with the average online bank in the same arena. Most of the customers of our online branch live in Shizuoka Prefecture; many use the online branch as a supplement to our brick-and-mortar branches. Our online banking services have a different nature than general online bank accounts.</p> <p>That is, unlike online banks that attract deposits based on the benefits of interest rates and systems, we need a strategy of appealing to customers to deposit with us because of who we are as Shizuoka Bank. We will continue to take dynamic action, including leveraging the strengths of our customer base and network in the region and carrying out effective promotional campaigns for events like childbirth and school entry in the lives of our customers.</p> <p>We believe our online branch also needs to clarify its strategies for achieving differentiation from other banks with respect to aspects like the usability of convenience store ATMs.</p> <p>At the same time, it's important to prevent outflows of deposits to other prefectures as inheritances are passed down. In Shizuoka Prefecture, many heirs live in the greater Tokyo area; accounts with the online branch play a role in preventing the loss of deposits. Behind our accelerated opening of branches in Kanagawa Prefecture in recent years is the recognition that many former Shizuoka Prefecture residents live there. We want to use our network of branches located outside Shizuoka Prefecture to prevent the loss of deposits to other prefectures.</p>

Q8	Have you set up an investment line subject to decisions at the sole discretion of the President as a way of approaching new investment?
A8	<p>From a governance perspective we have no plans to set up an investment line subject to decisions at the sole discretion of the President. However, we've established the Business Development Department as an organization under the direct supervision of the President with the mission of launching new businesses. It studies new businesses like SFG Marketing and SFG Real Estate Investment Advisors.</p> <p>We believe it's preferable to submit proposals based on high business potential to the Board for deliberations, rather than setting up a line subject to personal decision.</p> <p>In the Bank's culture, we always consider KPIs on profit and try to avoid cannibalization of existing businesses. For this reason, in some ways, it can be difficult to generate new businesses. Under the holding company structure, we have established an organization outside of the Bank to study new businesses, giving it a degree of freedom under the President's direct supervision.</p>

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Q9	What are the motives, advantages, and disadvantages of separating the posts of President of the holding company and President of the Bank?
A9	<p>We believe that, ideally, the posts of President of the holding company and President of the Bank subsidiary should be separate. This is because we want to ensure a structure under which the holding company can make appropriate decisions in the event of conflicts of interest within the Group. Such decisions might be more difficult if the President of the holding company also represents the Bank.</p> <p>The potential disadvantages of separating top management, on the other hand, include the difficulty for the holding company in ascertaining information and the slower pace of management in a multilayered structure. However, in migrating to a holding company structure, we designed the organizations to incorporate various measures to avoid these disadvantages.</p> <p>For example, in the area of control of information, the President of the holding company serves concurrently as a Director of the Bank while Audit and Supervisory Committee members of the holding company serve concurrently as Corporate Auditors of the Bank. This structure of concurrent posts is designed to enable the holding company to efficiently ascertain information on subsidiaries.</p> <p>We have taken steps to realize rapid and flexible management, including raising the amount subject to decisions by the Bank subsidiary through the delegation of authority and revising the scope subject to independent decision-making. Through these and other measures, we're building an organization that will enable the effective functioning of the governance framework while separating oversight and execution.</p>