Review of financial targets and shareholder return policy

Progress on the First Medium-term Business Plan

Progress has been made on efforts toward medium- and long-term growth strategies, such as by expanding new business areas and reviewing expenses structures, in addition to steady growth in core businesses centered on deposits and loans.
Aim for sustained growth by responding appropriately to changes in the current environment, including rising interest rates in Japan and labor shortage issues.

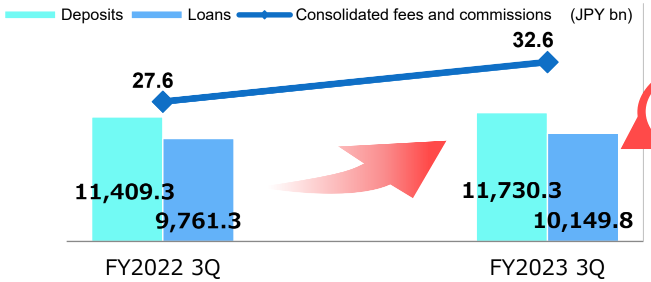
Progress on the First Medium-term Business Plan

Region-Co-Creation strategy × Group Business strategy

Main progress on growth strategies

1 Powerful growth in sales sections

- Deposit and loan balances show stable growth while consulting and other commission revenues are also favorable.



Loan balance reaches JPY 10 tn

2 Growth in new business areas

- TJS made a subsidiary (Feb. 2023), SFG Marketing established (July 2023), SFG Real Estate Investment Advisors established (Nov. 2023)
- Autonomous growth in Group companies under the holding company structure

Future outlook based on changes in the environment

Recent environmental changes

Rising long-term interest rates in Japan spurred by review of BoJ monetary policy

⇒ Strategic portfolio management prepared for dealing with conditions of positive interest rates

Deposits, loans

Rising investment efficiency centered on loans linked to market interest rates in the event that negative interest rates are discontinued

⇒ Increased earnings driven by growth in deposit and loan balances

Securities

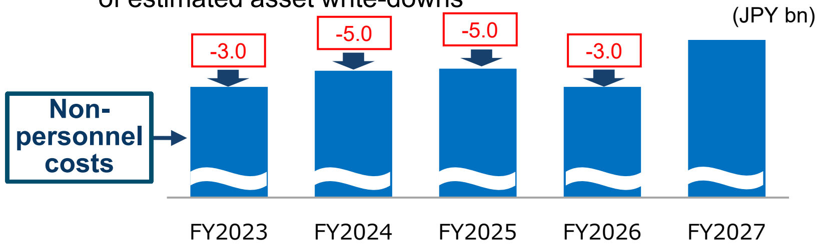
Rising yields on new investments while revaluation losses on JPY bonds holdings increase

⇒ Earning potential will be impacted by whether or not management has the capacity to build up JPY bonds.

Transformation strategy

3 Improving investment capacity by revising methods of evaluating fixed assets

- Suppressing future branch-related costs through one-time amortization of estimated asset write-downs



Recent environmental changes

Effects of rising wages and labor shortages are being felt, especially in provincial regions.

Growth investment

Enhancement of investment in digital transformation (DX) and human capital to realize more efficient management

⇒ Investments with an eye on population trends, etc. will directly translate into medium- to long-term competitive strength.

Revision of Financial Targets and Policy on Shareholder Returns under the First Medium-term Business Plan

Revision to a target of progressively increasing the payout ratio to 50% or higher by FY2027 while also aiming for sustained growth in ROE by setting a target based on shareholders' equity in addition to the existing ROE target (based on net assets)

Revision of financial targets and policy on shareholder returns

Before

- **FY2027: Consolidated ROE of approx. 6%**
- **Progressively increasing the dividend payout ratio to 40% or higher**

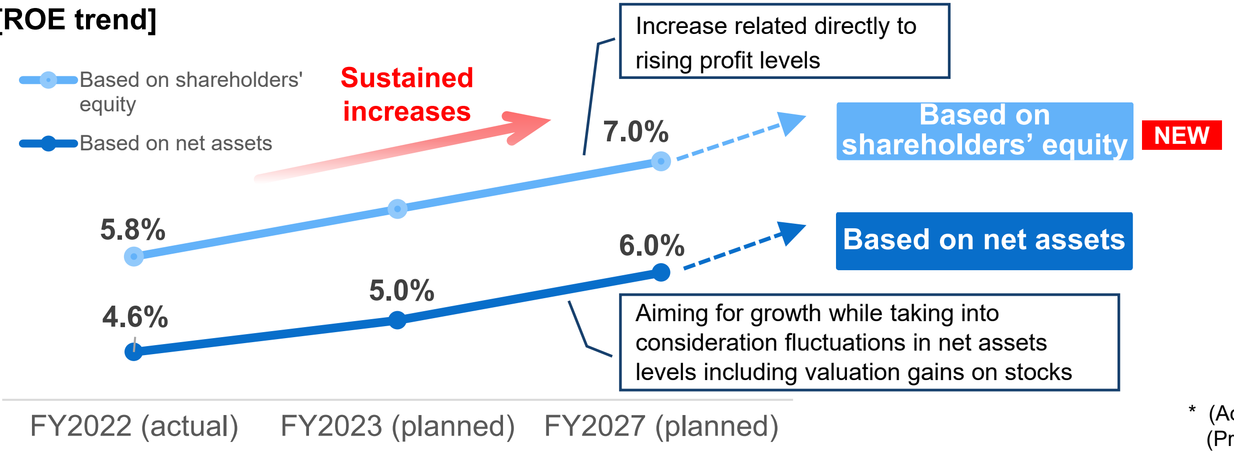
After

- **FY2027: Consolidated ROE of approx. 6% (based on net assets)**
  FY2027: Consolidated ROE of approx. 7% (based on shareholders' equity)
- **Progressively increasing the dividend payout ratio to 50% or higher**

Additional ROE target

Aim of additional target: To clarify our approach of aiming for sustained growth in ROE through executing growth strategies, regardless of fluctuations in net assets due to increases and decreases in valuation of stocks, etc.

[ROE trend]



Revision of policy on shareholder returns

Aims of revision: To make Shizuoka Financial Group shares more attractive by increasing the dividend payout ratio, in order to attract new shareholders and realize wellbeing for all stakeholders

[Distribution of earnings to shareholders]

Aiming for a shareholder return ratio of 50% or more over the medium to long term through dividends on shares only, alongside steady implementation of dynamic purchasing and retirement of treasury shares based on capital market conditions

	FY2022 (actual)	FY2023 (projected)	FY2027 (target)
Dividend payout ratio	**32.2%**	**38.4%**	**50.0% or higher** (+10.0 pts. vs. initial plan)
Dividend per share	**JPY 30.0**	**JPY 39.0** (+JPY 5.0 vs. previous announcement)	-
Total payout ratio	**51.1%***	**50.9%***	-

* (Actual) returns to shareholders in FY2022 include purchase of treasury shares announced and implemented during the period. (Projected) returns to shareholders in FY2023 are estimated based on projected financial results and the maximum amount of purchase of treasury shares announced February 1, 2024.

The First Medium-term Business Plan from a capital-cost perspective

(1) Analyzing the First Medium-term Business Plan from a capital-cost perspective

- **Since we are targeting consolidated ROE of approx. 6% in FY2027, capital costs of 8% would mean a negative ROIC spread.**
- **Results of estimates show that the ROIC spread would be positive, assuming a reduction of JPY 300.0 bn in equity capital (i.e., the level of equity capital deemed to have leeway of approx. JPY 300.0 bn).**

(2) We will improve the earnings capabilities of each business segment by promoting the basic strategies of the First Medium-term Business Plan.

<Assumptions of analysis>

(1) Capital cost of 8%

(2) Consolidation basis distributed over three segments

Customer account (JPY)	Customer transactions (deposits, loans, etc.) business segment
Foreign-currency account	Profit/loss in foreign-currency portfolio
Investment account (JPY)	Business segment consisting of investment accounts other than customer transactions

Results of analysis of the First Medium-term Business Plan from a capital-cost perspective

	(%)	FY2022	FY2027	FY2030
Consolidated	**ROIC spread**	**-0.26**	**-0.10**	**-0.09**
	ROIC	0.71	0.64	0.60
	WACC	0.97	0.74	0.69
Customer account	**ROIC spread**	**+0.03**	**+0.04**	**+0.06**
	ROIC	0.27	0.28	0.30
	WACC	0.24	0.24	0.24
Foreign-currency account	**ROIC spread**	**-0.60**	**+0.12**	**+0.11**
	ROIC	4.20	3.41	2.91
	WACC	4.80	3.29	2.80
Investment account	**ROIC spread**	**-0.71**	**-0.54**	**-0.48**
	ROIC	0.53	0.72	0.78
	WACC	1.24	1.26	1.26

Consolidated:
- Negative ROIC spread in final FY of the First Medium-term Business Plan (FY2027)
- Negative spread reduced through promotion of basic strategies of the First Medium-term Business Plan

ROIC spread turns positive if equity capital is decreased by JPY 300.0 bn: leeway of approx. JPY 300.0 bn in equity capital.

Customer account:
- **Positive** ROIC spread on transactions with customers (deposits, loans, etc.)
- **Growing the positive spread** by promoting basic strategies under the First Medium-term Business Plan

Foreign-currency account:
- Negative ROIC spread due to worsening of foreign bonds balances following recent reversal of long- and short-term interest rates in the US
- **Returning to positive** territory under the Medium-term Business Plan's scenario of a positive yield curve

Investment account:
- Negative ROIC spread in final FY of the First Medium-term Business Plan

Reasons for negative spread
(i) Lower investment efficiency on securities due to the effects of long-term monetary easing
⇒ Restructuring the portfolio under the Medium-term Business Plan will improve ROIC.
(ii) All capital not falling under customer or foreign currency accounts is in this account under managerial accounting practices.

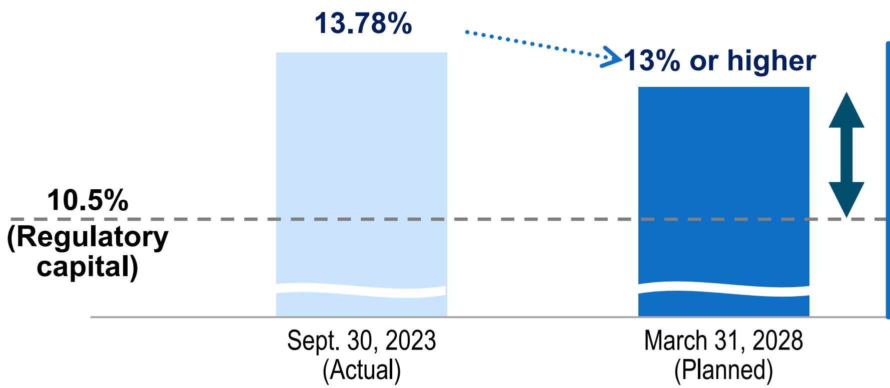
		FY2027	FY2030
Consolidated	**ROIC spread**	**+0.04**	**+0.04**
	ROIC	0.65	0.61
	WACC	0.61	0.57
Customer account	**ROIC spread**	**+0.04**	**+0.06**
	ROIC	0.28	0.30
	WACC	0.24	0.24
Foreign-currency account	**ROIC spread**	**+0.12**	**+0.11**
	ROIC	3.41	2.91
	WACC	3.29	2.80
Investment account	**ROIC spread**	**+0.01**	**+0.07**
	ROIC	0.77	0.84
	WACC	0.76	0.77

Management risks at regional financial institutions

Setting a target CET1 ratio of 13% or higher as the equity capital level needed for stable management as a basis for growth strategies, in light of the management risks to regional financial institutions
Shizuoka Financial Group's stock price remained stable even during previous financial crises owing to its high level of soundness.

Target equity capital level
(Full-scale application phase of final Basel III standards)

Maintaining a regulatory capital adequacy ratio of +2 to 3% supports stable management as a basis for growth strategies



Approx. 3% pts. higher than the regulatory ratio level needed for stable management
↓
Equity capital amount JPY 200.0 to 250.0 billion

Risks to regional financial institutions

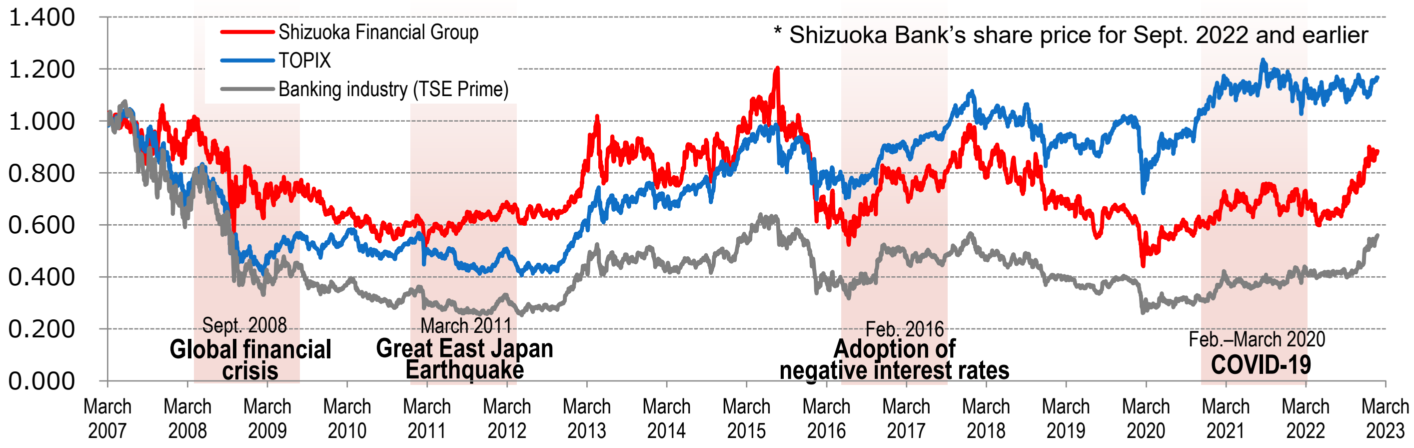
	[Common to all banks]	[Regional financial institutions]
Features of business	Banking-business assets are generally assets at risk	Business dependent on specific region
Management risks	Asset value decreases during risk events	Major impact on region of natural disasters, etc.

Enhanced equity capital
High level of soundness

- Demonstrating stable financial intermediary functions
- Maintaining profit levels and stable dividends even in a crisis

Shizuoka Financial Group's share price during past risk events

[Stock price index when the stock price is set to 1 at end of FY2006]



Rate of decrease in share prices in response to risk events (over six months)

- Shizuoka Financial Group's share price remained stable even during bearish stock markets

	Global financial crisis	Great East Japan Earthquake	COVID-19
Shizuoka Financial Group	-26.5%	+2.8%	-3.5%
TOPIX	-40.5%	-18.8%	-4.2%
Banking industry (TSE Prime)	-47.5%	-22.3%	-17.4%

Dividend policy

Deciding on dividend amounts comprehensively while considering dividends received from stock, aiming for a progressive increase in the dividend payout ratio to 50% or higher by FY2027. Making decisions on stock holdings based on matters such as their meaning as investments and investment efficiency, while remaining conscious of the equity capital level needed for stable management

Shizuoka Financial Group's thinking on dividends

<Shareholder return policy (target dividend payout ratio)>

Progressively increasing the dividend payout ratio to 50% or higher

(Revised from initial target of 40% or higher in the First Medium-term Business Plan)

We will enhancing returns to shareholders by setting dividends per share with consideration for matters including dividends received from stock holdings (cross-shareholdings and pure investments), to increase the payout ratio.

We will announce the dividend policy for each fiscal year through IR and other means after considering capital policies.

<Breakdown of consolidated equity capital (JPY 1,133.3 bn)>

* FY2023 interim financial results

Shareholders' equity: JPY 928.6 bn
(Excluding valuation differences on available-for-sale securities, etc.)

Valuation differences on available-for-sale securities: JPY 179.9 bn
(Including approx. JPY 250.0 bn corresponding to stocks)

The portion of valuation differences on available-for-sale securities corresponding to stocks plays a role in capital adequacy from a capital cost perspective and contributes to stabilization of management in connection with regulatory capital.

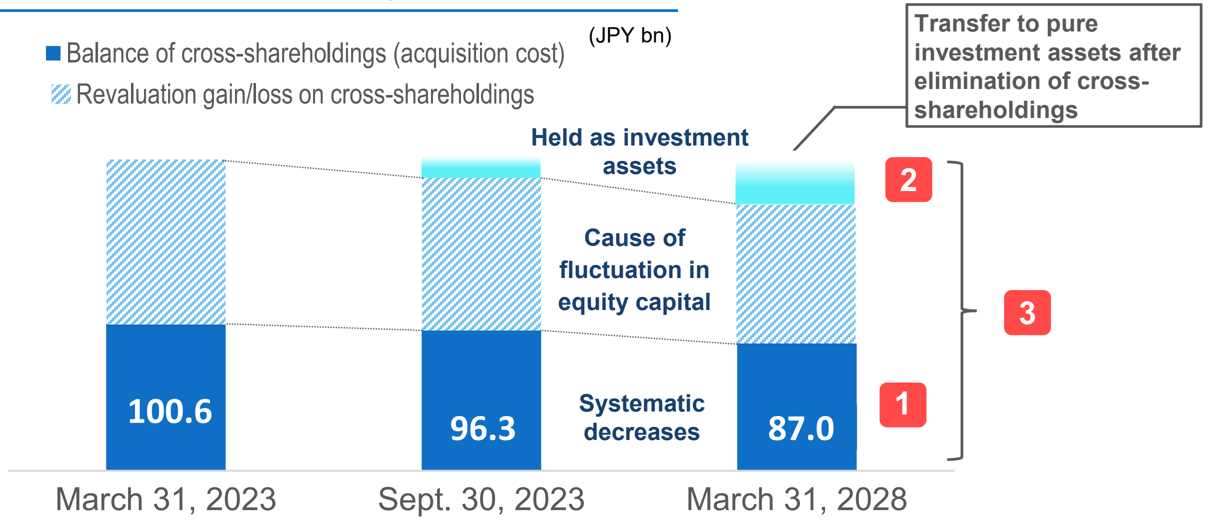
<Dividend trends> * Dividend payout ratio for FY2023 estimated based on projected financial results

	FY2022 (Actual)	FY2023 (Announced May)	FY2023 (This announcement)
Interim dividend	JPY 15	JPY 17	(Actual) JPY 17
Year-end dividend	JPY 15	JPY 17	(Planned) **JPY 22**
Annual dividends	JPY 30	JPY 34	**JPY 39**
Payout ratio	32.2%	33.5%	38.4%

+JPY 5

The amount corresponding to dividends received on stock (after deducting the effective tax rate) is factored into decisions on Shizuoka Financial Group's dividends. As this decision was made in the second half, year-end dividends for FY2023 are equivalent to 50% (+JPY 5).

Stock portfolio policy



1 Balance of cross-shareholdings (acquisition cost basis)

Systematically decreasing holdings not deemed worth holding under the Corporate Governance Code

Target reduction during the First Medium-term Business Plan: −JPY 13.6 bn

2 Transfer to pure investment assets

Considering **holding as investment assets** in light of investment efficiency

3 Thinking on stock portfolio overall

Making clear the meaning of holding shares and holding them if appropriate, **with consideration for the equity capital level** necessary for stable management as the basis for growth strategies

Consolidated CET1 ratio target: 13% or higher

Stock portfolio yield: **1.8%**; stock portfolio RORA: **1.6%**
Nikkei Average level at which revaluation gain/loss would be zero: **JPY 6,465** (as of FY2023 interim settlement of accounts)

Enhancement of shareholder returns and generating impact through investment in growth strategies and human capital

Through enhancement of returns to shareholders and further accelerating investment in growth strategies and human capital leveraging use of Shizuoka Financial Group's management resources, we will generate results to lead to well-being for all stakeholders.

Enhancement of shareholder returns and investment in growth strategies and human capital

Management resources

Equity capital
- Stable management
- Shareholdings with low risk of impairment (use as sources of new returns)

Earnings capabilities
- Growing funding for shareholder returns through stable profit growth
- Expand investment leeway through revision of fixed-asset valuation

Human resources
- Diverse, specialized human resources (value-creating HR, digital HR)

Systems
- Next-generation accounting systems with high development productivity

Shareholder returns and investment in growth strategies and human capital

[Shareholder returns] Making Shizuoka Financial Group's shares more attractive

Method of return	Concept
Dividends	Progressive increases: creating long-term shareholders
Purchase of treasury stock	Dynamic purchase: increasing value per share

[Investment in growth strategies and human capital]

Investment areas	Effects, courses of action
Expanding investment in AI and digital transformation (DX)	Further growth in touchpoint and sales transformation initiatives and using generative AI
Enhancing investment in human capital	More active investment in HR development, etc., to maximize human capital to help realize strategy
Investment in highly profitable nonfinancial fields	Considering M&As if connected to prompt profitability or social impact
Investment toward generating regional innovation	Reginal HR development and industrial creation Promoting partnerships with local firms

Impacts

Increasing corporate value
Profit levels
Stock price and market capitalization

Returns to employees and the region
Realizing financial well-being

Increasing engagement of Group employees and officers
Reskilling, etc.

Increasing regional GDP
Increasing regional population