



Shizuoka Financial Group
Summary of FY2023
3Q Financial Results

February 2024

Xover
— Clearing the way
to a new era

Summary of FY2023 3Q financial results (consolidated)

(JPY bn, %)	FY2023 3Q	YoY change	
		Increase/ decrease	Increase/ decrease (%)
Gross operating profit	Up for the first time in two periods 127.6	+9.2	+7.8
Operating expenses (-)	73.1	+1.1	+1.5
Share of profit (loss) of entities accounted for using equity method	1.5	+1.2	+393.5
Net operating profit*1	Up for the first time in three periods 56.3	+9.1	+19.3
Credit-related costs (-)	2.7	-0.9	-24.1
Gain (loss) on stocks	21.7	+9.8	+82.3
Ordinary profit	Up in second consecutive period 75.8	+20.0	+35.9
Extraordinary profit (loss)	-19.8	-19.7	—
Net income before taxes	56.0	+0.3	+0.6
Total income taxes (-)	16.0	-0.0	-0.1
Net income*2	Up for the first time in two periods 40.1	+0.4	+1.0
ROE(based on net assets)	4.6	-0.1	—
ROE(based on shareholders' equity)	5.7	-0.1	—

*1 Net operating profit = net operating profit for Shizuoka Bank (nonconsolidated) + consolidated ordinary profit – ordinary profit for Shizuoka Bank (nonconsolidated)

*2 Net income attributable to owners of the parent

Impact on 3Q financial results of September 2023 revaluation of fixed assets		
Amount of impact	After deducting impact	Key factors
—	—	
-1.6	74.6	Depreciation expenses on subject assets decreased.
—	—	• Depreciation expenses: -JPY 1.7bn
+1.6	54.7	• Sized-based tax: +JPY 0.2bn
—	—	
+15.0	6.7	Impact minimized via gains on sale of cross-shareholdings, together with early lump-sum recording of future costs, etc.
+16.5	59.3	
-19.2	-0.6	• Gain (loss) on stocks: +JPY 15.0bn
		• Extraordinary loss: -JPY 19.2bn
-2.7	58.7	
-0.6	16.5	
-2.1	42.2	(Projected FY2023 depreciation expenses: -JPY 3.0bn)

[Reference:
Excluding the above
key factors]

Consolidated ordinary
profit

Consolidated net income

	(JPY bn, %)		
	FY2023 3Q	YoY change	Progress (%) [vs. figures announced May 2023]
Consolidated ordinary profit	59.3	+3.5	74.1
Consolidated net income	42.2	+2.5	75.3

Results for major Group companies

Shizuoka Bank Nonconsolidated

	(JPY bn, %)	FY2023 3Q	YoY change	
			Increase/ decrease	Increase/ decrease (%)
Gross operating profit		115.4	+8.1	+7.5
Net interest income		95.8	+3.9	+4.2
Fees and commissions		19.1	+3.3	+20.7
Trading income		0.6	-0.6	-49.5
Other operating profit		-0.1	+1.5	-92.8
(Income related to JGBs and other bonds)		(1.0)	(+9.3)	(-111.5)
(Foreign exchange trading profit)		(-1.7)	(-8.1)	(-127.3)
Expenses (-)		65.8	+0.4	+0.6
Actual net operating profit *		49.6	+7.7	+18.3
Provision for general allowance for loan losses (-)		-0.9	+0.6	-39.8
Net operating profit		50.5	+7.1	+16.3
Nonrecurring profit and loss		19.6	+10.9	+126.7
Bad debt written-off (-)		2.6	-1.7	-39.4
Gain (loss) on stocks		21.6	+9.7	+82.5
Ordinary profit		70.1	18.0	+34.6
Extraordinary profit (loss)		-20.7	-20.9	—
Net income before taxes		49.3	-2.9	-5.5
Total income taxes (-)		13.7	-0.2	-1.1
Net income		35.6	-2.7	-7.0
Credit-related costs (-)		1.7	-1.1	-40.0

* Actual net operating profit = net operating profit + provision for general allowance for loan losses

Main Group companies other than Shizuoka Bank

	(JPY bn)	Shizugin Management Consulting		Shizugin Lease	
		FY2023 3Q	YoY change	FY2023 3Q	YoY change
Gross operating profit		1.1	+0.3	2.5	+0.0
Expenses (-)		0.9	+0.3	1.2	-0.0
Ordinary profit		0.3	+0.0	1.3	+0.0
Net income		0.2	+0.0	0.9	+0.0
	(JPY bn)	Shizuoka Capital		Shizugin TM Securities	
		FY2023 3Q	YoY change	FY2023 3Q	YoY change
Gross operating profit		0.4	+0.0	5.4	+0.3
Expenses (-)		0.2	+0.0	4.0	+0.3
Ordinary profit		0.3	+0.0	1.4	-0.0
Net income		0.1	-0.0	1.0	-0.0

Initiatives of main Group companies

Shizugin Management Consulting

Consulting contracts continue to grow, centered on the M&A field. Strengthening ability to handle projects including those in new fields such as J-Credits, by enhancing human resources.

Shizugin Lease

Strengthening its range of support for promoting regional green transformation, through means such as participating in the TSE's carbon-credit market. Profits are trending steady thanks in part to lower credit-related costs.

Shizuoka Capital

Focusing on IPO investment through venture-capital funds and business-succession support for regional companies.

Shizugin TM Securities

Launched an entrepreneurship-support program for firms in the prefecture in partnership with a local company in January 2024.

Customer assets growing steadily, centered on credit wraps, as market conditions improve. Striving to stabilize gains through strengthening of a sales organization focused on stock gains.

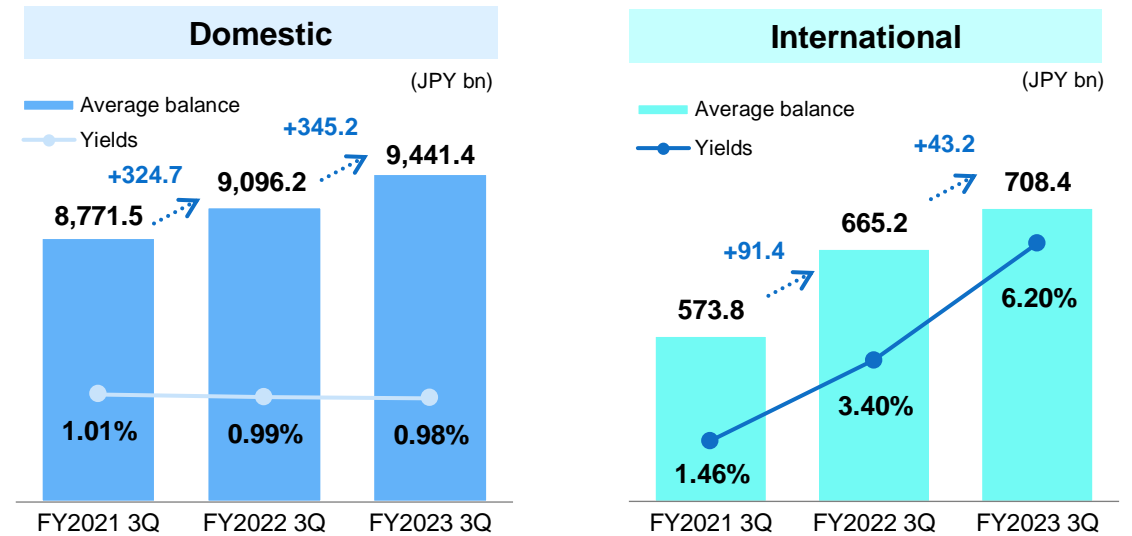
Net interest income (Shizuoka Bank nonconsolidated)

Steady growth in domestic net interest resulted in YoY growth of JPY3.9 bn in total net interest income.

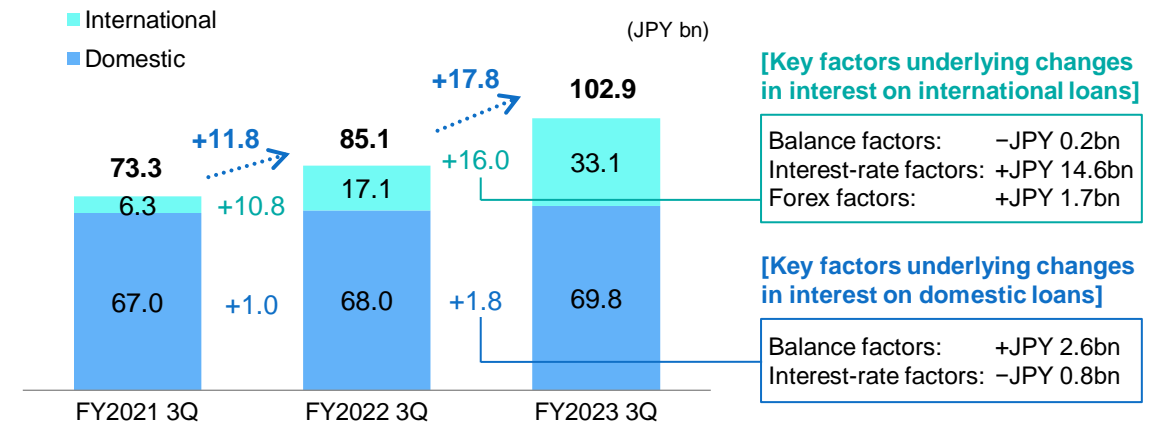
Breakdown of net interest income

(JPY bn)	FY2021 3Q	FY2022 3Q	FY2023 3Q	YoY change
Net interest income	92.7	91.9	95.8	+3.9
Domestic	83.6	84.3	87.7	+3.4
Interest on loans	67.0	68.0	69.8	+1.8
Interest and dividend on securities	15.7	15.4	17.8	+2.5
(Bonds)	1.4	3.0	6.6	+3.6
(Investment trusts)	3.0	0.4	0.7	+0.3
Funding costs (-)	0.9	0.6	1.0	+0.4
(Interest paid on deposits, etc.) (-)	0.9	0.7	0.6	-0.1
Other	1.8	1.6	1.1	-0.4
International	9.1	7.6	8.1	+0.5
Interest on loans	6.3	17.1	33.1	+16.0
Interest and dividend on securities	6.3	10.0	20.3	+10.2
(Bonds)	3.5	7.3	19.0	+11.8
(Investment trusts)	2.0	1.0	0.9	-0.1
Funding costs (-)	3.7	22.5	56.1	+33.6
(Interest paid on deposits, etc.) (-)	0.8	9.7	29.5	+19.8
Other	0.2	3.0	10.8	+7.8

Loan balance (average balance) and yields



Interest on loans



Loans (Shizuoka Bank nonconsolidated)

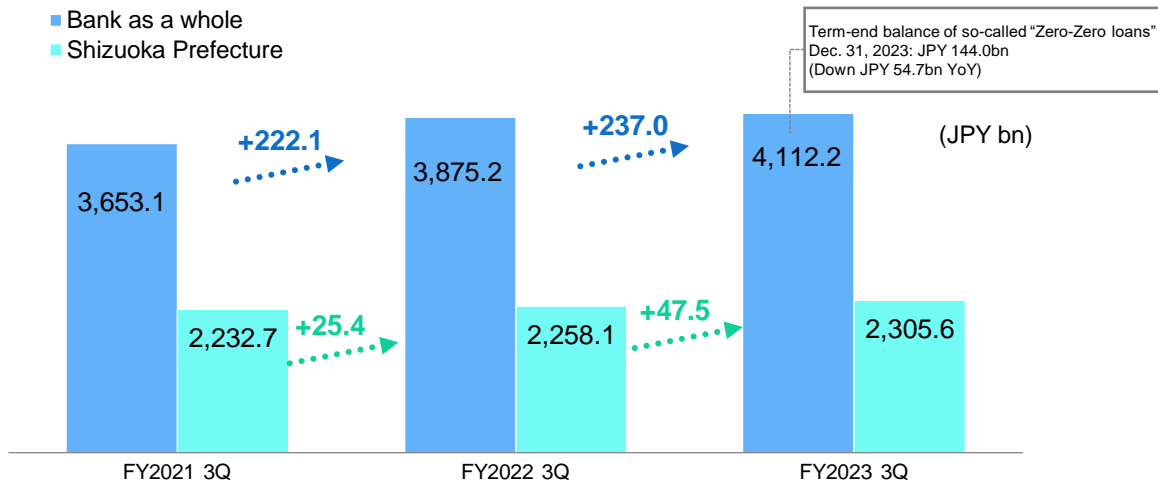
The total loan balance (average balance) increased mainly due to growth in loans to SMEs and retail loans (+3.9% annual).

Loan balance (average balance)

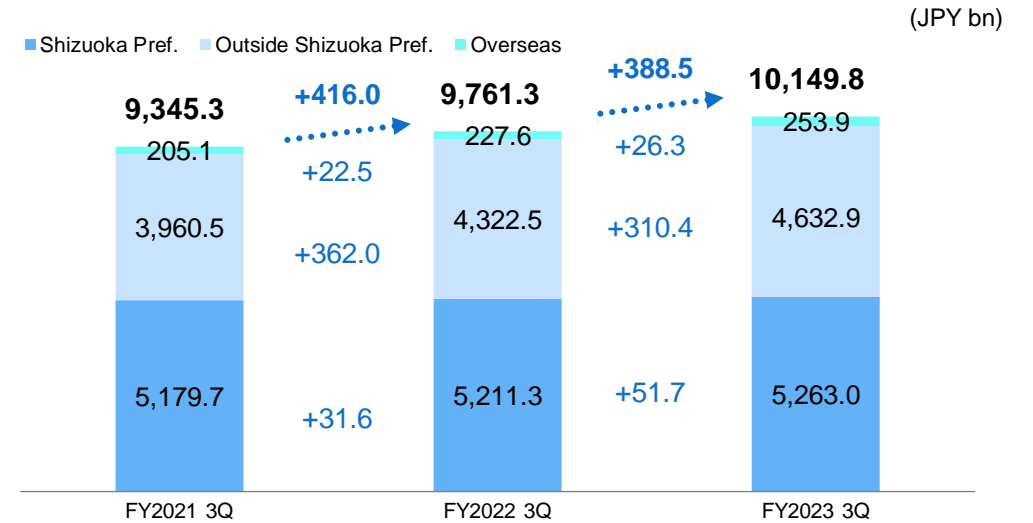
(JPY bn, %)	FY2023 3Q	YoY change	Annual rate
Total loan balance	10,149.8	+388.5	+3.9%
Loan balance to SMEs	4,112.2	+237.0	+6.1%
Loan balance to large and medium-sized enterprises	1,860.2	-7.8	-0.4%
Retail loans	3,811.0	+145.9	+3.9%
Loan balance in foreign currency	658.7	+30.1	+4.7%

Balance factors: -JPY 4.9bn
Forex factors: +JPY 35.0bn

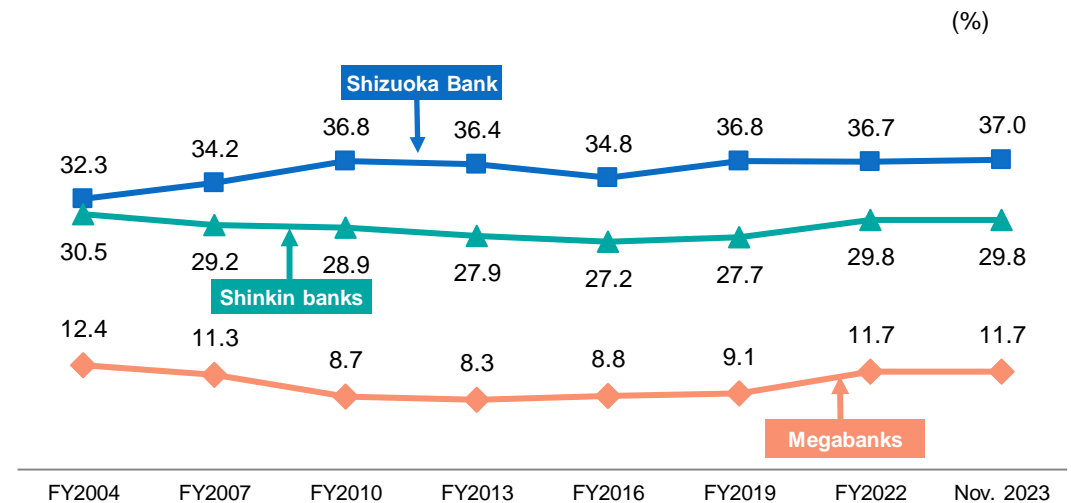
SMEs loan balance (average balance)



Loan balance (by region)



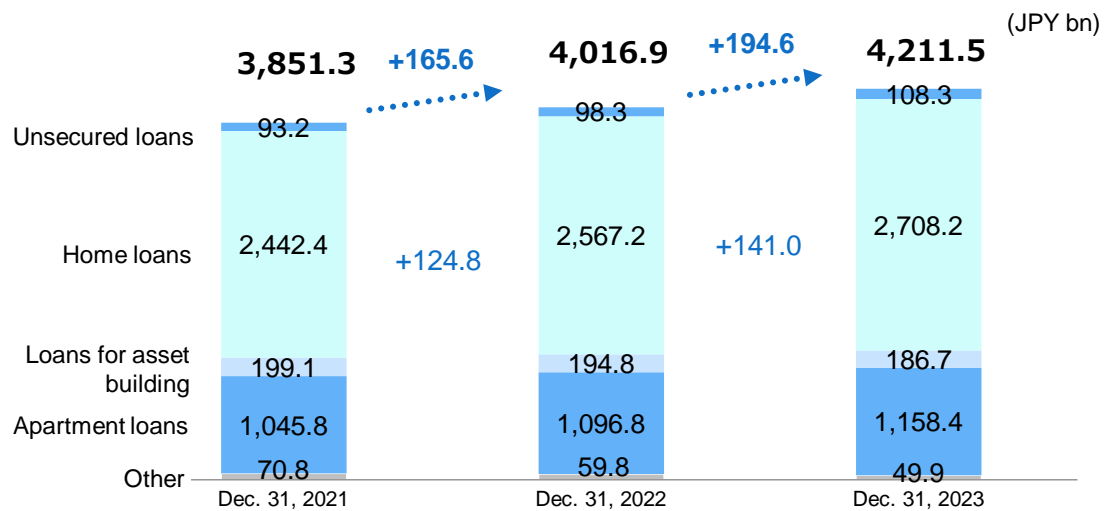
Share of loans in Shizuoka Prefecture



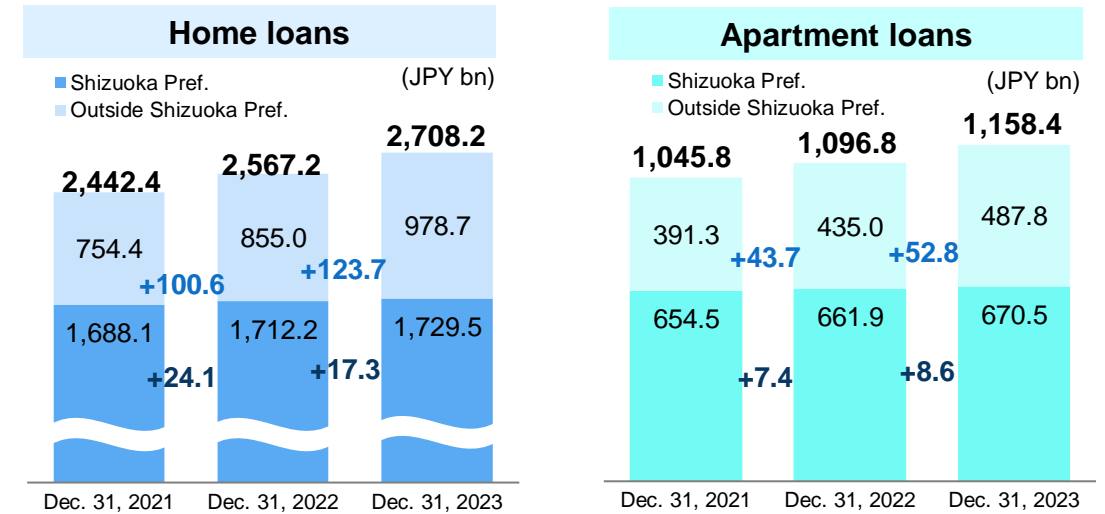
Home loans, apartment loans, and other (Shizuoka Bank nonconsolidated)

The balance of home loans, apartment loans, and other loans continued to grow. Revenues including loan-related fees and commissions grew by JPY 2.2bn YoY.

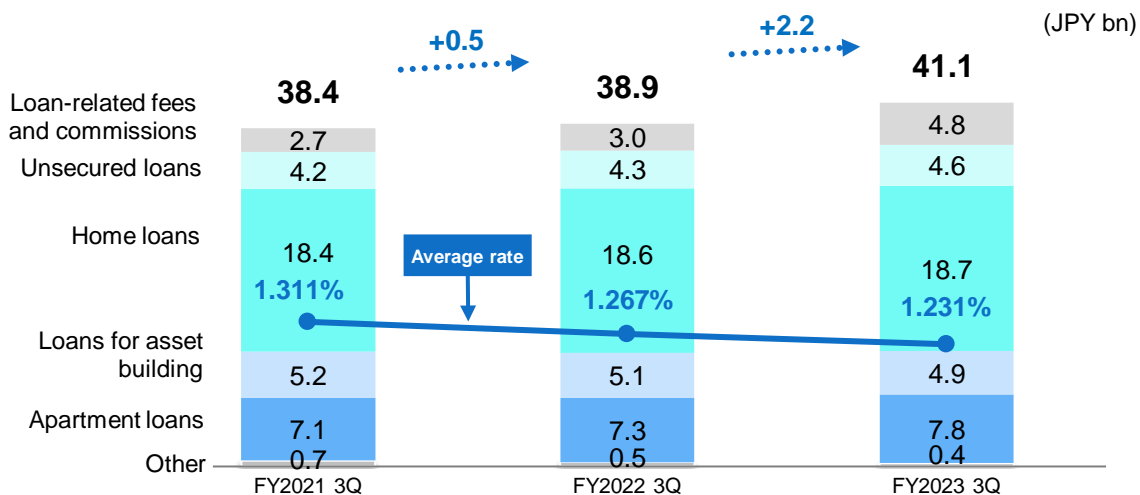
Term-end balance



Home loan and apartment loan balances by region (term-end balances)



Interest amounts, fees, and rates



Delinquency rate and occupancy rate

Delinquency rate (three months or longer)	Dec. 31, 2021	Dec. 31, 2022	Dec. 31, 2023
Home loans	0.11%	0.09%	0.10%
Apartment loans	0.17%	0.02%	0.04%
Loans for asset building	0.27%	0.29%	0.31%

Rental property occupancy rate	Dec. 31, 2020	Dec. 31, 2021	Dec. 31, 2022
Shizuoka Pref.	92.5%	93.5%	94.0%
Outside Shizuoka Pref.	93.3%	94.1%	95.1%

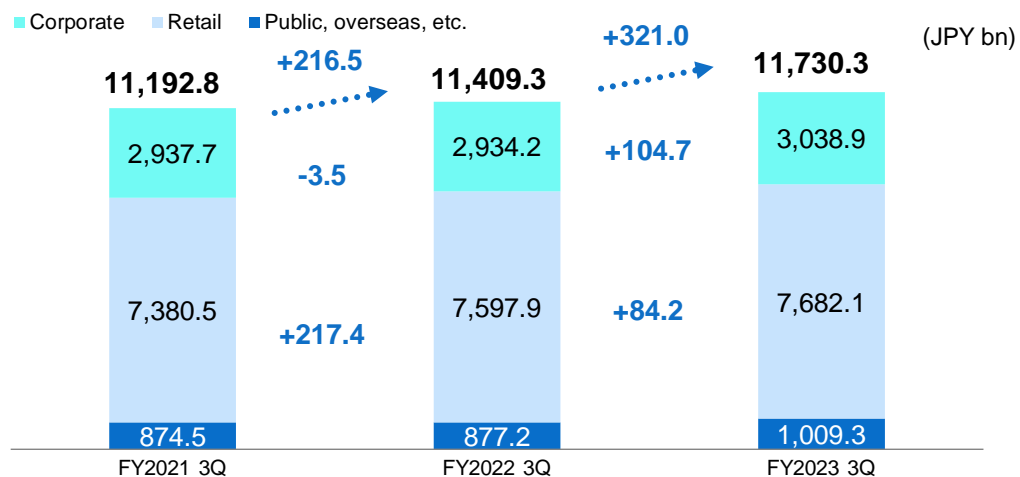
Deposits (Shizuoka Bank nonconsolidated)

Continued growth in balances of both corporate and retail deposits (average balance) (+2.8% annual)

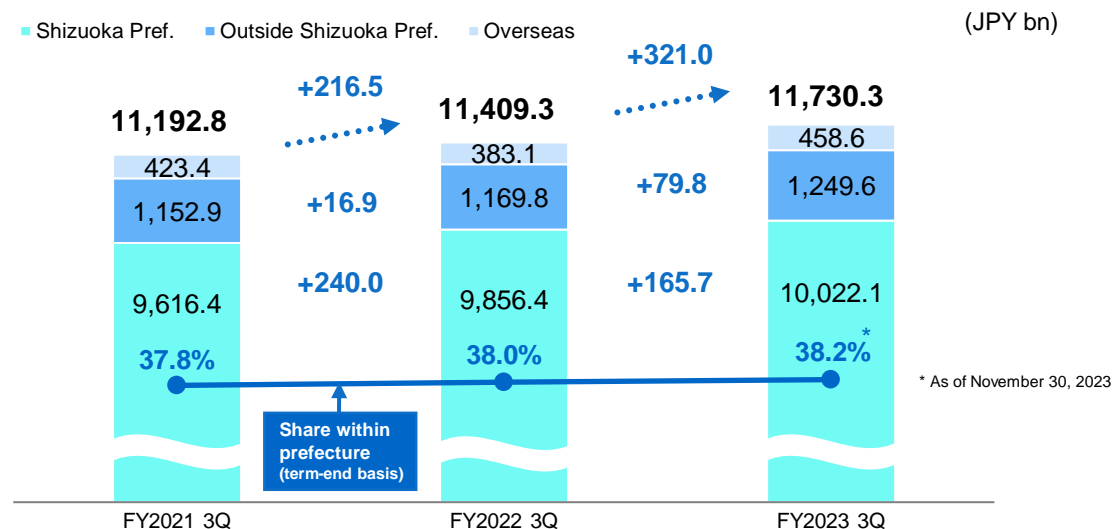
Trends in deposit balance (average balance)

(JPY bn, %)	FY2023 3Q	YoY change	Annual rate
Total deposits	11,730.3	+321.0	+2.8%
Deposits in Shizuoka	10,022.1	+165.7	+1.6%
Corporate deposits	3,038.9	+104.7	+3.5%
Retail deposits	7,682.1	+84.2	+1.1%
Public deposits	333.1	-4.2	-1.2%
NCDs	136.3	+47.4	+53.2%

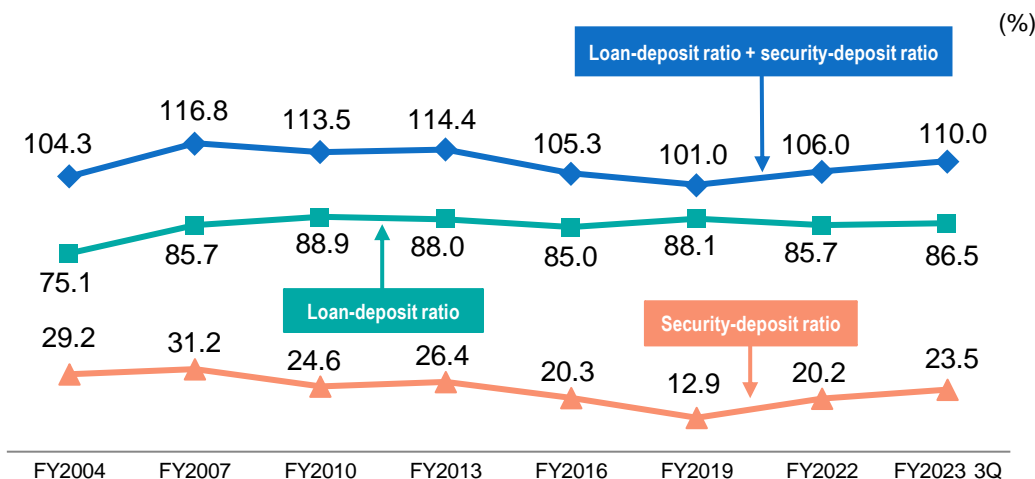
Deposit balance (average balance)



Deposit balance (by region)



Loan-deposit ratio / security-deposit ratio (excluding NCDs)



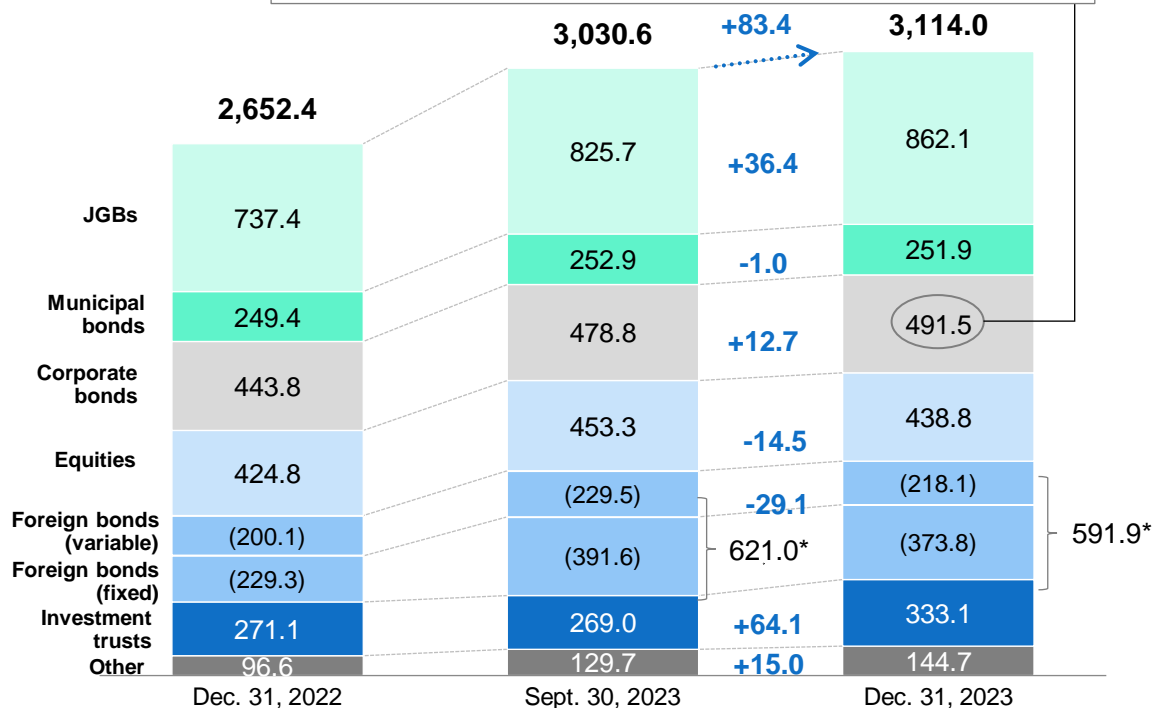
Securities (Shizuoka Bank nonconsolidated)

Maintained valuation gains of JPY283.4 bn for securities as a whole through securities portfolio management while identifying changing market conditions.

Securities

[Breakdown of bonds] (JPY bn)

Government-guaranteed bonds:	JPY 31.1bn
Corporate bonds:	JPY 267.6bn
(Private placement bonds:	JPY 28.1bn)
Financial institution bonds:	JPY 160.3bn
Corporate bonds held to maturity:	JPY 32.6bn



* Balances on Sept. 30 and Dec. 31, 2023 include transfers from Shizuoka Bank (Europe) S.A.

[Average holding period (excluding bonds hedged against interest-rate fluctuations)]

	Dec. 31, 2022	Sept. 30, 2023	Dec. 31, 2023
JPY bonds	6.41 years	7.34 years	7.12 years
Foreign bonds*	2.65 years	2.52 years	1.13 years

* Excluding futures

Gains and losses on securities

(JPY bn)	FY2022 3Q	FY2023 3Q	YoY change
Interest and dividends on securities	25.4	38.1	+12.7
JPY bonds	3.0	6.6	+3.6
Foreign bonds	7.3	19.0	+11.8
Investment trusts (gains [losses] on cancellation)	1.5 (0.2)	1.6 (0.4)	+0.2 (+0.2)
Investment funds	3.5	0.8	-2.7
Income related to JGBs and other bonds	-8.3	1.0	+9.3
Gains on sale	13.6	15.6	+2.0
Losses on sale and redemption (-)	21.9	14.6	-7.3
Gains and losses on equities	11.8	21.6	+9.7
Gains on sale	11.9	21.9	+10.0
Losses on sale and amortization (-)	0.1	0.4	+0.3

Gains and losses on revaluation of securities

(JPY bn)	Dec. 31, 2022	Sept. 30, 2023	Dec. 31, 2023	After hedging	vs. Sept. 30, 2023
Gains and losses on revaluation of securities	+255.8	+258.5	+283.4	+281.0	+24.9
Equities	+322.4	+354.9	+340.2	-	-14.7
Yen bonds	-37.0	-49.8	-33.9	-35.9	+15.8
Foreign bonds	-40.3	-64.5	-32.3	-32.8	+32.2
Investment trusts	-1.5	+3.6	-4.4	-	-8.0
Investment funds, etc	+12.2	+14.3	+13.9	-	-0.4

JPY portfolio management

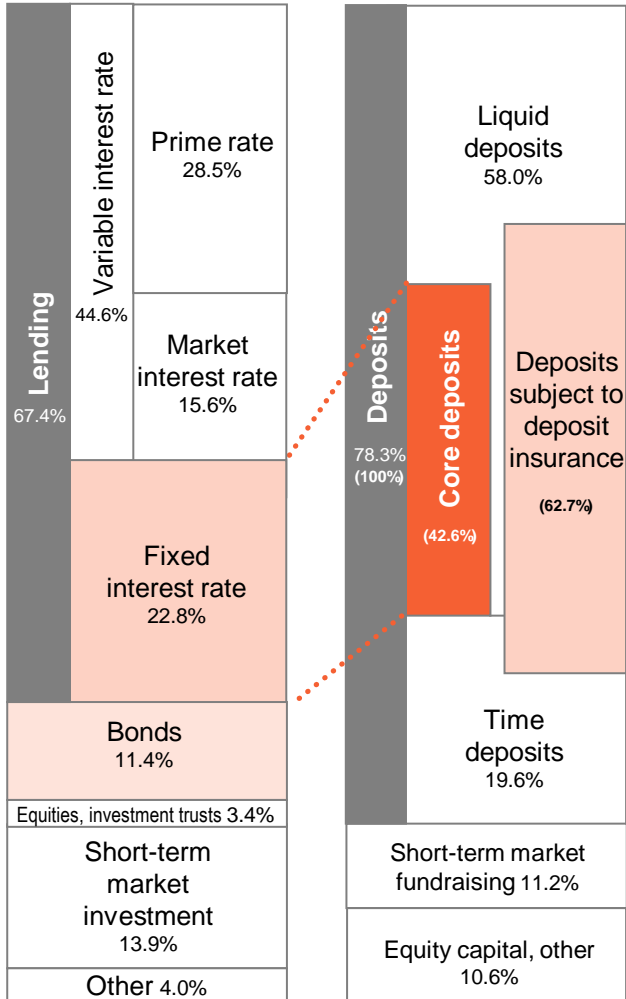
While rising interest rates have a negative effect on short-term valuation gains/losses, they have a positive effect on the JPY balance sheet as a whole, and profitability is projected to increase.

JPY balance sheet structure (December 2023)

Deposits account for about 70% of funds raised. Core deposits, which are stable and less sensitive to interest rate fluctuations, account for more than 40% of all deposits.

Assets (100%): JPY 14,180.2bn

Liabilities, capital (100%)



Deposit fundraising structure

- Building a stable fundraising structure centered on small, diversified retail deposits
- More than 60% of all deposits are covered by deposit insurance.

By depositor

	March 31, 2020	Sept. 30, 2023
Retail deposits	71.5%	70.0%
Corporate deposits	24.2%	27.0%
Other	4.3%	3.1%

By amount

	March 31, 2020	Sept. 30, 2023
Up to JPY 10mn	49.2%	44.3%
JPY 10–100mn	30.3%	33.3%
Above JPY 100mn	20.4%	22.4%

Changes in revaluation gain/loss on JPY balance sheet (10 BPV)

	Assets		Liabilities and equity	
10 BPV	-28.7	10 BPV	+30.3	
Loans	-15.1	Deposits	+22.6	
Bonds	-13.6	Core deposits	+20.7	
Total assets, liabilities, and equity (10 BPV)			+1.6	

* 10 BPV: Change in valuation gains/losses of assets, liabilities, etc. assuming mark-to-market valuation if interest rates rise by 0.1%. If total 10 BPV for assets, liabilities, and equity is positive, this has a positive effect on valuation gains/losses and future earnings.

Long-term and short-term interest rate variation scenarios and impacts

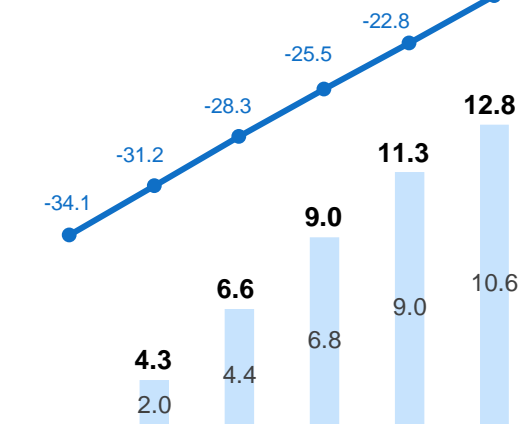
Stage of interest rate hikes	Details, impact
(1) Abolition of yield curve controls (10-year rate 1.0%)	<ul style="list-style-type: none"> Rising yields on new bond investments Rising new rates on marketable fixed rate loans
(2) Policy interest rate hikes (from negative interest to 0%)	<ul style="list-style-type: none"> Rising yields with each rate update for market rate loans

[Impact of interest rate fluctuations on returns on assets]

Assumptions (based on portfolio as of Dec. 31, 2023)

- Assumes +0.39 pt. rise in 10-year rates from 0.61% to 1.0% as of Dec. 31, 2023
- Updating the total amount of fixed rate loans to reflect rising market interest rates on each maturity date
- Purchasing the entire amount in bonds reflecting rising market interest rates each time JPY bonds mature

■ (1) Abolition of yield curve controls (Gains on JPY funding: JPY bn) (Valuation gains/losses: JPY bn)
—●— JPY bond valuation gains/losses



(2) Impact of discontinuation of negative interest rates: +2.2

Dec. 31, Year 1 2023 Year 2 Year 3 Year 4 Year 5

Effect on profits of rising interest rates

JPY **12.8**bn/year
(Fifth year after rate hike)

Increase in ROE (rough estimate)

+1.1%

Foreign currency portfolio management

Secure positive gains on foreign currencies overall by diversifying both investment and funding in foreign currencies in foreign currency portfolio management. Anticipate net interest income to increase in FY2024 and beyond as US policy interest rates are expected to fall.

Foreign currency (USD) portfolio composition (December 2023)

- ✓ Securing margins by diversifying fundraising methods
- ✓ All lending is at variable rates, resulting in a portfolio resistant to interest rate fluctuations.

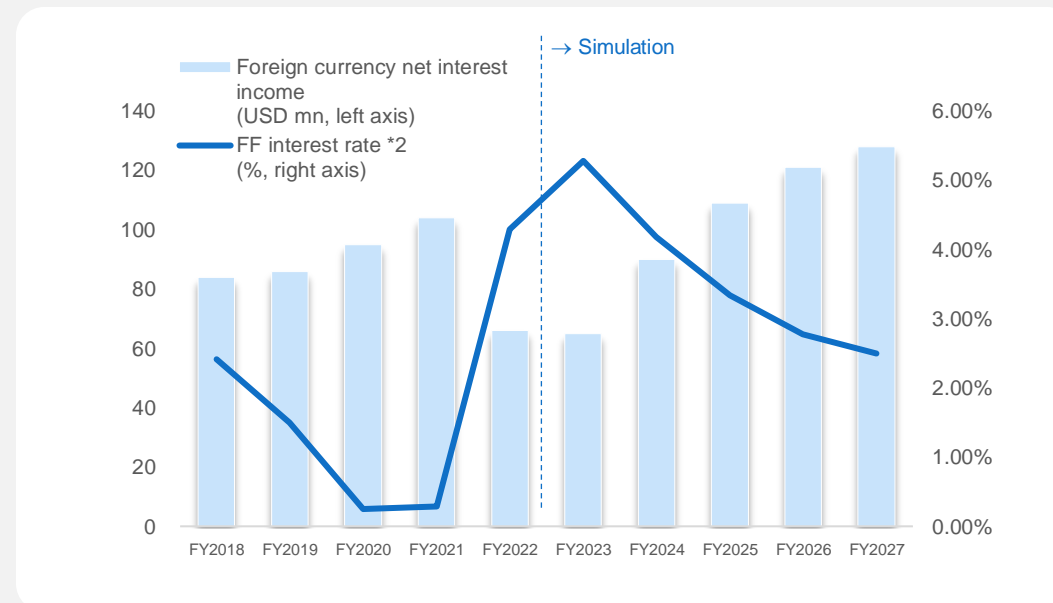
Assets	Liabilities								
<table border="1"> <tr> <td>Lending 42%</td> <td rowspan="4">Variable interest rate</td> </tr> <tr> <td>Market investment 15%</td> </tr> <tr> <td>Bonds 39%</td> </tr> <tr> <td>Other 4%</td> </tr> </table>	Lending 42%	Variable interest rate	Market investment 15%	Bonds 39%	Other 4%	<table border="1"> <tr> <td>Short-term market fundraising 67%</td> </tr> <tr> <td>Medium-/long-term market fundraising 13%</td> </tr> <tr> <td>Customer deposits, etc. 20%</td> </tr> </table>	Short-term market fundraising 67%	Medium-/long-term market fundraising 13%	Customer deposits, etc. 20%
Lending 42%	Variable interest rate								
Market investment 15%									
Bonds 39%									
Other 4%									
Short-term market fundraising 67%									
Medium-/long-term market fundraising 13%									
Customer deposits, etc. 20%									

[Distinguishing characteristics of foreign currency portfolio management]

- Medium-/long-term market fundraising**
Focusing on diversification by fundraising method, term, and region
Borrowing: BoJ/JBIC borrowing
Secured fundraising: Currency swaps through long-term conversion to JPY
- Customer deposits, etc.**
Focusing on retention in addition to diversification by region, industry, and other characteristics
- Lending**
In addition to focusing on yields, maintaining a structure in which all lending is at variable interest rates
Securing steady spreads independent of interest rate fluctuations
- Bonds**
Holding bonds easily convertible to funds, with a majority consisting of highly liquid assets such as foreign treasuries

Projected net interest income*1 on the foreign currency portfolio (assets and liabilities)

- Thanks to sustained efforts since FY2022 to improve yields on the asset side, including repurchases of USD bonds, future growth is projected after YoY declines through FY2023, when FF interest should peak.



*1 Total net interest income including lending, securities, deposits, bonds, etc.

*2 FF interest rates based on market participant projections (Estimated based on portfolio as of Dec. 31, 2023)

Results of USD bond repurchase operations

	FY2022 1H	FY2022 2H	Dec. 31, 2023 cumulative
Sold:	JPY 92.8bn	JPY 64.8bn	JPY 64.4bn
Repurchased:	JPY 65.5bn	JPY 108.0bn	JPY 156.7bn
Gain/loss on sale:	-JPY 10.1bn	-JPY 2.8bn	-JPY 1.7bn

Net interest income and valuation gain/loss improved through repurchase toward high-yield bonds

Comparison to case assuming no repurchasing

- Net interest income (annualized)
Improved by JPY 4.6bn
- Valuation gain/loss as of Dec. 2023:
Improved by JPY 16.4bn
(Improved by JPY 1.7bn after accounting for realized losses)

Effect on profits of interest rate fluctuations

JPY **8.9**bn/year
(Fifth year after fluctuation)

Increase in ROE (rough estimate)

+0.7 %

* Not including asset swaps

Fees and commissions

Fees and commissions continued to grow, due mainly to consulting fees earned by demonstrating Group functions.

Fees and commissions

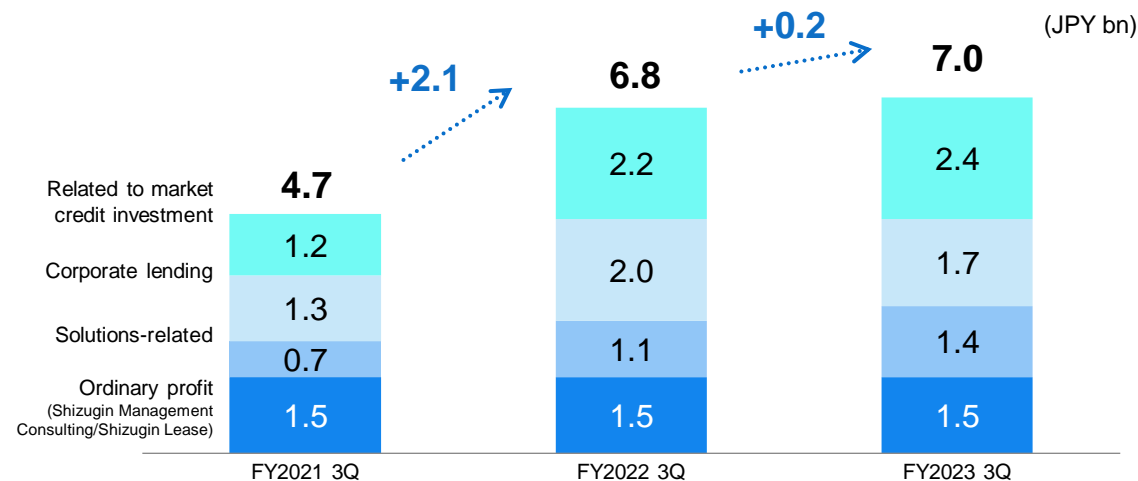
(JPY bn)	FY2021 3Q	FY2022 3Q	FY2023 3Q	YoY change
[Consolidated] Fees and commissions	23.3	27.6	32.6	+4.9
[Shizuoka Bank nonconsolidated] Fees and commissions	11.2	15.8	19.1	+3.3
Fees and commissions income	22.9	25.6	28.6	+2.9
Fees and commissions expenses (-)	11.7	9.8	9.5	-0.3*

* Including a decrease of JPY 0.5bn due to increased group trust dividends

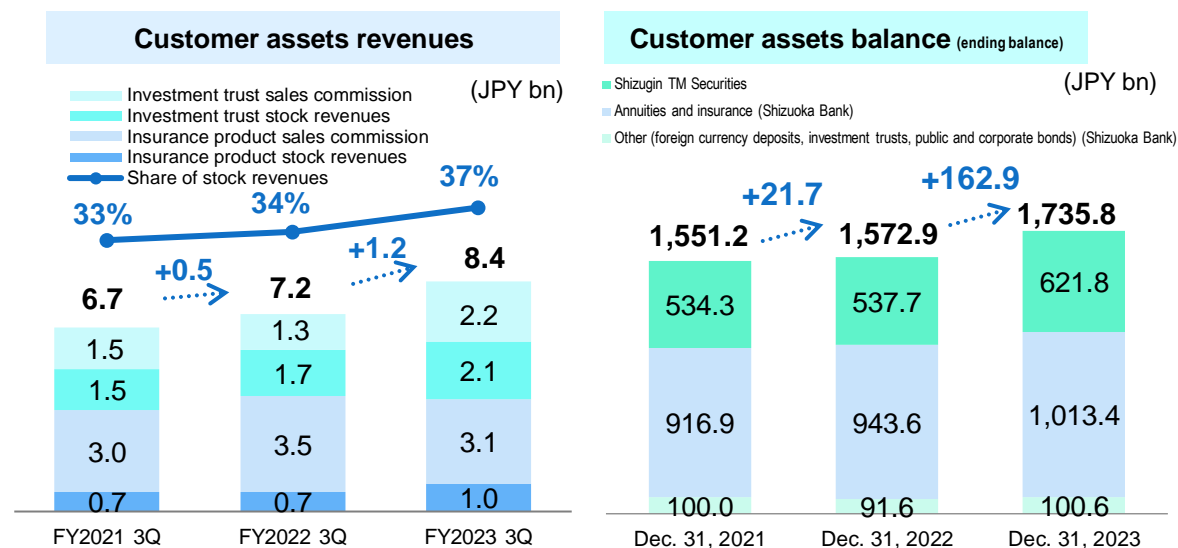
Major items of fees and commissions (including other incomes)

Wholesale fee income	4.7	6.8	7.0	+0.2
Related to market credit investment	1.2	2.2	2.4	+0.1
Corporate lending (syndicated loans, etc.)	1.3	2.0	1.7	-0.2
Solutions-related (business matching, support for subsidiaries, etc.)	0.7	1.1	1.4	+0.3
Shizugin Management Consulting/Shizugin Lease (ordinary profit)	1.5	1.5	1.5	+0.1
Other lending (home loan fee income, etc.)	3.0	2.8	4.3	+1.5
Fee income on customer assets	6.7	7.2	8.4	+1.3
Shizuoka Bank (insurance, investment trust)	3.9	4.4	4.3	-0.1
Shizugin TM Securities (investment trust)	2.9	2.8	4.1	+1.3
Forex fee income (revenues, expenditures)	4.2	4.0	4.0	-0.0
[Shizuoka Bank nonconsolidated] Trading income	0.7	1.3	0.6	-0.6

Wholesale fee income (Shizuoka Bank, Shizugin Management Consulting, Shizugin Lease)



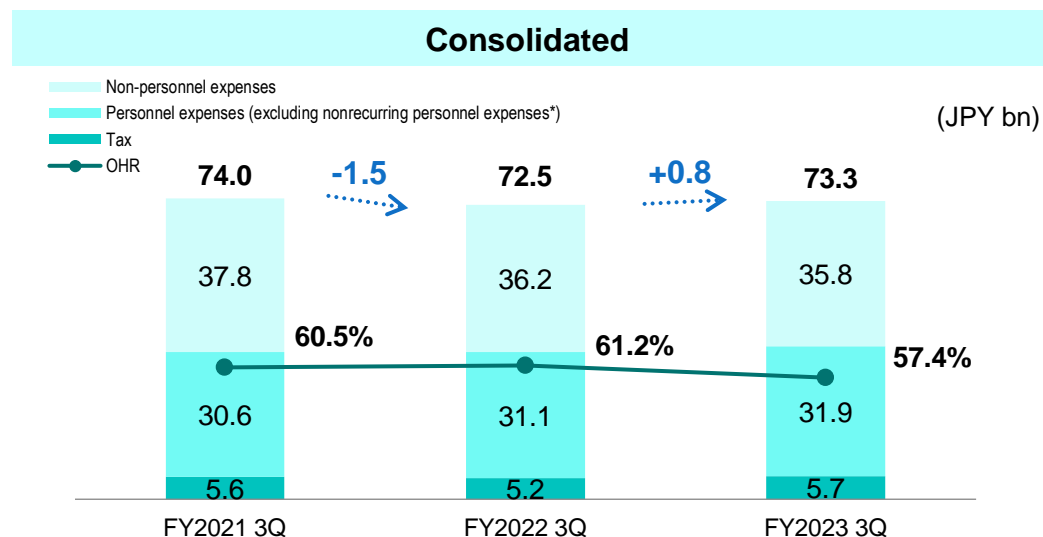
Revenues/balance on customer assets (Shizuoka Bank, Shizugin TM Securities)



Expenses

While overall expenses increased, consolidated OHR fell to 57.4% (down 3.8 pts. YoY) thanks to top-line growth.

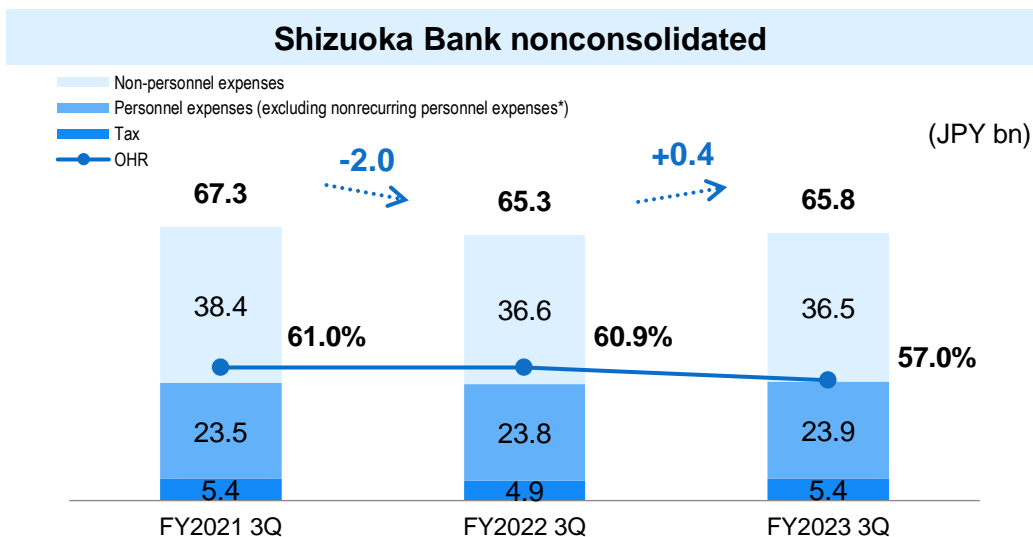
Expenses and OHR



Key factors contributing to changes in expenses

Consolidated

(JPY bn)	Change	Main change
Non-personnel expenses	-0.4	Depreciation: -JPY 1.7bn Costs associated with software use: +JPY 0.7bn
Personnel expenses	+0.7	Increase in salaries due to increase in base pay: +JPY 0.6bn
Tax	+0.5	Shizuoka Bank: +JPY 0.5bn (consumption tax, etc.)
Total	+0.8	



Shizuoka Bank nonconsolidated

(JPY bn)	Change	Main change
Non-personnel expenses	-0.1	Depreciation: -JPY 1.8bn (due to revaluation of fixed assets: -JPY 1.7bn) Costs associated with software use: +JPY 0.6bn; business administration fees paid to SFG: +JPY 1.0bn
Personnel expenses	+0.1	Salaries, etc.: +JPY 0.1bn
Tax	+0.5	Size-based business tax: +JPY 0.3bn Consumption tax: +JPY 0.2bn
Total	+0.4	

*Amortization of actuarial gains and losses in retirement benefit cost, and other

[Effects of fixed asset revaluation (JPY bn)]

	Total non-personnel costs	Next-generation accounting system expenses
FY2023 3Q (results)	-1.7	-1.1
FY2023 (projected)	-3.0	-1.9

Credit-related costs (Shizuoka Bank nonconsolidated)

Overall credit-related costs decreased YoY and continued to remain low.

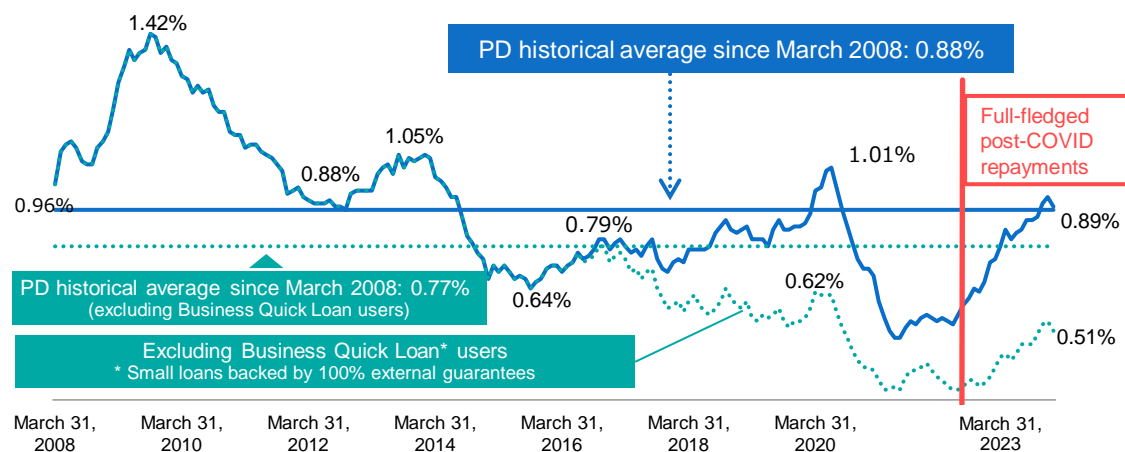
Breakdown of credit-related costs

(JPY bn)	FY2021 3Q	FY2022 3Q	FY2023 3Q	YoY change
[Consolidated] Credit-related costs	4.7	3.5	2.7	-0.9
[Shizuoka Bank nonconsolidated] Credit-related costs	3.7	2.8	1.7	-1.1
Provision for general allowance for loan losses	2.1	-1.5	-0.9	+0.6
Provision for specific allowance for loan losses	1.4	4.1	2.3	-1.8
Other non-performing loans (NPL) disposal *	0.2	0.2	0.3	+0.1

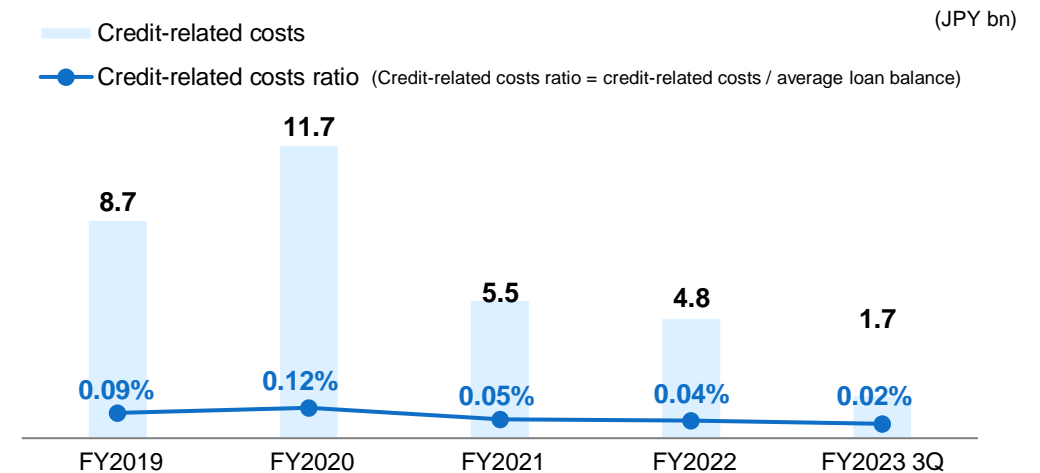
* Including provision for the estimated future payments to credit guarantee corporations, provision for allowance for accidental losses, and losses on sale of loans

Probability of default (PD)

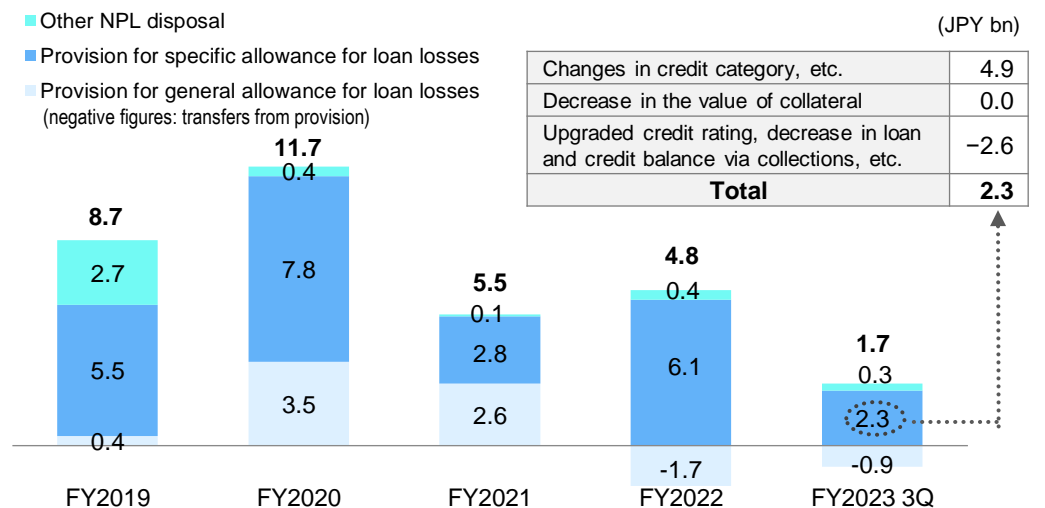
*PD of performing borrowers and borrowers warranting close monitoring (based on number of borrowers)



Credit-related costs and credit-related cost ratio

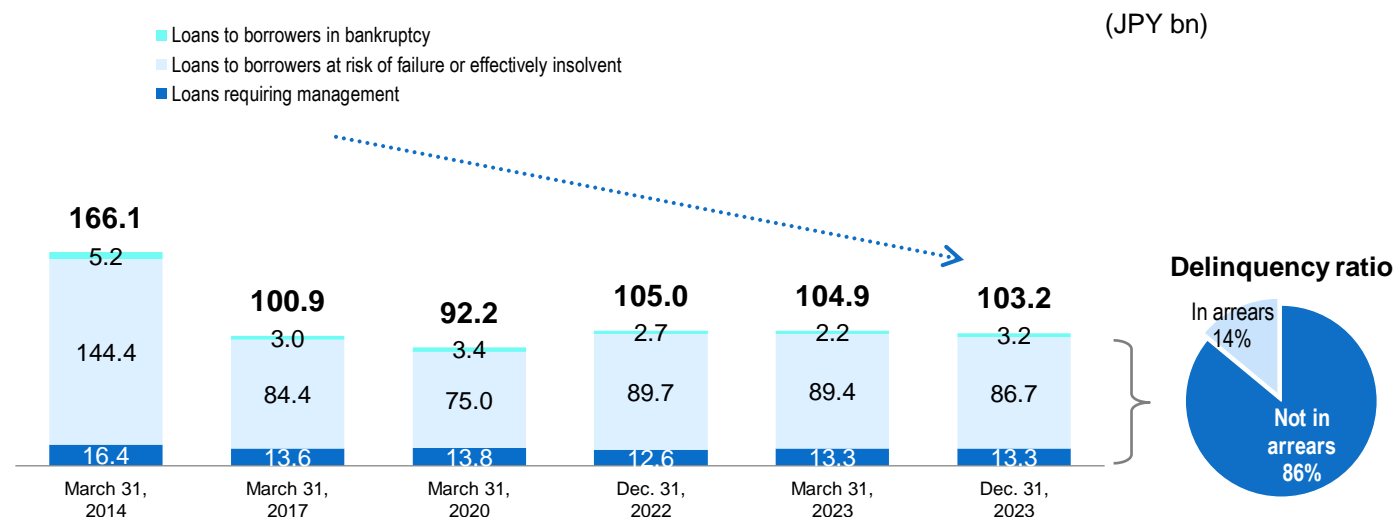


Provision for allowance for loan losses and other NPL disposal

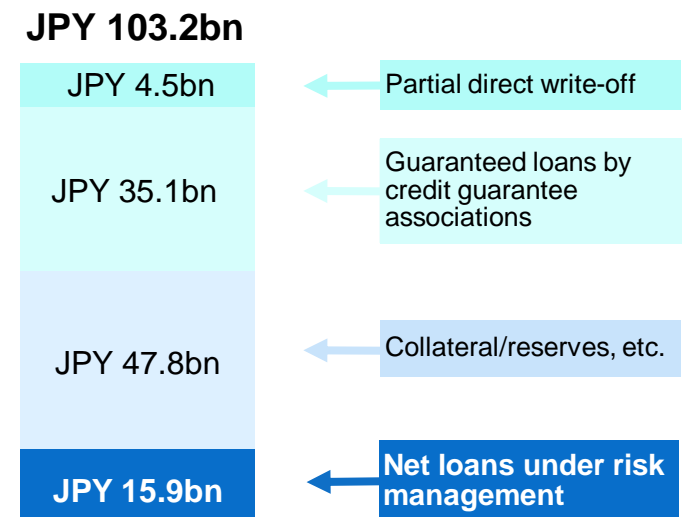


Loans under risk management fell overall from the end of the previous fiscal year. The percentage of loans under risk management remained low.

Loans under risk management



Net loans under risk management



Expected loss (EL) in one year: JPY 1.0bn

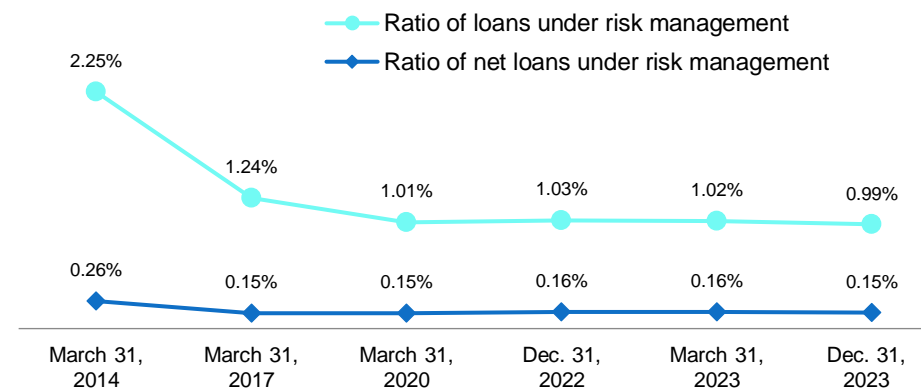
NPL removal from balance sheet

(JPY bn)	FY2022	FY2023 3Q
Newly recognized NPLs	+34.5	+18.7
Removal from balance sheet (NPL to borrowers classified as at risk of failure or in categories of greater risk)	-28.0 (-24.3)	-20.3 (-18.8)
Loans under risk management	104.9	103.2

[Breakdown of -JPY 18.8bn]

Collected from borrower / offset against deposits	-3.4
Collateral disposal / subrogated to guarantor	-9.4
Loans sold / direct write-off	-2.8
Reclassified to lower risk categories	-3.1

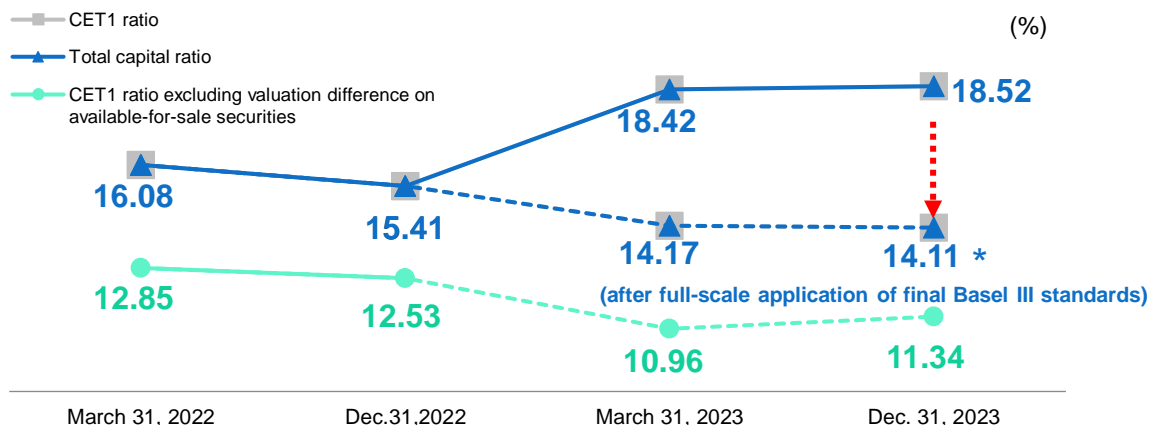
Ratio of loans under risk management



Capital adequacy ratio

The total capital ratio and the Common Equity Tier 1 (CET1) ratio stand at 18.52% (down 0.1 pt. from the end of March 2023). As of December 31, 2023, the ratio is estimated to be around 14.11% following the full-scale application of the final Basel III standards.

Capital adequacy ratio



* Preliminary estimate after full-scale application of final Basel III standards, accounting for capital floor adjustments and other factors.

Trends in capital, risk-weighted assets, etc.

[Basel III]	(JPY bn)	March 31, 2022	Dec 31, 2022	March 31, 2023	Dec 31, 2023	vs. March 31, 2023
Total capital*		965.4	955.2	1,006.1	1,007.1	+1.0
CET1		965.4	955.2	1,006.1	1,007.1	+1.0
Excluding valuation difference on available-for-sale securities		771.6	776.7	778.2	809.3	+31.1
Other Tier 1		-	-	-	-	-
Tier 2		-	-	-	-	-
Risk-weighted assets		6,001.2	6,197.8	5,459.3	5,436.6	-22.7
Credit risk-weighted assets		5,672.1	5,856.8	5,283.6	5,254.3	-29.3
Amount corresponding to market risk		20.2	22.4	0.6	0.5	-0.1
Amount corresponding to operational risk		309.0	318.6	175.1	181.9	+6.7

* Capital does not include preferred shares, subordinated debt, etc.

Reference: Impact of Basel III finalization

[Major impacts]

(1) Decline in LGD^{*1} value on credit to corporations (set by financial authorities)

March 2022	March 2023	⇒ Reduces risk-weighted assets.
45%	40%	

(2) Removal of scaling factor^{*2} (discontinued by financial authorities)

March 2022	March 2023	⇒ Reduces risk-weighted assets.
1.06 times	(Discontinued)	

*1 Loss given default (1-amount recovered)

*2 Multiplied by credit risk-weighted assets under the internal ratings-based approach

(3) Step-by-step application of capital floor^{*3} ⇒ Increases risk-weighted assets.

March 2023	March 2024	March 2025	March 2026	March 2027	March 2028
50%	55%	60%	65%	70%	72.5%

⇒ Floor not applied in initial application; to be raised in stages through March 2028. This is projected to increase risk-weighted assets.

*3 Minimum level of risk-weighted assets

Interest rate risk in the banking book (IRRBB) (Consolidated basis, end of Dec. 2023)

- Results of materiality test: **Δ Economic value of equity (EVE)**
(Decrease in economic value of equity due to interest rate shock within IRRBB)

Decrease in economic value	Tier 1	Results of materiality test (*)
JPY 47.0bn	JPY 1,007.1bn	4.6% ≤ 15%

* Financial Services Agency supervision guidelines require ΔEVE to be 15% of Tier 1 capital or less.

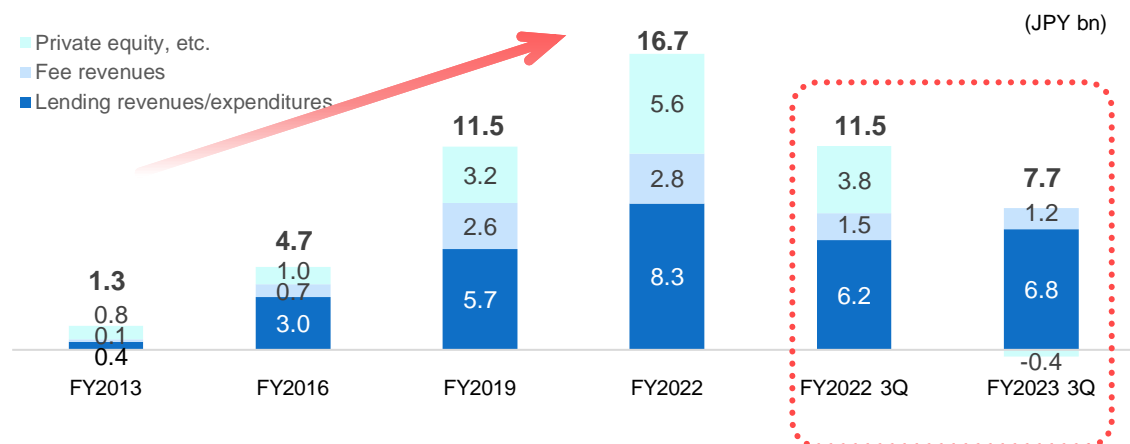
- **Δ Net interest income (NII): JPY 7.1bn**

(Decrease in net interest income due to interest shock within IRRBB)

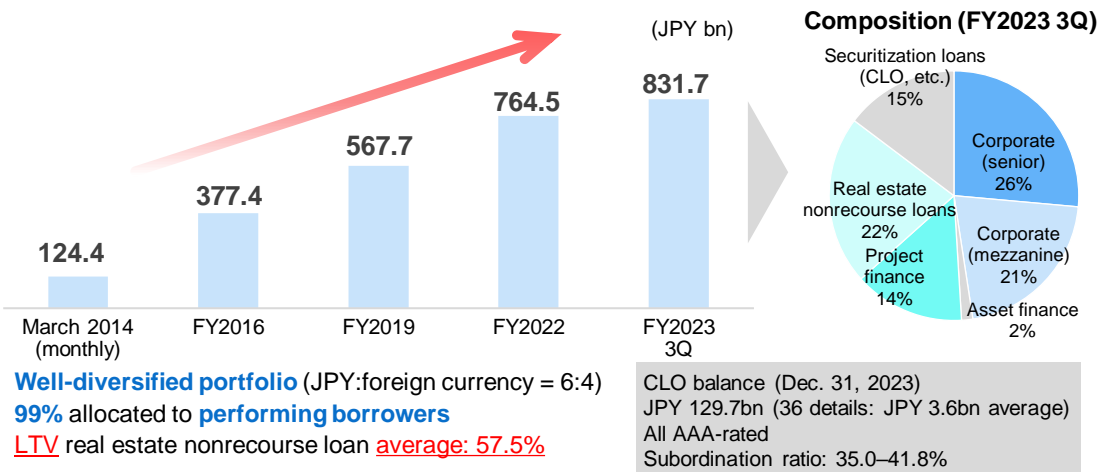
Market Credit Investment

Have grown revenue by developing investment and lending fields based on sound risk and return analysis since launching these efforts in FY2013. Valuation gains on private equity investment are growing steadily, even with the recent decline in returns due to factors such as exit delays caused by reduced IPOs and the rising cost of raising funds in foreign currencies.

Revenue trend



Lending balance (average) and composition



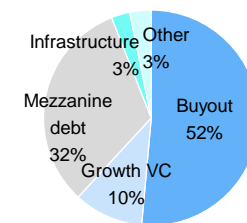
Well-diversified portfolio (JPY:foreign currency = 6:4)
99% allocated to **performing borrowers**
LTV real estate nonrecourse loan **average: 57.5%**

Structured finance lending profitability indicators	FY2022 3Q	FY2023 3Q	YoY change
Return on assets (ROA)	1.06%	1.06%	-0.01pt
Return on risk-weighted assets (RORA)	1.82%	1.83%	+0.01pt

Private equity investment

- Building a time-diversified portfolio through continual investment every year
- Building a geographically and strategically diversified portfolio through well-balanced investments in various domestic and foreign funds
- Securing yields of 8% or more over the most recent five years

Composition (FY2023 3Q)



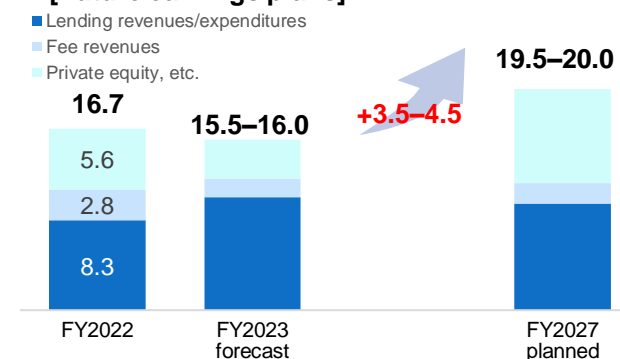
[Private equity investment results (excluding private REITs and real estate investment funds)]

(JPY bn)	FY2013	FY2016	FY2019	FY2022	FY2023 3Q
Investment commitment (annual)	4.7	8.9	10.8	21.9	14.7
Investment commitment (total)	14.0	36.7	66.1	129.0	146.8
Domestic	14.0	27.7	45.5	63.2	64.9
Foreign	0.0	9.0	20.6	65.9	81.9
Investment gain/loss (annual)	0.7	0.2	1.7	4.4	-0.6
Revaluation gain/loss (term end)	+1.2	+0.5	+3.6	+10.1	+11.7

Future initiative policies

- Accumulating balances based on an awareness of ROA and RORA
- Securing earnings by arranging LBO loans and real estate nonrecourse loans
- Securing profitability in asset turnover businesses by distribution of structured products and sales of existing assets

[Future earnings plans]



Alliance strategy with regional banks

Realizing sustained growth for each region and partner group through joint efforts with alliance partner banks on solutions to various regional challenges

Shizuoka Yamanashi Alliance (established in Oct. 2020)



Focusing on economic development in both prefectures and on projects to contribute to mutual use of management resources

Revised the initial KPI (JPY 10.0bn in total for both banks, cumulative over five years) to **JPY 12.0bn** (total for both banks, cumulative over five years) in the third year of this alliance, assuming that the initial KPI is likely to be achieved by the end of five-year timeframe.

Life planning

Shizugin TM Securities Yamanashi Head Office
Customer assets balance: **JPY 24.6bn**
(As of Dec. 31, 2023)
Offering jointly developed products (insurance, investment trust)

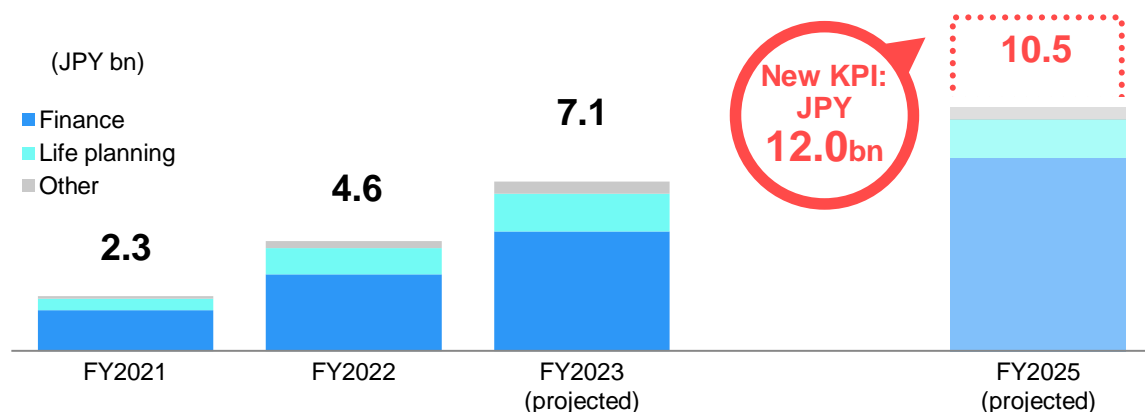
Three-bank cooperation

Finance

Lending field **JPY 123.8bn**
Joint lending included above **JPY 38.6bn**
Business-succession M&A projects
First deal concluded

Sales-channel development support

26 individual meetings, 169 business matching cases



Future outlook

- Highly likely to achieve initial KPI mainly due to life planning and finance businesses
- Moving to the next stage of the alliance by focusing on solutions to social challenges, chiefly through measures to help increase related populations, an issue confronting both regions.



Shizuoka Nagoya Alliance (established in Apr. 2022)

Aim to achieve revenue effects of **JPY 10.0bn** or more (total for both banks, cumulative over five years) through solutions to customers' challenges, chiefly by **supporting business partners in structural reform of regional industries.**

Asset-building support

Shizugin TM Securities Nagoya Head Office opens (Oct 30)
(On Second floor of Bank of Nagoya's Head Office)

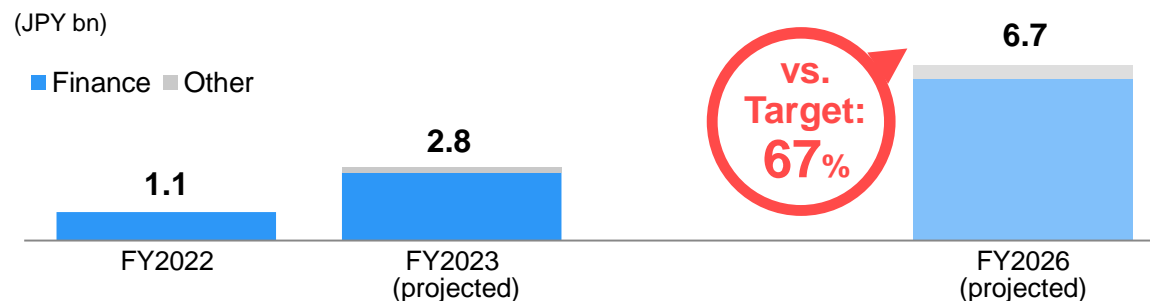
Customer assets balance: JPY 0.5bn
(As of Dec. 31, 2023)

15 staff members (including five staff members seconded from Bank of Nagoya)



Supporting industrial reforms

Establishing the **Shizuoka Nagoya Alliance Fund** to support industrial reforms
(June 2023)



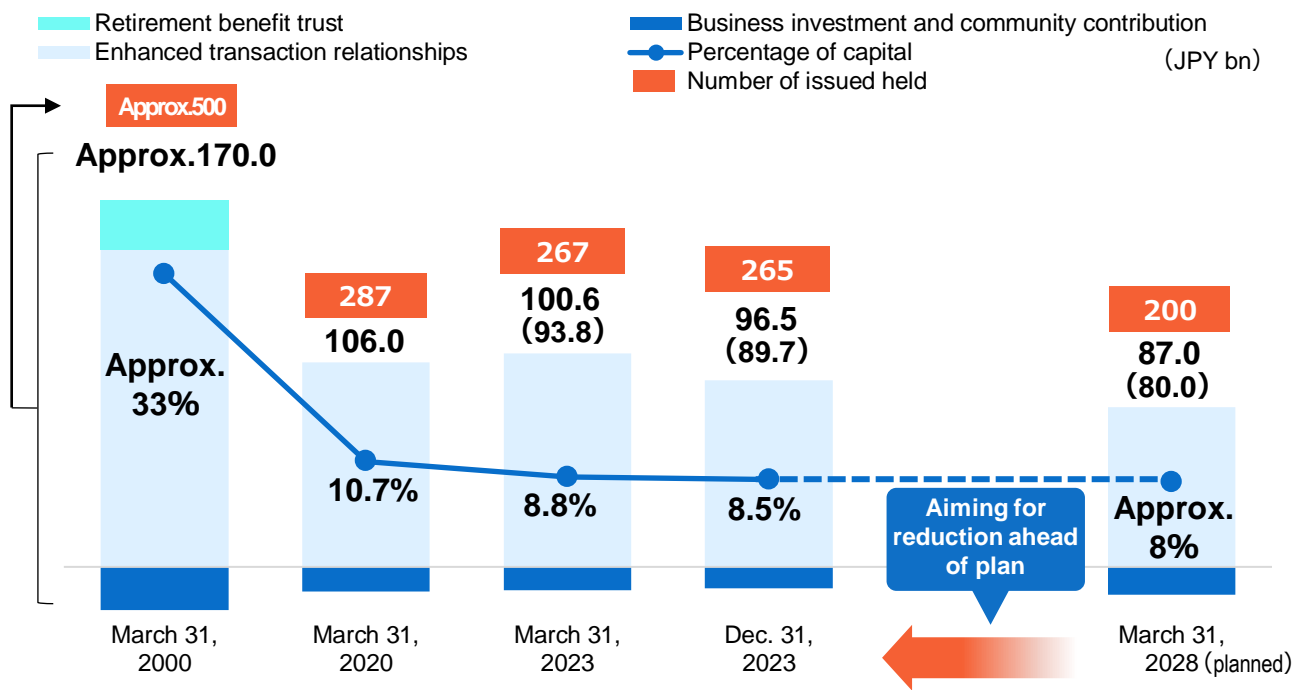
Future outlook

- Have achieved significant results in the finance field, and planning to expand it to life planning and other fields of business partnerships.
- Will provide appropriate support for reforms to regional businesses through enhancements based on the main theme of measures to help support industrial reforms, including use of the Alliance Fund.

Strategic shareholdings

Reduced by JPY4.1 bn (30.4% progress) as of Dec. 31, 2023 and JPY6.1 bn as of Jan. 31, 2024 (44.8% progress) vs. the target reduction of JPY13.6 bn under the First Medium-term Business Plan. We aim to reduce cross-shareholdings ahead of plan as much as possible, while making clear the meaning of holding shares and transferring them to pure investment assets.

Acquisition cost of cross-shareholdings* (Figures in parentheses are for listed shares.)



* Excluding shares in Group companies and equity method affiliates

[Status of cross-shareholding reductions]

Period	FY2020-2022		FY2023-2027		[Reference] (JPY bn)	
	Results under 14th Mid-Term Business Plan	Target under First Medium-term Business Plan	Dec.31,2023 (Results)	Progress	Jan.31,2024 (Results)	Progress
Amount of reductions (based on acquisition cost)	5.4	13.6	4.1	30.4%	6.1	44.8%
Amount of sale	38.3	-	23.7	-	23.7	-
Gain/loss on sale	28.7	-	20.2	-	20.2	-

Our thinking on cross-shareholdings

Eliminating cross-shareholdings not recognized to be meaningful under the Corporate Governance Code and systematically decreasing balances of holdings on a acquisition-cost basis

Transfer to pure investments

- After removing them from cross-shareholdings, continuing to hold shares recognized to be meaningful as investment assets in consideration of investment efficiency
- Amount transferred from cross-shareholdings to pure investments: JPY3.0 bn
JPY0.9 bn in FY2023 1H, JPY2.1 bn in 2H (through Jan. 31, 2024)

Sale of stock

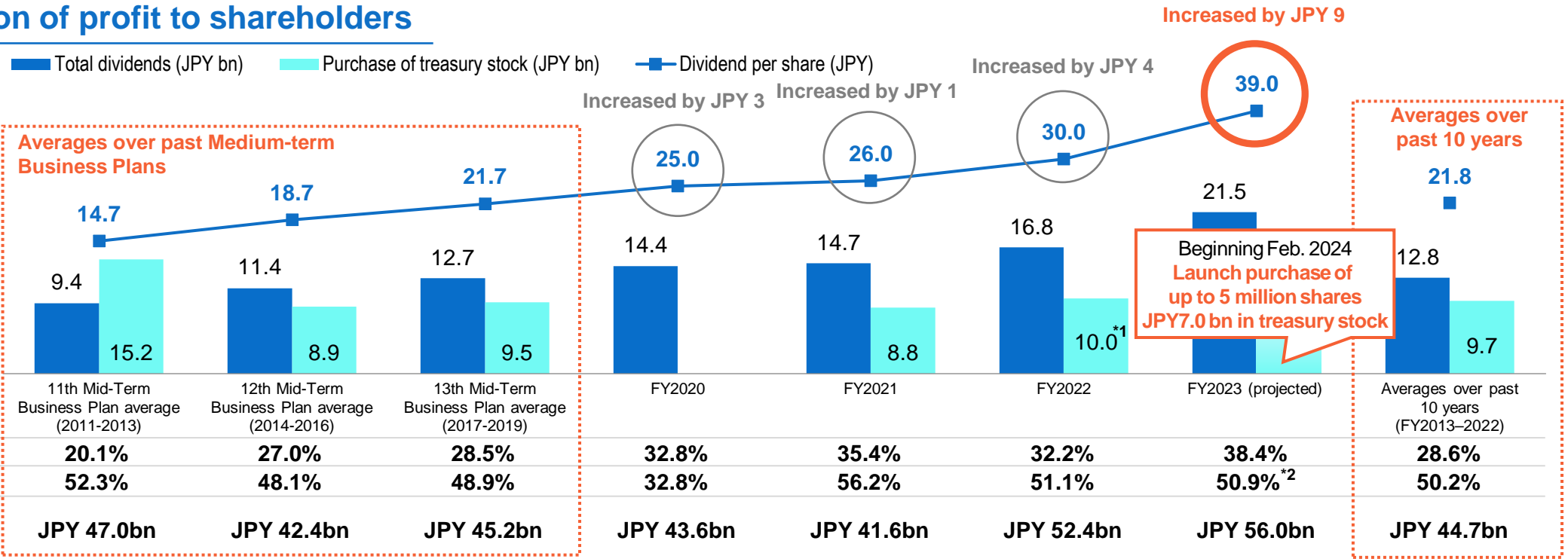
- Considering sale of stocks whose holdings are not considered meaningful in light of investment efficiency, and reinvesting the gains from sale in human capital, digital transformation (DX), and other strategic investments.

Stocks whose issuers agree with sales	March 31,2023	Dec. 31,2023	Increase/decrease
Issuers	27	26	-1
Amount subject to agreement on sale (JPY bn)	48.6	70.6	+ 21.9
Based on acquisition cost	12.1	16.0	+ 3.9
Revaluation gain/loss	36.6	54.6	+ 18.0

Shareholder returns

Target revised to progressively increasing the **dividend payout ratio to 50% or more** by FY2027, and projected FY2023 dividend increase revised to **+JPY9 (from +JPY5)**. Strive to increase the total payout ratio and capital efficiency while announcing purchase of up to 5 million shares/JPY7.0 bn in **treasury stock**.

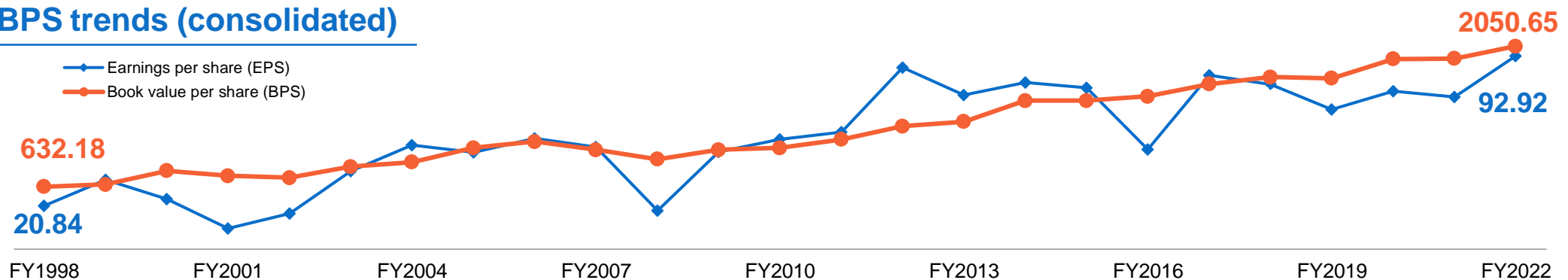
Distribution of profit to shareholders



*1 Returns to shareholders in FY2022 include purchases of treasury stock already completed (amount: JPY10.0 bn; period: Feb.-May 2023).

*2 (Projected) returns to shareholders in FY2023 estimated based on financial results forecast figures and maximum purchase of treasury stock (amount/shares) announced Feb. 1, 2024 (JPY)

EPS/BPS trends (consolidated)



FY2023 forecasts

FY2023 forecasts call for consolidated ordinary profit of JPY98.0 bn and consolidated net income of JPY56.0 bn

	FY2021 results	FY2022 results (A)	FY2023 forecast (B)	Change (B-A)	FY2023 3Q results (C)	Progress rate (C/B)	
Consolidated	Ordinary profit	54.2	74.0	98.0	+24.0	75.8	77.4%
	Net income attributable to owners of the parent	41.6	52.4	56.0	+3.6	40.1	71.6%
	ROE (based on net assets)	3.8%	4.6%	5.0%	+0.4pt	4.6%	
	ROE (based on Shareholders' equity)	4.7%	5.8%	6.0%	+0.2pt	5.7%	
	OHR	64.2%	60.2%	58.3%	-1.9pt	57.4%	
	CET1 ratio	16.08%	18.42% (14.17%)	17.14% (13.44%)	-1.2pt (-0.7pt)	18.52% (14.11%)	
Shizuoka Bank nonconsolidated	Gross operating profit	134.7	144.3	154.0	+9.7	115.4	74.9%
	Net interest income	124.5	121.6	129.0	+7.4	95.8	74.3%
	Fees and commissions	14.8	21.1	24.0	+2.9	19.1	79.4%
	Trading income	0.9	1.4	1.0	-0.4	0.6	64.2%
	Other operating profit	-5.5	0.2	0.0	-0.2	-0.1	—
	Expenses (-)	88.2	86.9	86.0	-0.9	65.8	76.5%
	Ordinary profit	45.3	67.6	89.0	+21.4	70.1	78.7%
	Net income	36.1	46.2	49.0	+2.8	35.6	72.8%
	Credit-related costs (-)	5.5	4.8	4.0	-0.8	1.7	42.9%



April

- Launch of "Xover: Clearing the way to a new era"; First Medium-term Business Plan (**Shizuoka FG**)

Xover
— Clearing the way to a new era

- "Fujisan de noru" auto leasing service launched (**Shizugin Lease**)



- First **joint lending scheme** with the Japan Finance Corporation executed to promote Sustainable Development Goals (SDGs) (**Shizuoka Bank**)

- Launch of **Shizuoka Bank Mikatano Works** service to support digitalization of corporate and owner-operator businesses (**Shizuoka Bank**)



- **Increase in starting salaries** announced (**Shizuoka FG**)

May

- **Community attraction discovery project** implemented (**Shizuoka Bank**)



- **Jibun Nenkai Kaigo Plus** individual annuity insurance jointly developed with alliance partner banks introduced (**Shizuoka Bank**)



- Shizugin Lease concludes **partnership agreement** with three firms within the community on a sales partnership for the resale of used vehicles (**Shizugin Lease**)

- **Increase in base pay** announced for all Group employees and executives (**Shizuoka FG**)

June

- **Tachikawa Loan Center** opened (**Shizuoka Bank**)



- **Specialized community co-creation strategy managers** assigned to each regional company (East, Central, West) (**Shizuoka Bank**)

- **Shizuoka Nagoya Alliance Fund** established (**Shizuoka Capital**)

- **Carbon offset auto lease** introduced (**Shizugin Lease**)



- Start of feasibility testing of the **Metaterrace** online metaverse branch (**Shizuoka Bank**)



Region-Co-
Creation
strategy
×
Group
Business
strategy

Transformation
strategy



July

- **SFG Marketing**, first new company under the holding-company structure, established



- Carbon neutrality partnership agreement concluded with **city of Hamamatsu (Shizuoka FG)**
- Selected by the Ministry of the Environment for the **FY2023 ESG Regional Finance Promotion Program (Shizuoka Bank)**
- **TECH BEAT Shizuoka 2023** held (**Shizuoka Bank**)



- Business partnership agreement concluded with **Money Forward Kessai (Shizuoka Capital)**
- Joint research and development on use of **generative AI** launched with PKSHA Workplace (**Shizuoka Bank**)

August

- Agreement on mutual cooperation and joint efforts to promote carbon neutrality concluded with **city of Kosai (Shizuoka FG)**



- **Memorandum on advancement of auto-industry support** concluded with seven regional banks (**Shizuoka Bank**)

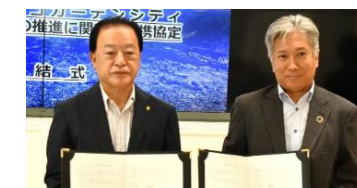
- **JCB brand corporate cards** introduced (**Shizugin Card**)



- **Shizugin Busikul** introduced (**Shizuoka Bank**)

September

- Cooperative agreement on efforts to promote cyclical co-creation eco-garden city at the eastern base of Mt. Fuji concluded with the **city of Gotemba (Shizuoka FG)**



- Partnership agreement concluded with **W Tokyo** on efforts to promote community cocreation projects (**Shizuoka Bank**)



- New **Shizugin Web Overdraft** and **e-delivery** features introduced on corporate portal site (**Shizuoka Bank**)

- **October 2023 entrance ceremony** and **FY2024 preliminary job offer ceremony** held (**Shizuoka FG**)

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strategy

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strategy



October

- **Shizugin TM Securities Nagoya Head Office** opened (**Shizugin TM Securities**)



- **Shizuoka GX Support service** introduced (**Shizuoka Bank**)
- **Shizugin Solar Park** began operation (**Shizuoka Bank**)

- **Three-prefecture Future Fund service** introduced to invest in firms based in Shizuoka, Aichi, and Yamanashi prefectures (**Shizugin TM Securities**)



- Business partnership agreement concluded with **CIMB Bank Berhad** (Malaysia) (**Shizuoka Bank**)
- Start of participation in Tokyo Stock Exchange **Carbon Credit Market** (**Shizugin Lease**)

* **Shizuoka Bank** plans to participate in December 2023

November

- Agreement on mutual cooperation and joint efforts to promote carbon neutrality concluded with **city of Iwata** (**Shizuoka FG**)

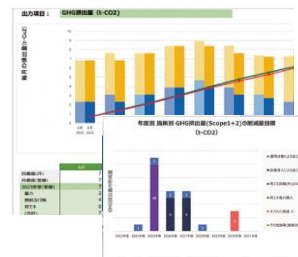


- **Aoharushihodai** final contest held as program to identify Shizuoka's attractions (**Shizuoka Bank**)



- **SFG Real Estate Investment Advisors** established (**Shizuoka FG**)

- Applicants for **Shizuoka GX Support CO2-emissions calculation** service surpasses 300 in one month (**Shizuoka Bank**)



December/January

- Project to visualize GHG emissions of local firms launched by the **city of Hamamatsu**, **Shizuoka Bank**, and **Hamamatsu Iwata Shinkin Bank**. (**Shizuoka Bank**)



- Registered as **TNFD Adopter** (**Shizuoka FG**)

- **NISA Investment Caravan** in Shizuoka Prefecture held (**Shizuoka Bank**, **Shizugin TM Securities**)



- **Brussels Representative Office** opened (**Shizuoka Bank**)

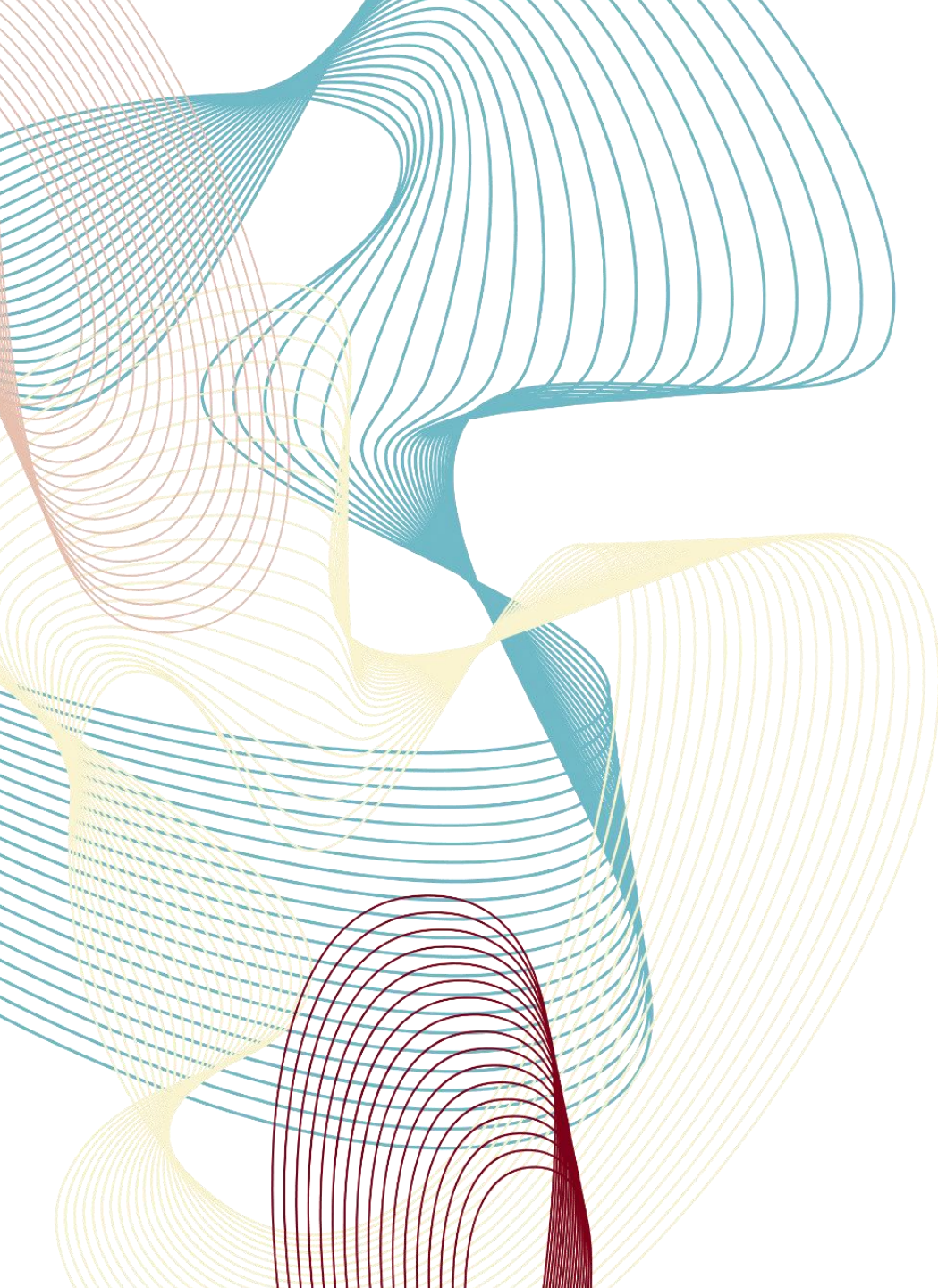
- **Startup Growth Shizuoka**, startup support program, launched (**Shizuoka Capital**)



- **Cloud-first policy** decided (**Shizuoka Bank**)

Region-Co-Creation strategy × Group Business strategy

Transformation strategy



This document includes statements concerning future business results. These statements do not represent guarantees of future business results and entail various risks and uncertainties. Note that future business results may differ from targets for various reasons, including changes in the business environment.

Note: Figures in graphs that show year-on-year comparisons are calculated using the figures that appear in the graphs.

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