

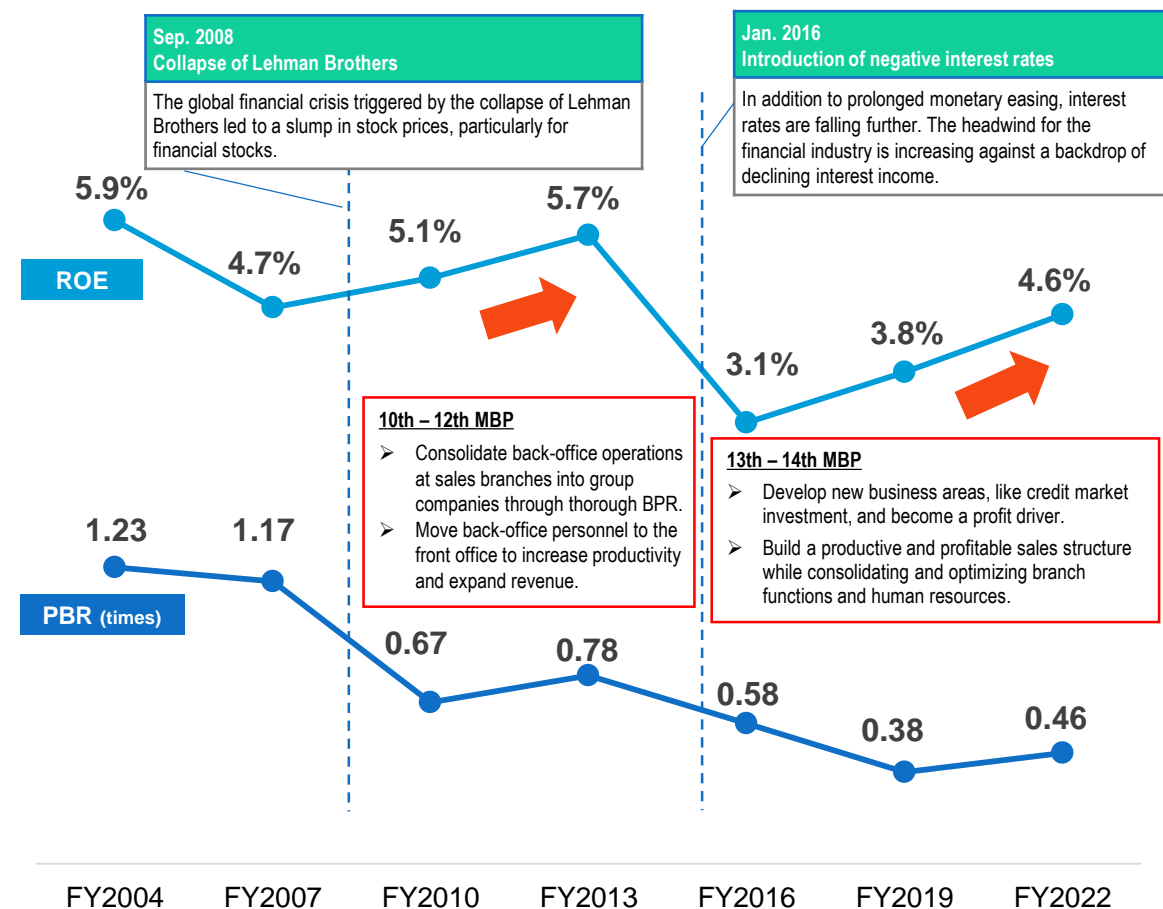
Initiatives to enhance corporate value

Initiatives to enhance corporate value (1) - Present state analysis

Amid changes in the business environment for the financial industry, the current PBR remains low despite efforts to enhance ROE by transforming the revenue and cost structure. To improve PBR, it is necessary to further enhance ROE and lower the cost of shareholders' capital.

Trends in ROE and PBR

Amidst the business environment that continues to be a headwind for the financial industry, including the collapse of Lehman Brothers and prolonged monetary easing, the company has worked on various transformations, such as centralizing operations, optimizing the sales structure, and developing new profit drivers, and ROE is on an improving trend, but PBR remains at a low level.



Linkage between PBR, ROE and PER

PBR Formula

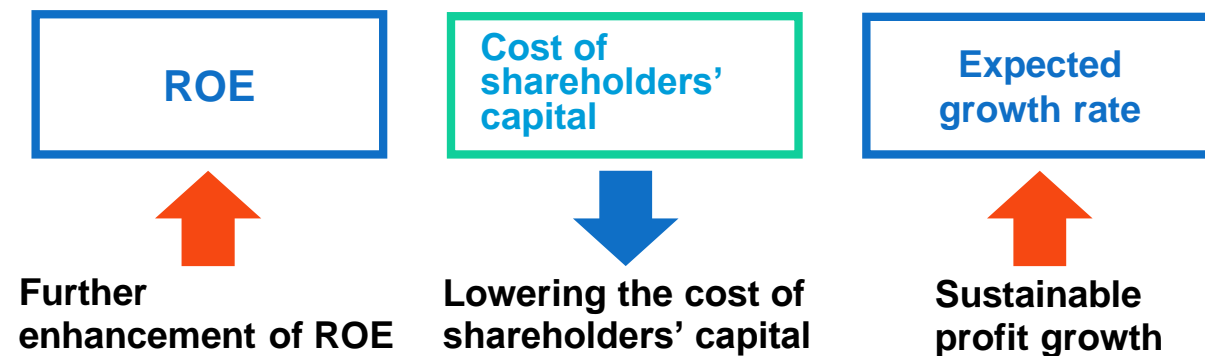
$$\text{PBR} = \text{ROE} \times \text{PER}$$

$$= \text{ROE} \div (\text{cost of shareholders' capital} - \text{expected growth rate})$$

$$\text{ROE} \geq (\text{cost of shareholders' capital} - \text{expected growth rate}) \Rightarrow \text{PBR of 1.0 or more}$$

Towards a Higher PBR

We aim to improve PBR by working to **raise ROE** through sustainable profit growth while **lowering the cost of shareholders' capital**.



Initiatives to enhance corporate value (2) - Efforts to improve ROE and lower the cost of shareholders' capital

Lower the cost of shareholders' capital by Improving the probability of SFG's growth strategy through enhanced information disclosure and appropriate market dialog.
Enhance ROE both by increasing profitability through expansion of the top line and appropriate control of expenses, and by maintaining appropriate control of the level of capital.

Lowering the cost of shareholders' capital

Recognition of current cost of shareholders' capital

SFG recognizes cost of shareholders' capital as **6-10%** as follows

Cost of shareholders' capital at the 1st MBP. (Calculated independently by the company based on the CAPM)	Approx. 6%
Calculated values based on current PBR and ROE (Calculated by dividing BPS multiplied by ROE by share price)	8-10%

* BPS JPY 1,873 × ROE 4.2% / Stock price JPY 837 = The cost of shareholders' capital 9.4% (Average of last 5 years)

Initiatives to Lower the Cost of shareholders' Capital

Fuller Disclosure of Information
Including Non-Financial Information



Proactive Communication with
Shareholders and Investors (IR Activities)

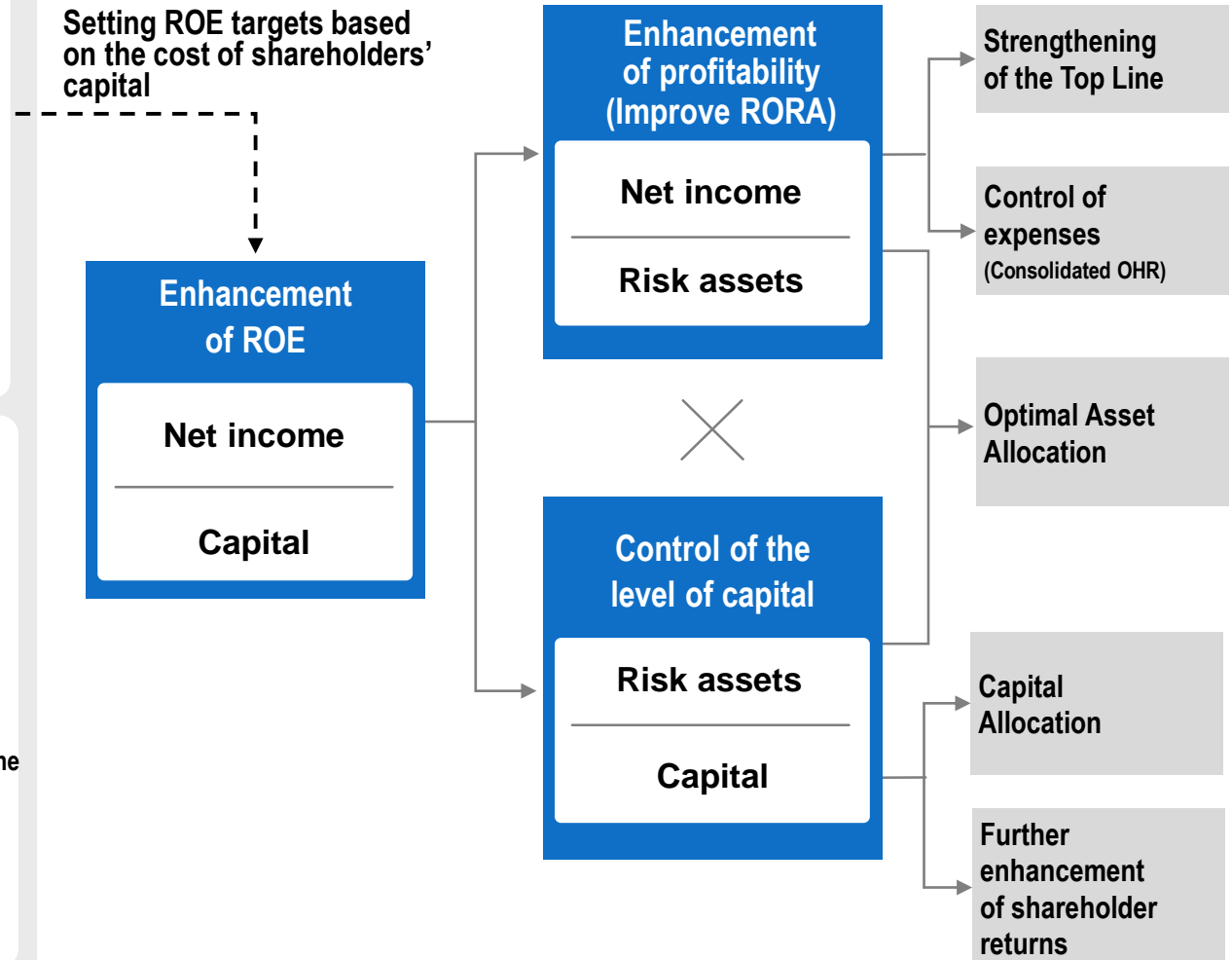
- ✓ Reduce the uncertainty of business performance
- ✓ Increase understanding of the sustainability of the region and the Group

- ✓ Increase understanding of our strategies, including progress on the Medium-term Business Plan
- ✓ Share information of interest to the market in a timely manner and reflect it as appropriate in the promotion of management strategy

We aim to lower the cost of capital through deeper dialogue with the market, and by increasing the probability of success of our growth strategies while reducing information asymmetry.

Approach to enhancing ROE

Enhance ROE by increasing profitability and managing capital adequacy levels.



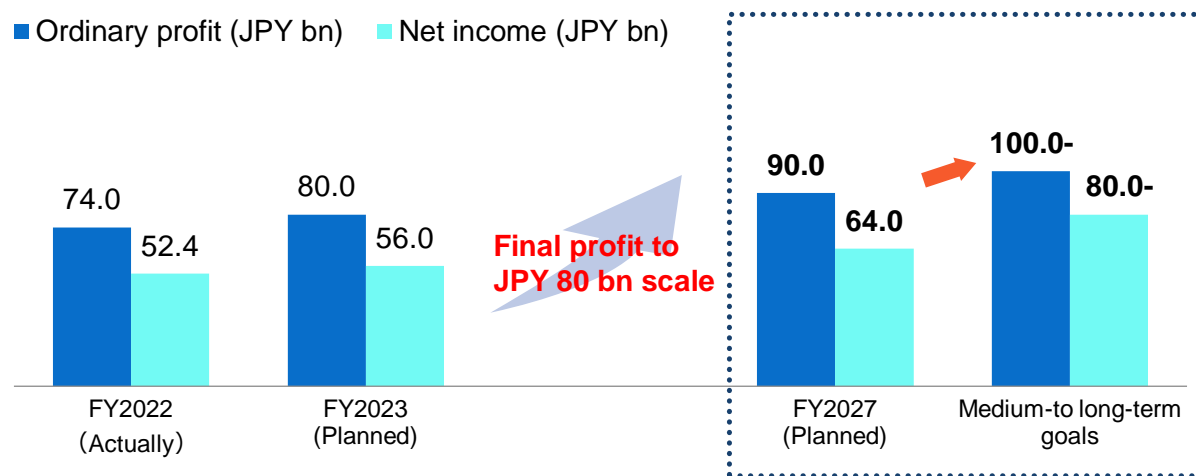
Initiatives to enhance corporate value (3) - Increase profit levels, Control the level of capital adequacy

Achieve the profit targets of the 1st Mid-Term Business Plan by promoting the basic strategies of the plan. And, beyond that, we aim to reach the goal of **JPY 100 bn in consolidated ordinary profit**.

Achieve ROE targets based on the cost of shareholders' capital by accumulating risk-weighted assets with RORA in mind in order to improve capital profitability.

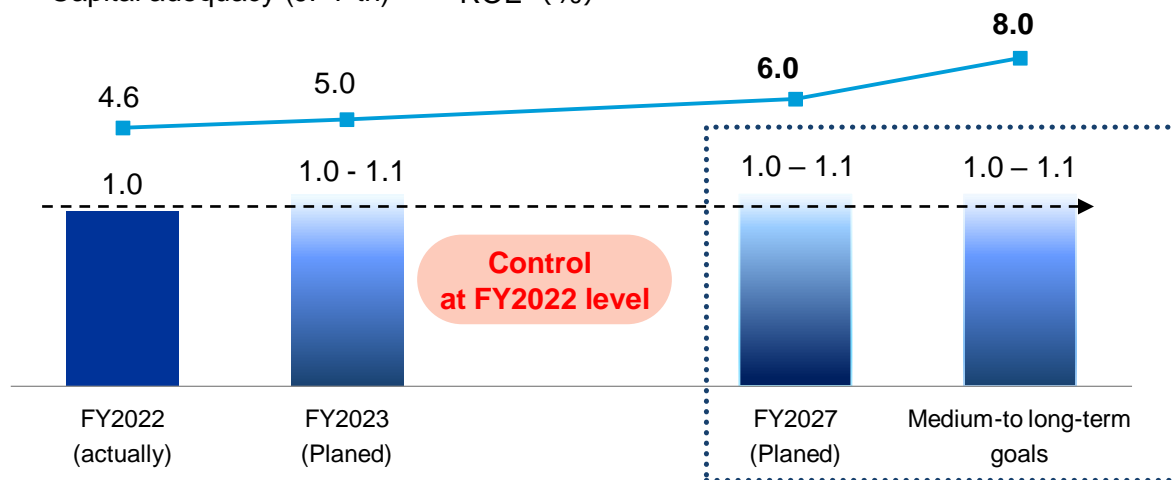
Increasing profit levels (Consolidated)

■ Ordinary profit (JPY bn) ■ Net income (JPY bn)



Enhance ROE and control capital adequacy levels (Consolidated)

■ Capital adequacy (JPY tn) ■ ROE (%)



Direction for increasing profit levels

Strengthen profitability through our basic strategies (The 1st MBP Presentation P13~17)

Expand the top line in the following business fields by **JPY 26.0 bn** in the 1st Medium-term Business Plan*

(1) Core businesses (loans and deposits, fees) +6.0 to 8.0 billion yen; ALM & market investment, SF, overseas JPY +6.0 to 8.0 bn

(2) Venture businesses, wealth businesses JPY +6.0 to 8.0 bn

(3) New business fields JPY +3.0 to 4.0 bn

*The level without taking account of the increase in Profits due to rising interest rates

Revitalize the region (business base) through regional problem-solving and **achieve sustainable profit growth** throughout the 1st Medium-term Business Plan and beyond

Transform the structure of investment and expenses (The 1st MBP Presentation P20)

Reduce current expenses by at least **JPY 15.0 bn** by curbing existing system costs and achieving more efficient back-office operations, etc. At the same time, expand **aggressive investment in key fields** based on the level of profits

Approach to Capital Policy

Management of capital allocation for overall optimization of the Group (The 1st MBP Presentation P24)

Accumulate an additional JPY 1.8 tn in risk assets during the term of the 1st Medium-term Business Plan with an awareness of RORA and enhance the profitability of capital through the overall optimization of capital allocation based on RAF

Shareholder returns and strategic shareholdings (The 1st MBP Presentation P25-26)

- In addition to progressively increasing the **dividend payout ratio to 40% or more**, aiming to sustainably enhance ROE, EPS and BPS with an awareness of total returns, including the flexible implementation of purchases of treasury stock
- Aim to **reduce strategic shareholdings to JPY 87.0 bn on an acquisition cost basis** to enhance capital efficiency. Utilize the gain on sales of these shareholdings for growth investment (systems, human resources, new businesses, etc.)