

Consolidated Financial Statements for the 117th Fiscal Year (April 1, 2022 to March 31, 2023)

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(*) This is an English translation of the Consolidated Financial Statements (Renketsu Keisanshorui). The English translation of the other sections of the Consolidated Financial Statements (Renketsu Keisanshorui) is not included in this document.

Consolidated Balance Sheet as of End of the 117th Fiscal Year

(As of March 31, 2023)

(Millions of Yen)

Item	Amount	Item	Amount
Assets		Liabilities	
Cash and due from banks	1,727,039	Deposits	11,738,903
Call loans and bills bought	200,866	Negotiable certificates of deposit	70,104
Monetary claims bought	49,184	Call money and bills sold	172,557
Trading assets	10,478	Payables under repurchase agreements	385,270
Money held in trust	104,800	Payables under securities lending transactions	466,781
Securities	2,973,732	Trading liabilities	6,321
Loans and bills discounted	10,091,604	Borrowed money	1,295,936
Foreign exchanges	7,903	Foreign exchanges	540
Other assets	220,927	Bonds payable	39,932
Tangible fixed assets	50,454	Borrowed money from trust account	141
Buildings	22,714	Other liabilities	133,210
Land	18,910	Liability for retirement benefits	3,485
Leased assets	1,387	Provision for directors' retirement benefits	385
Construction in progress	2,434	Provision for losses from reimbursement of inactive accounts	485
Other	5,007	Provision for contingent losses	1,324
Intangible fixed assets	41,874	Provision for point program	288
Software	41,495	Deferred tax liabilities	78,286
Leased assets	16	Acceptances and guarantees	91,672
Other	361		
Asset for retirement benefits	13,844	Total liabilities	14,485,630
Deferred tax assets	2,242	Net assets	
Customers' liabilities for acceptances and guarantees	91,672	Share capital	90,845
Allowance for loan losses	(51,186)	Capital surplus	54,884
Allowance for investment loss	(49)	Retained earnings	674,987
		Total shareholders' equity	820,716
		Valuation difference on available-for-sale securities	227,714
		Deferred gains or losses on hedges	(1,423)
		Foreign currency translation adjustments	1,933
		Defined retirement benefit plans	818
		Total accumulated other comprehensive income	229,042
		Total net assets	1,049,759
Total assets	15,535,390	Total liabilities and net assets	15,535,390

Consolidated Statement of Income for the 117th Fiscal Year

(April 1, 2022 to March 31, 2023)

(Millions of Yen)

Item	Amount	
Ordinary income		265,146
Interest income	158,653	
Interest on loans and discounts	117,151	
Interest and dividends on securities	33,555	
Interest on call loans and bills bought	1,572	
Interest on receivables under resale agreements	(0)	
Interest on deposits with banks	5,568	
Other interest income	805	
Trust fees	2	
Fees and commissions	58,827	
Gain on trading account transactions	2,791	
Other ordinary income	26,819	
Other income	18,053	
Recoveries of written off claims	31	
Other	18,021	
Ordinary expenses		192,474
Interest expenses	39,259	
Interest on deposits	18,355	
Interest on negotiable certificates of deposit	1,067	
Interest on call money and bills sold	2,210	
Interest on payables under repurchase agreements	8,409	
Interest on payables under securities lending transactions	245	
Interest on borrowings and rediscounts	2,265	
Interest on bonds	1,358	
Interest on bonds with stock acquisition rights	269	
Other interest expenses	5,077	
Fees and commissions payments	25,578	
Other ordinary expenses	26,616	
General and administrative expenses	92,576	
Other expenses	8,442	
Provision of allowance for loan losses	4,371	
Other	4,071	
Ordinary profit		72,671
Extraordinary income		459
Gain on disposal of non-current assets	186	
Gain on reversal of stock acquisition rights	272	
Extraordinary losses		828
Loss on disposal of non-current assets	570	
Impairment losses	258	
Profit before income taxes		72,302
Income taxes – current	19,407	
Income taxes – deferred	1,235	
Total income taxes		20,643
Profit		51,658
Profit attributable to noncontrolling interests		54
Profit attributable to owners of parent		51,603

Consolidated Statement of Changes in Net Assets for the 117th Fiscal Year (April 1, 2022 to March 31, 2023)

(Millions of Yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	90,845	54,884	769,036	(29,030)	885,735
Changes of items during the period					
Changes by share transfer				28,987	28,987
Dividends of surplus			(97,793)		(97,793)
Profit attributable to owners of the parent			51,603		51,603
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock			(1,483)	42	(1,440)
Change in scope of consolidation or scope of equity method			(46,376)		(46,376)
Net changes in items other than shareholders' equity					
Total changes of items during the period	—	—	(94,049)	29,030	(65,018)
Balance at the end of current period	90,845	54,884	674,987	—	820,716

	Accumulated other comprehensive income				
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Defined retirement benefit plans	Total accumulated other comprehensive income
Balance at the beginning of current period	193,717	223	4,226	2,637	200,804
Changes of items during the period					
Changes by share transfer					
Dividends of surplus					
Profit attributable to owners of the parent					
Purchase of treasury stock					
Disposal of treasury stock					
Change in scope of consolidation or scope of equity method					
Net changes in items other than shareholders' equity	33,997	(1,647)	(2,292)	(1,818)	28,238
Total changes of items during the period	33,997	(1,647)	(2,292)	(1,818)	28,238
Balance at the end of current period	227,714	(1,423)	1,933	818	229,042

	Stock acquisition rights	Noncontrolling interests	Total net assets
Balance at the beginning of current period	318	1,388	1,088,247
Changes of items during the period			
Changes by share transfer			28,987
Dividends of surplus			(97,793)
Profit attributable to owners of the parent			51,603
Purchase of treasury stock			(0)
Disposal of treasury stock			(1,440)
Change in scope of consolidation or scope of equity method			(46,376)
Net changes in items other than shareholders' equity	(318)	(1,388)	26,530
Total changes of items during the period	(318)	(1,388)	(38,487)
Balance at the end of current period	—	—	1,049,759

Notes to Consolidated Financial Statements

Amounts less than one million yen have been rounded down.

The definitions of “subsidiary,” “subsidiary corporation, etc.,” and “affiliated corporation, etc.” are as set forth in Article 2, Paragraph 8 of the Banking Act and Article 4-2 of the Order for Enforcement of the Banking Act.

POLICIES FOR PREPARING CONSOLIDATED FINANCIAL STATEMENTS

1. Matters regarding the scope of consolidation

(1) Consolidated subsidiaries and subsidiary corporations, etc.: 9 companies

Companies: Shizugin IT Solution Co., Ltd.
Shizugin Credit Guaranty Co., Ltd.
Shizugin DC Card Co., Ltd.
Shizugin General Service Co., Ltd.
Shizugin Mortgage Service Co., Ltd.
Shizugin Business Create Co., Ltd.
Shizugin Heartful Co., Ltd.
Shizuoka Bank (Europe) S.A.
Shizuoka Liquidity Reserve Limited

(Changes in the scope of consolidation)

The holding company, Shizuoka Financial Group, Inc. was established through a sole share transfer by The Shizuoka Bank, Ltd. (the “Bank”). Accordingly, the Bank has become a wholly-owned subsidiary of Shizuoka Financial Group, Inc. and four companies that had been the Bank’s consolidated subsidiaries and subsidiary corporations, etc., in the previous fiscal year, namely Shizugin Lease Co., Ltd., Shizugin Management Consulting Co., Ltd., Shizuoka Capital Co., Ltd., and Shizugin TM Securities Co., Ltd. have been excluded from the scope of consolidation as all shares held by the Bank in these companies were transferred to Shizuoka Financial Group, Inc. as dividends in kind.

(2) Non-consolidated subsidiaries and subsidiary corporations, etc.: 6 companies

Major company: Turn The Tide Corporation

The non-consolidated subsidiaries and subsidiary corporations, etc. have been excluded from the scope of consolidation because the assets, ordinary profit, profit/loss (in amounts proportional to the Bank’s equity interests), retained earnings (in amounts proportional to the Bank’s equity interests), accumulated other comprehensive income (in amounts proportional to the Bank’s equity interests), and etc., is not significant. The exclusion from the scope of consolidation does not have any significant impact on the financial conditions and business performance of the company group.

2. Matters regarding application of the equity method

(1) Equity-method non-consolidated subsidiaries and subsidiary corporations, etc.

None

(2) Equity-method affiliated corporations, etc.: 2 companies

Companies: Shizugin Saison Card Co., Ltd.
Commons Asset Management, Inc.

(Changes in the scope of equity method)

All shares held by the Bank in Monex Group, Inc. were transferred to Shizuoka Financial Group, Inc. as dividends in kind, and therefore, Monex Group, Inc. has been excluded from the scope of equity method.

(3) Non-equity-method non-consolidated subsidiaries and subsidiary corporations, etc.: 6 companies

Major company: Turn The Tide Corporation

(4) Non-equity-method affiliated corporations, etc.

None

MATTERS REGARDING ACCOUNTING POLICIES

1. Transactions for trading purposes

“Transactions for trading purposes” (the purpose of seeking to capture gains arising from short-term fluctuations in interest rates, currency exchange rates or market prices of securities, and other market-related indices or from gaps among markets) are recorded on a trade-date basis in “Trading assets” and “Trading liabilities” in the consolidated balance sheet. Profits and losses on transactions for trading purposes are recorded in “Trading income” and “Trading expenses,” respectively, in the consolidated statement of income.

Trading securities and monetary claims purchased for trading purposes recorded in these accounts are stated at fair value at the end of the fiscal year, and trading-related financial derivatives are stated at the amounts that would be settled if they were terminated at the end of the fiscal year.

Trading income and trading expenses include the interest received and interest paid, etc. during the fiscal year, the gains or losses resulting from changes in the value of securities, monetary claims and the like between the end of the previous fiscal year and the end of the current fiscal year, and the gains or losses resulting from changes in the value of financial derivatives between the end of the previous fiscal year and the end of the current fiscal year, assuming they were terminated and settled at the end of the fiscal year.

For financial derivatives, the market values are calculated on the basis of net assets or liabilities after offsetting financial assets and liabilities associated with specific credit risk.

2. Securities

- (1) Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are stated at amortized cost computed using the moving average method (straight-line method). Available-for-sale securities, which are not classified as either trading account securities or held-to-maturity debt securities, are stated at fair value in which cost of securities sold is calculated primarily by the moving average method. Stocks and the like without market prices are stated at cost as determined by the moving average method.

The valuation difference on available-for-sale securities is booked directly to net assets.

- (2) Securities constituting trust assets in money held in trust are valued by the same method as described in 2. (1) above.

3. Derivative transactions

Derivative transactions (excluding transactions for trading purposes) are valued at market value.

The market values are calculated on the basis of net assets or liabilities after offsetting financial assets and liabilities associated with specific credit risk.

4. Method of depreciation of fixed assets

- (1) Tangible fixed assets (excluding leased assets)

Depreciation of the Bank’s tangible fixed assets is computed mainly using the declining-balance method, except that depreciation of structures acquired on and after April 1, 2016 is computed mainly using the straight-line method. The useful lives for tangible fixed assets are as follows:

Buildings:	3 to 50 years
Equipment:	2 to 20 years

Depreciation of tangible fixed assets of the Bank’s consolidated subsidiaries and subsidiary corporations, etc. is computed mainly using the declining-balance method on an income tax basis.

- (2) Intangible fixed assets (excluding leased assets)

Amortization of intangible fixed assets is computed using the straight-line method. Internal-use software development costs are amortized using the straight-line method over the estimated useful life prescribed by the Bank and its consolidated subsidiaries and subsidiary corporations, etc. (five years).

- (3) Leased assets

Leased assets among tangible fixed assets involved in finance lease transactions, where ownership of the lease property is not deemed to be transferred to the lessee, are depreciated using the straight-line method, in which the lease term is used as the useful life. The residual value is zero or the guaranteed value if specified in the lease contracts.

5. Allowance for loan losses

The Bank's allowance for loan losses is provided according to the internally prescribed standards for amortization and allowance and the following categories of borrowers:

Legal bankruptcy:

Borrowers who are legally or formally bankrupt, such as bankruptcy or special liquidation.

Virtual bankruptcy:

Borrowers virtually in the same situation as legal bankruptcy.

Possible bankruptcy:

Borrowers who are not currently bankrupt, but are likely to fall into bankruptcy in the future.

Caution:

Borrowers who must be managed with caution due to problems with lending conditions or repayment performance and due to sluggish or unstable business conditions.

Management required:

Borrowers in the "caution" category all or part of whose loans require management (i.e., restructured loans and loans past due for three months or more).

Normal:

Borrowers who are recognized as having good business conditions and no particular financial problems.

- ① For loans to borrowers classified as legal bankruptcy or virtual bankruptcy, the Bank fully provides the amount of loans net of estimated amounts collectible from collateral and guarantees.
- ② For borrowers with certain loan amounts classified as possible bankruptcy, if cash flows from collection of principals and interests can be reasonably estimated, the Bank provides the difference between the present value of these cash flows discounted at the initial contractual rates and the book values of loans (the "DCF" method). For other loans, a general allowance is provided in the amount calculated by applying (a) the expected loss ratio, which is calculated by determining the loss ratio based on the average value of the actual loan loss ratio over a certain period in the past and by adjusting the loss ratio considering future projections, to (b) the amount of loans net of estimated amounts collectible from collateral and guarantees.
- ③ For borrowers with certain loan amounts classified as caution or management required, the Bank provides an allowance for loan losses using the "DCF" method if cash flows from collection of principals and interests can be reasonably estimated.
- ④ For loans to borrowers classified as normal, caution and management required, an allowance is provided based on the expected loss ratio, which is calculated by determining the loss ratio based on the average value of the actual loan loss ratio over a certain period in the past and by adjusting the loss ratio considering future projections.

Notes: 1. Grouping in calculating loss ratio

In calculating loss ratio, borrowers are divided into consumer loan borrowers and business-lending borrowers. Business-lending borrowers are classified into two categories of normal (upper normal and lower normal), three categories of caution (upper caution, lower caution, and management required), and one category of possible bankruptcy, for a total of seven categories.

2. A certain period of time in which a loss amount is expected in the future

Allowance for loan losses is recorded based on anticipation of the expected loss ratio for the period corresponding to the average remaining period of receivables (the average remaining period is seven years for consumer loan borrowers, among business loan borrowers of ④ above, about three to four years for "normal," about three years for "caution," and about four years for "management required" and "possible bankruptcy" of ② above).

3. Revision of expected loss ratio due to future prospects, etc.

In the current fiscal year, the expected loss ratio has been revised for "management required,"

but the impact on allowance for loan losses is minor.

Pursuant to the internal rules for self-assessment of assets, all loans have been assessed by the relevant business departments, and the results of the assessment have been reviewed by the asset audit department, which is independent of the relevant business departments.

As for the allowance for loan losses of consolidated subsidiaries and subsidiary corporations, etc., the allowance for losses associated with normal borrowers is provided at the amount deemed necessary based on the actual loan loss ratio in the past, etc., whereas the allowance for losses associated with borrowers with bankruptcy concerns and certain other borrowers is provided at the expected uncollectible amounts after the recoverability of individual claims have been taken into account.

6. Allowance for investment loss

The allowance for investment loss is provided at the amount deemed necessary to cover future possible losses on investments by taking into consideration the financial status of the investments and other factors.

7. Provision for directors' retirement benefits

The provision for directors' retirement benefits is provided for the payments that have occurred up to the end of the fiscal year to pay retirement benefits to directors.

8. Provision for losses from reimbursement of inactive accounts

The provision for losses from reimbursement of inactive accounts, which are derecognized as liabilities under certain conditions, is provided at the amount deemed necessary to cover estimated possible losses on future claims of withdrawal based on historical reimbursement experience.

9. Provision for contingent losses

The provision for the Bank's contingent losses is provided for the estimated future payments of contributions to credit guarantee corporations pursuant to the internally prescribed standards for amortization and allowance.

10. Provision for point program

The provision for point program is provided at an amount deemed necessary to cover the reasonably estimated future usage of points given to credit card customers.

11. Accounting treatment of retirement benefits

In calculating pension benefit obligations, expected benefit payments are attributed to the periods up to the end of the current fiscal year on a benefit formula basis. Actuarial gains and losses are treated as follows:

Actuarial gains and losses:

Actuarial gains and losses are treated as gains and losses, respectively, in the fiscal year following the fiscal year in which they arise, in an amount proportionally divided using the straight-line method over a fixed number of years (generally 10 years) that is within the average number of years of remaining service of employees at the time the differences emerge each fiscal year.

Some consolidated subsidiaries and subsidiary corporations, etc. apply the non-actuarial method that assumes the amount required for voluntary resignation at the end of the current fiscal year as projected benefit obligation in computing liability for retirement benefits and retirement benefit expenses.

12. Translation of foreign currencies

The Bank's assets and liabilities, which are payable or receivable in foreign currencies and accounts of overseas branches are translated into Japanese yen primarily at the exchange rates prevailing at the consolidated balance sheet date.

Assets and liabilities of the consolidated subsidiaries and subsidiary corporations, etc., which are payable or receivable in foreign currencies are translated into Japanese yen at the exchange rates at their respective balance sheet dates, etc.

13. Leases

For financing leases in which the Bank is the lessor, sales and cost of sales are accounted for when lease payments are received.

14. Significant hedge accounting

(1) Hedge against interest rate risk

Transactions to hedge against interest rate risk associated with financial assets and liabilities of the Bank are accounted for using deferral hedge accounting as stipulated in the Japanese Institute of Certified Public Accountants (JICPA) Industry Committee Practical Guideline No. 24, March 17, 2022, “Accounting and Auditing Treatments on the Application of Accounting Standards for Financial Instruments in the Banking Industry.” Regarding the effectiveness of a hedging relationship under fair value hedging, a portfolio of hedged items, such as deposits or loans with common maturities, is matched with a group of hedging instruments, such as interest rate swaps, which offset the effect of fair value fluctuations of the hedged items by identified maturities and are designated as a hedge of the portfolio. The effectiveness of the fair value hedge is assessed by each group. Also, the effectiveness of a cash flow hedge is assessed on the basis of the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

In case of certain assets and liabilities, special hedging treatment is applied for interest rate swaps.

(2) Hedge against foreign exchange fluctuation risk

Deferral hedge accounting is applied to hedges against foreign exchange fluctuation risks associated with foreign currency-denominated monetary assets and liabilities of the Bank, stipulated in the JICPA Industry Committee Practical Guideline No. 25, October 8, 2020, “Accounting and Auditing Treatments of Accounting Treatments on Foreign Currency Transactions in the Banking Industry.” The effectiveness of currency swap transactions, exchange swap transactions, and similar transactions hedging foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed by comparing the foreign currency position of the hedged monetary assets and liabilities and that of the hedging instruments.

In order to hedge the foreign exchange risk of foreign currency-denominated available-for-sale securities (except bonds), the Bank applies the “general method,” using market value hedges subject to certain conditions, namely the designation in advance of foreign currency-denominated securities to be hedged, and the existence in foreign currency of a spot-forward liability in excess of the acquisition cost of the relevant foreign currency-denominated securities.

CHANGES IN ACCOUNTING POLICIES

(Application of implementation guidance on accounting standards for fair value measurement)

The “Implementation Guidance on Accounting Standard for Fair Value Measurement” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 31, June 17, 2021; the “Fair Value Measurement Guidance”) has been applied since the beginning of the current fiscal year. Pursuant to the transitional treatment set forth in Paragraph 27-2 of the Fair Value Measurement Guidance, the new accounting policies stipulated in the Fair Value Measurement Guidance have been applied prospectively. The application had no impact in the current fiscal year.

SIGNIFICANT ACCOUNTING ESTIMATES

1. Recording of allowance for loan losses

(1) Amounts recorded in the consolidated financial statements for the current fiscal year

Allowance for loan losses ¥51,186 million

(2) Other information that helps users of consolidated financial statements to understand the details of significant accounting estimates of identified items

① Calculation method

The calculation method of allowance for loan losses is listed in “5. Allowance for loan losses” of “MATTERS REGARDING ACCOUNTING POLICIES.”

② Main assumptions

- a) There are concerns over the impact of the economic slowdown caused by the spread of COVID-19 on the repayment ability of borrowers. However, an allowance for loan losses has been calculated on the assumption that the national and local governments’ economic measures and financial institutions’ support will prevent any significant impact on the categories or other aspects of borrowers. There have been no significant changes in the assumptions about the impact of COVID-19 from those described under the heading “SIGNIFICANT ACCOUNTING ESTIMATES” in the consolidated financial statements for the previous fiscal year.
- b) Assumptions have been made on future forecasts, such as sales forecasts, cost reduction estimates, and expected debt repayments, in the business plan used to determine borrowers’ categories and to estimate future cash flows using the cash flow estimate method. The future forecasts in the business plan, such as sales forecasts, cost reduction estimates, and expected debt repayments have been determined based on the impact of COVID-19 and on the market growth potential and price trends in the industries to which borrowers belong.

③ Impact on the consolidated financial statements for the next fiscal year

If the original assumptions for estimates change because of changes in the business environment for borrowers, including the situation of COVID-19, the allowance for loan losses may fluctuate due to changes in borrowers’ categories, cash flow estimates, and expected loss ratio, with potential significant impact on the consolidated financial statements for the next fiscal year.

NOTES

(Consolidated Balance Sheet)

1. Claims under the Banking Act and the Act on Emergency Measures for the Revitalization of the Financial Functions are as follows. Claims include (i) claims recorded in the following accounts on the consolidated balance sheet: bonds (but only if the Bank guarantees all or part of the redemption of their principal and the payment of interest and if they were issued by private placement (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act)) in “Securities,” loans and bills discounted, foreign exchanges, accrued interest and suspense payments in “Other assets,” and customers’ liabilities for acceptances and guarantees; and (ii) if the Bank has granted loans of securities that are presented in notes, those securities (but only those that are on loan under a loan-for-use agreement or lease agreement).

(Millions of Yen)

Claims provable in rehabilitation from bankruptcy and equivalents	16,472
Doubtful claims	76,829
Loans past due for three months or more	191
Restructured loans	13,110
Total	106,604

“Claims provable in rehabilitation from bankruptcy and equivalents” include claims against borrowers

whose business has failed due to such grounds as those for filing a petition for commencement of bankruptcy, reorganization, or rehabilitation proceedings and claims similar to those described above.

“Doubtful claims” include claims (i) which are against borrowers whose business has not failed, but whose financial condition and business performance have deteriorated, (ii) whose principal and interest are unlikely to be collectible as per the contracts, and (iii) which do not fall under claims provable in rehabilitation from bankruptcy and equivalents.

“Loans past due for three months or more” include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include claims provable in rehabilitation from bankruptcy and equivalents or doubtful claims.

“Restructured loans” include loans for which certain arrangements have been made in favor of the borrower, such as reducing or eliminating interest payments, deferring principal repayments, or writing off a portion of the loan, with the goal of assisting in the reconstruction of, or providing support to, the borrower’s business, but do not include claims provable in rehabilitation from bankruptcy and equivalents, doubtful claims or loans past due for three months or more.

The amounts of loans given above are amounts before deducting the allowance for loan losses.

2. In accordance with the JICPA Industry Committee Practical Guidelines No. 24, bills discounted are treated as financial transactions. The Bank has the rights to sell, pledge, or repledge these commercial bills and foreign exchange bills without restrictions. The face values of these bills are ¥18,739 million.

3. Assets pledged as collateral are as follows:

	(Millions of Yen)
Assets pledged as collateral:	
Trading assets	2,999
Securities	1,712,628
Loans and bills discounted	785,785
Liabilities covered by the above assets:	
Deposits	27,518
Payables under repurchase agreements	385,270
Payables under securities lending transactions	466,781
Borrowed money	1,290,365

In addition to the above, the Bank has provided ¥24,130 million in securities as collateral for foreign exchange settlements and certain other transactions and as security for futures transactions.

Other assets include cash collateral paid for financial instruments (¥30,369 million), guarantee deposits (¥1,803 million), and cash collateral paid to central counterparty (¥60,800 million).

4. Overdraft agreements and agreements for loan commitments are agreements under which the Bank pledges to lend funds up to a certain limit when applications for advances of loans are received from customers, provided there are no violations of the terms written in the agreements. The balances of loans undisbursed under these agreements are ¥1,725,470 million. Of these loans, those due within one year are ¥1,619,006 million.

Many of these agreements terminate without loans being disbursed, and thus the balance of loans as yet undisbursed will not necessarily affect the future cash flow of the Bank or its consolidated subsidiaries or subsidiary corporations, etc. The Bank and its subsidiaries and subsidiary corporations, etc. can refuse to advance loans and reject applications that have been received or can reduce the maximum amounts under the agreements for reasonable reasons, such as changes in the financial situation and preservation of credit. In addition, borrowers may be required to provide collateral, such as real estate or securities at the time the agreements are entered into when necessary. After the agreements have been signed, the state of the borrower’s business and other factors may be assessed regularly in accordance with prescribed in-house procedures. Moreover, agreements can be revised, if necessary, and steps, such as the formulation of measures to preserve credit, may be taken.

5. Accumulated depreciation of tangible fixed assets ¥111,281 million

6. Advanced depreciation of tangible fixed assets ¥9,025 million

7. The amount of liabilities for guarantees on corporate bonds included in securities, which were issued by private placement (Article 2, Paragraph 3 of the Financial Instruments and Exchange Act) is ¥27,566 million.

8. The principal amount of trusts with principal-guaranteed features is ¥141 million in money trusts.

(Consolidated Statement of Changes in Net Assets)

1. Class and number of issued shares and treasury stock

(Thousands of Shares)

	Number of shares at beginning of current fiscal year	Number of shares increased in current fiscal year	Number of shares decreased in current fiscal year	Number of shares at end of current fiscal year	Description
Issued shares					
Common stock	595,129	—	—	595,129	
Total	595,129	—	—	595,129	
Treasury stock					
Common stock	30,980	0	30,981	—	Notes 1 and 2
Total	30,980	0	30,981	—	

Notes: 1. The increase in treasury stock is due to request for purchase of shares less than one unit.

2. The decrease in treasury stock includes, among others, 45 thousand shares for which stock options were exercised and 30,935 thousand shares which were transferred to Shizuoka Financial Group, Inc. on October 6, 2022 as distribution in kind.

2. Dividends

(1) Dividends paid during the current fiscal year

i) Cash dividends

(Resolution)	Class of stock	Total amount of dividends (Millions of Yen)	Cash dividend per share (Yen)	Record date	Effective date
Annual General Meeting of Shareholders held on June 17, 2022	Common stock	7,615	13.5	March 31, 2022	June 20, 2022
Extraordinary General Meeting of Shareholders held on October 3, 2022	Common stock	30,054	50.5	September 30, 2022	October 4, 2022
Board of Directors' meeting held on November 7, 2022	Common stock	8,462	15	September 30, 2022	December 9, 2022
Total		46,132			

ii) Dividends in kind

(Resolution)	Class of stock	Dividend property	Book value of dividend property (Millions of Yen)	Cash dividend per share (Yen)	Record date	Effective date
Extraordinary General Meeting of Shareholders held on October 3, 2022	Common stock	Shares of subsidiaries and subsidiary corporations, etc., and shares of affiliated corporations, etc.	24,159	—	—	October 3, 2022
Extraordinary General Meeting of Shareholders held on October 3, 2022	Common stock	Shares of parent company	27,501	—	—	October 6, 2022

All the dividend property will be allocated to Shizuoka Financial Group, Inc., which is the sole shareholder of the common stock, and therefore cash dividend per share has not been determined.

(2) Of the dividends whose record date falls within the current fiscal year, those dividends whose effective date falls after the last date of the current fiscal year are as follows.

As a proposal to be submitted to the Extraordinary General Meeting of Shareholders scheduled for May 11, 2023, a dividend for common stock is planned to be proposed with the following details:

(Resolution)	Class of stock	Total amount of dividends (Millions of Yen)	Cash dividend per share (Yen)	Record date	Effective date
Extraordinary General Meeting of Shareholders to be held on May 11, 2023	Common stock	19,400	—	March 31, 2023	May 12, 2023

All the dividend property will be allocated to Shizuoka Financial Group, Inc., which is the sole shareholder of the common stock, and therefore cash dividend per share has not been determined.

The dividend is planned to be paid from retained earnings.

(Financial Instruments)

1. Information on financial instruments

(1) Policy for financial instruments

The Group provides comprehensive financial services, centering on banking, along with financial instruments trading. Its base of operations is Shizuoka Prefecture.

The Bank, the core business operator of the Group, provides a range of financial instruments, including deposits in Japanese yen, deposits in foreign currencies, Japanese government bonds, investment trusts, and personal pension insurance. It also provides stable financing for customers in the region through loans to individuals and lending operations for small and medium enterprises.

(2) Details of financial instruments and related risks

The financial assets of the Group consist primarily of loans and bills discounted to domestic customers and securities, including bonds and equity securities.

The loans and bills discounted are exposed to credit risk arising from potential default by borrowers. As about 50% of the loans and bills discounted are for customers in Shizuoka Prefecture, credit-related losses could occur on a large scale in case of the negative changes of the regional economic environment and a severe earthquake, etc.

The Group holds securities, such as debt securities (bonds), equity securities, and investment trusts under its investment policy focused on the safety and liquidity of the investment. These securities are exposed to risks of market price fluctuations associated with the credit standing of issuers and interest rate changes. If the prices of equity securities and other securities held decline, impairment losses or valuation losses could adversely affect the operating results and financial standing of the Group.

Financial liabilities consist primarily of deposits from domestic customers and funds raised in the call market. If the Group loses its credit status because of downgrades or other factors or if the market environment deteriorates, conditions for financing could worsen or transactions could be constrained.

The Group enters into derivative transactions for customers who need to hedge exchange rates or interest rates, and for asset and liability management (ALM) or hedging individual transactions to appropriately manage the market risks of the Group. The Group also conducts short-term trading transactions.

Derivatives mainly include interest rate swaps, currency swaps, and bond futures and are exposed to market risk that could cause losses in association with changes in interest rate markets and foreign exchange markets, as well as credit risk (counterparty risk), which is the risk of default on the initial contract due to the bankruptcy of the counterparty or other factors. There are interest rate risks associated with mismatches of interest rates and terms between financial assets and financial liabilities.

(3) Risk management systems for financial instruments

① Integrated risk management system

Under the Group Basic Risk Management Regulations that stipulate the Group's basic risk management policy, the Group has established a basic framework, including an organizational structure for defining and managing risks and specific procedures for risk management.

To ensure a balance between profitability and financial soundness, the Group has introduced a management system that allocates risk capital as the core of integrated risk management.

The risk capital allocation is a system for avoiding excessive risk taking by setting risk limits below which the Group will be able to withstand losses on its own. This system allocates core regulatory capital to each operational department or section and controls risk so that if market, credit or other risks emerge, losses will be contained within the range of shareholders' equity.

② Credit risk management system

Credit risk is the risk of incurring losses when collecting loans and bills discounted becomes difficult because borrowers' financial conditions deteriorated.

The Credit Risk Management Group of the Risk Management Department manages all credit risks associated with the Group's operations both in Japan and overseas in order to ensure the soundness of the Group's loan asset portfolio. The Bank's borrower credit rating system, which is an essential part of its credit risk management, together with other internal rating systems, is operated by the Credit

Planning Group of the Business Support Department (Credit Planning Group of the Credit Support Department from April 3, 2023), designed and supervised by the Credit Risk Management Group of the Risk Management Department, which is independent from the credit department (i.e., the Business Support Department (Credit Support Department from April 3, 2023)), and verified for appropriateness of the system by the Risk Management Group of the Risk Management Department. This structure has been designed so that the internal credit rating system will function appropriately through mutual checks and balances between these three groups.

In addition, the Audit Department checks whether credit risk management is conducted appropriately in accordance with the relevant rules through such means as validation of the self-assessment process.

The Credit Risk Management Group uses statistical methods and other methods to quantify latent credit risks intrinsic to the Bank's entire loan portfolio. This enables the Bank to accurately assess the scale of potential risk, monitor any concentration of loans to particular large-scale borrowers or specific industries, and thus control the portfolio to avoid excessive credit risk.

The Bank's credit risk management status, together with the status of market risk management and liquidity risk management described below, is reported through monthly meetings of the Committee for Integrated Risk and Budget Management, which is chaired by the president, as well as through other channels of management.

③ Market risk management system

Market risk is the risk of incurring losses in association with changes in the prices of financial assets and liabilities that are caused by changes in interest rates, stock prices, and foreign exchange rates.

The Group controls the degree of market risks within a certain range by setting limits about risk capital allocations, unrealized profits and losses, position, and sensitivity, and so on.

The Bank has established ALM hedge criteria for transactions in banking accounts, especially deposits, loans and bills discounted, and investment securities to control the degree of market risk within a certain range. The Business Strategy Planning and ALM Group of the Corporate Planning Department discusses ALM hedge policies based on the status of interest rate risks and the interest rate outlook at meetings of the Committee for Integrated Risk and Budget Management.

The Bank has established a system of checks and balances in the market division by strictly separating trading departments and administration departments and by setting up an independent risk management department. The Audit Department, which is independent of departments subject to audit, confirms the effectiveness of this system of checks and balances between the three departments.

④ Liquidity risk management system

There are two types of liquidity risk: (1) financing risk, which is the risk of not being able to secure needed funds as a result of worsening market conditions and other factors, or incurring losses due to being forced to raise funds at much higher interest rates than usual; and (2) market liquidity risk, which is the risk of not being able to trade financial instruments, such as bonds, because of market turmoil or other factors or incurring losses due to being forced to trade financial instruments at far less favorable prices than usual.

The Bank has established a system of checks and balances by setting up fund management departments for financing in Japanese yen and in foreign currencies, and a liquidity risk management department that is independent of the fund management departments. The Treasury Department's Fund and Foreign Exchange Group, which is one of the fund management departments, controls amounts raised in markets within a range of permitted amounts so as to prevent excessive fund-raising in markets, and seeks stable financing, considering market circumstances. The Risk Management Group, which is the liquidity risk management department, assesses the stability of the asset and liability structure, including the status of the holding of liquid assets, and monitors the financing position and the status of management by the fund management departments.

To deal promptly with unforeseeable circumstances, the Group has classified financing management in emergencies into four phases -- Phase 1 (prevention), Phase 2 (caution needed), Phase 3 (concern over liquidity), and Phase 4 (lack of liquidity) --, and has appointed authorized personnel and countermeasures for each phase in advance.

To manage market liquidity risk, the liquidity risk management department monitors the holding of liquid assets on a timely basis, and the front office chooses assets to be managed after taking into account their liquidity and sets limits by issue and by term.

(4)Supplementary explanation of the fair values of financial instruments

As the fair values of financial instruments are calculated based on certain assumptions, fair values could differ if different assumptions are used for calculation.

2.Fair values of financial instruments and breakdown by level in the fair value hierarchy

The carrying values and fair values of financial instruments, the difference between these values, and their level in the fair value hierarchy are as follows.

Please note that the table below does not include stocks or others without quoted market prices and investments in partnerships (see Note 3 below). Accounts with immaterial carrying values have been omitted.

The fair values of financial instruments are classified into the following three levels based on the observability and significance of inputs used in the measurement of fair value.

Level 1 fair value: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3 fair value: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is classified at the lowest level in the fair value measurement among the levels to which each of these inputs belong.

(1)Financial instruments carried at fair value on the consolidated balance sheet

(Millions of Yen)

Category	Carrying value			
	Level 1	Level 2	Level 3	Total
Trading assets				
Trading securities	45	3,481	—	3,526
Japanese government bonds	45	—	—	45
Local government bonds	—	481	—	481
Corporate bonds	—	2,999	—	2,999
Stocks	—	—	—	—
Others	—	—	—	—
Foreign bonds	—	—	—	—
Securities (*1)				
Available-for-sale securities	1,443,568	1,157,470	191,947	2,792,987
Japanese government bonds	854,509	—	—	854,509
Local government bonds	—	235,913	—	235,913
Corporate bonds	—	246,444	191,868	438,312
Stocks	445,279	4,104	—	449,383
Others	143,779	671,008	79	814,867
Foreign bonds	143,779	428,477	—	572,257
Total assets	1,443,614	1,160,951	191,947	2,796,514
Derivative transactions (*2)(*3)(*4)				
Interest rate-related	—	(1,427)	—	(1,427)
Currency-related	—	(9,065)	—	(9,065)
Stock-related	—	—	—	—
Bond-related	—	—	—	—
Total derivative transactions	—	(10,493)	—	(10,493)

(*1) Securities do not include investment trusts subject to the application of the treatment in which their fair values are measured at the unit price in Paragraph 24-9 of the Fair Value Measurement Implementation Guidance. These investment trusts are carried at ¥10,300 million on the consolidated balance sheet.

Reconciliation between opening and closing balances of investment trusts subject to the application of the treatment in which their fair values are measured at the unit price is as shown below.

(Millions of Yen)

Balance at beginning of year	Profit/loss or other comprehensive income		Net purchases, sales and redemptions	Amount of investment trusts for which their fair values are measured at the unit price	Amount of investment trusts for which their fair values are not measured at the unit price	Balance at end of year	Gains/losses on valuation of investment trusts recorded in profit/loss and held on the consolidated balance sheet date
	Recorded in profit/loss	Recorded in other comprehensive income					
15,647	—	(101)	(5,244)	10,300	—	10,300	—

- (*2) The total of all derivative transactions recorded in trading assets and liabilities and other assets and liabilities. Net claims and liabilities arising from derivative transactions are presented in net amounts. Net negative amounts are shown in parentheses. Transactions subject to special hedging treatment of interest rate swaps are valued together with the hedged transactions and have thus been excluded from derivative transactions.
- (*3) Of the derivative transactions, those subject to hedge accounting are carried at ¥(21,659) million on the consolidated balance sheet.
- (*4) These transactions include, among others, interest rate swaps designated as hedging instruments to reduce market fluctuation risk or foreign exchange fluctuation risk associated with loans to be hedged against. Deferred hedge accounting is applied to these transactions. The “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” (ASBJ PITF No. 40, March 17, 2022) is applied to these hedging relationships.

(2) Financial instruments other than those carried at fair value on the consolidated balance sheet

Notes have been omitted for cash and due from banks, call loans and bills bought, call money and bills sold, payables under repurchase agreements, and payables under securities lending transactions as the carrying values of these financial instruments approximate their fair values due to short payment terms.

(Millions of Yen)

Category	Fair value				Carrying value	Difference
	Level 1	Level 2	Level 3	Total		
Securities						
Held-to-maturity	—	14,764	57,701	72,465	72,903	(438)
Japanese government bonds	—	—	—	—	—	—
Local government bonds	—	8,617	—	8,617	8,744	(127)
Corporate bonds	—	2,054	57,701	59,755	59,840	(85)
Others	—	4,092	—	4,092	4,318	(225)
Foreign bonds	—	4,092	—	4,092	4,318	(225)
Loans and bills discounted					10,091,604	
Allowance for loan losses (*)					(47,944)	
	—	—	10,009,579	10,009,579	10,043,659	(34,080)
Total assets	—	14,764	10,067,280	10,082,044	10,116,563	(34,518)
Deposits	—	11,738,933	—	11,738,933	11,738,903	30
Negotiable certificates of deposit	—	70,104	—	70,104	70,104	0
Borrowed money	—	1,289,210	—	1,289,210	1,295,936	(6,726)
Total liabilities	—	13,098,248	—	13,098,248	13,104,944	(6,695)

(*) General and individual allowances for losses are excluded from the corresponding loans and bills discounted.

Note 1: Valuation techniques and inputs used in fair value measurement

Assets

Trading assets

The fair values of trading assets are classified into Level 1 if unadjusted quoted prices are available in active markets. These trading assets primarily include Japanese government bonds. If the market is not active, the fair values of trading assets are classified into Level 2 even if their published quoted prices are used. These trading assets primarily include local government bonds and corporate bonds.

Securities

The fair values of securities are classified into Level 1 if unadjusted quoted prices are available in active markets. These securities primarily include listed stocks and Japanese government bonds. If the market is not active, the fair values of securities are classified into Level 2 even if their published quoted prices are used. These securities primarily include local government bonds and corporate bonds. The fair values of investment trusts without quoted market prices are classified into Level 2 if there are no restrictions so material that market participants would require compensation for risk with respect to the cancellation or repurchase request of the investment trusts, in which case their fair values are measured at the unit price. The fair values of securitized products (beneficial interests in trust) are classified into Level 3 because these fair values are measured based on prices obtained from third parties, and significant unobservable inputs are used to calculate these prices. The fair values of private placement bonds are classified into Level 3 because these fair values are measured by using a discount rate commensurate with the bonds' internal rating, remaining term, and coverage ratio, which is a significant unobservable input.

Stock acquisition rights are calculated using valuation techniques, such as the option valuation model. Major inputs include probability of listing. Since probability of listing is an unobservable input, the fair value of stock acquisition rights is classified into Level 3.

Loans and bills discounted

The fair values of loans and bills discounted are measured at their present values, which are calculated separately for different categories created based on types and internal ratings of loans and bills discounted, the status of their collateral and guarantees, and their periods, by discounting the future cash flows of the principal and interest at the interest rate expected for similar new loans or at a discount rate calculated by reflecting credit risk, expense rate, etc., on market interest rate. The fair values of floating-rate loans and bills discounted are measured at their carrying values because their carrying values approximate fair value if the borrowers' credit status has not changed significantly since disbursement, due to their nature of reflecting market interest rates in short periods. As for claims against borrowers classified as legal bankruptcy, virtual bankruptcy or possible bankruptcy, since the loan loss estimates have been calculated based on, among other things, the amounts expected to be recoverable from collateral and guarantees, their carrying values minus the amount of allowance for loan losses on the consolidated balance sheet at the end of the fiscal year approximate the fair values of these claims. Therefore, the remaining amounts are deemed to be their fair values. These fair values are all classified into Level 3, since the discount rate is unobservable.

Liabilities

Deposits and Negotiable certificates of deposit

As for demand deposits payable immediately on demand at the end of the fiscal year, the amounts payable are deemed to be their fair values. The fair values of time deposits and negotiable certificates of deposit are measured at their discounted present value, which is calculated by classifying them based on their periods and discounting the future cash flows at the interest rate to be used when accepting new deposits. The fair values of deposits with short terms (up to one year) or floating interest rates are measured at their carrying values since their carrying values approximate fair value. These fair values are classified into Level 2.

Borrowed money

The fair value of borrowed money is measured at its present value, which is calculated by classifying the borrowed money based on its period and by discounting the future cash flows at the interest rate expected for similar new borrowings. Floating rate borrowed money reflects market interest rates in short periods, and the credit standing of the Group has not significantly changed since disbursement. The carrying value of floating rate borrowed money is therefore considered to approximate fair value and therefore the carrying value is deemed equal fair value. The fair value of borrowed money with short terms (up to one year) is measured at its carrying value since its carrying value approximates fair value. These fair values are classified into Level 3 if any significant unobservable input is used in their measurement, or otherwise into Level 2.

Derivative Transactions

The fair values of derivative transactions are classified into Level 1 if unadjusted quoted prices are available in active markets. These derivative transactions primarily include bonds futures. However, since most derivatives are over the counter transactions without published quoted prices, their fair values are measured using valuation techniques, such as the present value technique and the option valuation model depending on the type of transaction and the maturity period. The main inputs used in these valuation techniques are interest rates, exchange rates, and volatility, among others. In addition, price adjustments are made based on the credit risk of the counterparty and that of the Bank. The fair values of these transactions are classified into Level 2 if no unobservable inputs are used or if the effect of the unobservable inputs used is insignificant. These transactions primarily include interest rate swaps and forward exchange contracts.

Note 2: Information on financial instruments carried at Level 3 fair value on the consolidated balance sheet

(1) Quantitative information on significant unobservable inputs (March 31, 2023)

Category	Valuation technique	Significant unobservable input	Range of input	Weighted average of input
Securities				
Corporate bonds				
Private placement bonds	Present value technique	Discount rates	0.3% ~ 2.0%	0.6%
Other				
Stock acquisition rights	Option valuation model	Probability of listing	0% ~ 50.0%	49.9%

(2) Reconciliation between opening and closing balances and gains/losses on valuation recognized in profit/loss (March 31, 2023)

(Millions of Yen)

	Balance at beginning of year	Profit/loss or other comprehensive income		Net purchases, sales, issues and settlements	Transfers into level 3 fair value	Transfers from level 3 fair value	Balance at end of year	Gains/losses on valuation of financial assets/liabilities recorded in profit/loss and held on the consolidated balance sheet date
		Recorded in profit/loss	Recorded in other comprehensive income (*)					
Securities								
Available-for-sale securities								
Private placement bonds	31,430	—	(104)	(2,301)	—	—	29,024	—
Securitized products (beneficial interests in trust)	108,028	(37)	(694)	55,546	—	—	162,843	—
Stock acquisition rights	25	(7)	10	51	—	—	79	—

(*) Included in “Interest income” and “Other expenses” in the consolidated statement of income.

(3) Process of fair value measurement

The Group has established policies and procedures for fair value measurement in middle departments and back-office departments. Once a fair value is measured, verification is performed of the validity of the valuation techniques and inputs used in the measurement of the fair value and the appropriateness of the classification of the fair value.

In calculating fair values, valuation models are used that most appropriately reflect the nature, characteristics, and risks of the individual assets. Furthermore, when quoted prices obtained from a third party are used, the validity of these prices is verified by such appropriate methods as checking the valuation techniques and inputs being used and/or comparing the resulting fair values with fair values of similar financial instruments.

(4) Impact of changes in significant unobservable inputs on fair values

The significant unobservable inputs used in the measurement of fair values of securitized products (beneficial interests in trust) are probability of default, loss given default, and prepayment rates. A significant increase (or decrease) in probability of default or loss given default will result in a significant decrease (or increase) in fair values, whereas a significant change in prepayment rates will result in a significant decrease (or increase) in fair values, depending on the structure of the financial instrument.

The discount rate is the significant unobservable input used in the measurement of fair values of private placement bonds. The discount rate is calculated according to the internal rating of the issuer, the remaining term, and the coverage ratio. A significant increase (decrease) in discount rate will result in a significant decrease (increase) in fair values.

Probability of listing is the significant unobservable input used to measure the fair value of stock acquisition rights. A significant increase (decrease) in probability of listing will result in a significant increase (decrease) in fair value.

Note 3: Stocks and others without quoted market prices and investments in partnerships are carried on the consolidated balance sheet as stated below. They are not included in “Available-for-sale securities” in the financial statements disclosed under “Fair values of financial instruments and breakdown by level in the fair value hierarchy” above.

(Millions of Yen)	
Category	Carrying value
Unlisted stocks (*1) (*2)	8,174
Investments in partnerships and others (*3)	89,365

(*1) Unlisted stocks are not included in the disclosure of fair value in accordance with Paragraph 5 of the “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020).

(*2) The impairment losses on unlisted stocks for the current fiscal year were ¥19 million.

(*3) Investments in partnerships and others principally include investment partnerships. These are not included in the disclosure of fair value in accordance with Paragraph 24-16 of the Fair Value Measurement Implementation Guidance.

(Tax Effect Accounting)

A breakdown of deferred tax assets and deferred tax liabilities by major cause is as follows:

(Millions of Yen)

Deferred tax assets	
Allowance for loan losses	14,413
Liability for retirement benefits	5,552
Valuation loss on securities	3,698
Others	11,381
Subtotal deferred tax assets	35,045
Valuation allowance	(4,762)
Total deferred tax assets	30,283
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(95,315)
Gain on establishment of employee retirement benefit trust	(5,079)
Securities returned from employee retirement benefit trust	(2,724)
Others	(3,207)
Total deferred tax liabilities	(106,327)
Net deferred tax liabilities	(76,043)

(Per Share Information)

Net assets per share	¥1,763.91
Profit attributable to owners of the parent per share	¥89.09

(Stock Options)

(Details of stock options, volume of stock option activity, and changes thereto)

On October 3, 2022, the Bank established Shizuoka Financial Group, Inc. as a wholly owned parent company of the Bank. With the establishment of Shizuoka Financial Group, Inc., the stock acquisition rights of Shizuoka Financial Group, Inc. were delivered to rights holders in exchange for stock acquisition rights issued by the Bank on October 3, 2022. Therefore, there are no applicable items.

(Business Combinations)

(Transactions under common control)

1. Establishment of a holding company through a sole share transfer

(1) Overview of the transaction

(i) Name and business of combined company

Name of combined company	Business
The Shizuoka Bank, Ltd.	Banking business

(ii) Date of the business combination

October 3, 2022

(iii) Legal form of the business combination

Establishment of a holding company through a sole share transfer

(iv) Name of the company after the business combination

Shizuoka Financial Group, Inc. (wholly owned parent company established through share transfer)

(v) Other matters regarding overview of the transaction

Shizuoka Financial Group, Inc. was established in an aim to “Maximize the value of all stakeholders” by expanding into new business fields that will contribute to regional growth upon making the governance structure flexible and robust in line with the business environment, while further enhancing group management through the autonomy and cooperation of each group company.

Shizuoka Financial Group, Inc. acquired all shares of the following subsidiaries and subsidiary corporations, etc., and those of affiliated corporations, etc., held by the Bank by receiving dividends in kind from the Bank on October 3, 2022. These companies have been reorganized into entities directly invested in by Shizuoka Financial Group, Inc. Four of the companies were converted into consolidated subsidiaries and subsidiary corporations, etc., and Monex Group, Inc. has been converted into an equity-method affiliated corporation, etc., of Shizuoka Financial Group, Inc.

(A)Subsidiaries and subsidiary corporations, etc.

Shizugin Management Consulting Co., Ltd.

Shizugin Lease Co., Ltd.

Shizuoka Capital Co., Ltd.

Shizugin TM Securities Co., Ltd.

(B)Affiliated corporation, etc.

Monex Group, Inc.

One share of common stock of Shizuoka Financial Group, Inc. was allotted and delivered to the Bank for each share of treasury stock held by the Bank when the share transfer became effective. The shares in Shizuoka Financial Group, Inc. held by the Bank were disposed promptly thereafter in accordance with provisions of laws and regulations.

(2) Overview of accounting treatment applied

The transaction was treated as a transaction, etc. under common control in accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, January 16, 2019) and “Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, January 16, 2019).

Independent Auditor's Report

May 9, 2023

To the Board of Directors of
The Shizuoka Bank, Ltd.

Shizuoka Office
Deloitte Touche Tohmatsu LLC

Designated Limited Liability
Partner

Kentaro Fukada

Certified Public
Accountant

Engagement Partner

Designated Limited Liability
Partner

Hirokazu Ishiguro

Certified Public
Accountant

Engagement Partner

Opinion

We have audited the consolidated financial statements of The Shizuoka Bank, Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2023, and the consolidated statement of income, consolidated statement of changes in net assets, and notes to the consolidated financial statements, for the fiscal year covering the period from April 1, 2022 to March 31, 2023, in accordance with the provisions of Article 444, Paragraph (4) of the Companies Act.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2023, and its consolidated financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Business Report and the accompanying supplemental schedules.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard,

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed under the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

(*) This is an English translation of the independent auditor's report as required by the Companies Act of Japan for the convenience of the readers. The other information in the Consolidated Financial Statements (Renketsu Keisanshorui) referred to in the "Other Information" section of this English translation is not translated.