



# **Meeting the Challenge of New Banking**

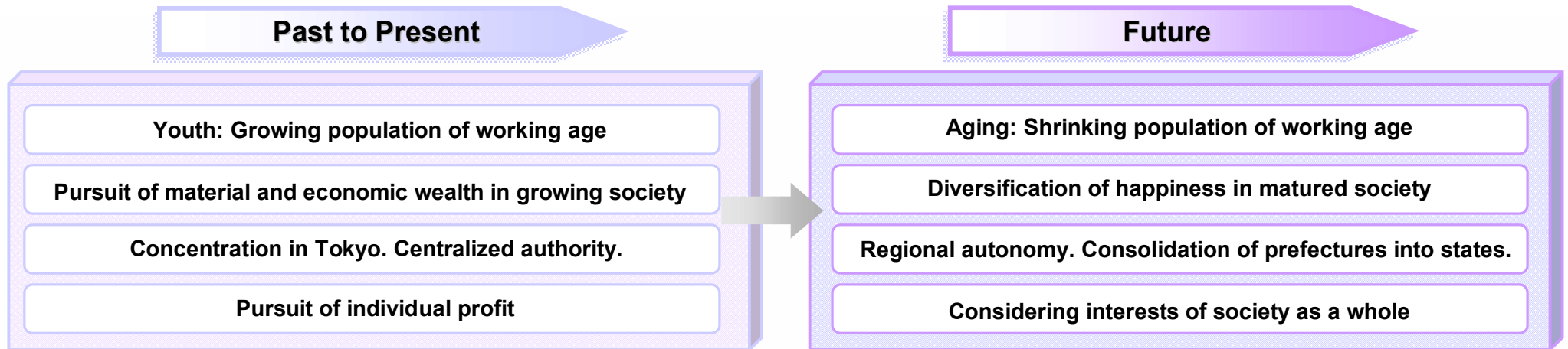
**Presentation to investors on fiscal year ended March 31, 2010**

**SURUGA bank**

# Management Discussion of the Environment

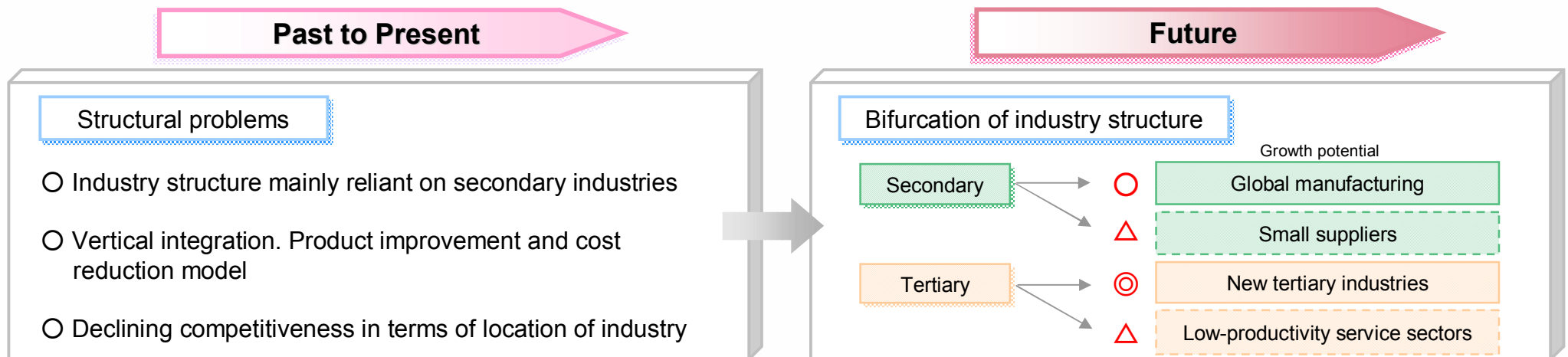
## Structural Changes to Japan's Society

To achieve sustainable growth, tear down and rebuild instead of pursuing a trajectory from the past.

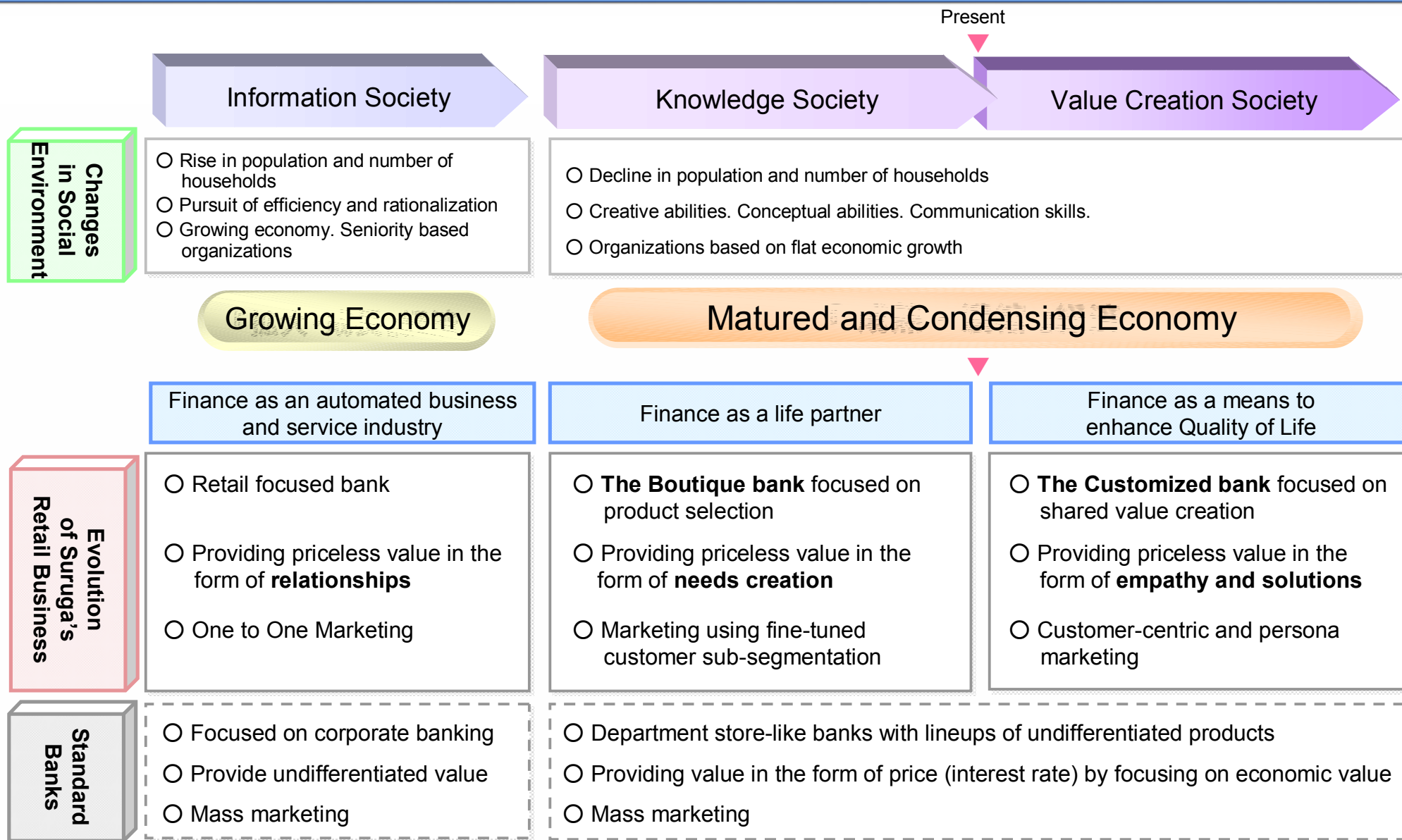


## Japan's Economy Moving Forward

Creating added value is key to breaking through current feeling of confinement



# Evolution of the Retail Financing Business



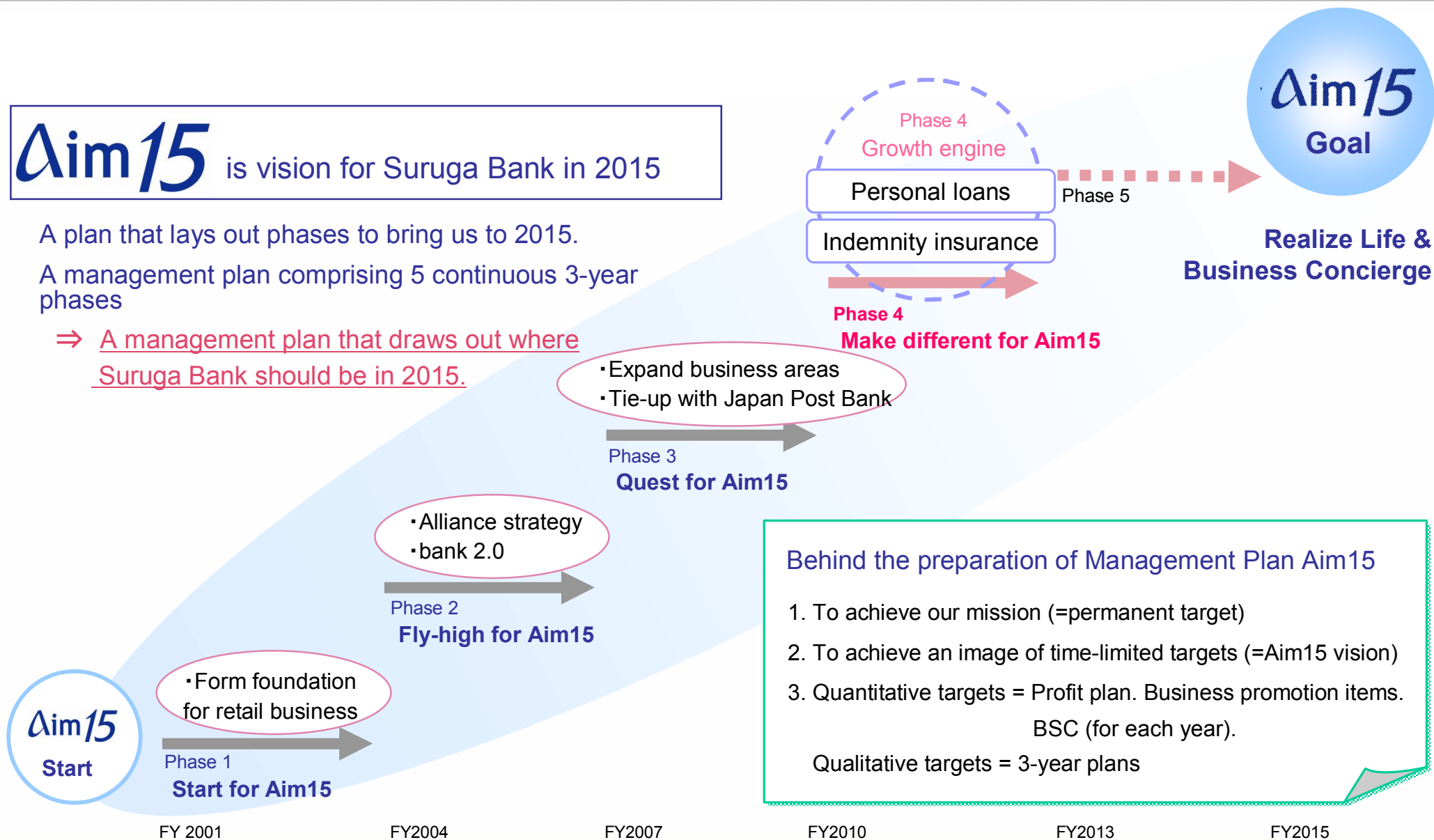
# The Aim15 Plan

**Aim15** is vision for Suruga Bank in 2015

A plan that lays out phases to bring us to 2015.

A management plan comprising 5 continuous 3-year phases

⇒ A management plan that draws out where Suruga Bank should be in 2015.

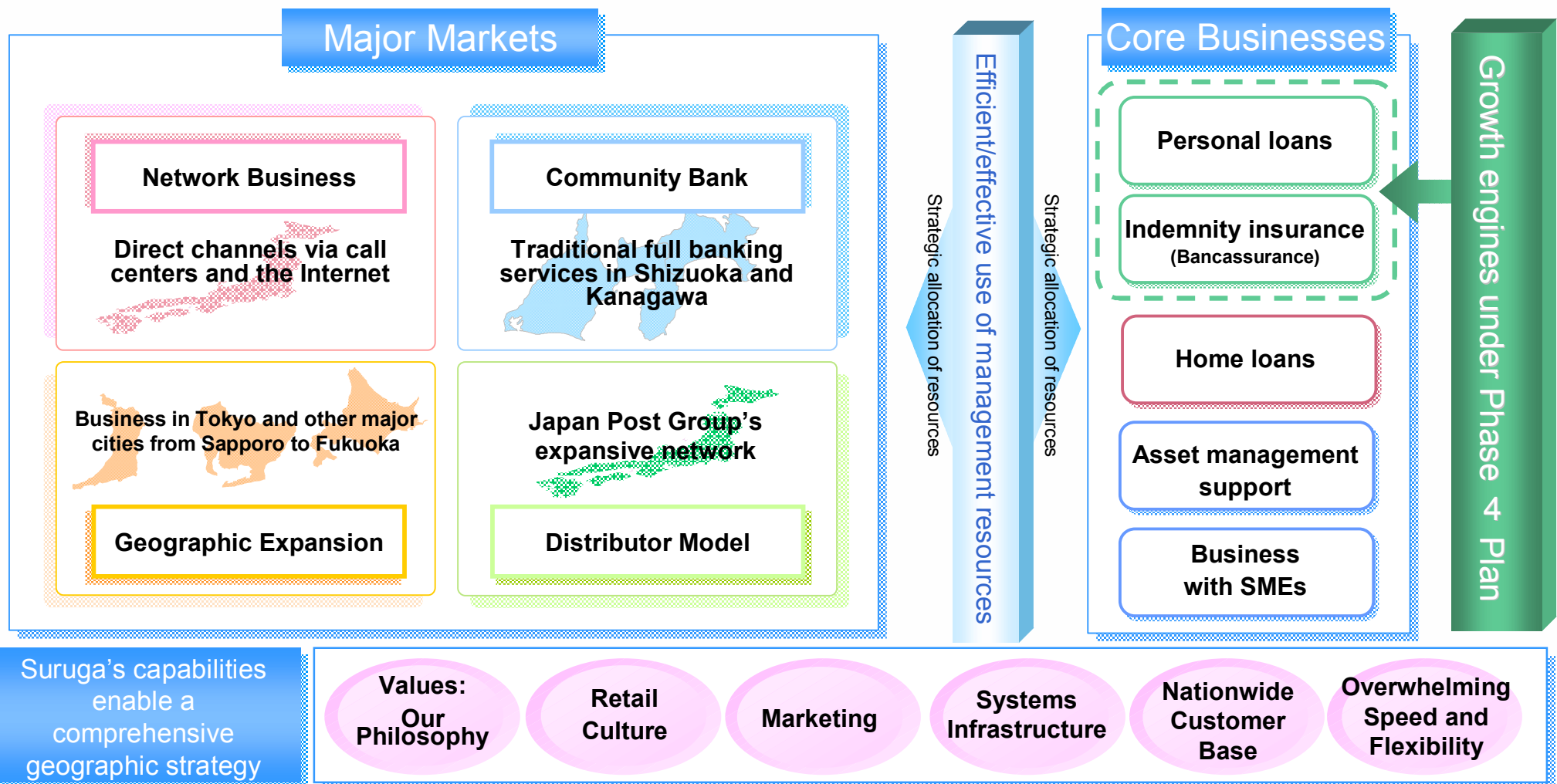


## Behind the preparation of Management Plan Aim15

1. To achieve our mission (=permanent target)
2. To achieve an image of time-limited targets (=Aim15 vision)
3. Quantitative targets = Profit plan. Business promotion items. BSC (for each year).  
Qualitative targets = 3-year plans

# Phase 4 Management Plan Grand Design

Leverage market characteristics to create added value from the customer's perspective  
 Maximize utilization of know-how developed through Suruga's retail strategy



# Suruga's Home Loan Business Continues to Evolve

## Product Lineup Unique to Suruga Bank

### Fine-tuned customer segmentation

Risk analysis and customization model under customer micro-segmentation

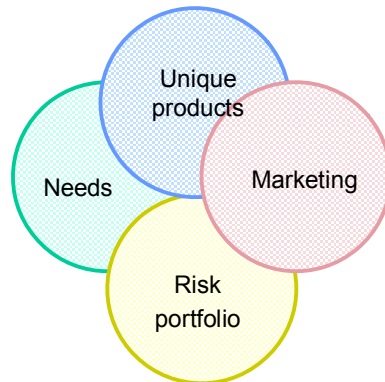
**Small Category**  
515 Groups

**Medium Category**  
59 Groups

**Large Category**  
12 Groups

### Product lineup based on the customer's perspective

Suruga's product development capabilities enable a comprehensive approach

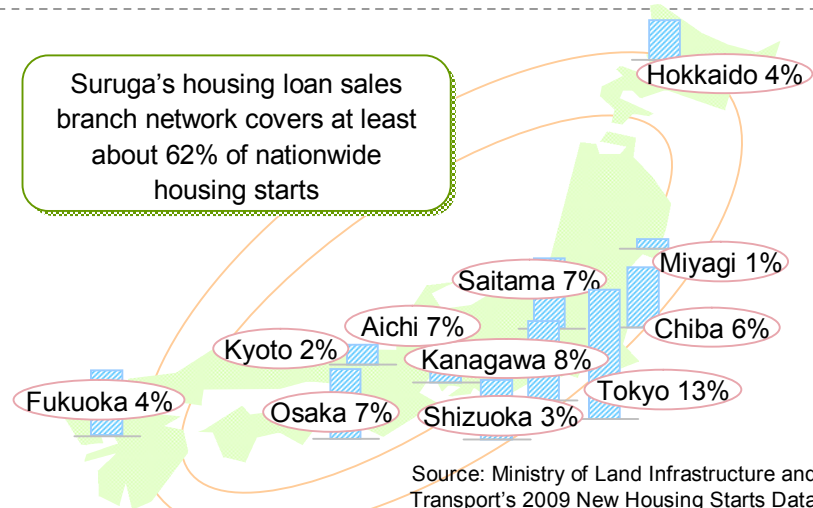


Realize highly profitable business by integrating product development, marketing and risk management.

## Expansion of Branch Network

### Expand into cities central to Japan's economy

Suruga's housing loan sales branch network covers at least about 62% of nationwide housing starts



Expanding Japan Post Bank branches that sell housing loan products

82 Japan Post Bank branches nationwide offer housing loans

50 branches

Existing network

+ 32 branches

Additional branches

= 82 branches

Suruga Bank will continue to evolve its housing loans moving forward

# Achievements and Future of Tie-up with Japan Post Bank

## Expanded Branches Offering Housing Loans (from May 2010)

Housing and other loans offered at 82 Japan Post Bank branches nationwide

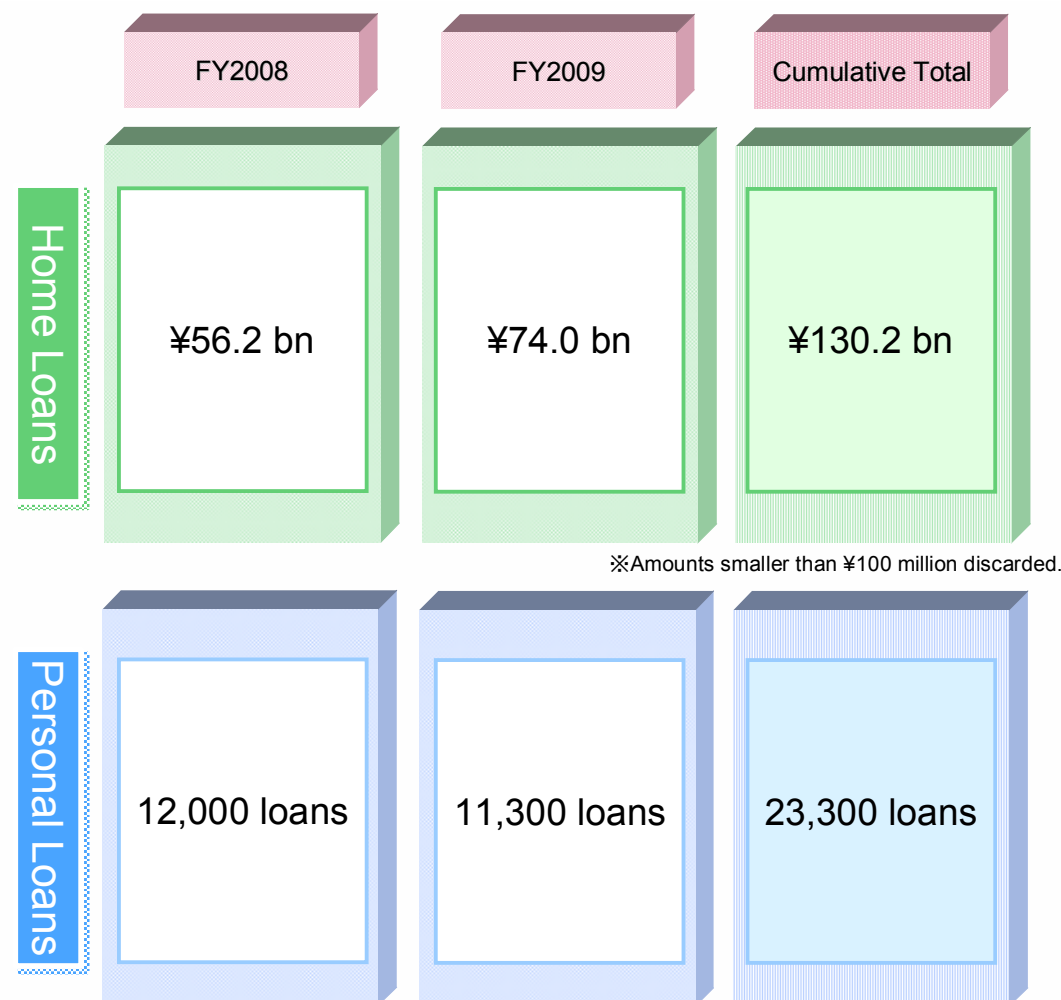
Initial 50 branches in 3 largest cities + 32 additional branches in other major cities = 82 branches nationwide

	Existing	Added	Total
<b>Total</b>	<b>50</b>	<b>32</b>	<b>82</b>

〈Breakout〉

<b>Hokkaido</b>	-	<b>1</b>	<b>1</b>
<b>Tohoku</b>	-	<b>1</b>	<b>1</b>
<b>Kanto</b>	<b>31</b>	<b>13</b>	<b>44</b>
<b>Chubu</b>	<b>4</b>	<b>4</b>	<b>8</b>
<b>Kinki</b>	<b>15</b>	<b>2</b>	<b>17</b>
<b>Chugoku</b>	-	<b>5</b>	<b>5</b>
<b>Shikoku</b>	-	<b>2</b>	<b>2</b>
<b>Kyushu</b>	-	<b>4</b>	<b>4</b>

## Results since May 2008



※Amounts smaller than ¥100 million discarded.

※FY2008 numbers are results starting May 12, 2008

※Amounts smaller than 100 discarded.

# Growth Engine① Personal Loan Strategy

Complete Enactment of Revised Money lending Law (Jun 18)

Total borrowing limits tied to income

$$\frac{\text{Loan balance}}{\text{Annual income}} \leq \frac{1}{3}$$

Bank borrowings excluded from loan cap

Significant opportunity for Suruga Bank amidst heightened expectations for banks to provide small loans

Situation at nonbanks

- × Lower interest rate ceiling
- × Higher funding costs



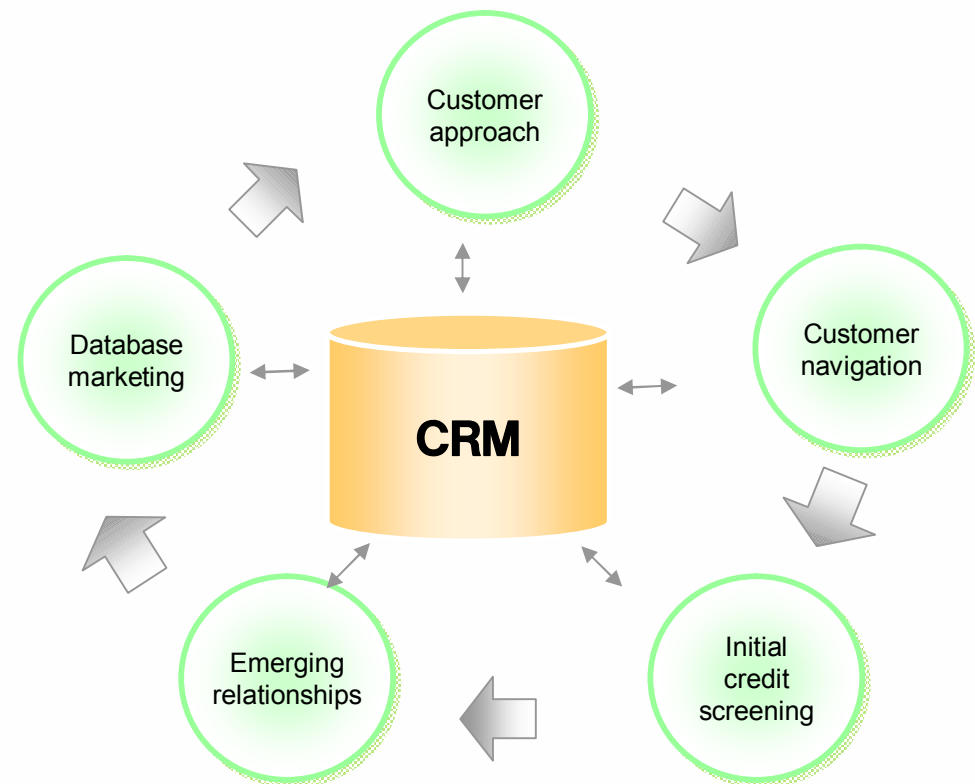
Can no longer survive on their traditional high-cost business model

Situation at ordinary banks

Opportunity for banks but few have track record and know-how in providing small-amount loans. So the majority of banks rely on guarantees from nonbanks

## Suruga's unique personal loan strategy rooted in CRM

Appropriately support sound finance literacy among customers leveraging our database accumulated through many years in the retail business coupled with our proprietary and sophisticated credit screening skills.

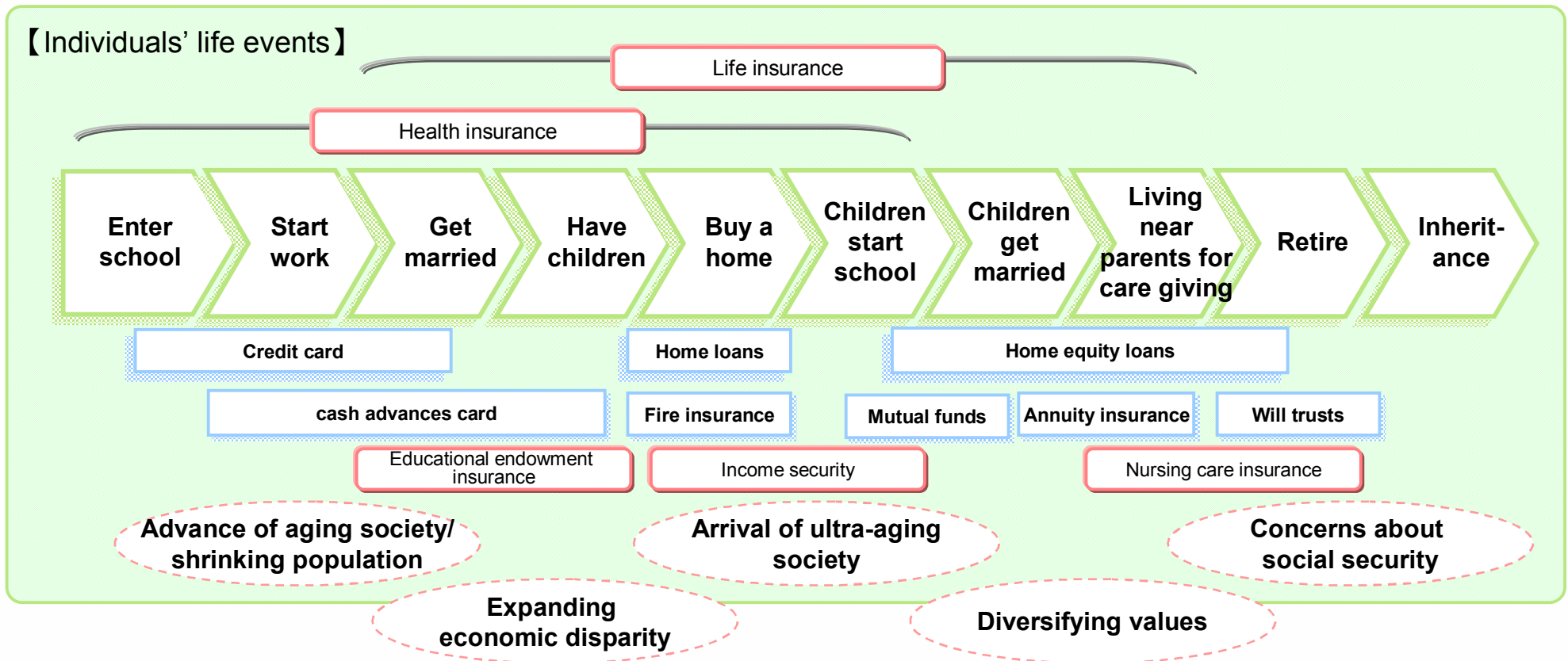




# Growth Engine② Indemnity Insurance Business Strategy

## Individuals' Life Events and Social Background

Prolonged downturn and matured socioeconomics make it important to build an independent life design to gain an economic sense of security



Provide sense of security throughout life as a Life & Business Concierge and help make our customers' dreams come true in a realistic time frame

# Progress of Suruga's Retail Strategy

## Step1 <1990s>

Building infrastructure

Shift to retail focus

### Information society

- Accumulated local customer database
- 2 CRMs
  - Customer Relationship Marketing
  - Credit Risk Management
- Promotion of unsecured loans

## Step2 <2000s> Step3 <Moving forward>

Deployment

Expansion of customer base

### Knowledge society

- Unsecured to secured loans
- Expanded business into Tokyo and broader geographies
- Business alliance with Japan Post Bank
- Accumulated customer data on nationwide level
- Fine-tuned customer segmentation
  - Enhanced automated credit screening
  - Abundant product lineup

Bearing fruit

Evolution toward Life & Business Concierge

### Value creation society

- Create new customer value
- Personal loan and indemnity insurance business on 3 dimensions
  - customer perspective
  - product perspective
  - geographical area

SURUGA Money Clinic

New Banking

Life & Business Concierge

~FY2015

Financial Concierge

~FY2010

Concierge Bank

FY2001~2004

Bank

# Strategy Coordinate Axis

## 3 Expansions (G/D/M)

Balance between advantages of local market base and nationwide expansion

### On land

Shizuoka  
Kanagawa

Tokyo

Other  
geographies

### Online

ANA

OCN  
スルガ銀行 OCN支店

So-net

DREAM DIRECT

ドコモプレミアクラブ  
必携バンク

DIRECT ONE

### Distributor model

Japan Post Group's expansive network  
82 branches in major cities offer loan products

**G**EOGRAPHY  
Geographic expansion

Abundance of loans and deposits

- 34 types of Home loans
- 47 types of personal loans
- 18 types of indemnity insurance products
- 5 types of investment-type or fixed insurance products
- 74 types of investment trusts

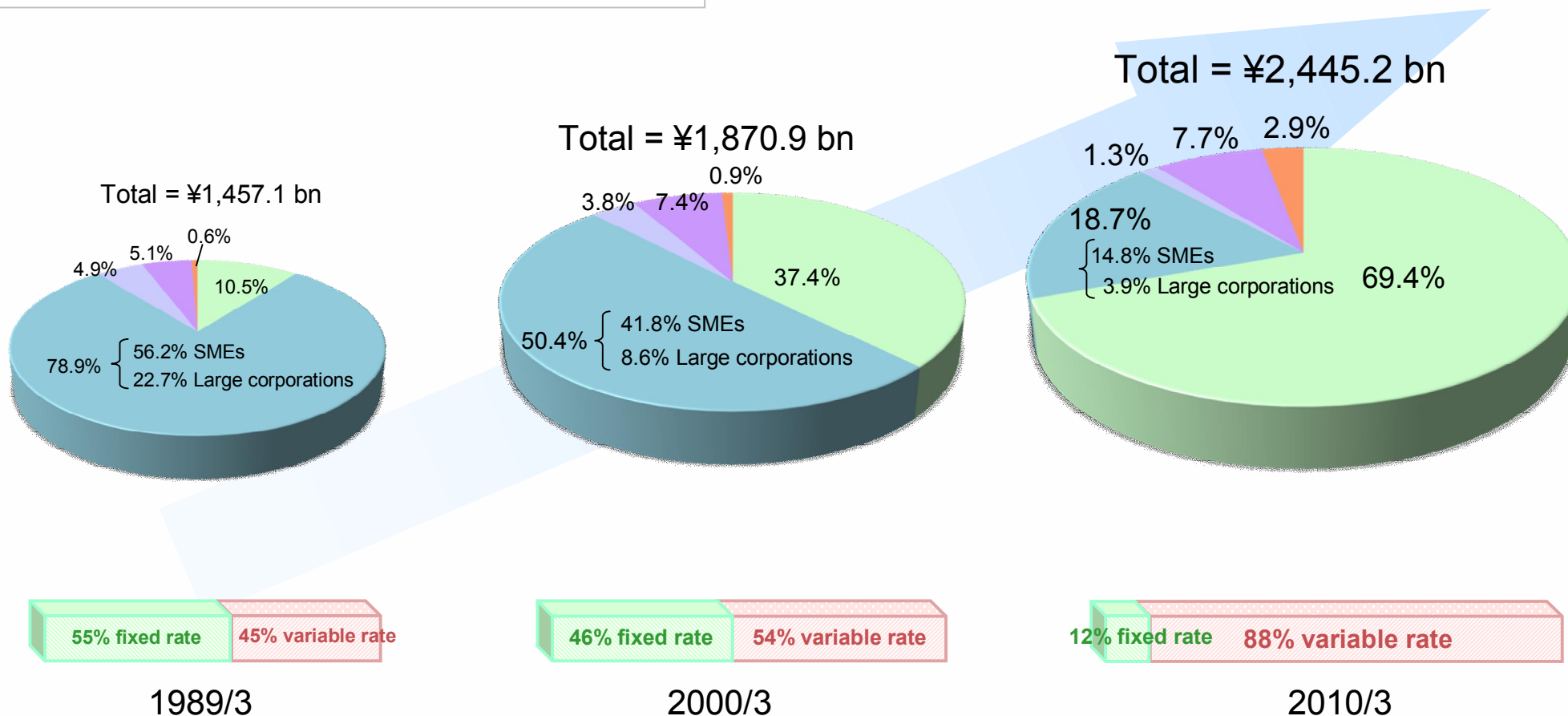
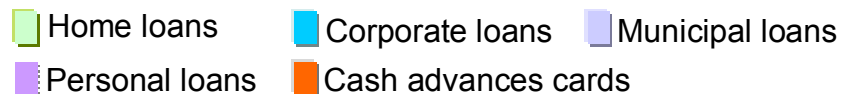
**D**EPTH  
Product expansion

Focus on Personal and Small Business

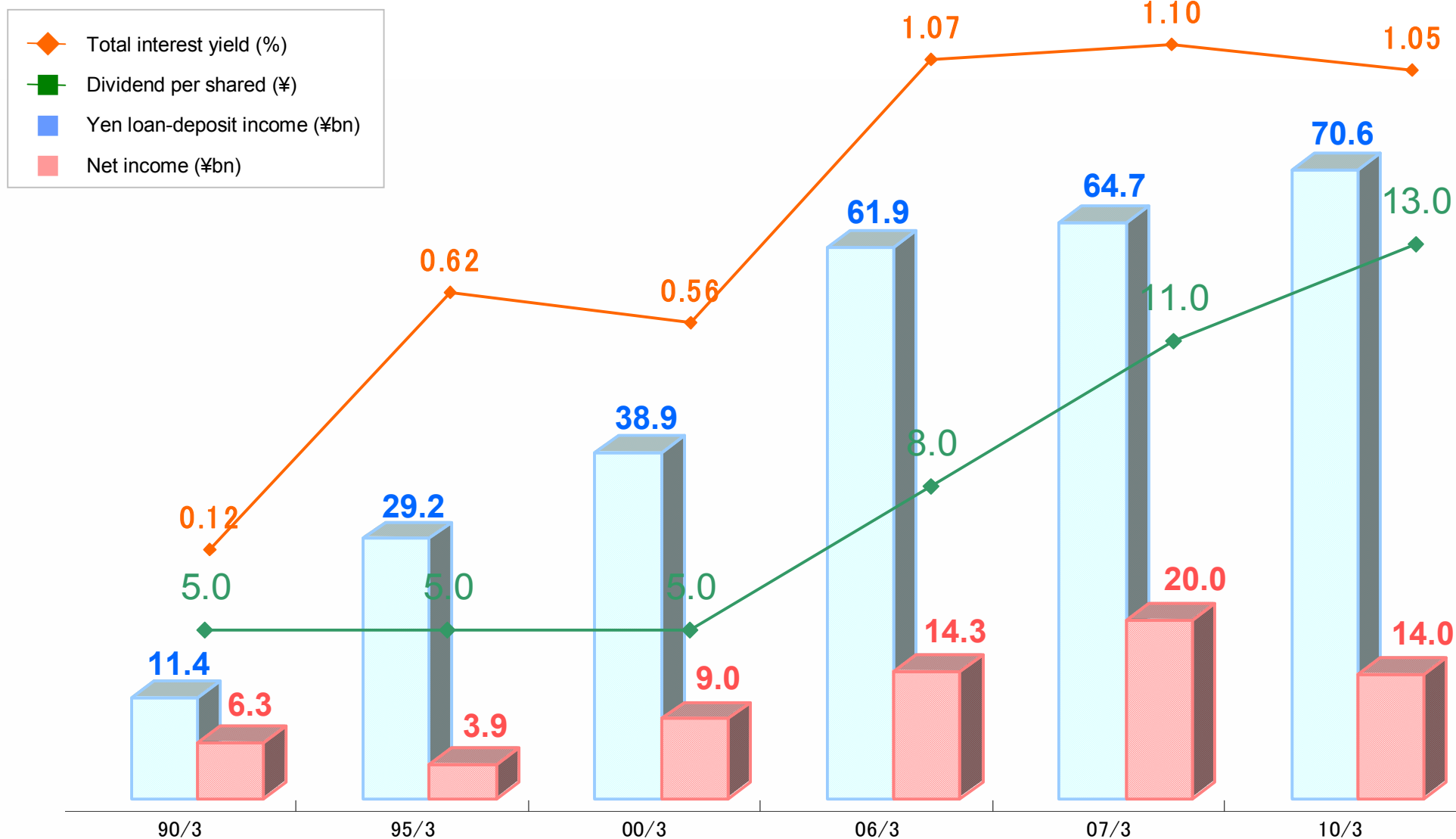
**M**ETHOD  
IT expansion

- 3 CRMs
- Internet banking. Mobile banking
- Nationwide ATM network

# Transition of Loan Portfolio

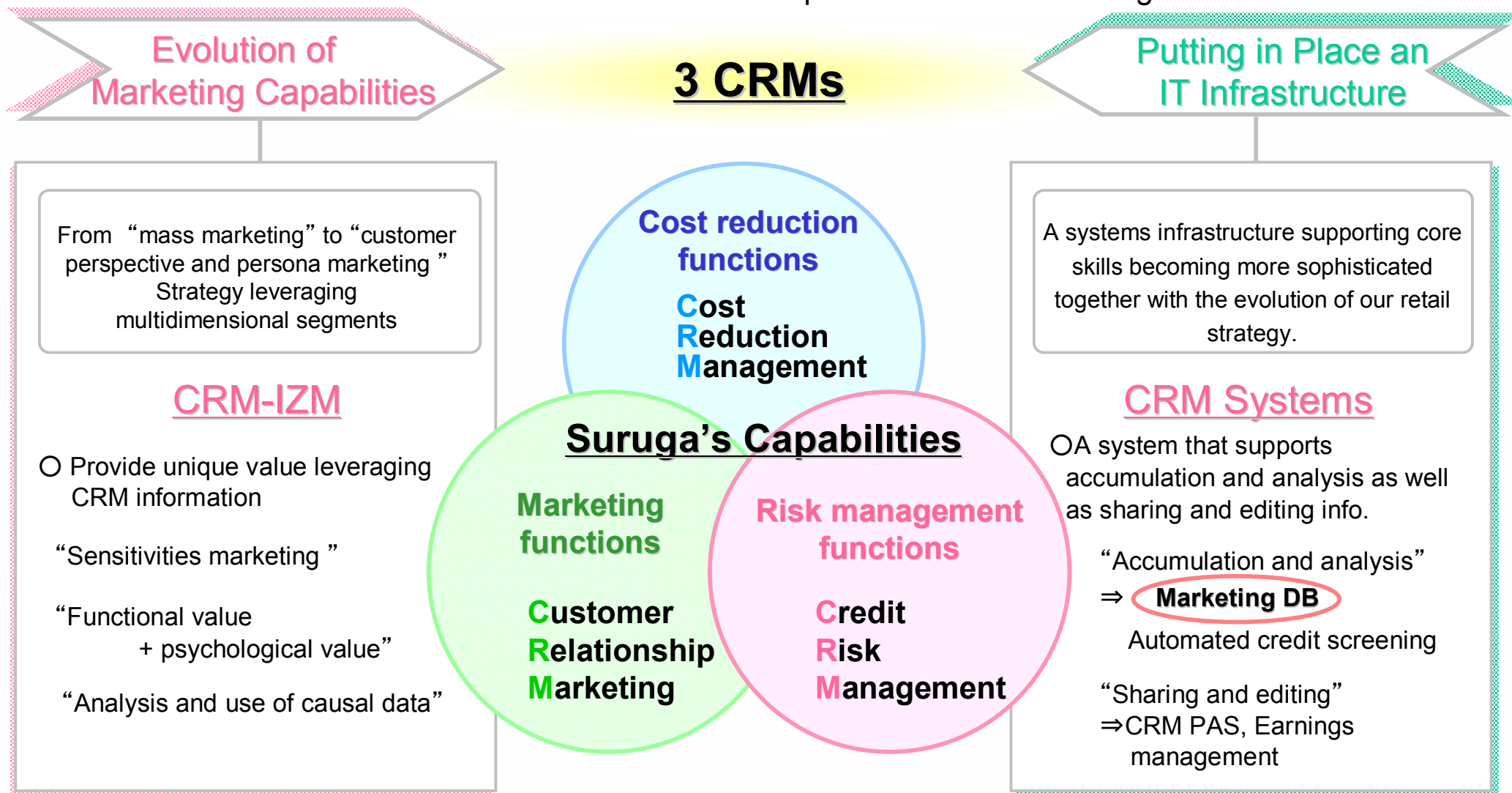


# Yen Loan-Deposit Income and Net Income



# Suruga's Capabilities ① (Infrastructure)

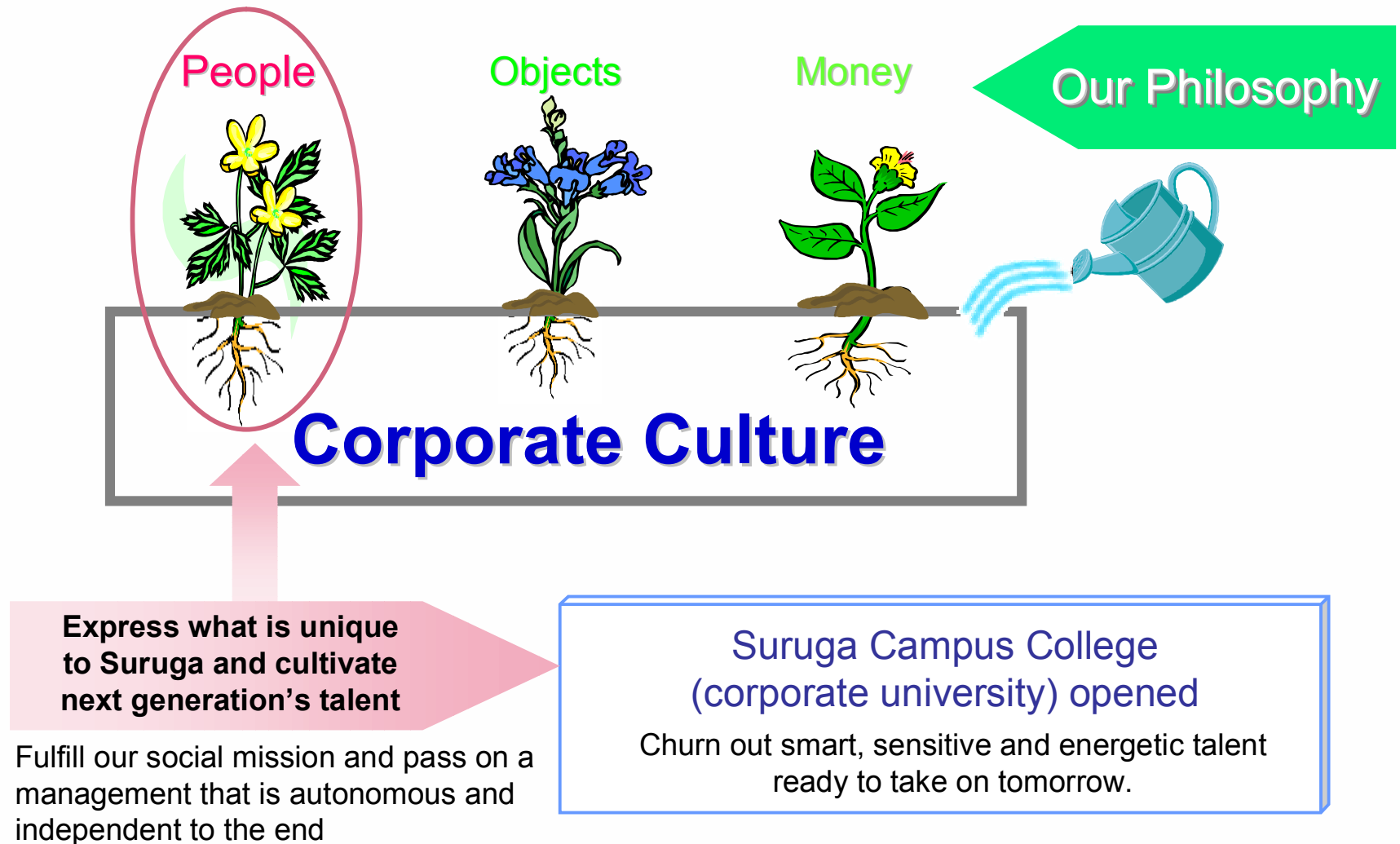
Further evolve a retail strategy that creates markets by building a system that applies the skills and know-how we developed in unsecured lending.



# Suruga's Capabilities ② (Organizational)

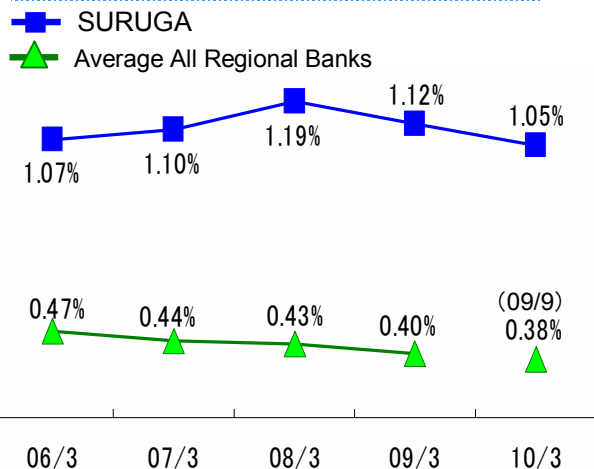
Corporate culture is a denominator that affects management resources

Maintaining a quality corporate culture supports growth

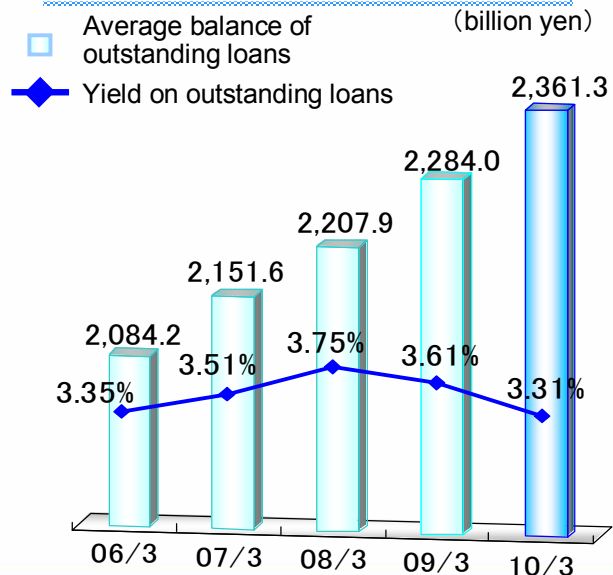


# Yield / Margins (Overall)

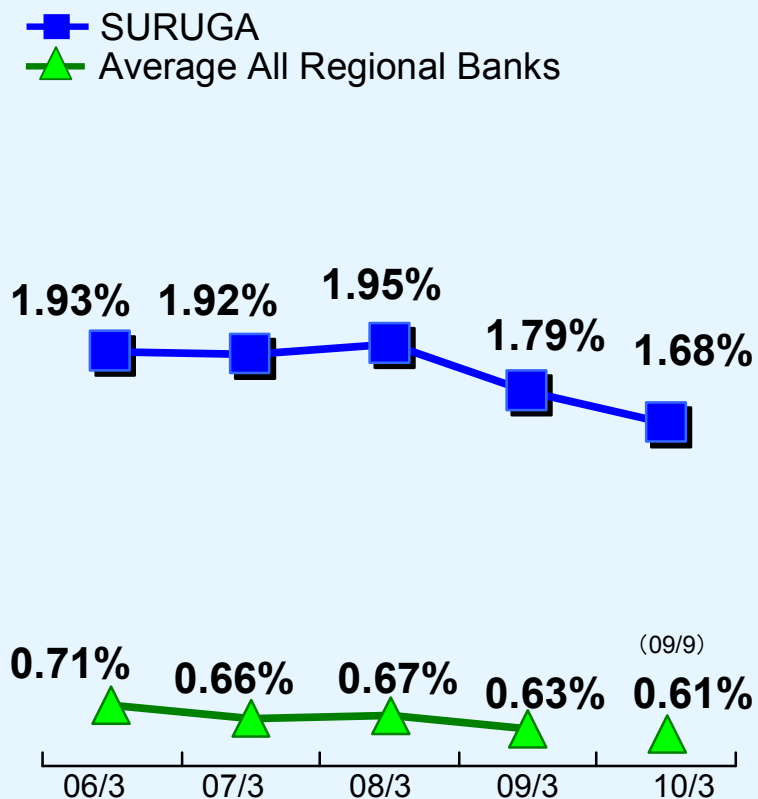
## Net interest margin



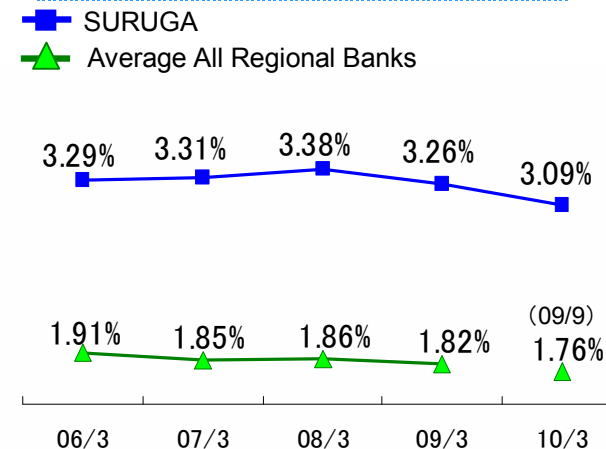
## Average balance and yield of outstanding loans



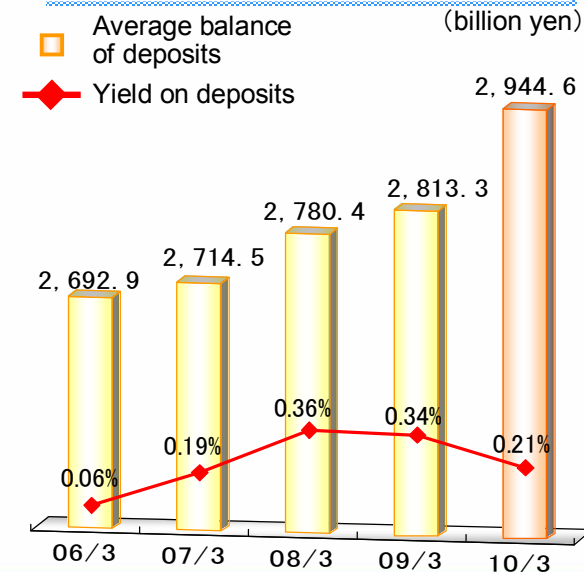
## Loan-deposit margin (after deduction from expense ratio)



## Loan-deposit margin (Yield on outstanding loans - Yield on deposits)



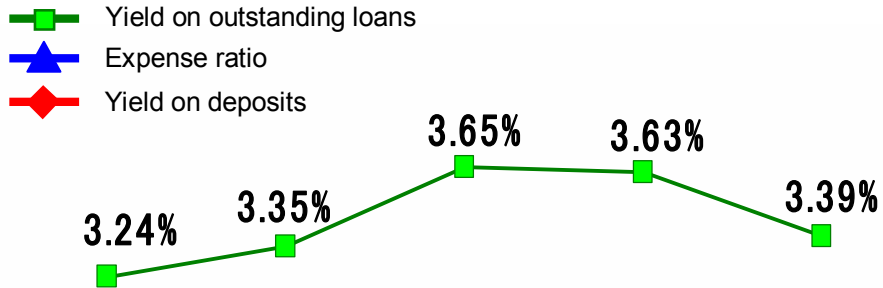
## Average balance and yield on deposits



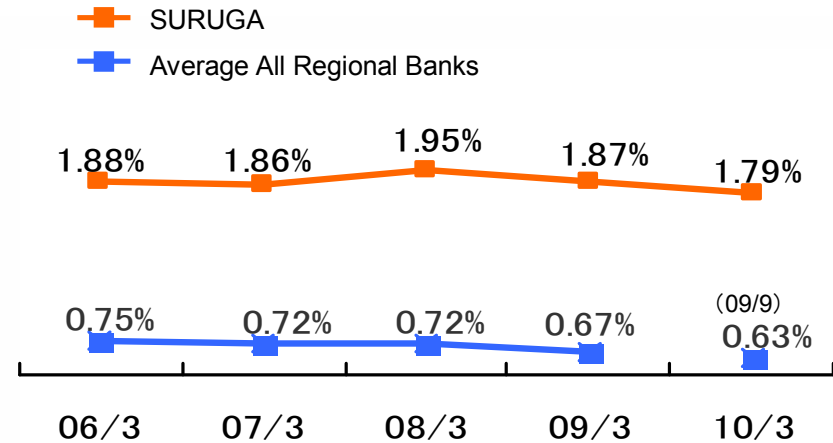


# Yield / Margins (Domestic)

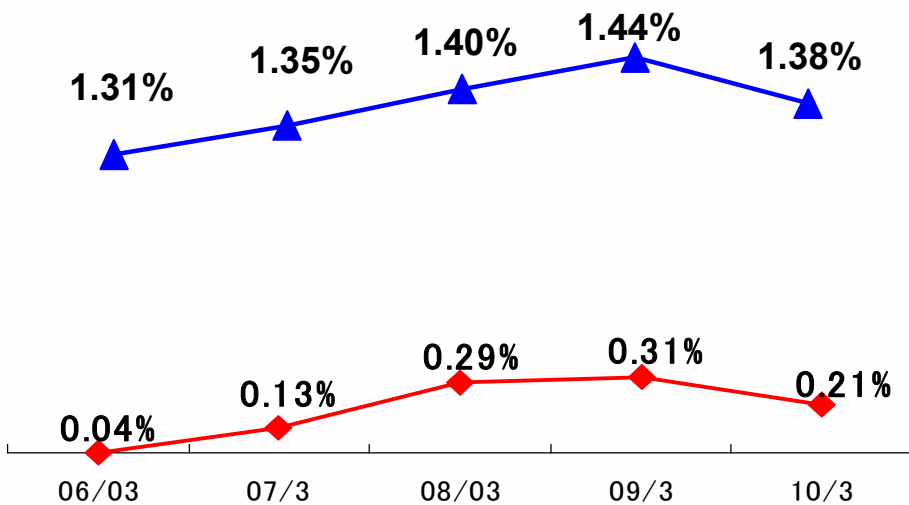
Yield-Expense ratio



Loan-deposit margin  
(after deduction from expense ratio)

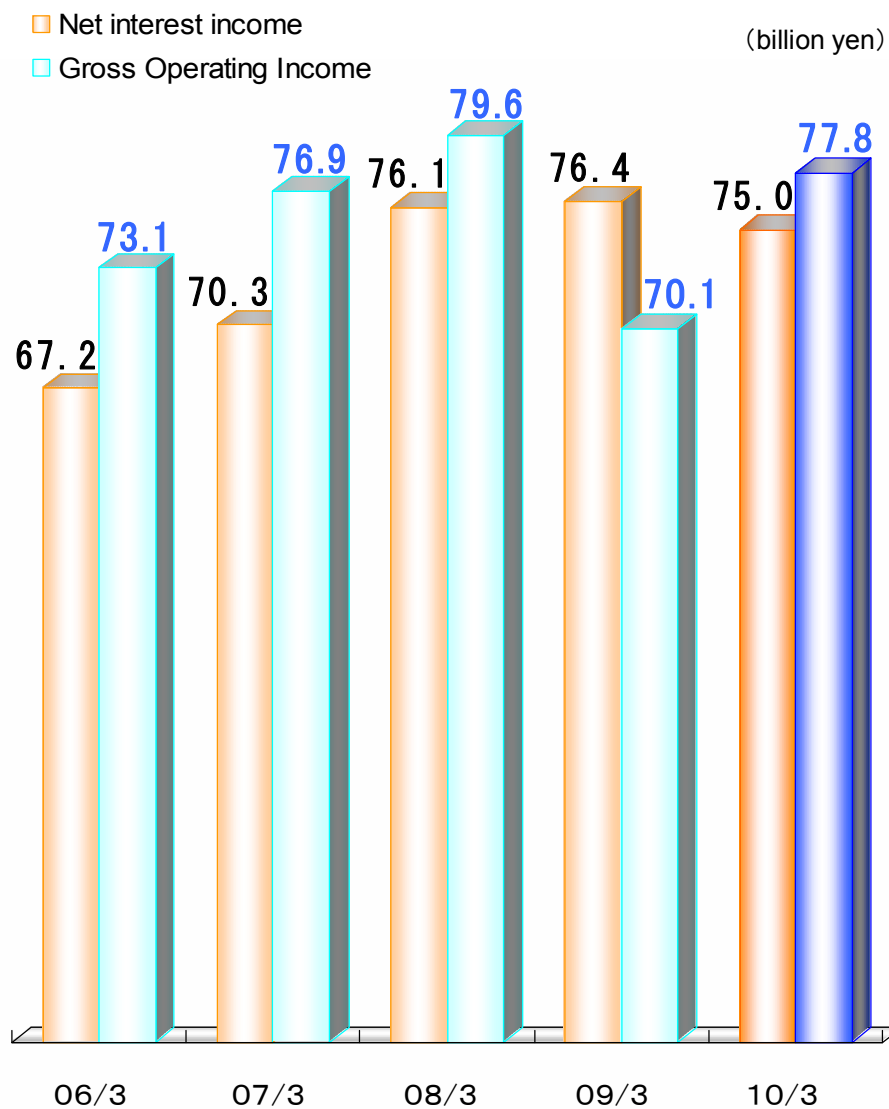


Loan-deposit margin  
(Yield on outstanding loans - Yield on deposits)

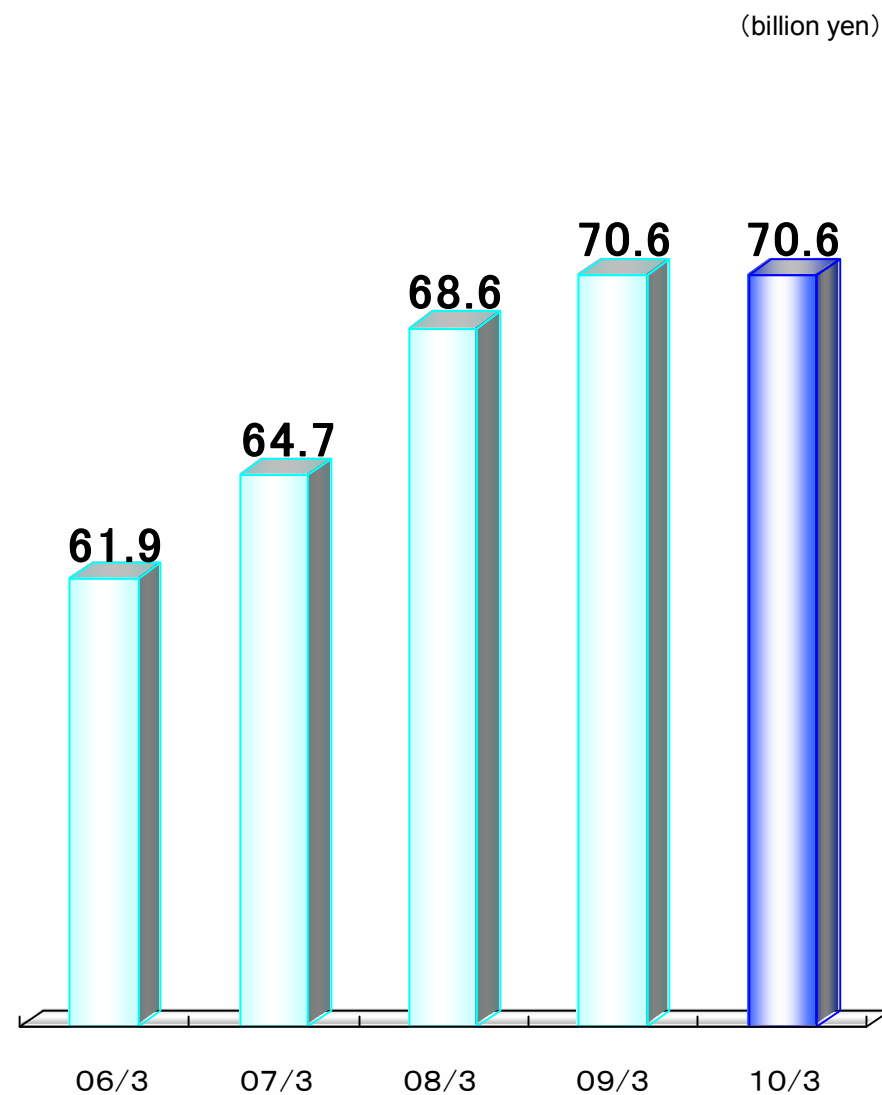


# Gross Operating and Yen loan-deposit income

Gross Operating Income



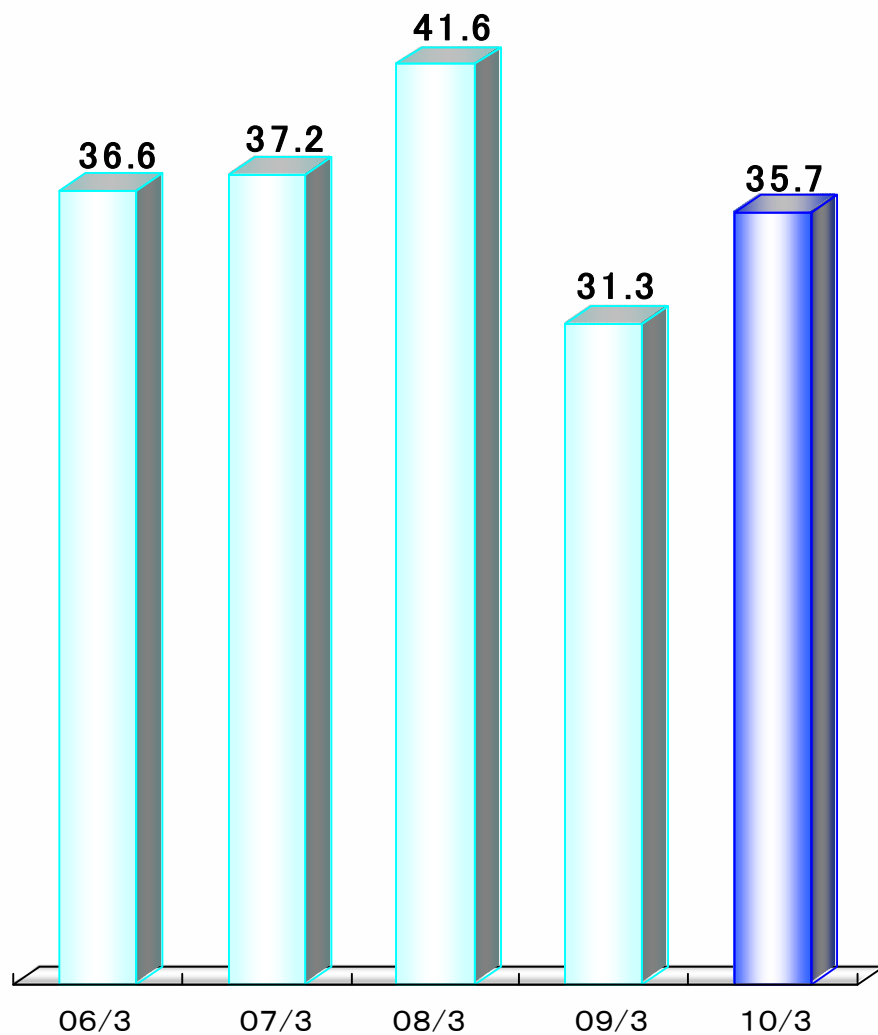
Yen loan-deposit income



# Net Operating and Net Income

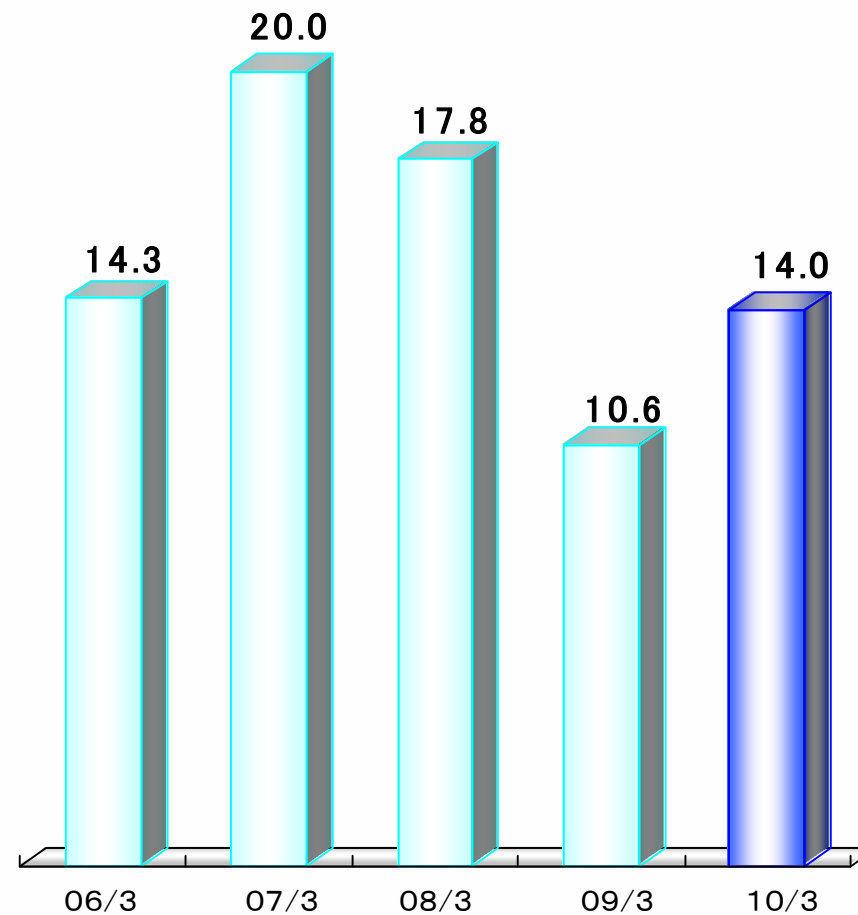
Net operating income

(billion yen)



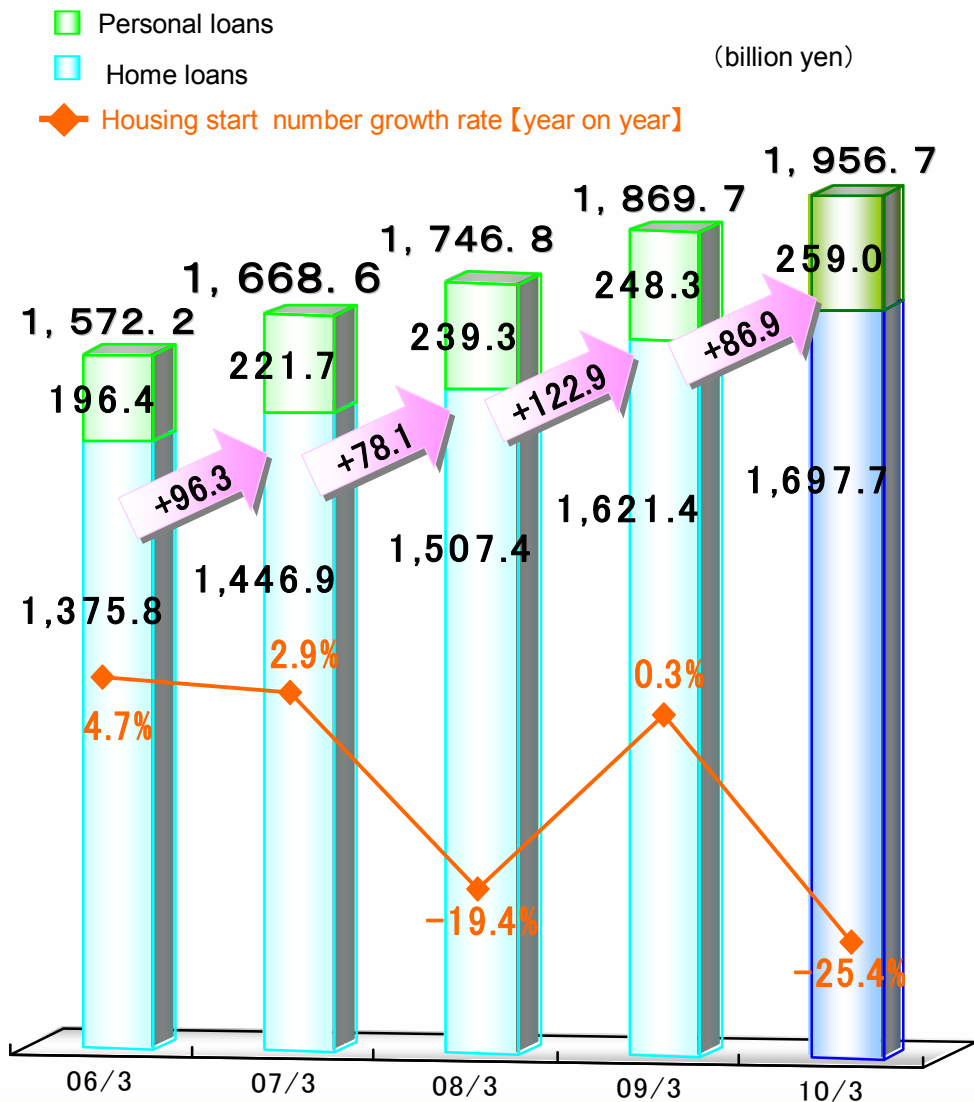
Net income

(billion yen)

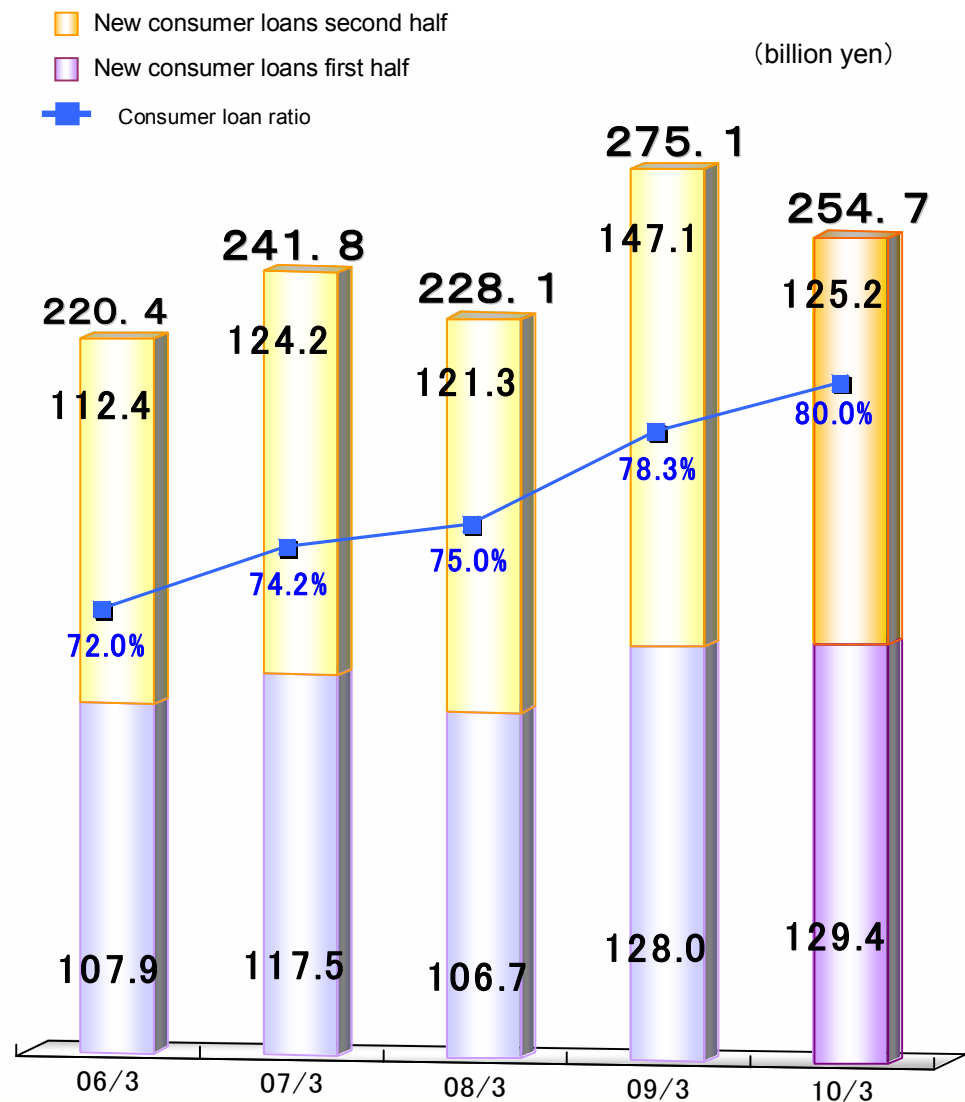


# Strong Focus on Retail

## Consumer loan balance and ratio

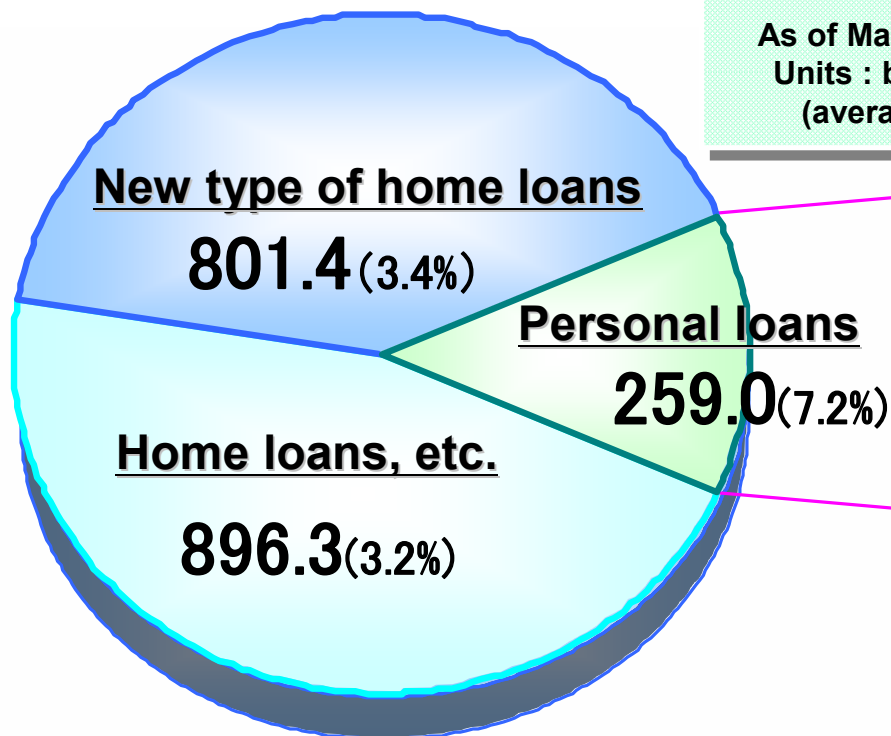


## New loan contracts

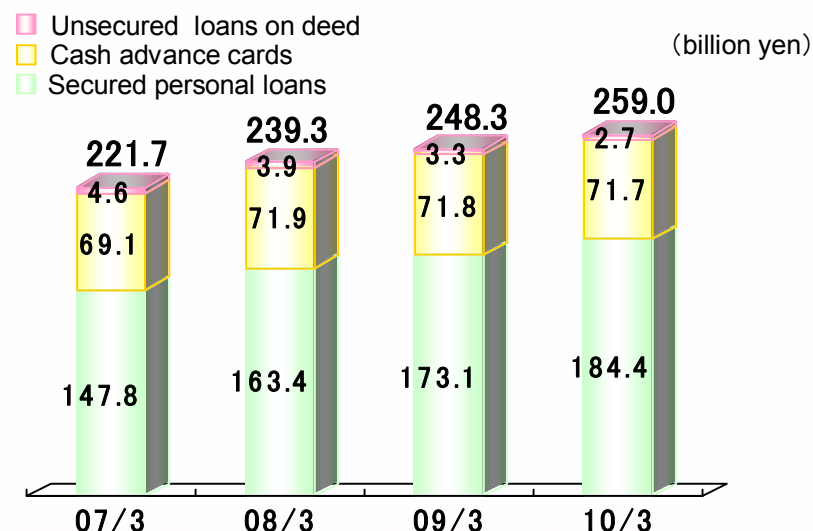
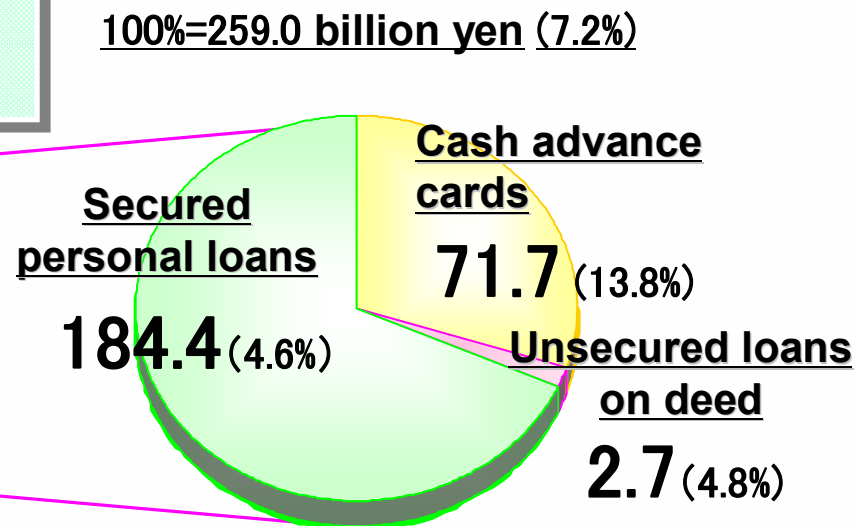


# Focus on More Profitable Products

## Consumer loans



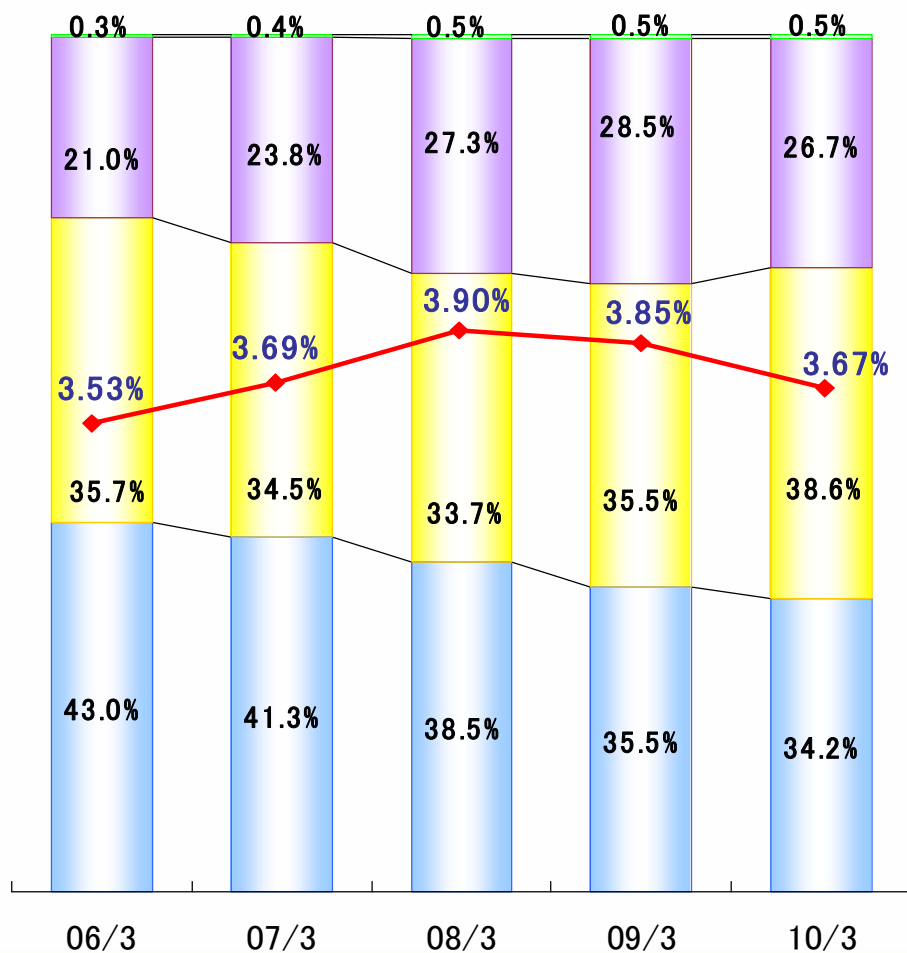
## Personal loans



# Home Loans

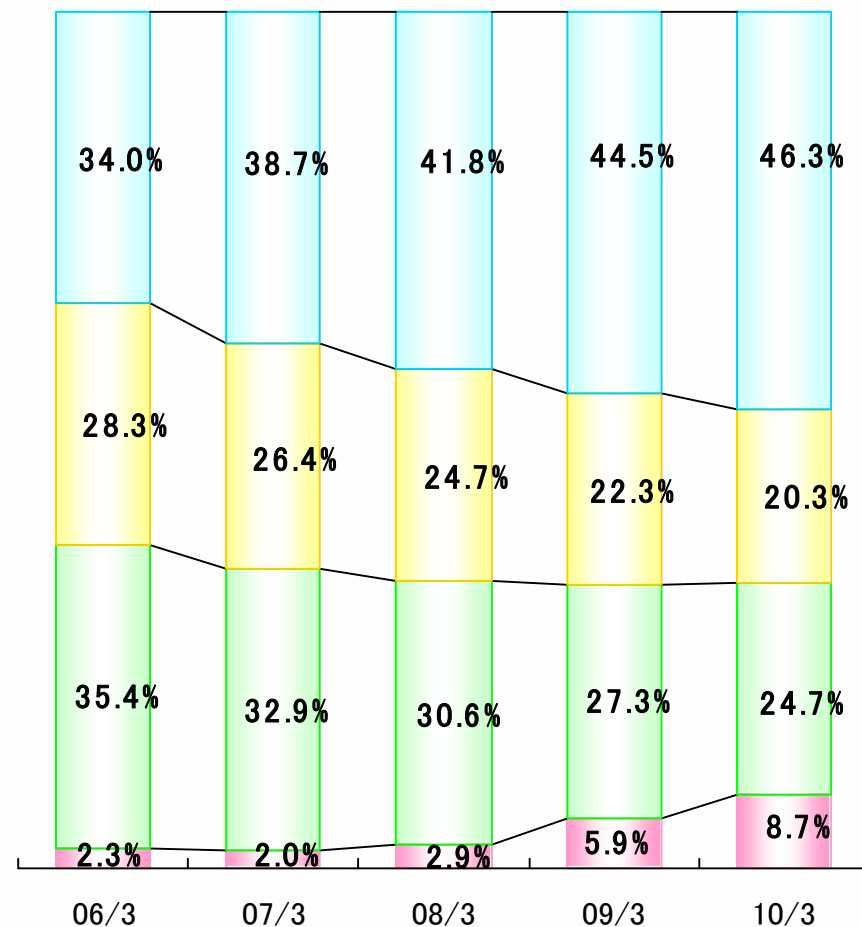
Distribution of practical rates for home loans (cumulative)

■ under3%   
 ■ 3%level   
 ■ 4%level   
 ■ 5% or higher  
◆ home loans average placement rate (%)



Mortgage loan balance by geographical area

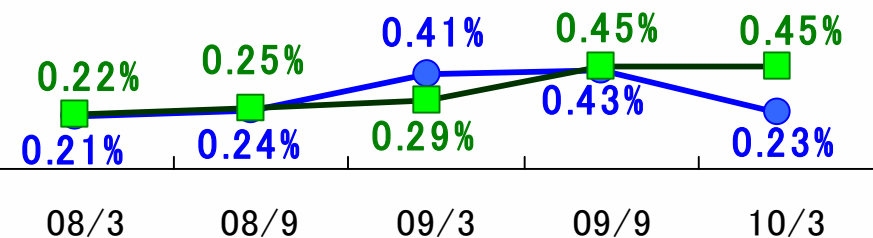
■ Greater Tokyo area   
 ■ Kanagawa  
■ Shizuoka   
 ■ Other



# Delinquency and Loss Rates on Consumer Loans

## Home loans

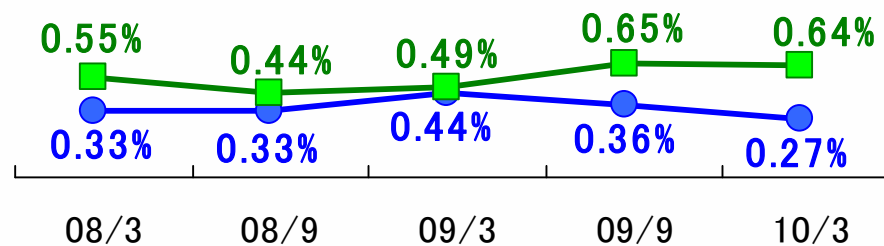
▲ Yield   ● Delinquency rate   ■ Loss rate



Delinquency rate = amount 3 months or more overdue / average amount of loan

## Personal loans

▲ Yield   ● Delinquency rate   ■ Loss rate



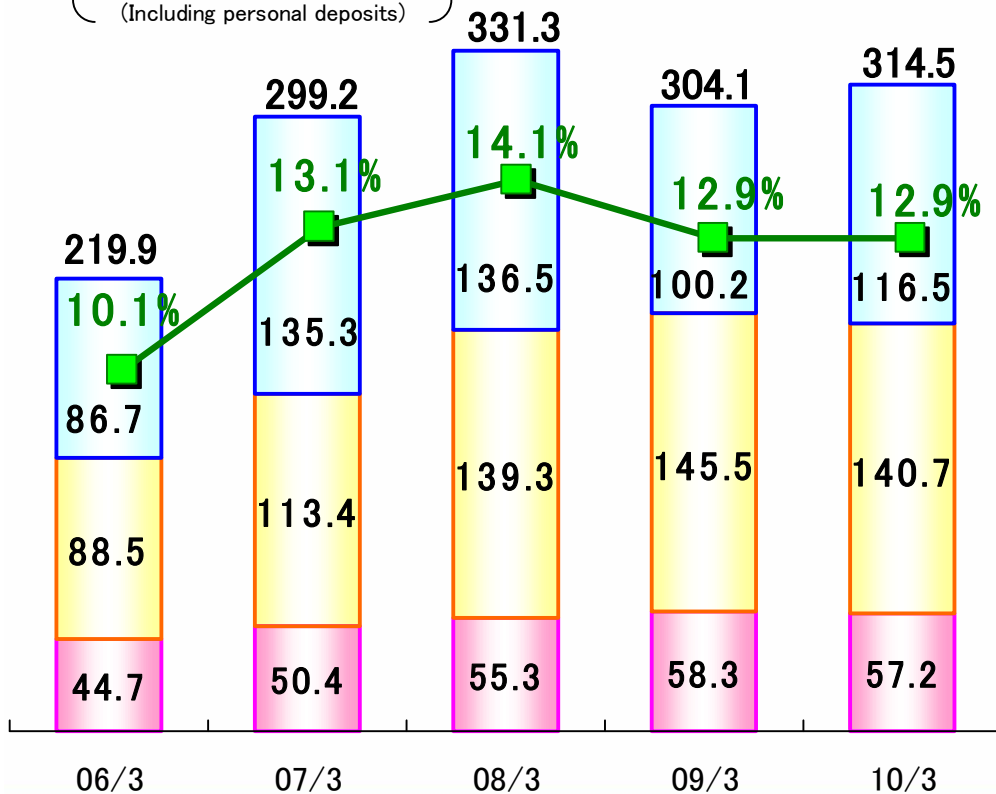
Loss rate = default ratio × (1 - recovery rate)

# Fees income

## Balance breakdown of investment products

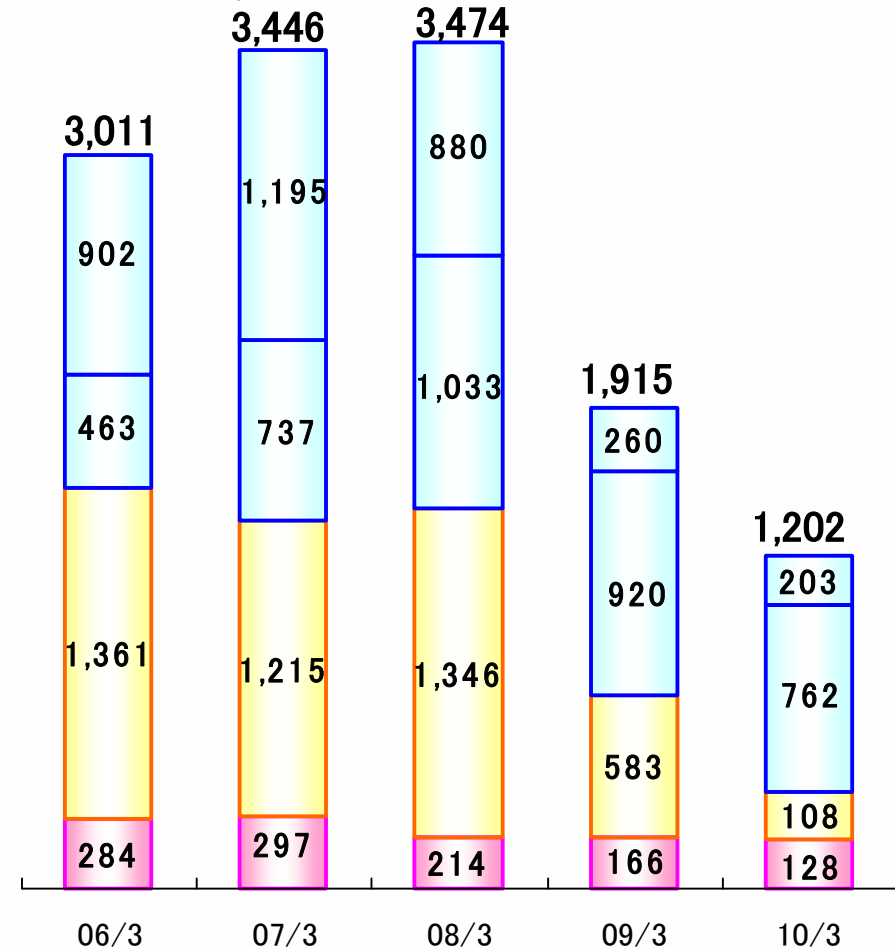
- Mutual funds
  - Insurance
  - Other (JGBs in custody & Foreign currency deposits)
  - Ratio of investment products
- (billion yen)

$$\frac{\text{Balance of investment products}}{\text{Balance of personal assets under management (Including personal deposits)}}$$



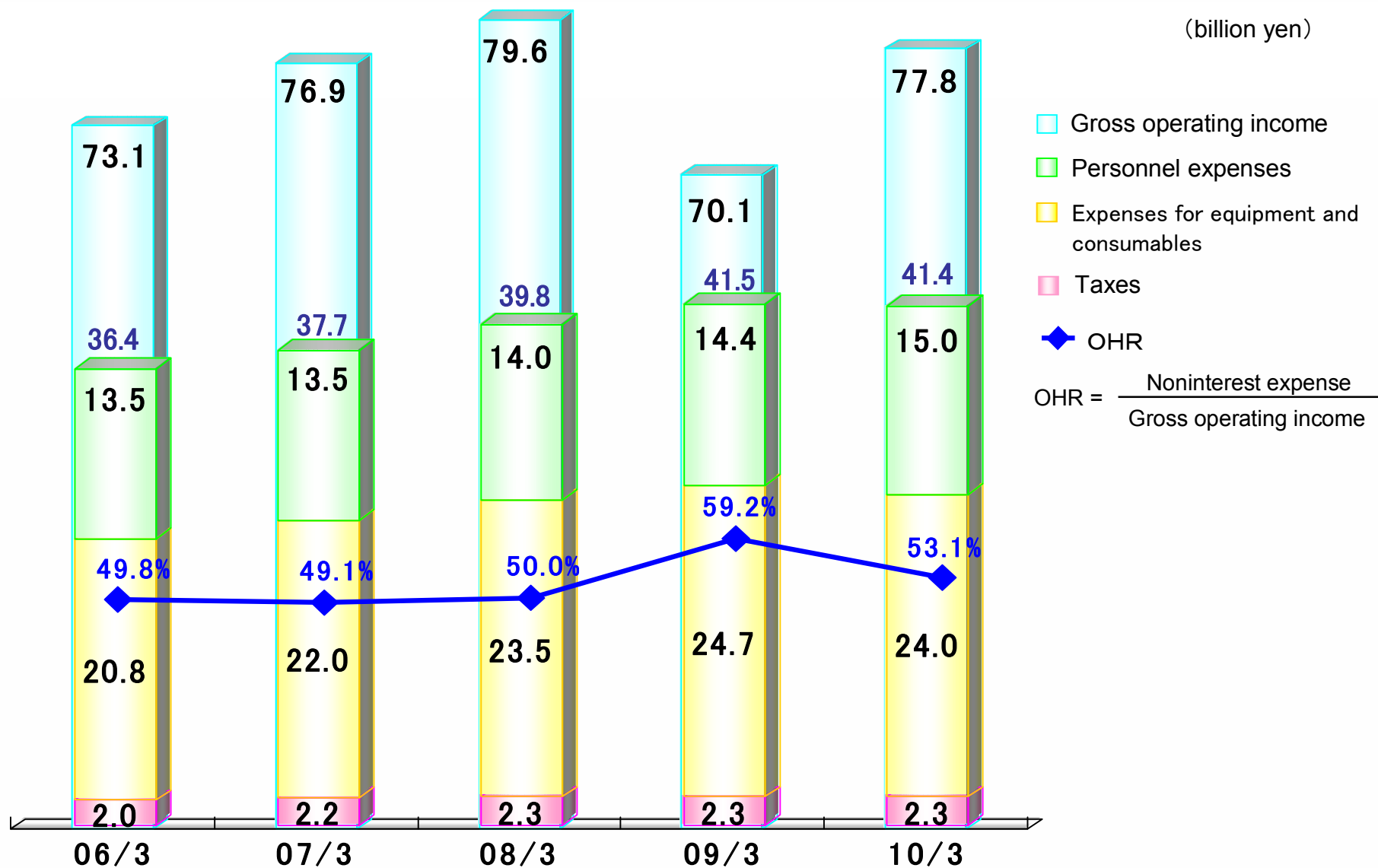
## Commission from mutual funds and insurance products

- Mutual fund sales commissions
  - Mutual fund fees
  - Other Insurance (Fire insurance & Single premium life insurance & protection insurance)
  - Personal pension plans
- (million yen)





# Expenses and OHR



# Breakdown of Problem Assets based on the Financial Rehabilitation Law

(billion yen)

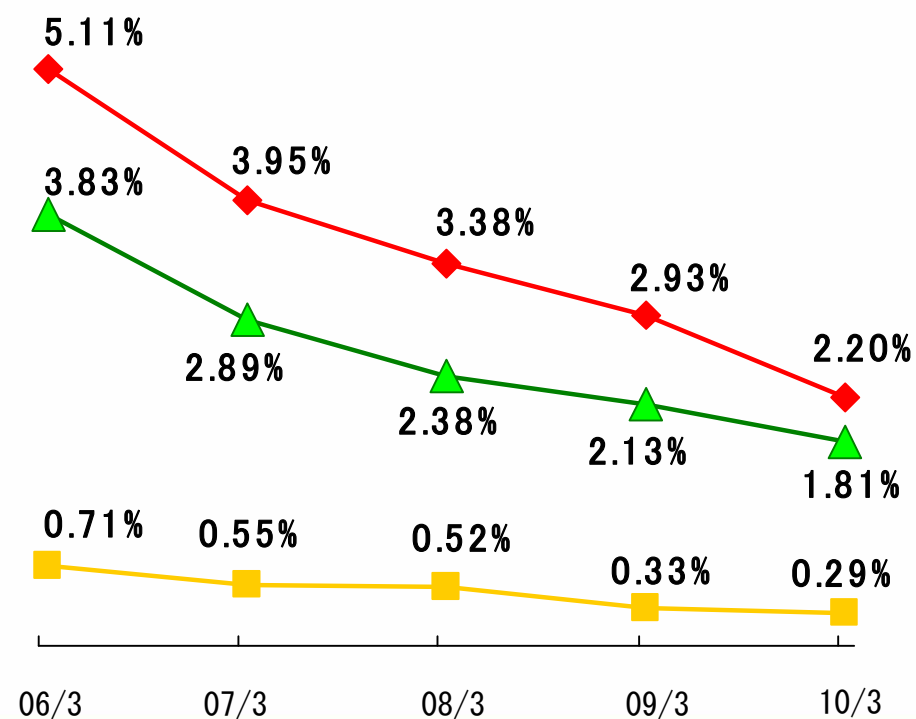
Debtor classification	Mar. 10 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees * NOTE	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio												
Claims against bankrupt and substantially bankrupt obligors	14.6	0.59%	Consumer	10.9	0.55%	6.5	5.4	1.0	59.68%	4.4	100%	100%												
			Corporate	3.6	0.73%	3.2	1.8	1.4	88.80%	0.4	100%	100%												
Claims with collection risk	19.0	0.77%	Consumer	3.1	0.16%	1.5	0.8	0.6	48.11%	1.1	72.03%	85.49%												
			Corporate	15.9	3.19%	13.2	6.4	6.7	83.39%	2.0	79.28%	96.56%												
Claims for special attention	20.6	0.83%	Consumer	8.6	0.44%	6.6	6.1	0.4	76.74%	0.7	39.27%	85.87%												
			Corporate	11.9	2.39%	6.1	6.0	0.0	51.26%	0.7	13.04%	57.62%												
Sub-total	54.3	2.20%	Consumer	22.7	1.15%	14.7	12.5	2.1	64.57%	6.3	79.17%	92.62%												
			Corporate	31.5	6.32%	22.6	14.4	8.2	71.85%	3.2	36.79%	82.21%												
Normal assets	2,409.4	97.79%	Consumer	1,942.6	98.84%	<table border="1"> <tr> <td colspan="11" style="text-align: right;"><b>Total coverage ratio</b></td> <td><b>86.57%</b></td> </tr> </table>							<b>Total coverage ratio</b>											<b>86.57%</b>
			<b>Total coverage ratio</b>											<b>86.57%</b>										
Corporate	466.7	93.67%																						
Total	2,463.7	100%	Consumer	1,965.4	100%	<table border="1"> <tr> <td>Coverage ratio</td> <td>: Covered by collateral and guarantees</td> </tr> <tr> <td>Reserved ratio</td> <td>: Reserved for unsecured portion</td> </tr> <tr> <td>Total coverage ratio</td> <td>: Covered by collateral, guarantees and reserves</td> </tr> </table>							Coverage ratio	: Covered by collateral and guarantees	Reserved ratio	: Reserved for unsecured portion	Total coverage ratio	: Covered by collateral, guarantees and reserves						
			Coverage ratio	: Covered by collateral and guarantees																				
Reserved ratio	: Reserved for unsecured portion																							
Total coverage ratio	: Covered by collateral, guarantees and reserves																							
Corporate	498.3	100%																						

\* NOTE: The guarantee is not provided by us. We do not extend the guarantee by paying fee to external entity, but the third party, who serves as the joint guarantor to the borrower, extends the guarantee.

# Bad-loan ratio / Credit costs status

## Bad-loan ratio

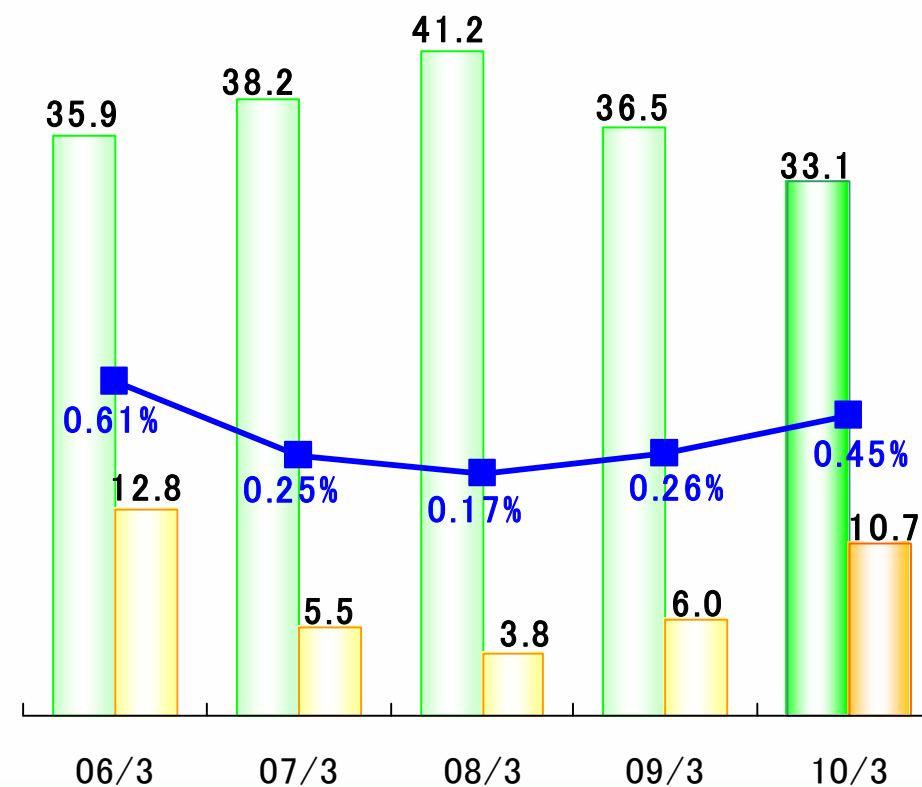
- ◆ Ratio of disclosed assets
- ▲ Ratio of disclosed assets after deduction from reserves
- Ratio of disclosed assets after deduction from reserves, collateral and guarantees



## Credit costs status

(billion yen)

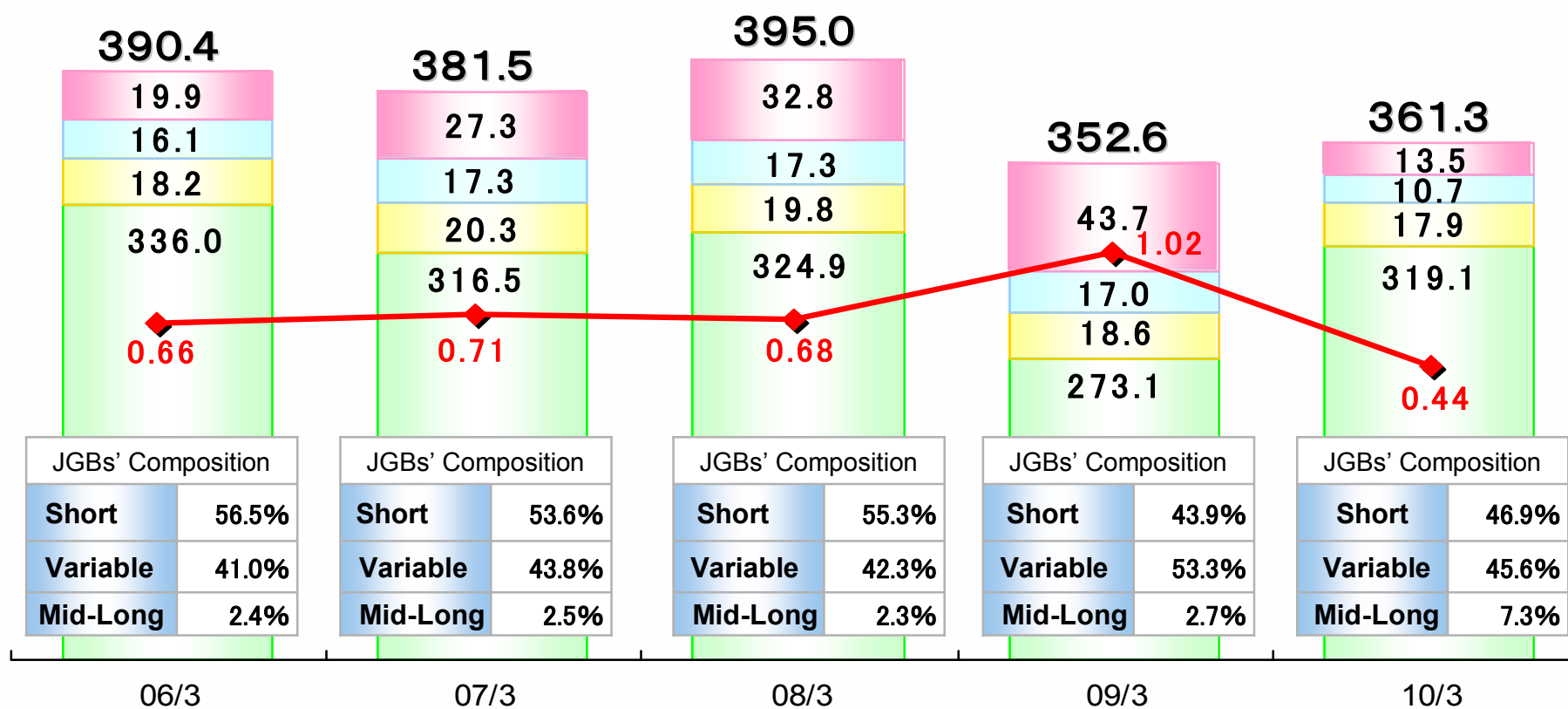
- Core net operating income
- Actual credit costs (credit costs-collection of claims written off)
- Actual credit costs ratio (actual credit costs/loan average balance)



# Bond Portfolio

■ JGBs   
 ■ Foreign bonds   
 ■ Corporate bonds   
 ■ Regional government bonds   
 (billion yen)

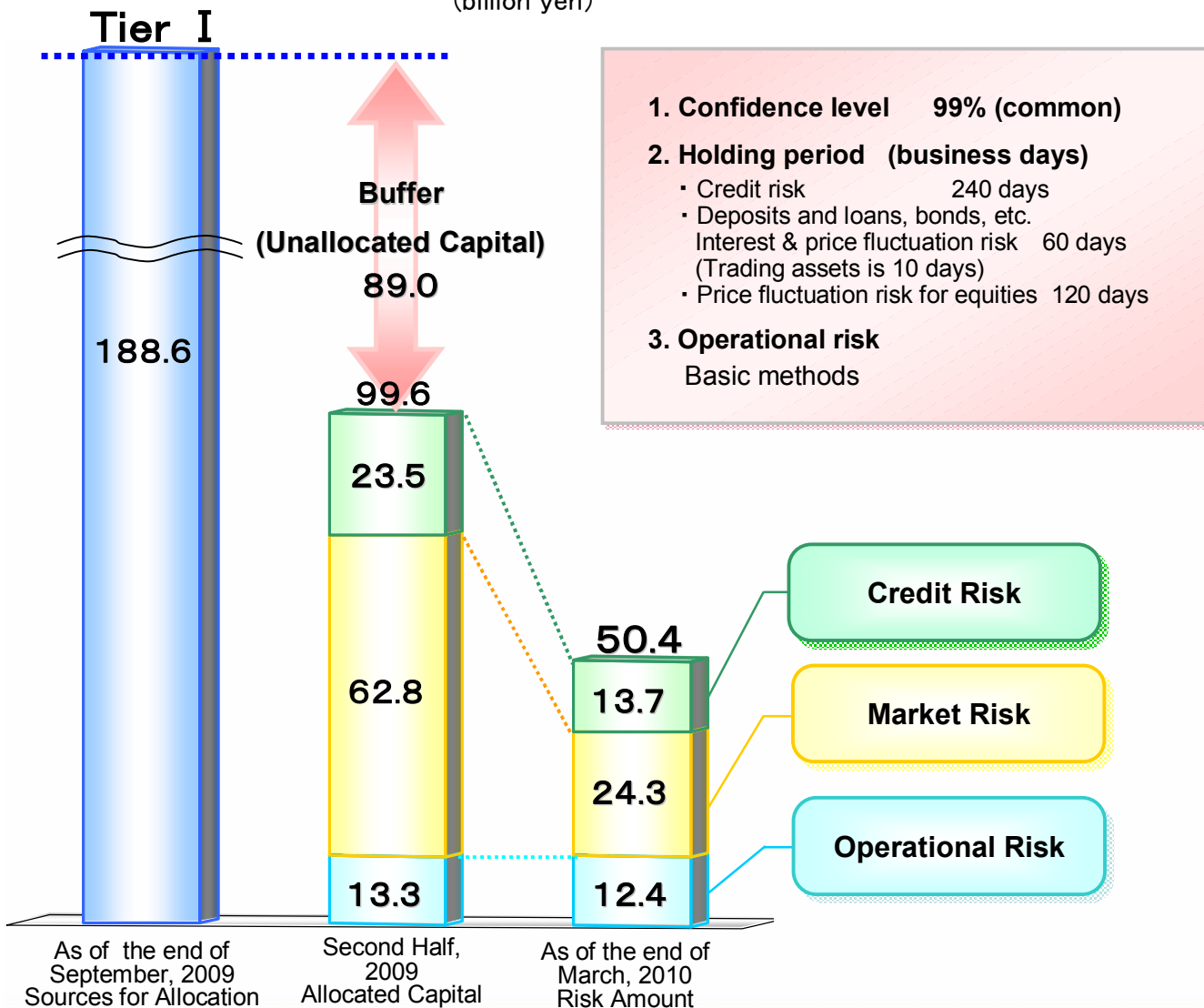
—◆— Average remaining maturity (Year)



# Status of Risk Amount

## Integrated Risk Management

(billion yen)



## Outlier Ratio

As of the end of  
March, 2010

Interest Rate  
Shock range

±200bp

Interest Rate  
Risk Amount

9.1  
billion  
yen

Outlier Ratio

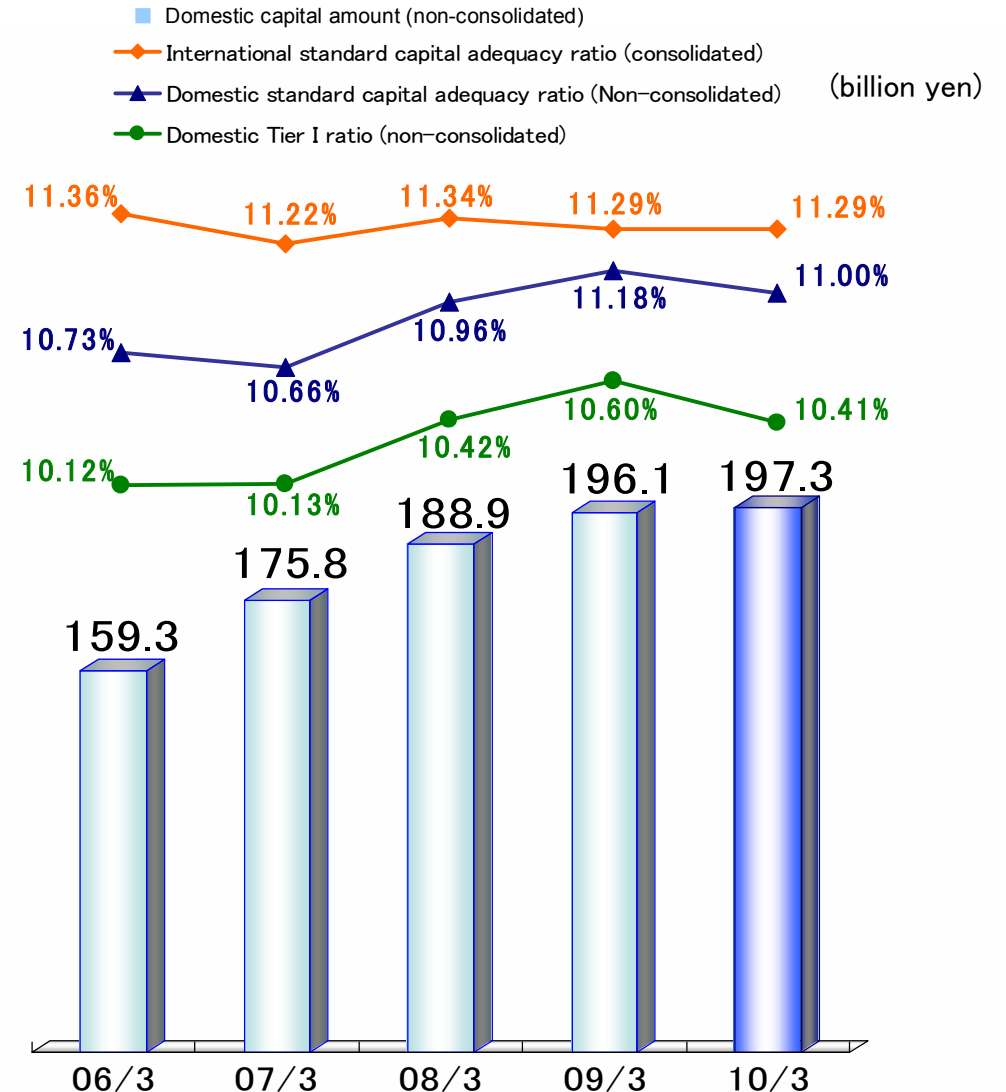
4.6%

# Capital Levels

## Tier I Capital & Deferred Tax Assets



## Capital adequacy ratio



# FY2009 Results and FY2010 Forecast

(billion yen)

	FY2008 Results (A)	FY2009 Results (B)	Increase or Decrease (B-A)	FY2010 Forecast
Gross operating income	70.1	77.8	+ 7.7	79.0
Operating expenses	41.5	41.4	Δ 0.1	42.0
Net operating income	31.3	35.7	+ 4.3	37.0
Core net operating income	36.5	33.1	Δ 3.4	37.0
Ordinary profit	17.6	21.2	+ 3.6	22.5
Net income	10.6	14.0	+ 3.4	14.5
Actual credit cost	6.0	10.7	+ 4.7	11.0
ROE(%) (net income basis)	5.84	7.64	+ 1.80	7.78
EPS(Yen)	40.36	55.16	+ 14.80	58.80
Dividends(Yen)	13.0	13.0	0	13.0

For further details regarding the above, please contact

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Suruga Bank Ltd.**

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The foregoing material contains statements regarding future business performance. These statements are not intended as guarantees of any specific future performance, which is subject to a variety of risks and uncertainties. Actual future business results may differ from the targets contained in the present material, due to changes in the external business environment.