



# Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended September 30, 2010

SURUGA bank

# Management Discussion of the Environment

## Business Environment in the 21<sup>st</sup> Century

### Advances in ICT

- ◎ Digitalization
- ◎ Faster and more data transmission (lower cost)
- ◎ Systemization of information and knowledge



Disappearing borders between nations, industries

### Explosive Growth in World Population

- ◎ Asia-led population growth
- ◎ Aging populations in advanced economies
- ◎ Competition for scarce natural resources



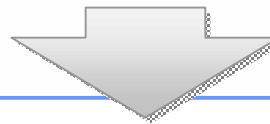
Collapse of conventional order

### Structural Economic Changes

- ◎ Sustained growth of tertiary industries
- ◎ Recovery of primary industries
- ◎ Marginalization of secondary industries



Collapse of 20<sup>th</sup> Century Japanese economic model



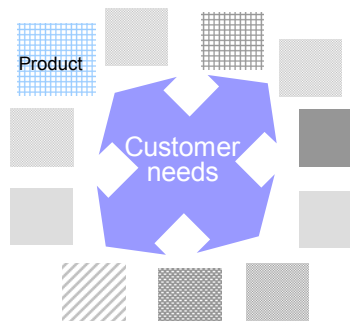
## Corporate Strategy in the 21<sup>st</sup> Century

### Connect with “AND” not “OR”

From tradeoffs (OR) to uniqueness that connects using new combinations (AND)

Coexistence of both extremes  
Decline of either/or choices

### Provide diverse added value



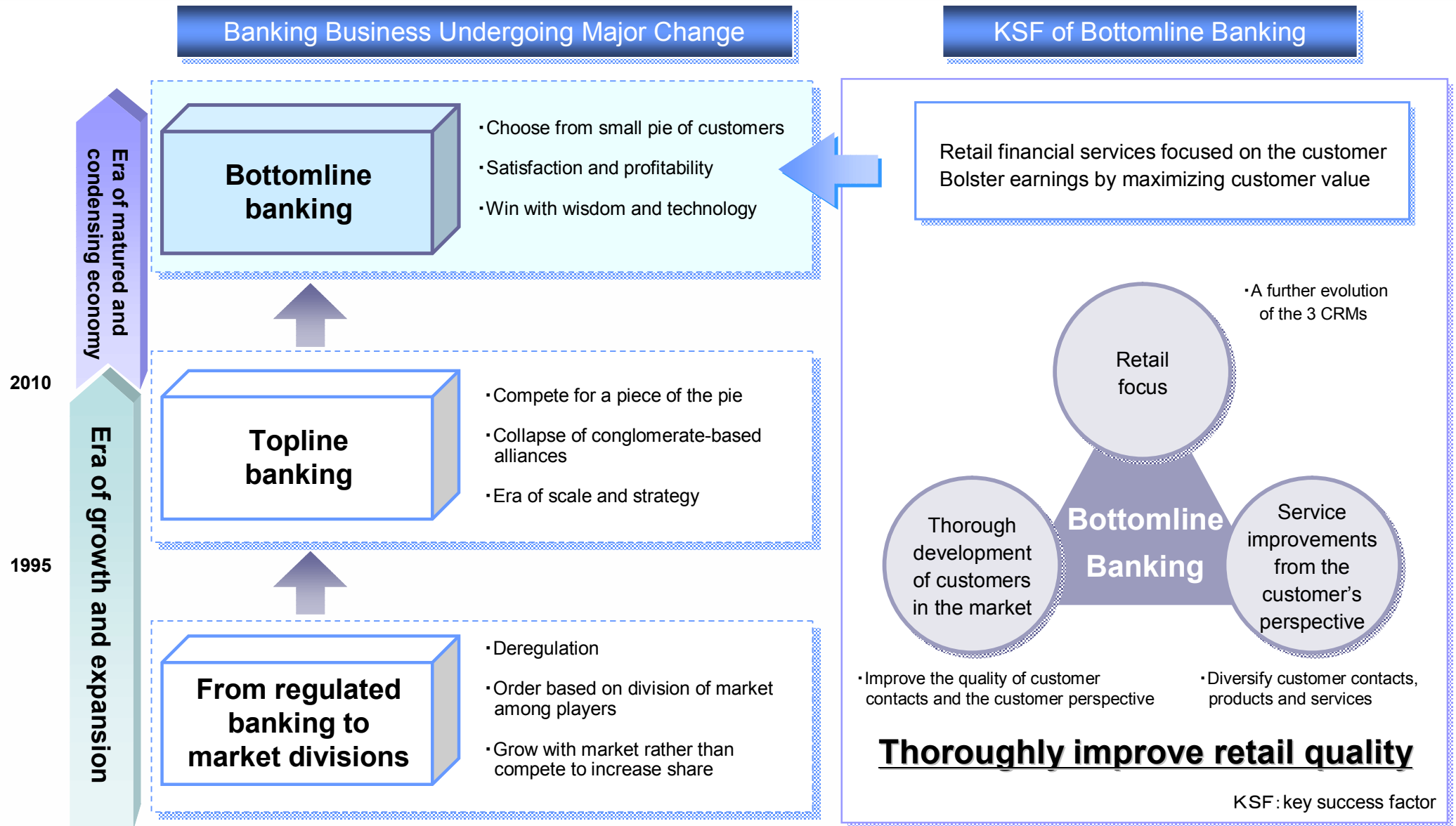
### Time to Market

Ability to quickly realize ideas and continually drive innovation

Shorter cycles  
Accelerated economic development

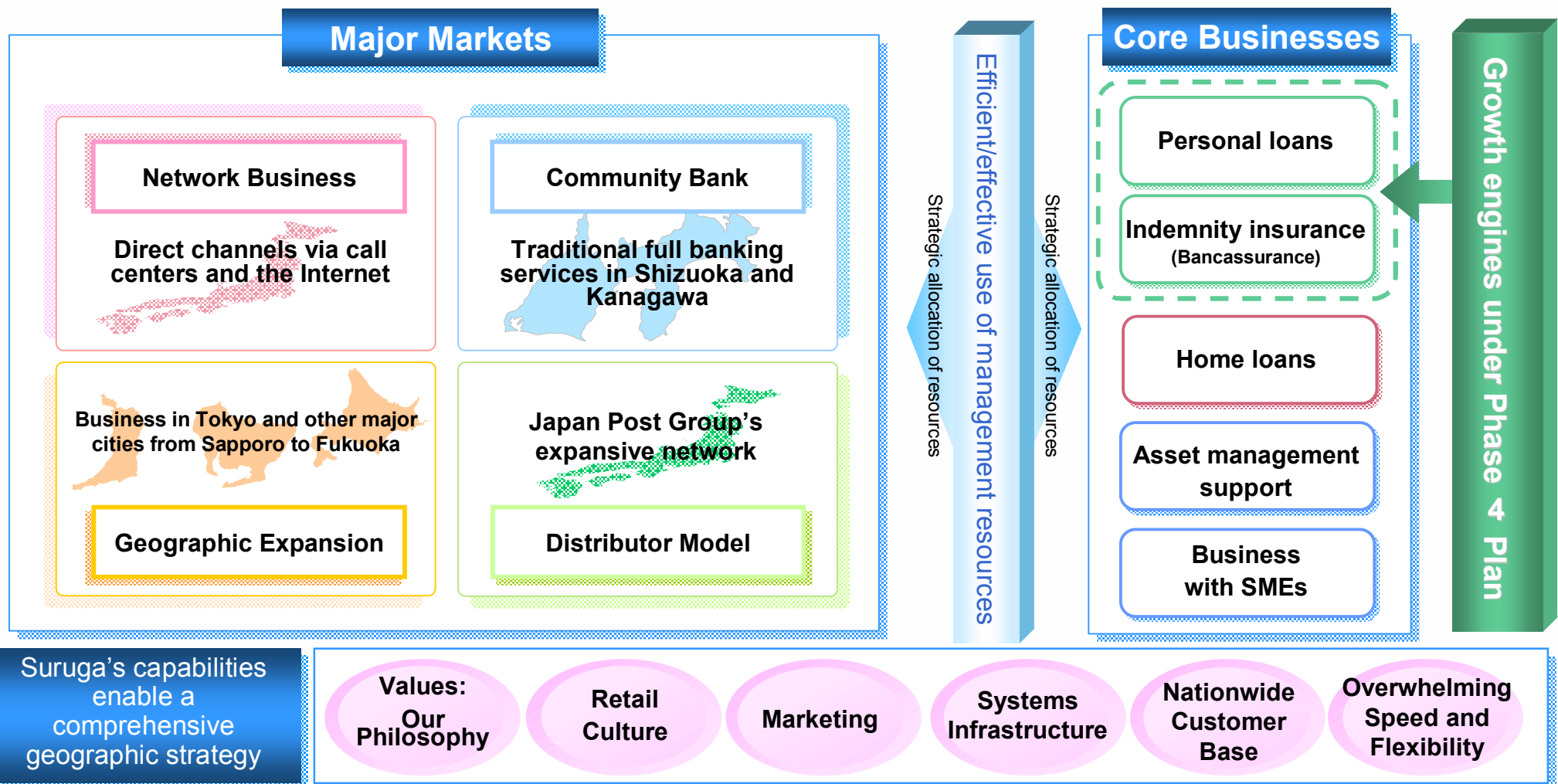
Source: Professor Yoko Ishikura, Graduate School of International Corporate Strategy, Hitotsubashi University

# Management Discussion of the Banking Environment



# Phase 4 Management Plan Grand Design

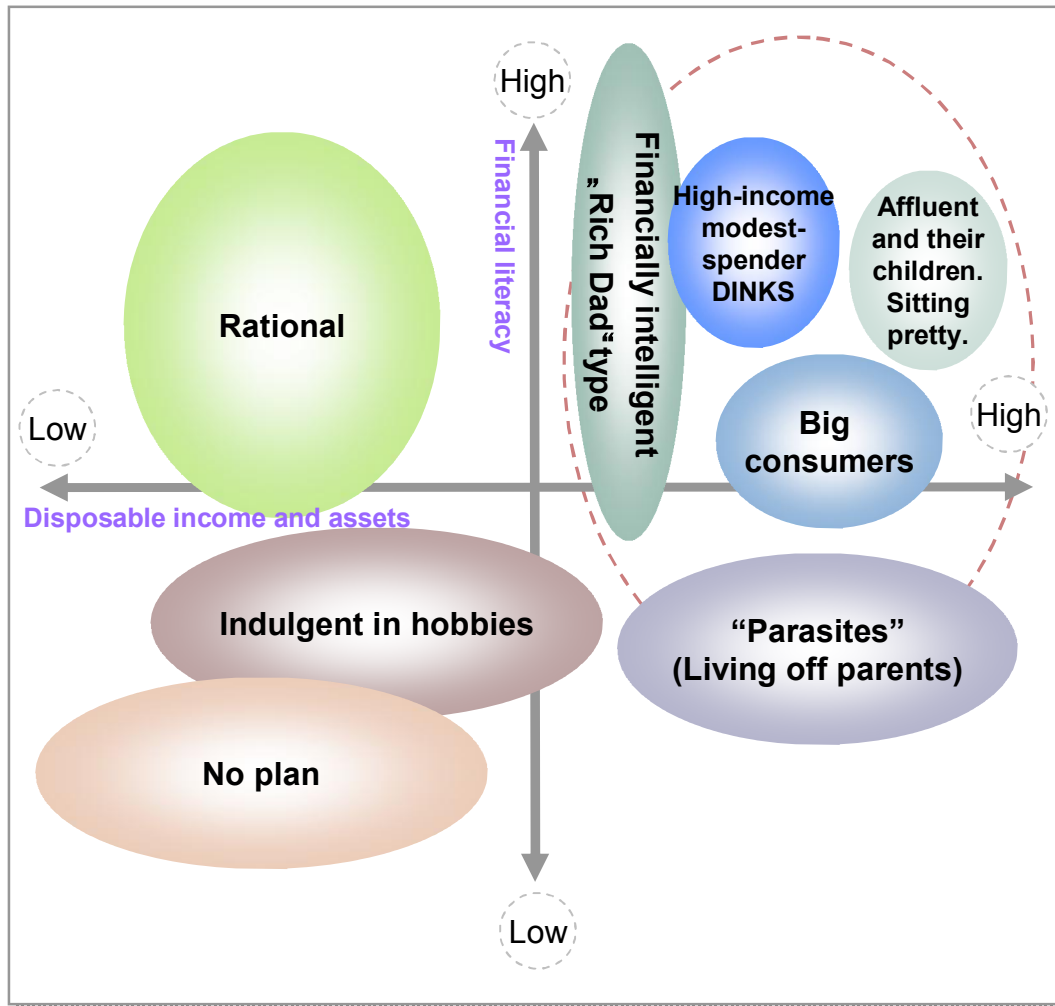
Leverage market characteristics to create added value from the customer's perspective  
 Maximize utilization of know-how developed through Suruga's retail strategy



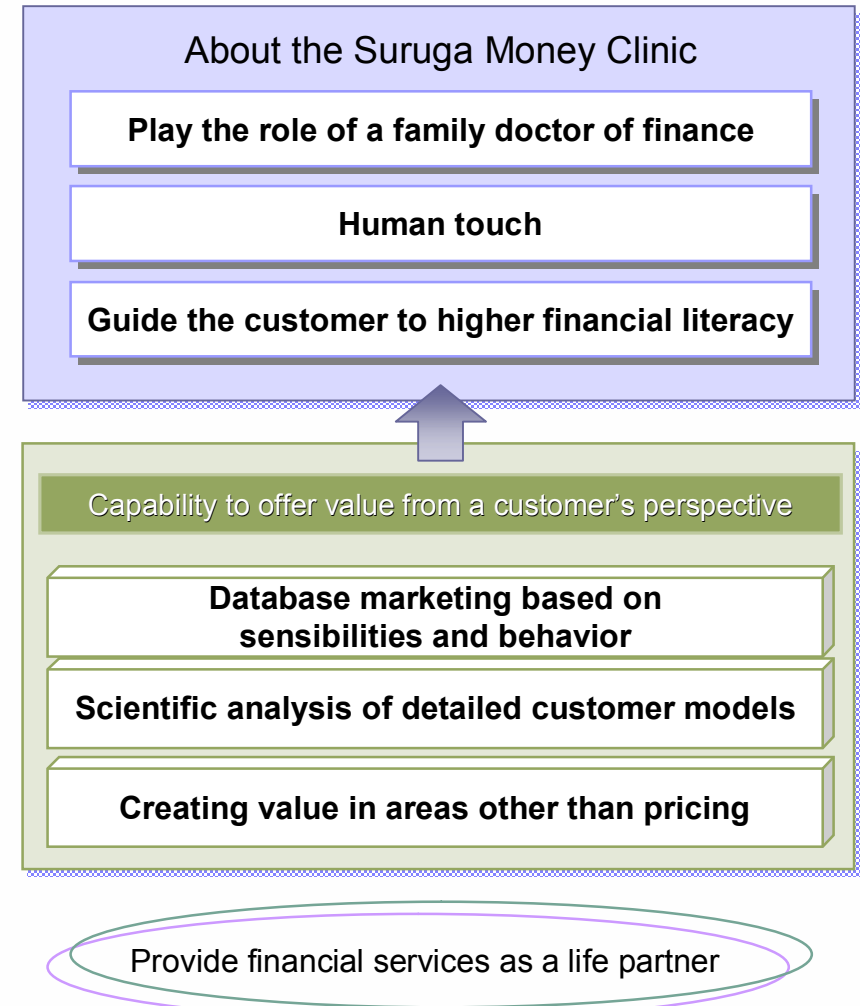
# The Direction of Suruga's Business

Personal financial services only a bank can provide when needed most

Customer Types by Financial Literacy and Disposable Income and Assets



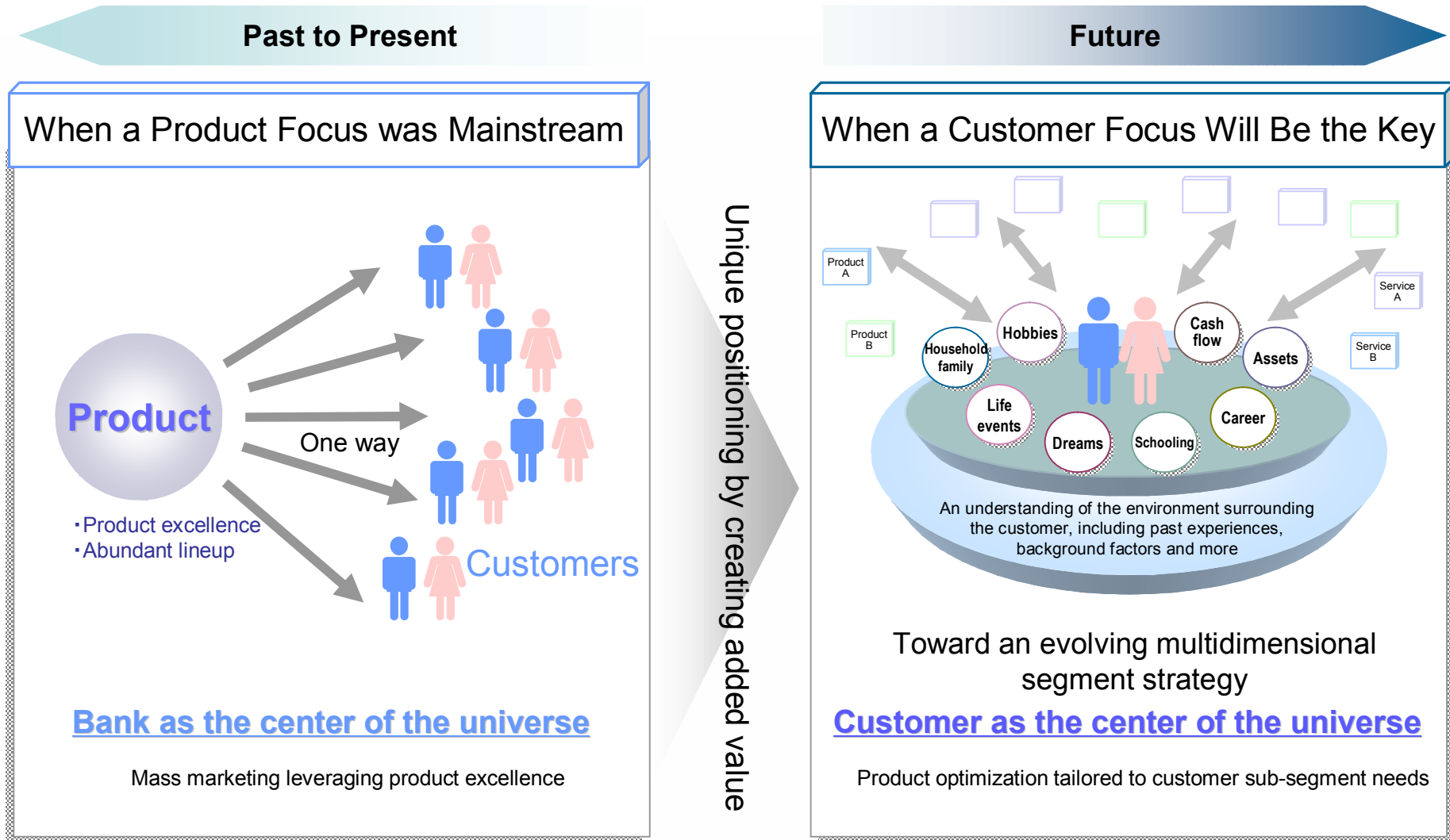
Suruga Money Clinic (Opened April 26, 2010)





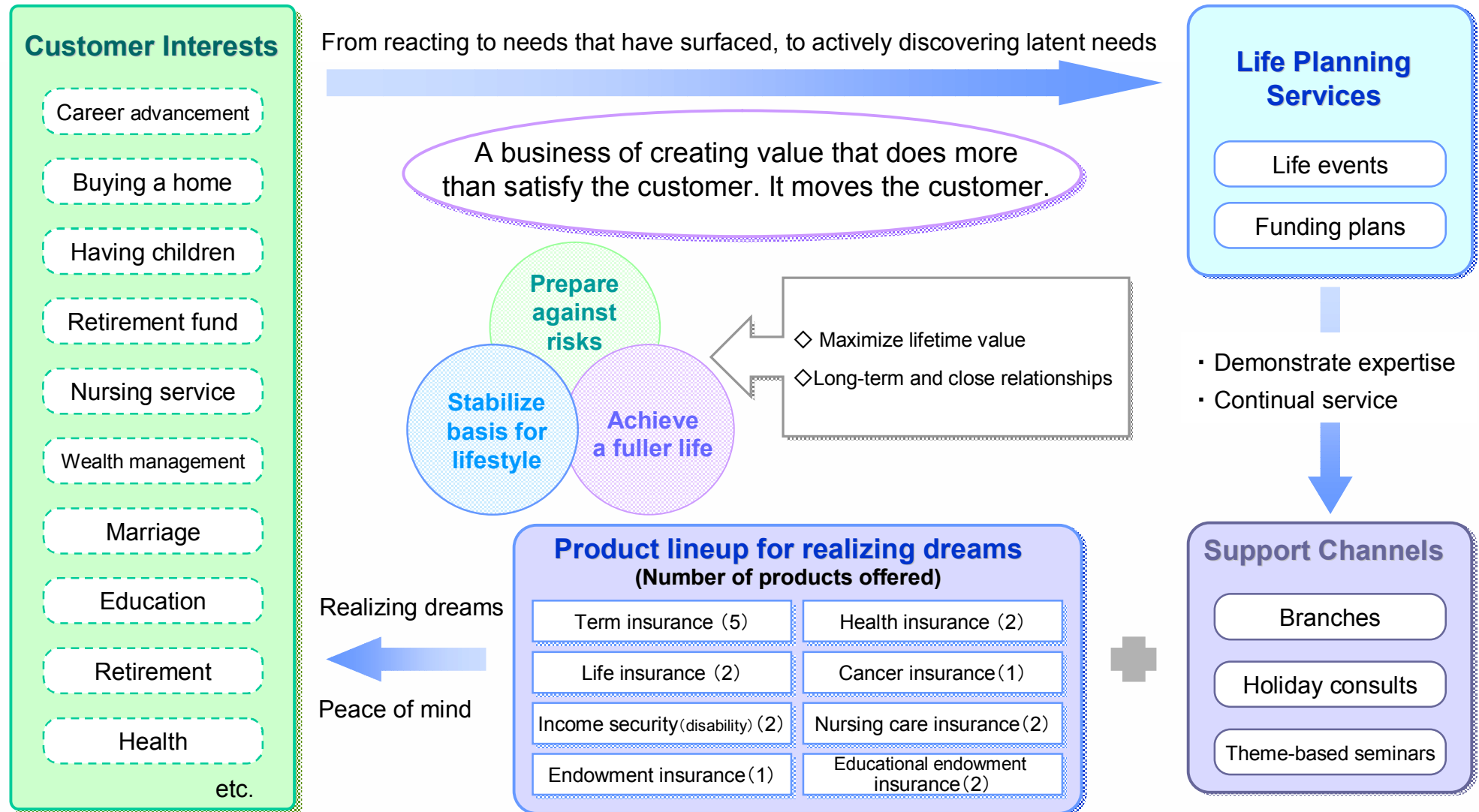
# Shift from Product Focus to Customer Focus

Shift from focus on product profitability to customer profitability (CLV)



CLV: customer lifetime value

# Indemnity Insurance Helping Customers Realize Dreams

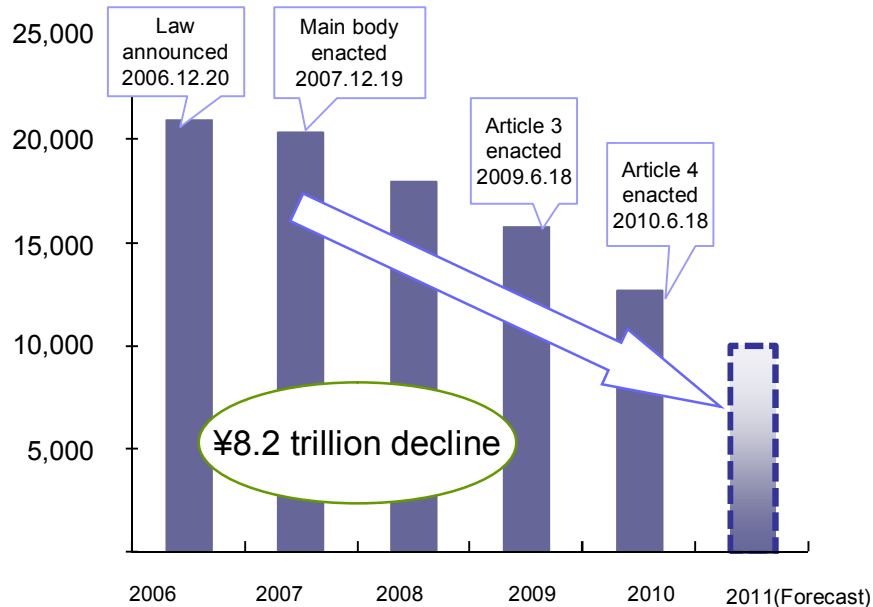


# Personal Loan Business ①

Answering sound demand for financing with loans that only a bank can provide

## Consumer Loan Books Are Declining

Unit: Billion Yen Balance of loans outstanding from registered moneylenders\*



\*Registered moneylenders = consumer finance and credit card companies, installment sales credit providers and finance companies affiliated with retailers or manufacturers.

Does not include banks.

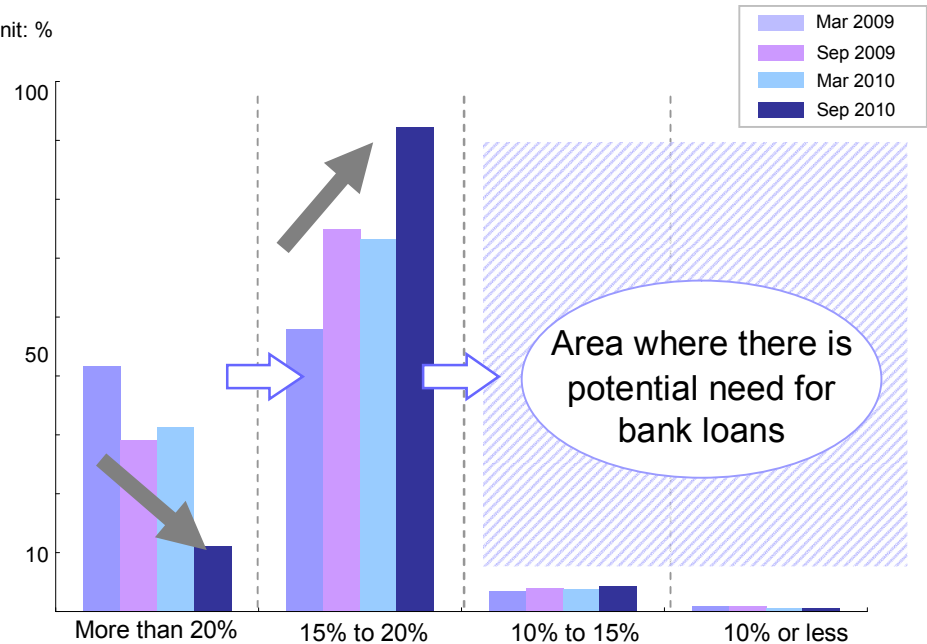
Source: Financial Services Agency

Complete implementation of the revised moneylending business law has led to a shortage in capacity to supply small loans to consumers.

**Further decline in outstanding balances**

## Unsecured Consumer Loan Balance Distribution by Interest Rate

Unit: %



Source: Japan Financial Services Association

**Concentration in a narrow range of interest rates**

The 15-20% has become the primary market. Lack of business skills in the sub-15% space.



# Personal Loan Business ②

## Proprietary Segmentation Based on Financial Behavior

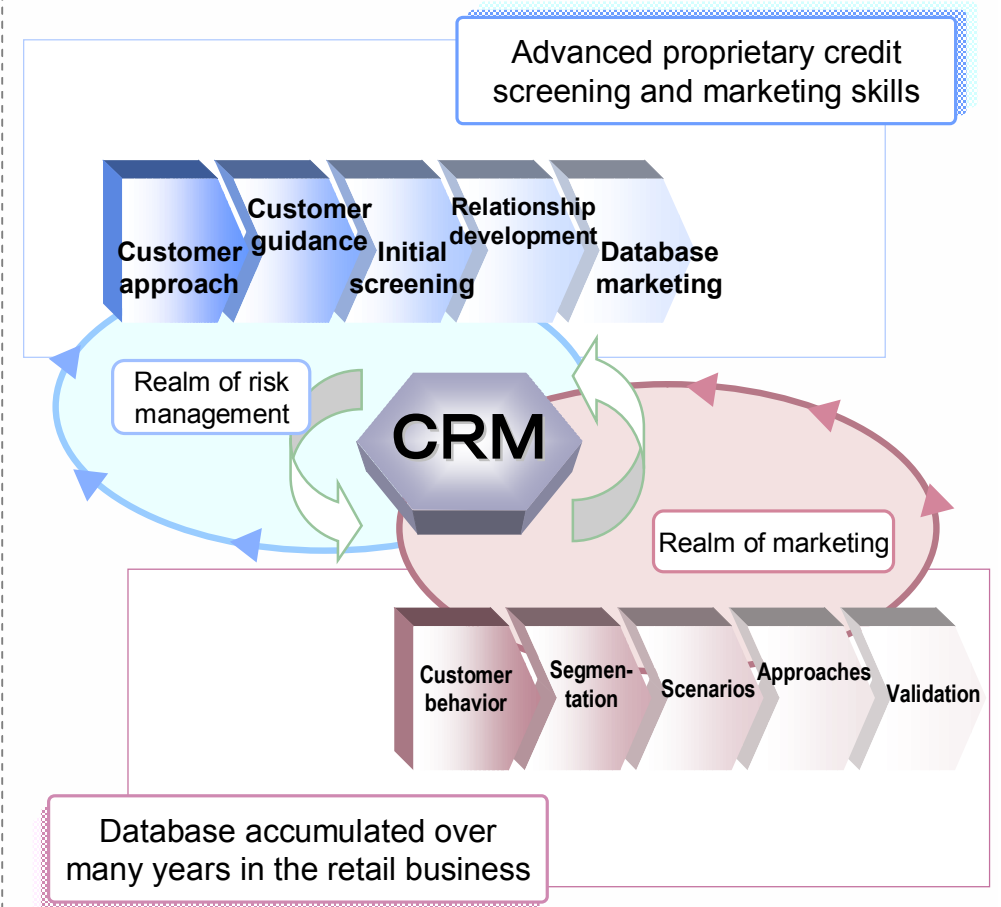
Segment Type	Age	Income	Financial assets	Financial literacy
Affluent. Children are sitting pretty.	30+	¥15 mn +	¥5 mn +	Moderate
Intelligent. Born to wealthy parents.	25+	¥7 mn +	¥ 0 to 10 mn	High
High-income modest-spending DINKS	30+	¥10 mn + (household)	¥ 5 mn	Moderate
Big consumers	25+	¥10 mn	¥ 0 +	Low
"Parasites" (living off parents)	18~25	¥3 mn +	¥ 3 mn +	Moderate
No plan	20+	¥500k to 1 mn	¥ 0 +	Low

Segment image

Analysis by segment type using a database only a bank can accumulate.  
Timely product offerings based on marketing and screening activities.

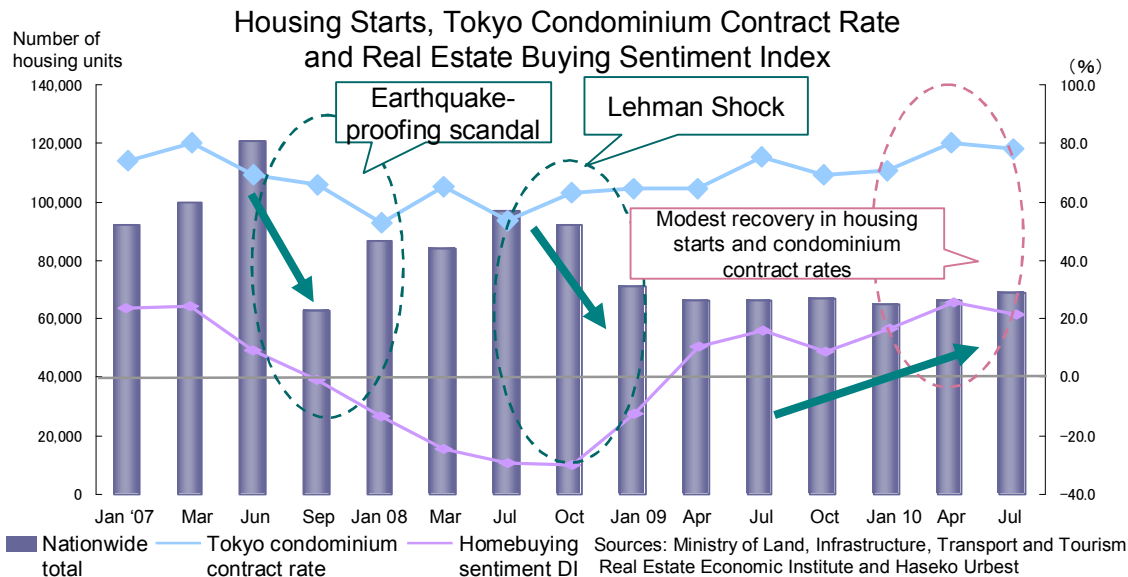
## CRM Enabling Optimal Customer Value Propositions

Support a healthy financial literacy through symbiotic ties to the customer



# Suruga Housing Loan Business

## Discussion of the Real Estate Market



### Alert Response to Trends

- Diverse lifestyles
- Understand geographical characteristics
- Infrastructure improvements and real estate value
- etc.

Maximize highly profitable opportunities with approaches that stimulate demand in areas with strong growth potential.

### Market and Consumers Heading Upward

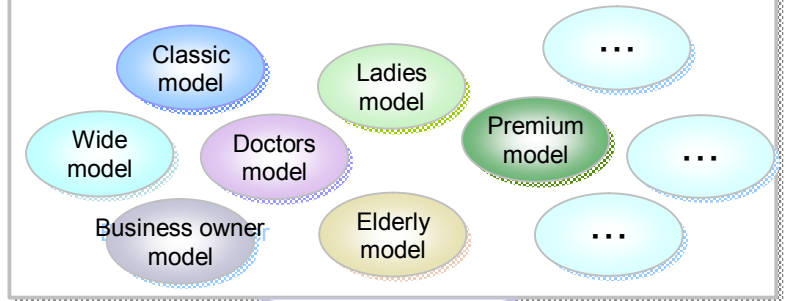
- New housing starts up
- Consumer sentiment rebounds
- Condominium contract rates above 70%
- etc.

## Suruga Housing Loan Business

### A business model isolated from price competition

Achieve appropriate pricing by providing customized products tailored to customer needs

### Customized models leveraging micro-segmentation



Proprietary and seamless process encompassing sales, screening, development and servicing.

Product development  
Marketing  
Risk management

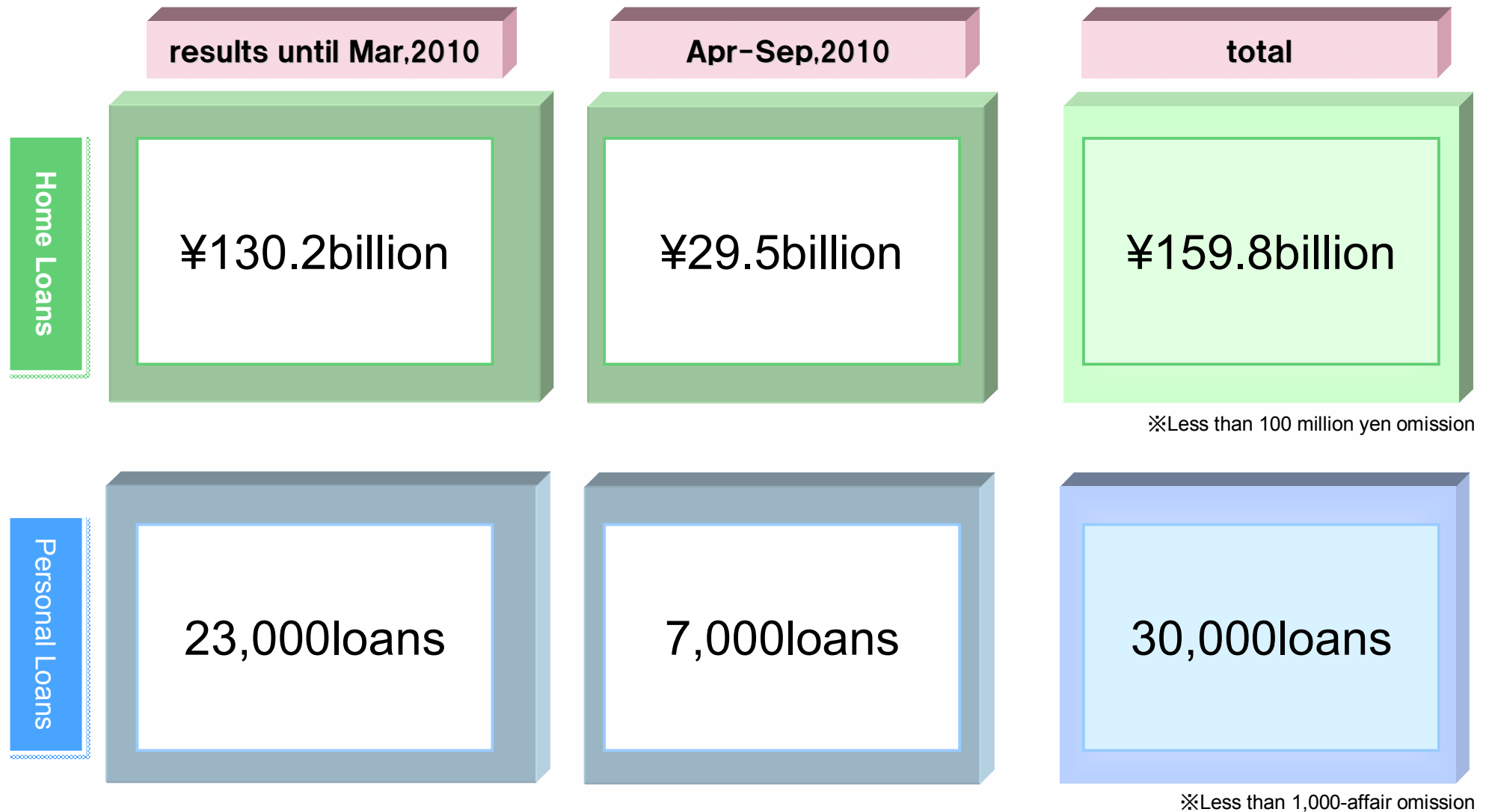
Flexible and rapid response to potential individual needs

Diversity of approaches

A highly profitable business model

# Business Alliance with Japan Post Bank

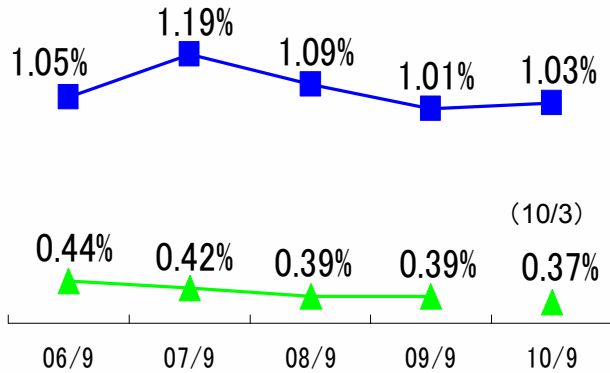
Results from May,2008



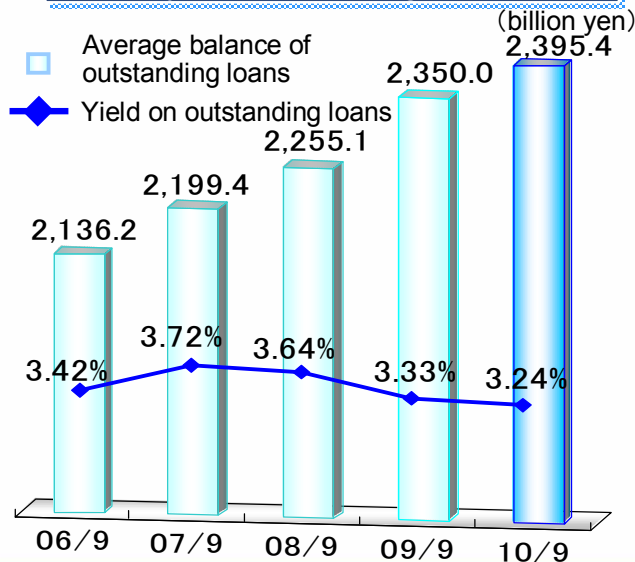
# Yield / Margins (Overall)

## Net interest margin

- SURUGA
- ▲ Average All Regional Banks

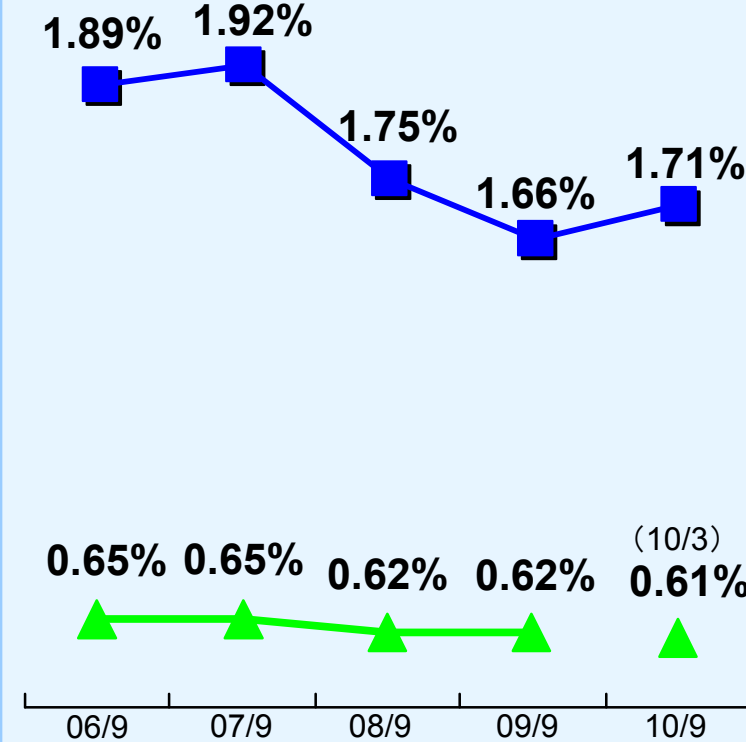


## Average balance and yield of outstanding loans



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

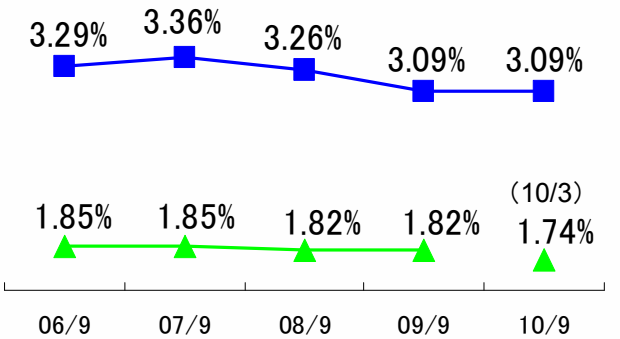
- SURUGA
- ▲ Average All Regional Banks



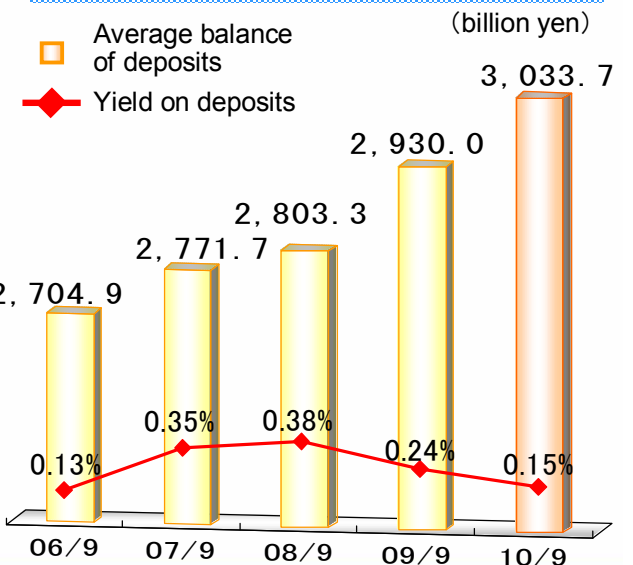
## Loan-deposit margin

(Yield on outstanding loans - Yield on deposits)

- SURUGA
- ▲ Average All Regional Banks

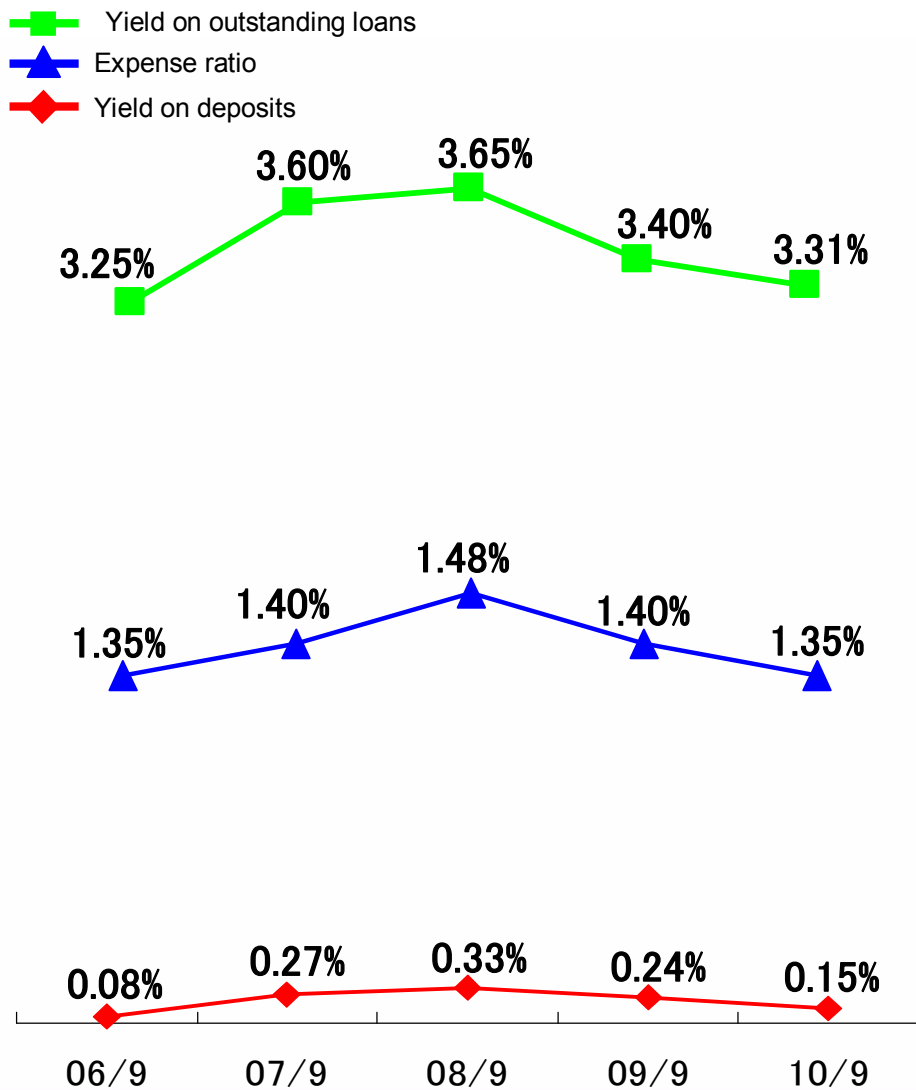


## Average balance and yield on deposits

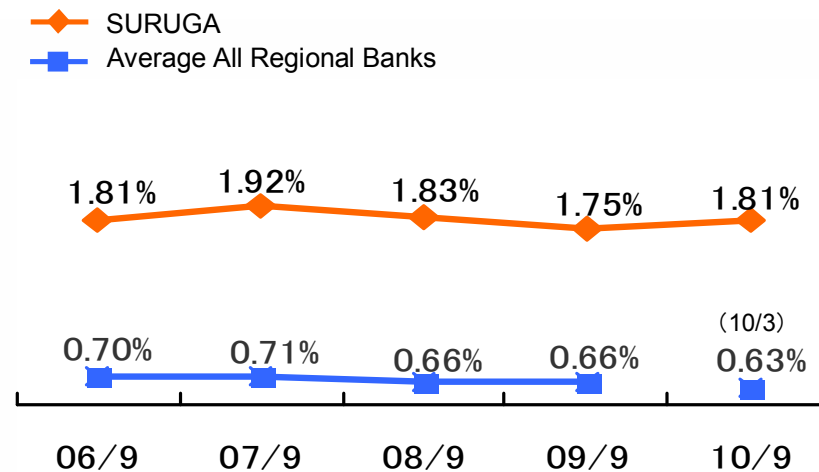


# Yield / Margins (Domestic)

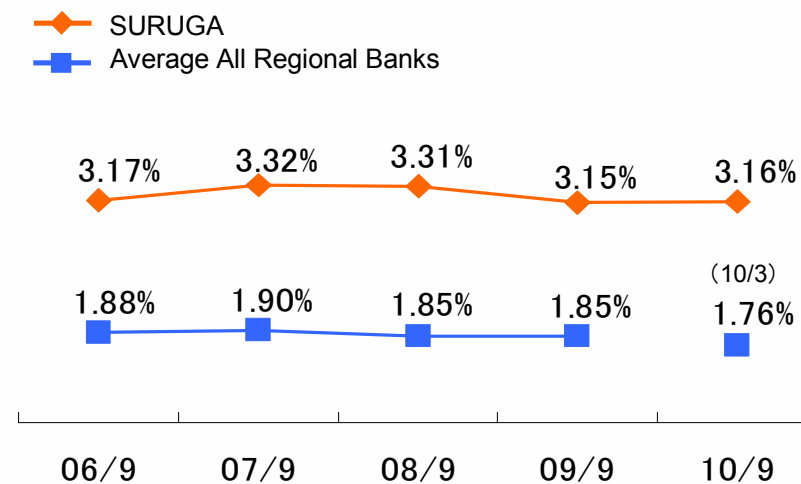
Yield-Expense ratio



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

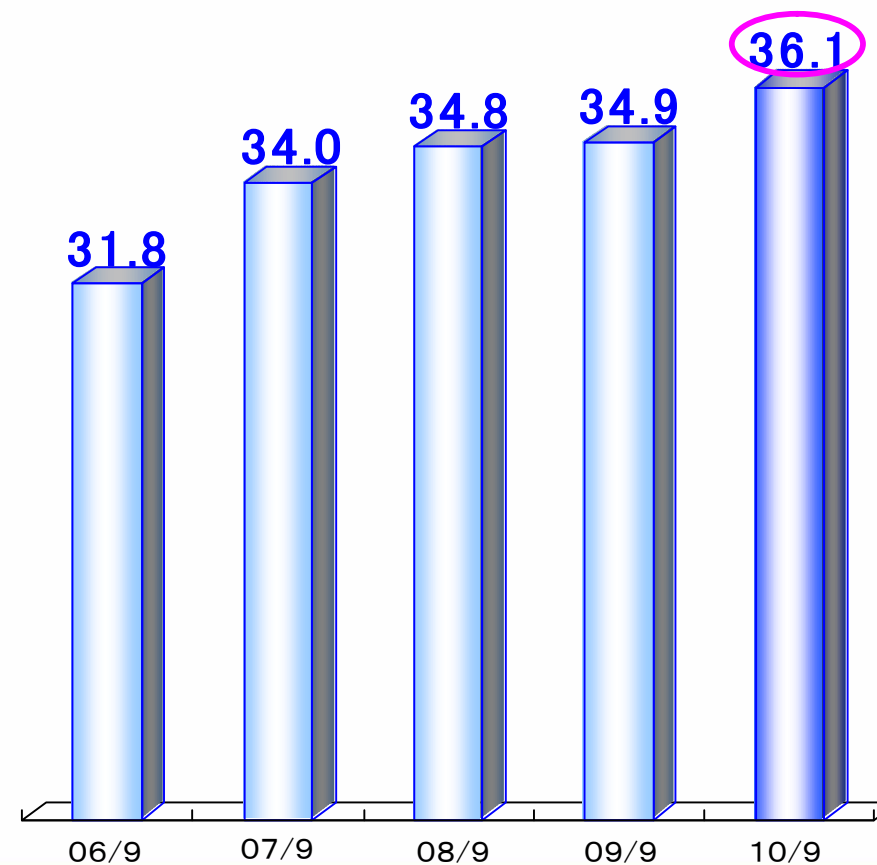
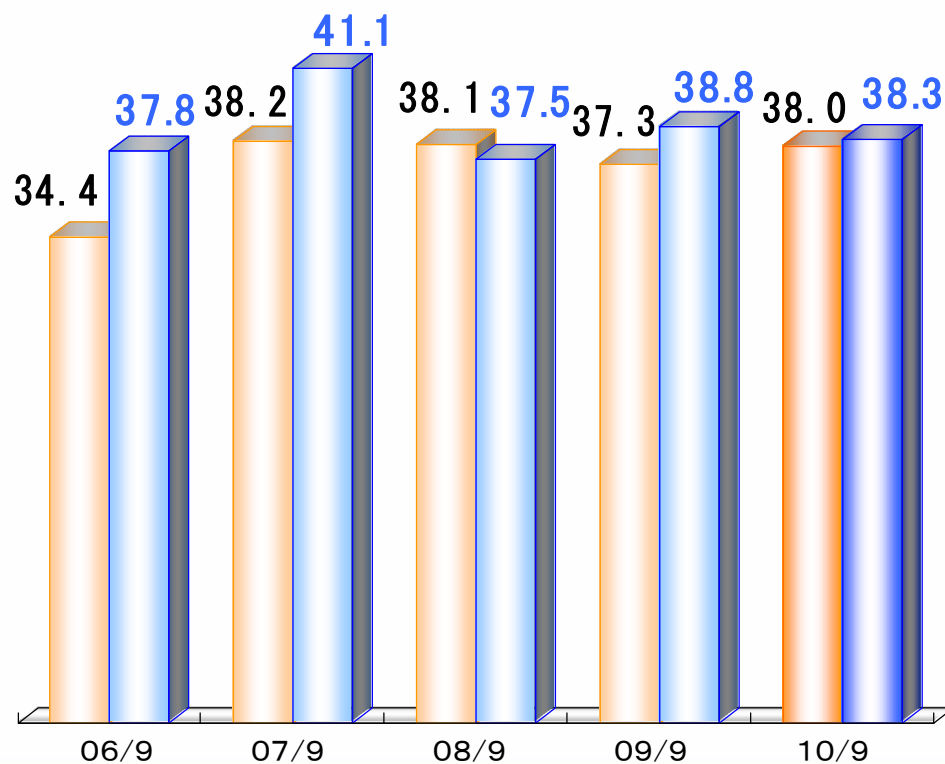
Yen loan-deposit income

- Net interest income
- Gross operating income

(billion yen)

(billion yen)

Record income highs





# Loan-Deposit Profitability and Core Net Operating Income

## Loan-Deposit Margin and Loan-Deposit Income Growth

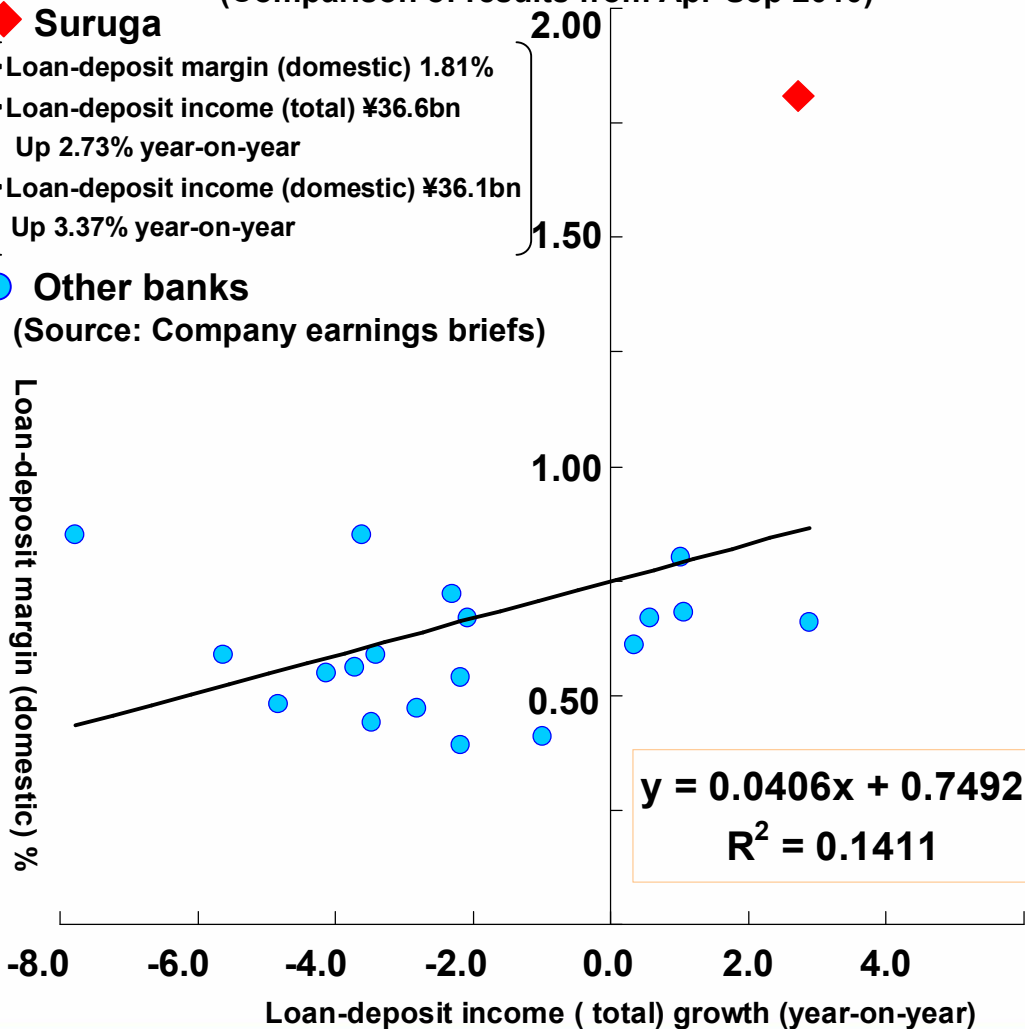
Loan-Deposit Income of Top 20 Regional Banks  
(Comparison of results from Apr-Sep 2010)

### ◆ Suruga

- Loan-deposit margin (domestic) 1.81%
- Loan-deposit income (total) ¥36.6bn  
Up 2.73% year-on-year
- Loan-deposit income (domestic) ¥36.1bn  
Up 3.37% year-on-year

### ● Other banks

(Source: Company earnings briefs)

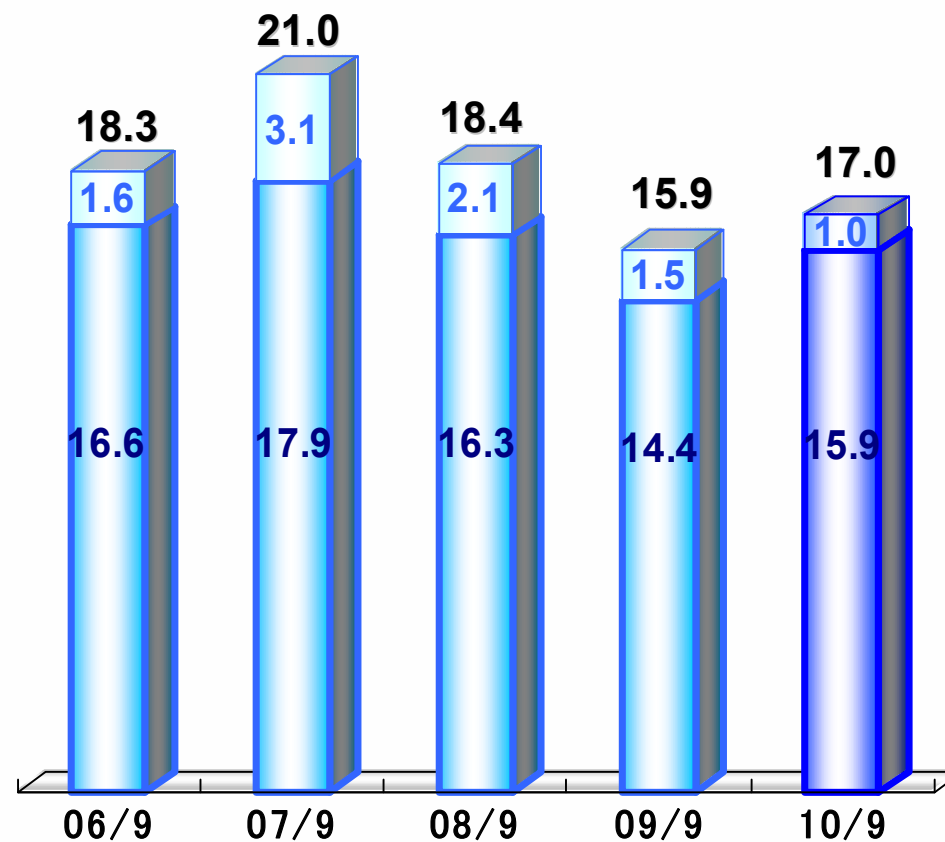


## Core Net Operating Income

(billion yen)

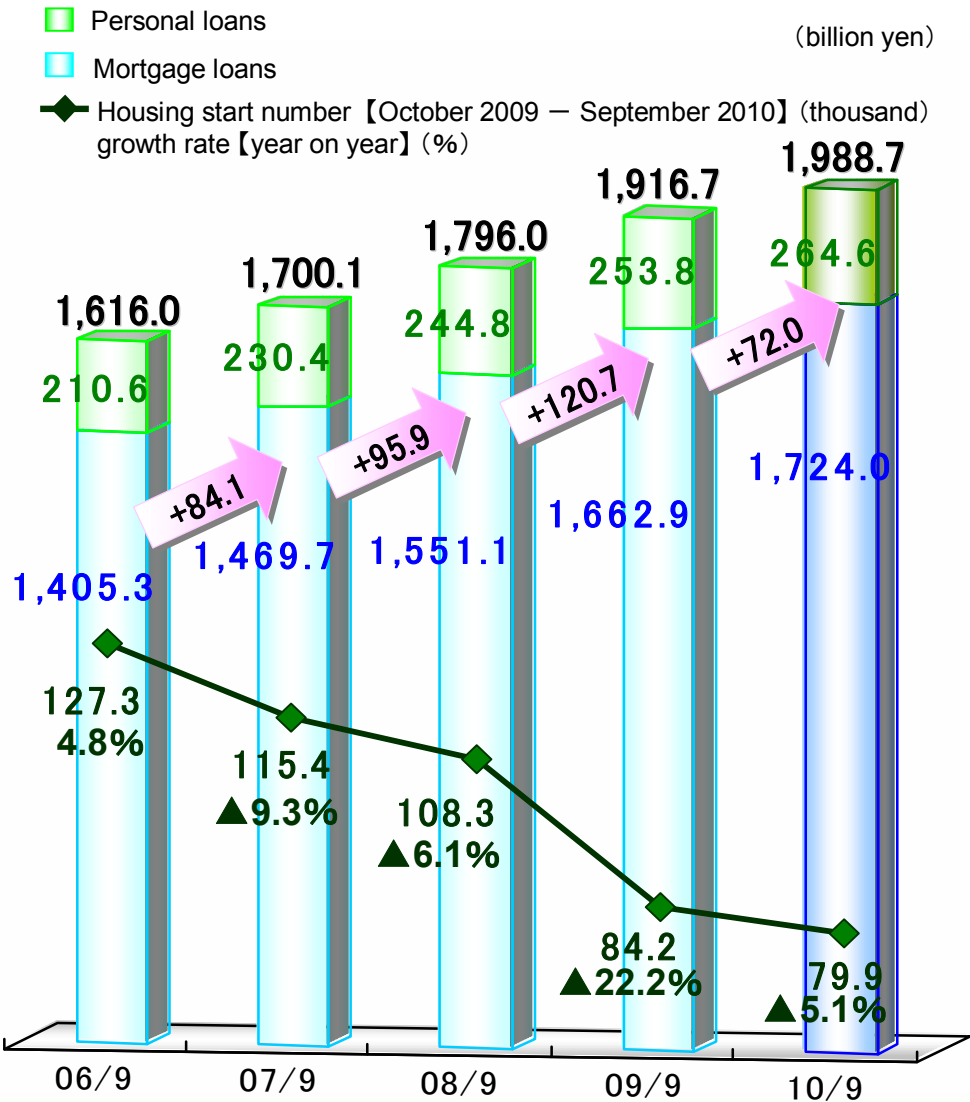
□ Interest earned on securities

■ Core net operating income (excluding interest earned on securities)

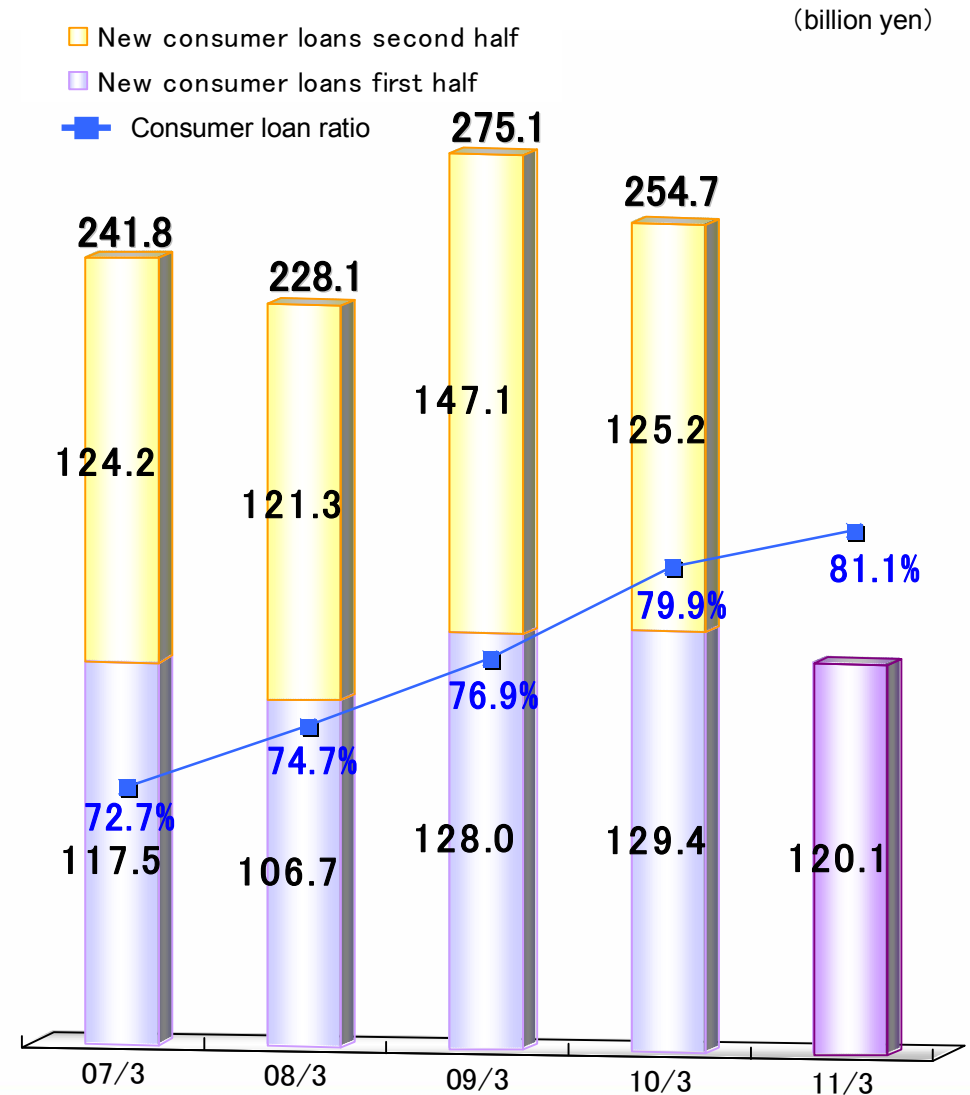


# Strong Focus on Retail

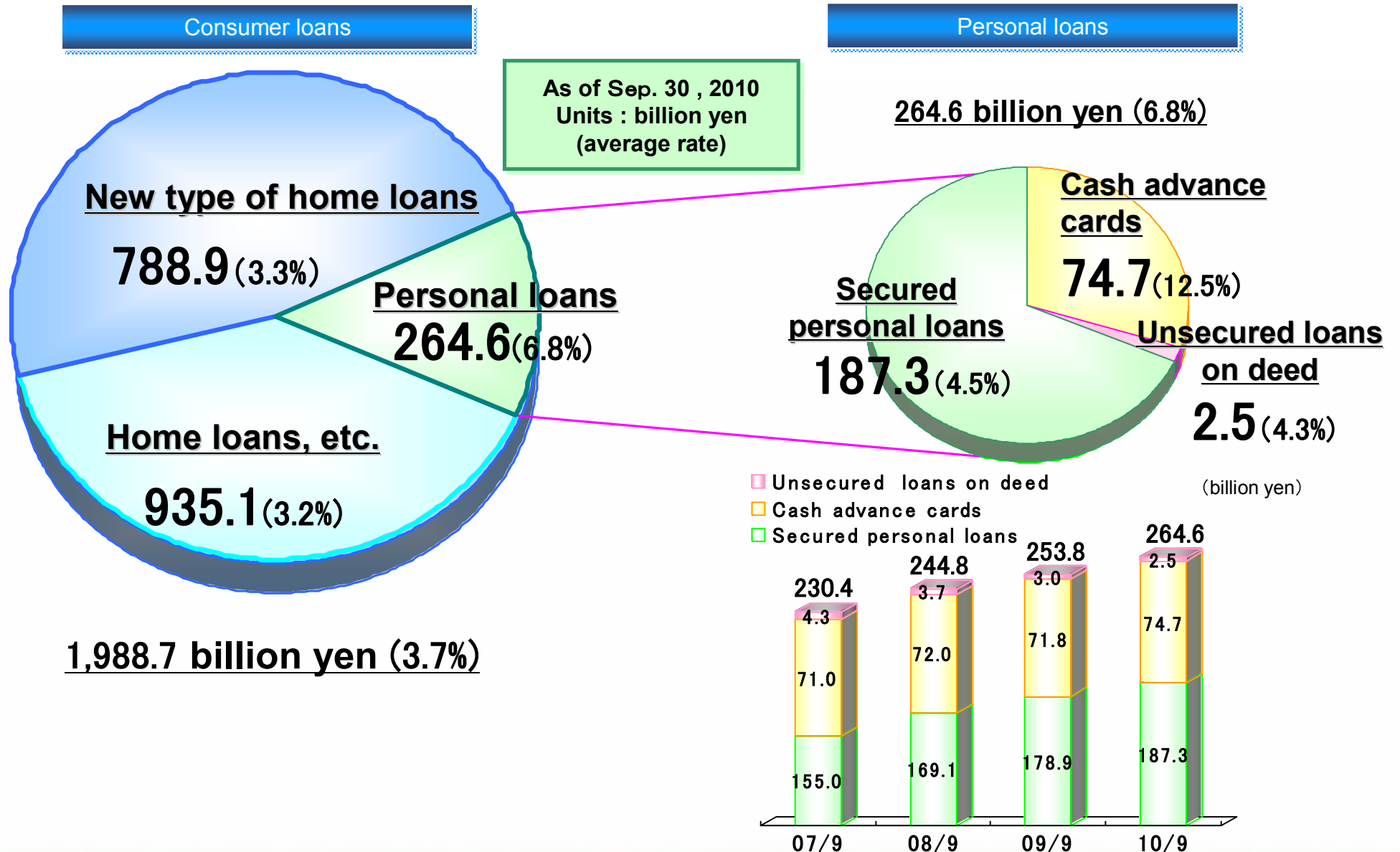
## Consumer loan balance



## New loan contracts / Consumer loan ratio

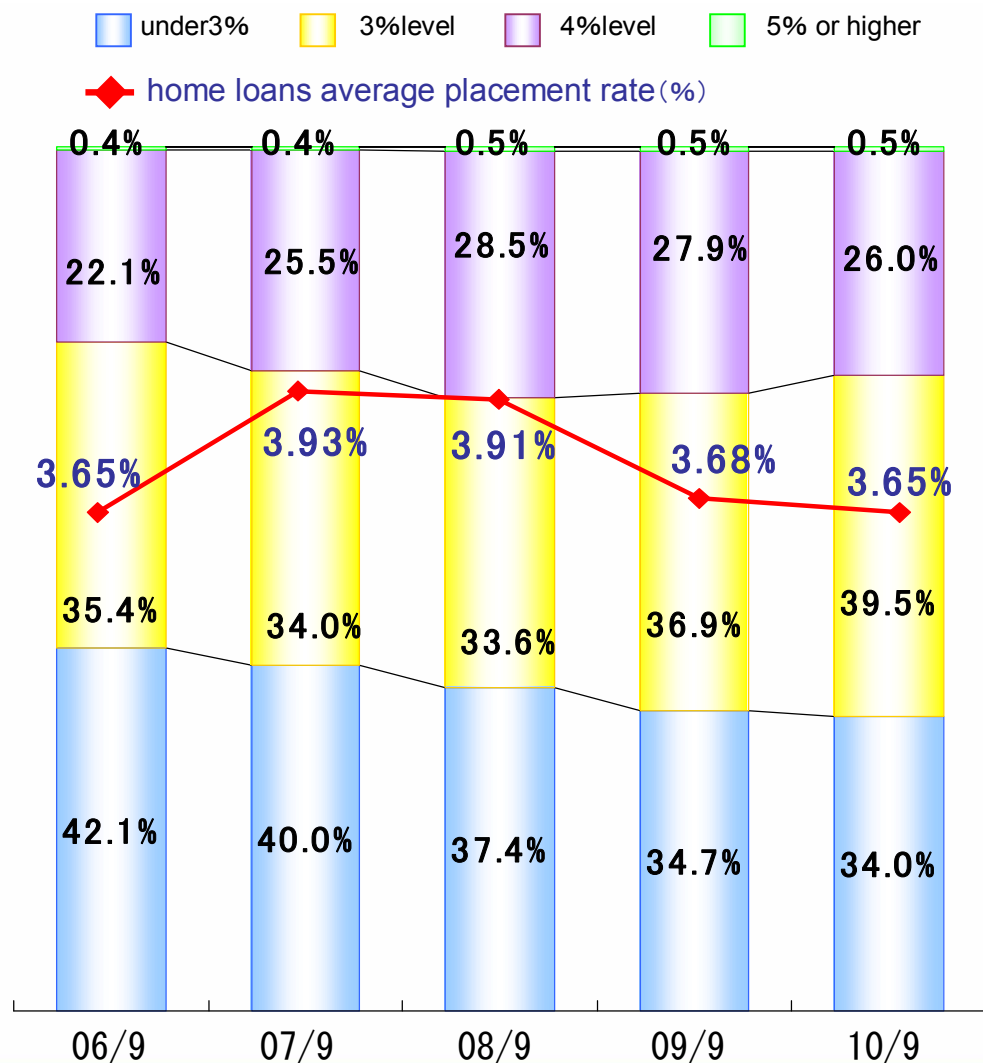


# Focus on More Profitable Products

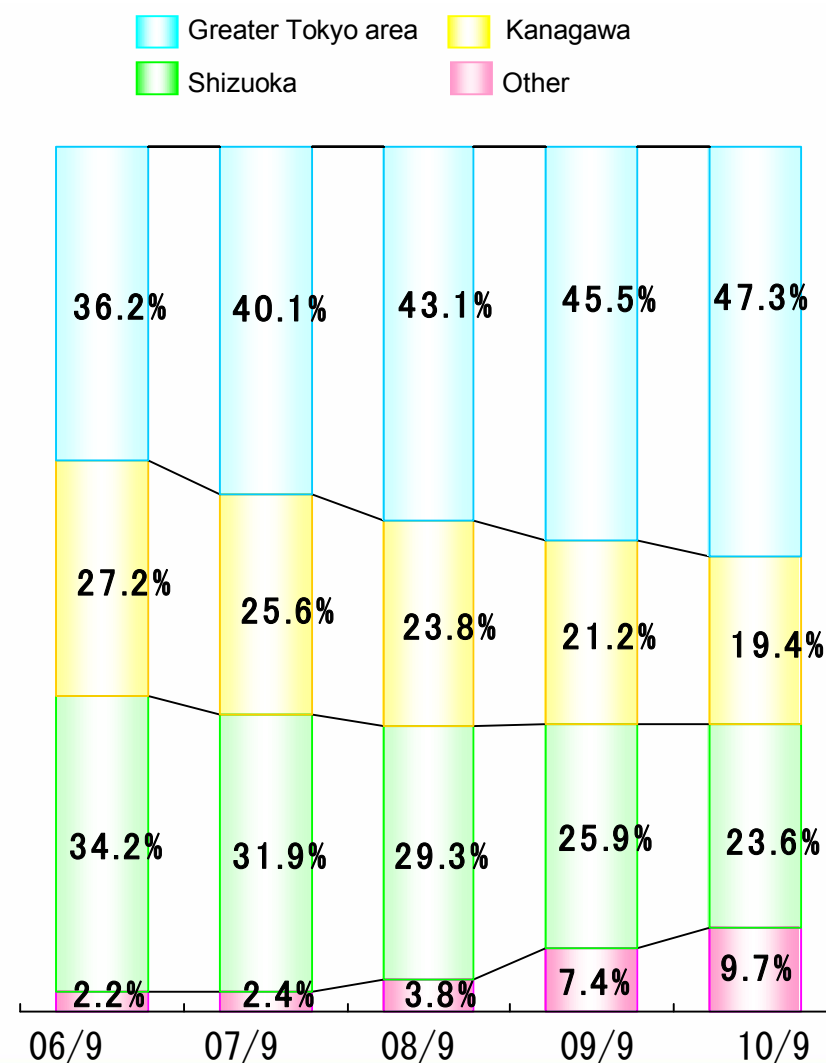


# Home Loans

Distribution of practical rates for home loans (cumulative)



Home loan balance by geographical area



# Delinquency and Loss Rates on Consumer Loans

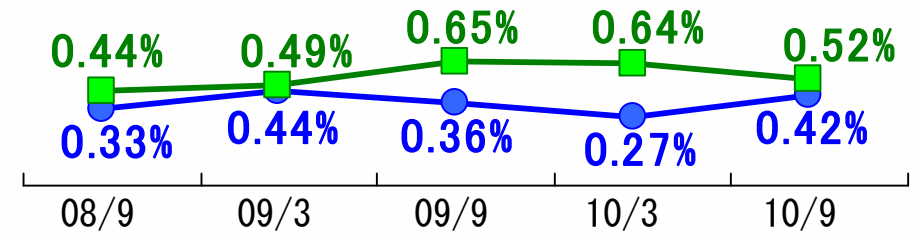
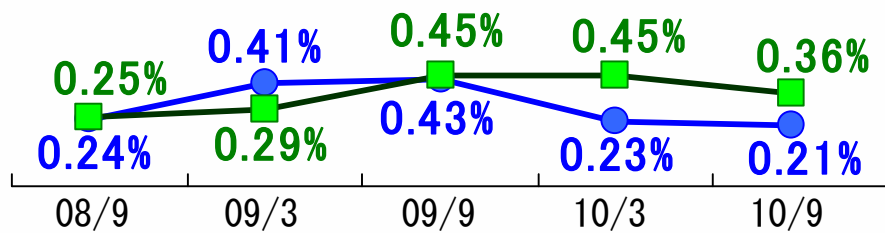
Home Loans

▲ Yield ● Delinquency rate ■ Loss rate



Personal loans

▲ Yield ● Delinquency rate ■ Loss rate



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

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

# Fees Income

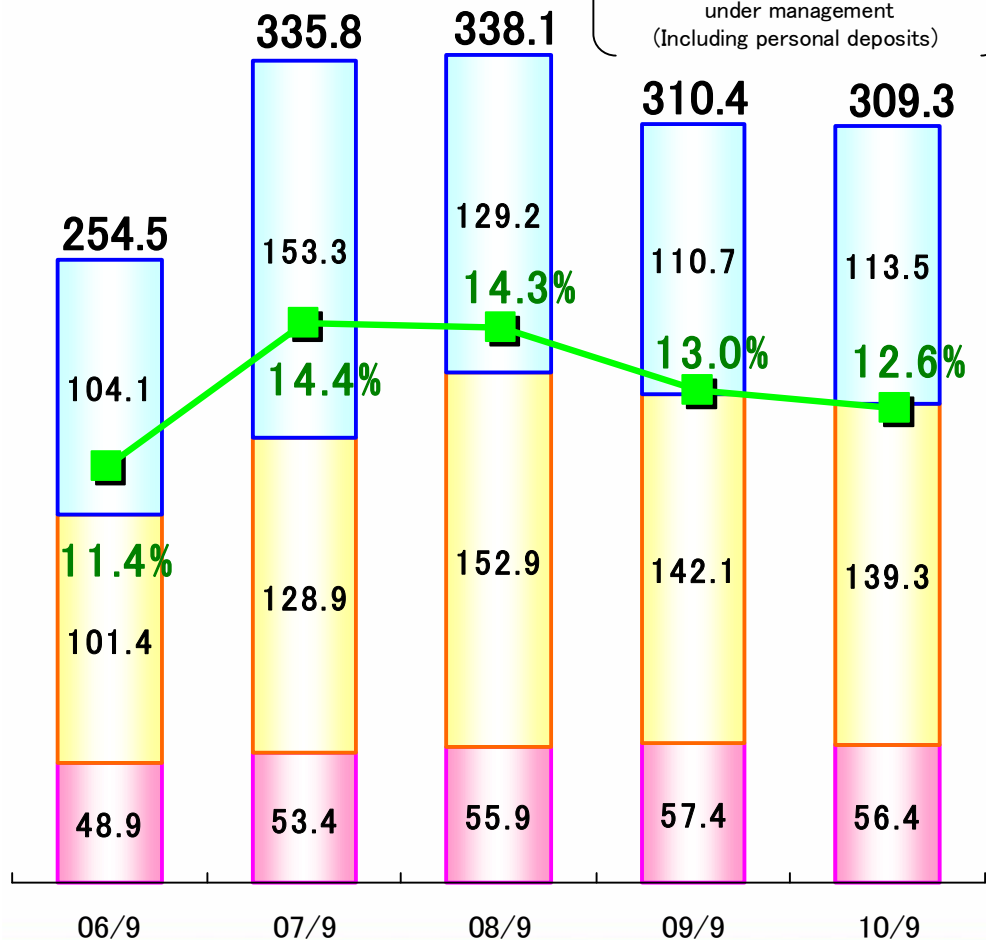
Balance breakdown of investment products

(billion yen)

- Mutual funds
- Insurance
- Other (JGBs in custody & Foreign currency deposits)

■ Ratio of investment products  

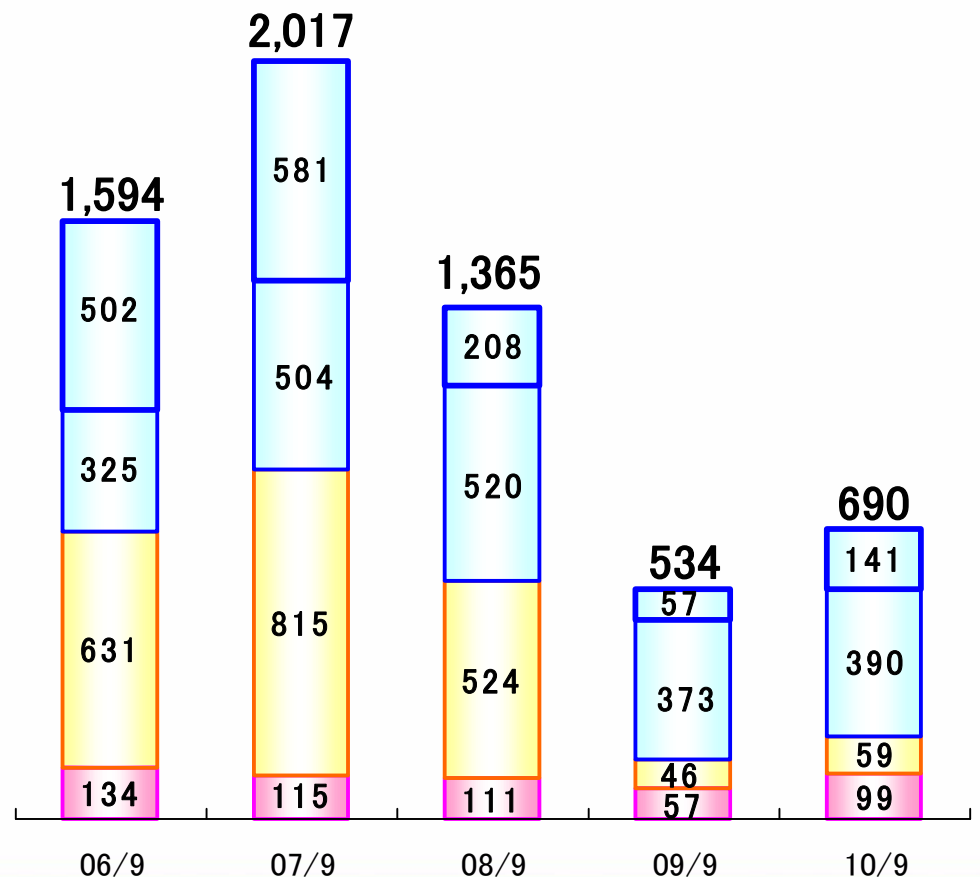
$$\frac{\text{Balance of investment products}}{\text{Balance of personal assets under management (Including personal deposits)}}$$



Commission from mutual funds and insurance products

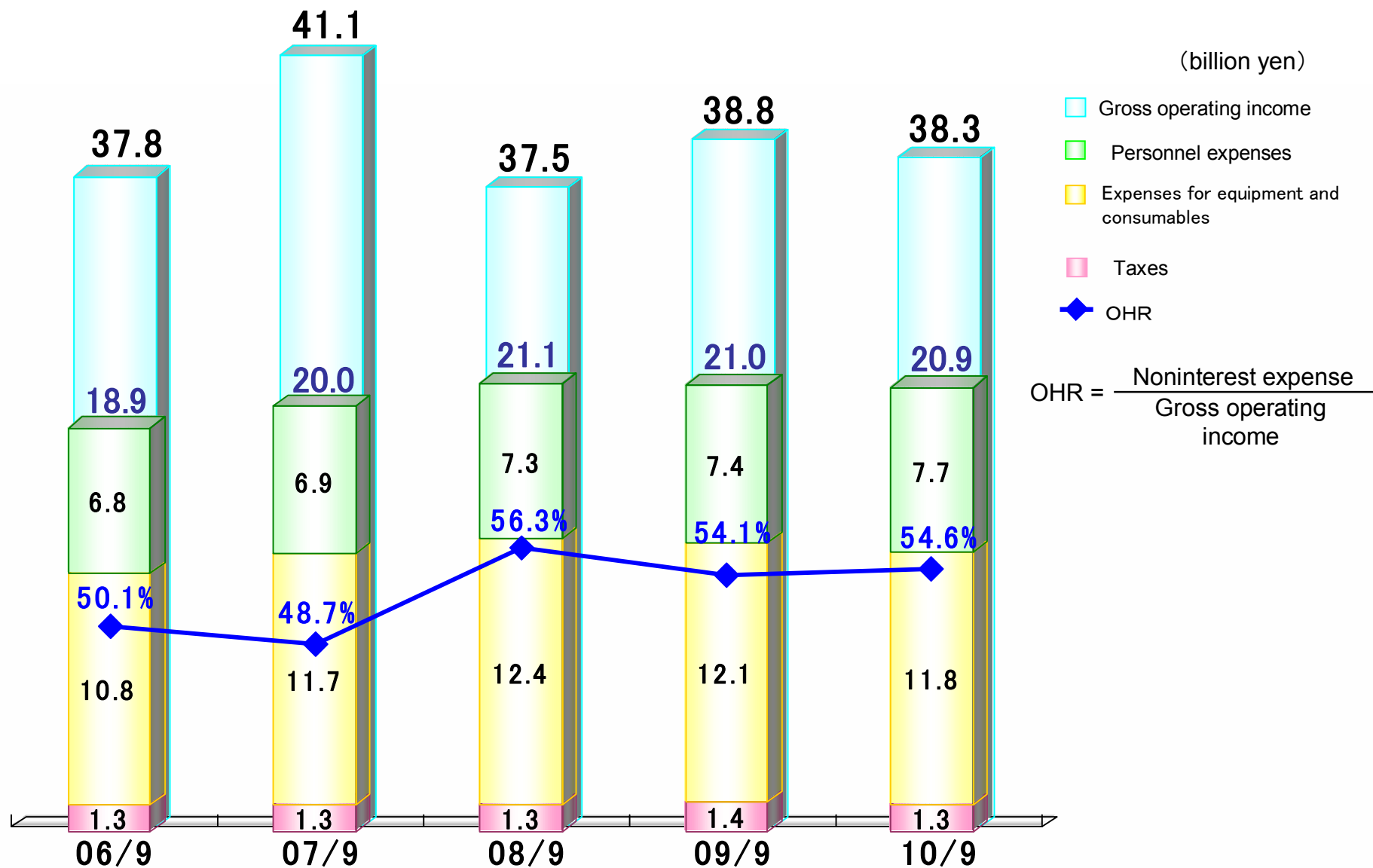
(million yen)

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





# Expenses and OHR



# Breakdown of Problem Assets based on the Financial Rehabilitation Law

(billion yen)

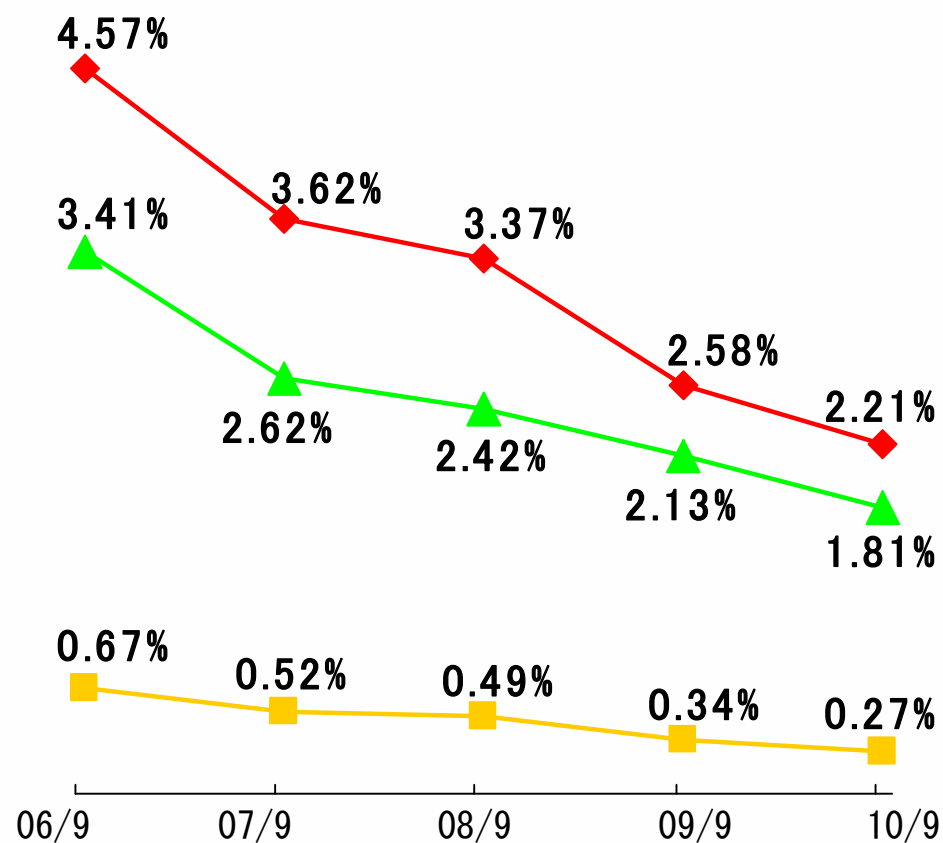
Debtor classification	Sep. 10 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees ※ NOTE	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio
Claims against bankrupt and substantially bankrupt obligors	18.4	0.74%	Consumer	13.8	0.69%	8.1	6.5	1.5	58.40%	5.7	100%	100%
			Corporate	4.6	0.98%	4.2	2.4	1.7	91.58%	0.3	100%	100%
Claims with collection risk	16.9	0.68%	Consumer	2.1	0.10%	1.3	0.6	0.6	62.11%	0.6	73.02%	89.78%
			Corporate	14.7	3.13%	12.7	5.7	6.9	86.39%	1.4	73.02%	96.32%
Claims for special attention	19.3	0.78%	Consumer	8.8	0.44%	6.4	6.1	0.3	72.45%	0.8	36.12%	82.40%
			Corporate	10.5	2.24%	5.3	5.2	0	50.58%	0.7	15.12%	58.05%
Sub-total	54.7	2.21%	Consumer	24.9	1.24%	15.8	13.3	2.5	63.71%	7.2	80.32%	92.86%
			Corporate	29.8	6.36%	22.2	13.4	8.8	74.57%	2.6	34.75%	83.41%
Normal assets	2,412.4	97.78%	Consumer	1,973.1	98.75%	<b>Total coverage ratio</b> <b>87.71%</b>						
			Corporate	439.2	93.63%							
Total	2,467.1	100%	Consumer	1,998.0	100%	<b>Coverage ratio</b> : Covered by collateral and guarantees <b>Reserved ratio</b> : Reserved for unsecured portion <b>Total coverage ratio</b> : Covered by collateral, guarantees and reserves						
			Corporate	469.1	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

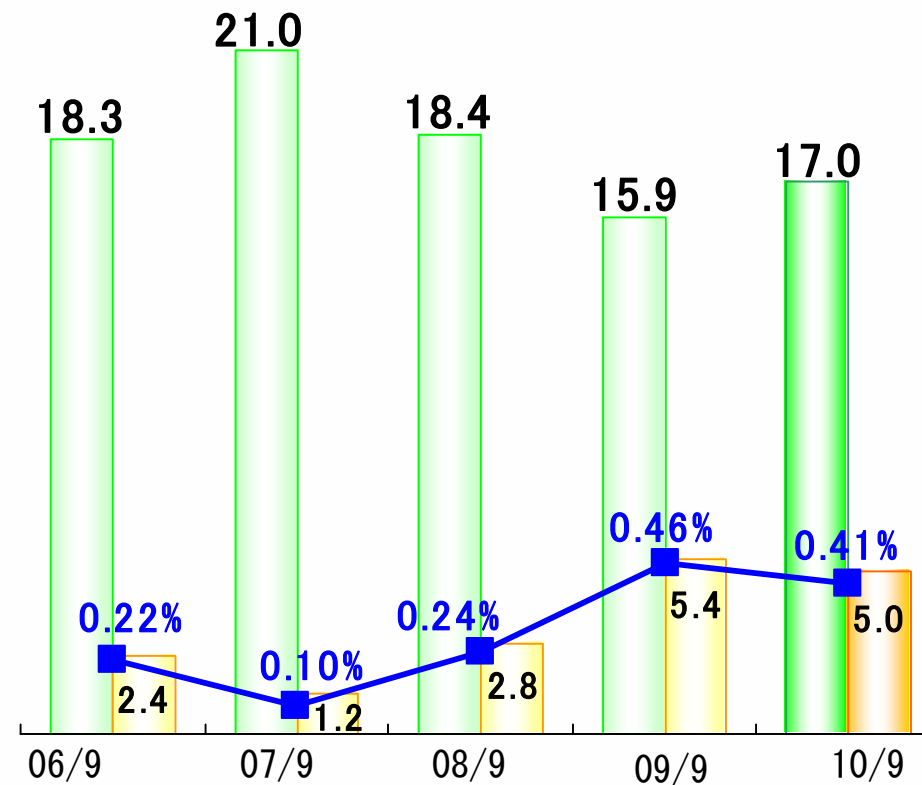
- ◆ Ratio of disclosed assets
- ▲ Ratio of disclosed assets after deduction from reserves
- Ratio of disclosed assets after deduction from reserves, collateral and guarantees



## 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 annual basis)



# Bond Portfolio

□ JGBs

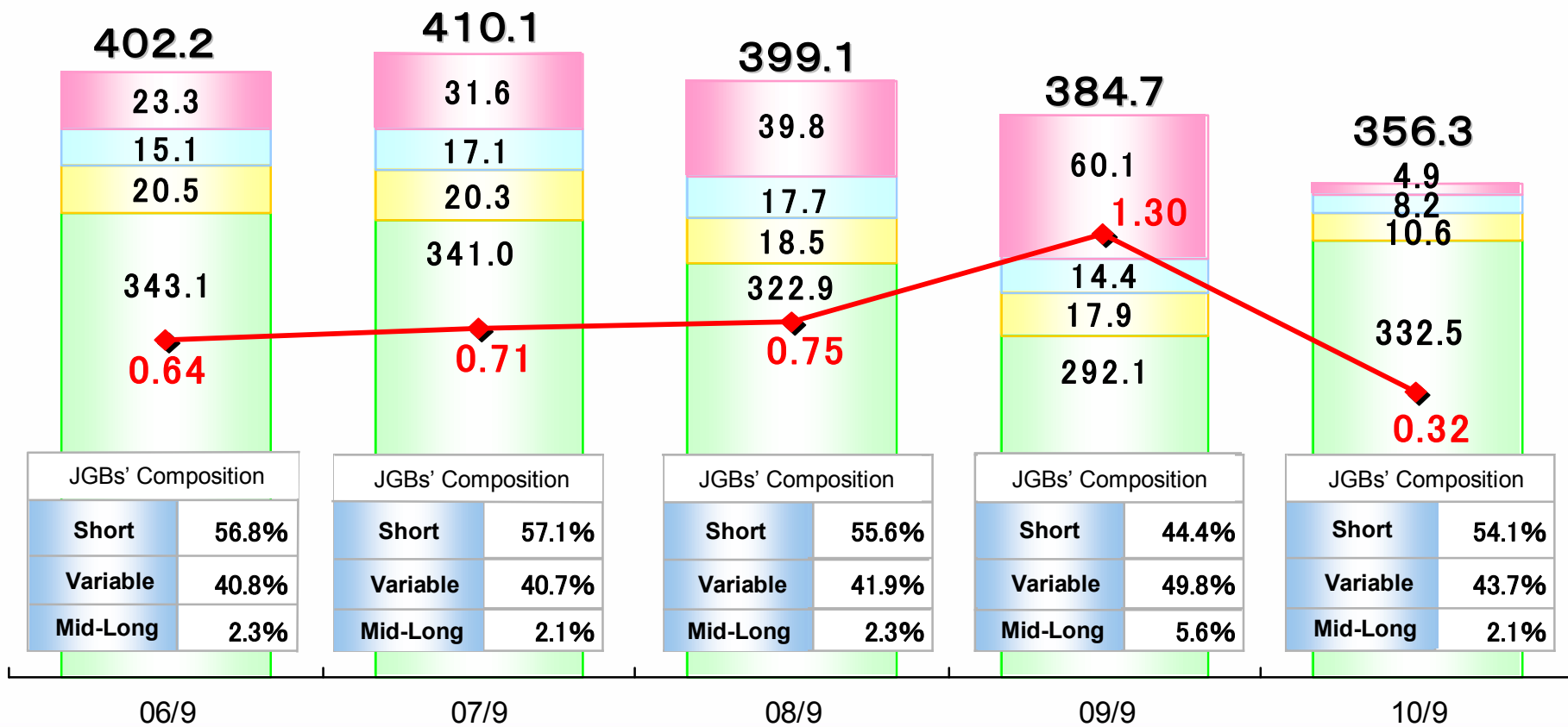
□ Corporate bond

◆ Average remaining maturity (Year)

□ Foreign bonds

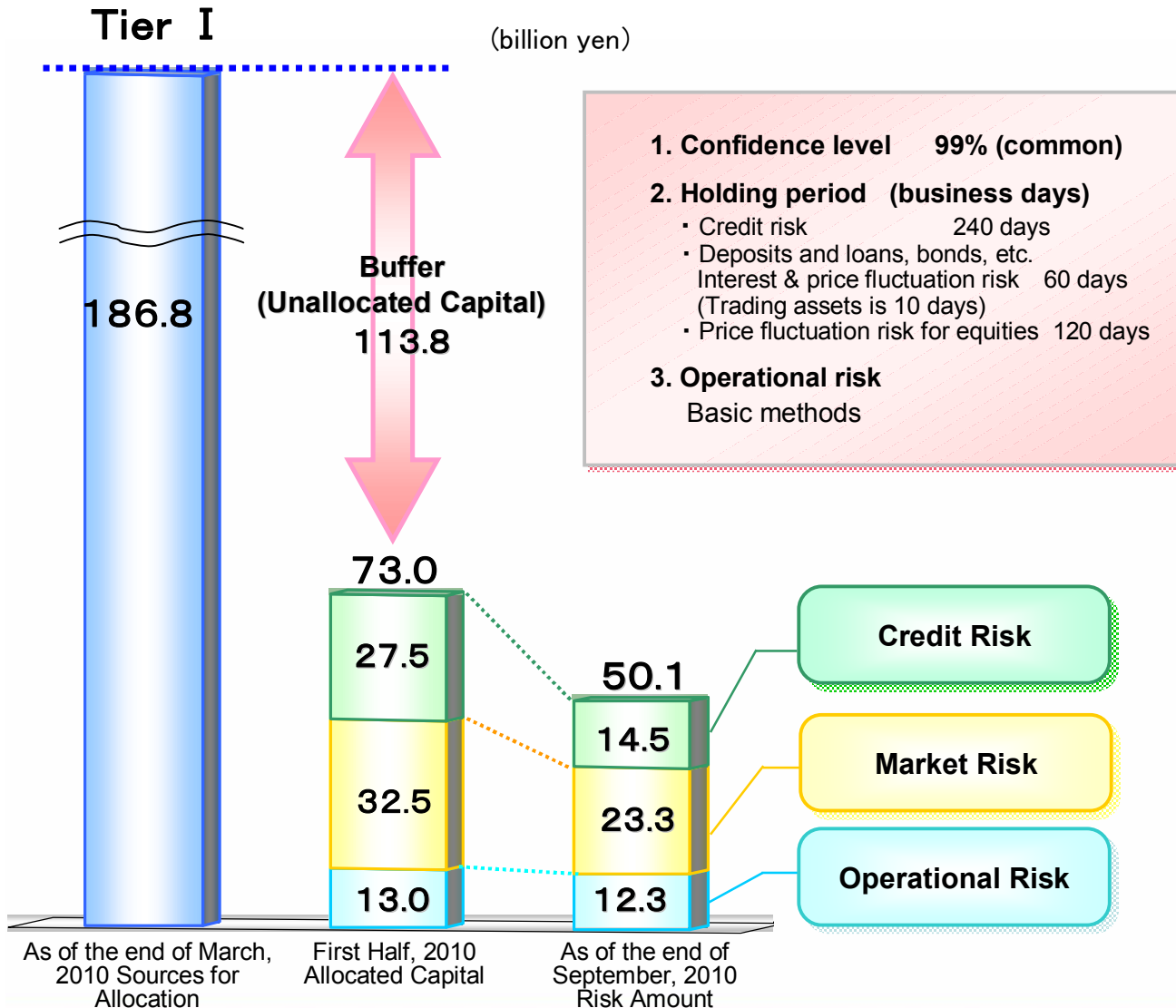
□ Regional government bonds

(billion yen)



# ■ Status of Risk Amount

## Integrated Risk Management



## Outlier Ratio

As of the end of September, 2010

Interest Rate Shock range

±200bps

Interest Rate Risk Amount

8.6 billion yen

Outlier Ratio

4.2%

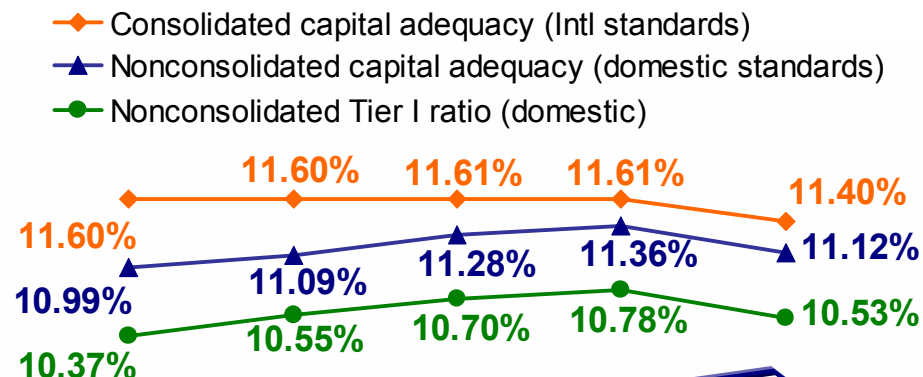
# Capital Adequacy

## Share Buybacks (Actual)

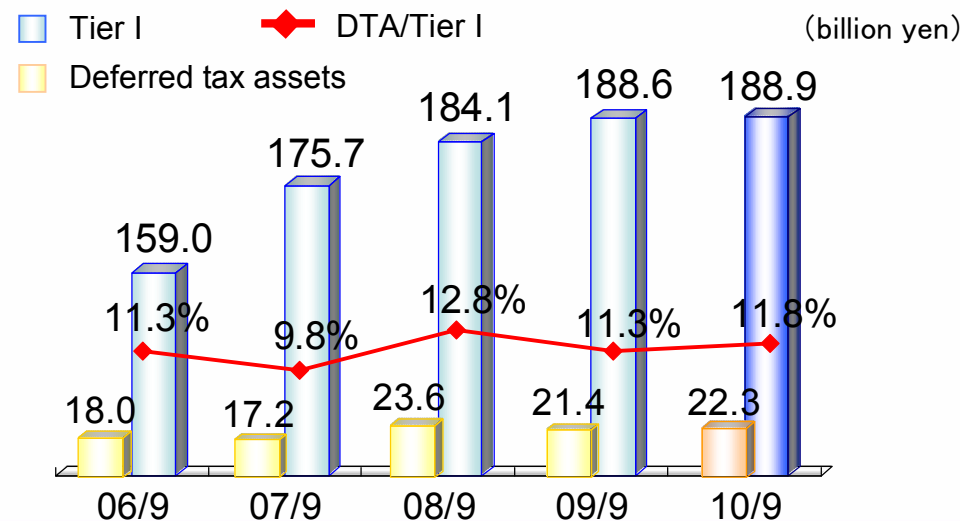
Feb 2009 to May 2009	<b>7.54 mn shares</b> <b>¥6 bn</b>
Oct 2009 to Jun 2010	<b>9.82 mn shares</b> <b>¥8 bn</b>
Jul 2010 to Oct 2010	<b>3.99 mn shares</b> <b>¥3 bn</b>
<b>Total</b>	<b>21.35 mn shares</b> <b>¥17 bn</b>

Impact of share buybacks on capital adequacy ratio: 9%

## Capital Adequacy Ratios



**As of end-Sep 2010: 9.7% Core Tier I ratio**  
Accounts for valuation losses on securities holdings, deferred tax assets, investments in common shares of financial institutions, software, etc.





# ■ 2010 First half Results and FY 2010 Forecast

(billion yen)

	Sep 2010 Forecasted (A)	Results Sep 2010 (B)	Increase or Decrease (B-A)	FY 2010 Forecast
Net operating income	17.5	17.0	Δ0.5	37.0
Ordinary profit	10.5	9.1	Δ1.4	22.5
Net income	6.7	6.1	Δ0.6	14.5
Actual credit cost	5.5	5.0	Δ0.5	11.0
Dividends (Yen)	6.5	6.5	0	13

# CSR As Suruga Sees It

Under the corporate philosophy of putting our customers on schedule to realize their dreams, we at Suruga Bank strive to fulfill our social responsibility and meet the expectations of our stakeholders through the pursuit of helping our customers make their dreams come true.



**Helping Make Dreams Come True**

**d-labo (dream laboratory)**  
Creating a future where customer dreams come true

Seminars that help customers find their dreams

**I DREAM**  
(Supporting soccer dreams)

Supporting soccer dreams as a bank from Shizuoka—Japan's soccer "kingdom"

Emperor's Cup

Suruga Bank Championship 2010

**Working with children to think about having a dream**  
**Sponsoring Japan Football Association's JFA Kokoro Project**

**Yumesen**

Making dreams come true is part of Suruga's mission. As a sponsor, we believe in the aim of the JFA Kokoro Project by the Japan Football Association

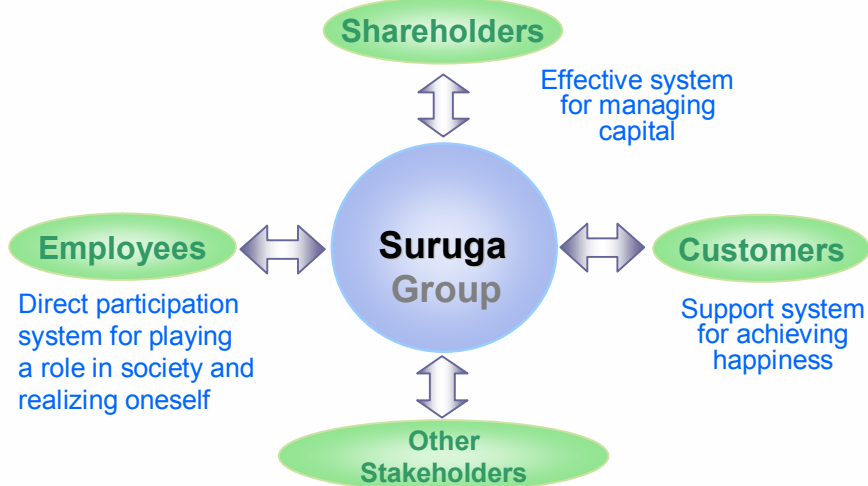
**What is the JFA Kokoro Project?**

Soccer and other athletes visit elementary schools to talk to children as "dream teachers" (Yumesen) and teach the importance of having a dream and being a team player. Already 54,866 students have participated.

# Growth Within Our Corporate Philosophy

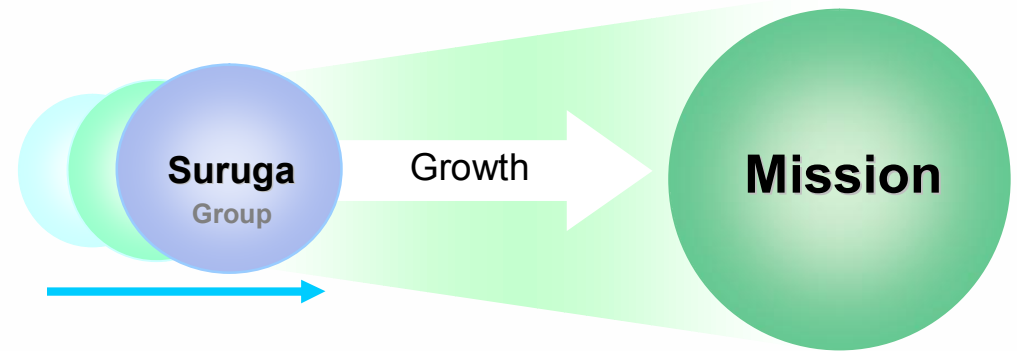
## Growth as a Value Exchange System

Define growth as greater exchange of value with all stakeholders.



## Growth as a Mission-Based Company

Define growth as making our mission more achievable. As a Life & Business Concierge, help make our customers' dreams come true on a timeline that works for them.



## Growth Originating in C•P•S

Management

<b>C</b>	<b>Culture-oriented</b> Rooted in culture of land where established	Respect culture. Leverage the strengths of that culture to realize growth for Suruga.
<b>P</b>	<b>People-based</b> Centered around its people	Achieve growth through management centered not on corporate theory but on the logic of its people.
<b>S</b>	<b>Social-perspective</b> Seeks improved sociality	Always mindful of its role as a social institution. Achieves ends by means above the social code.

For further details regarding the above, please contact

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**e-mail: [ir.koho@surugabank.co.jp](mailto:ir.koho@surugabank.co.jp)**

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