

SURUGA bank

## Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended March 31, 2012



# Management Discussion of the Environment

Japan's themes for structural reform have changed little in 20 years

## A vision for structural reform that Japan needs today

### Stop population shrinkage

Create an environment that makes it easier to raise families

### Recover fiscal balance

Raise consumption tax to level on par with EU

### Cultivate new industries

Create high-quality employment for the next generation

### Adopt states structure

Shift away from concentration on Tokyo and revitalize other regions

### Open markets

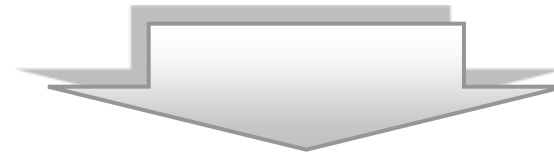
Lure foreign capital  
Advance globalization

### Revitalize primary industries

Improve food self-sufficiency  
Make food supply safer

### True wealth

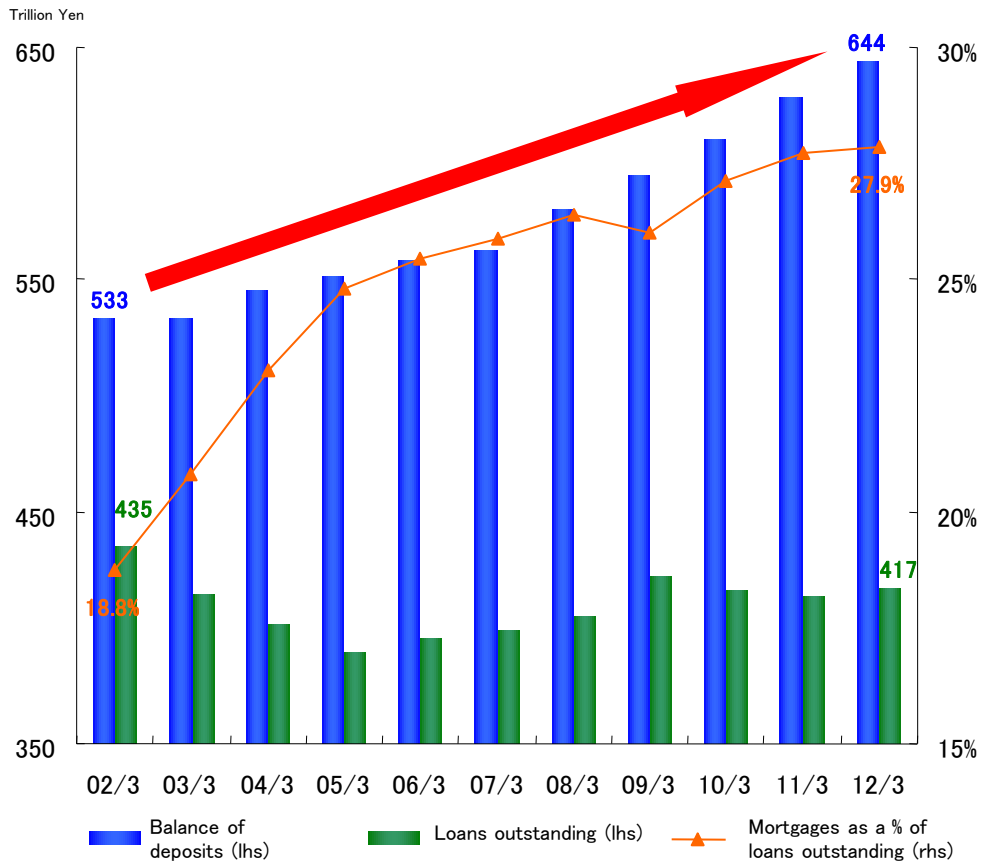
Build a society that can experience true wealth



Japan should create a new model as a global leader experiencing the future in advance of the world in the 21<sup>st</sup> century

# Environment Surrounding Japanese Banks

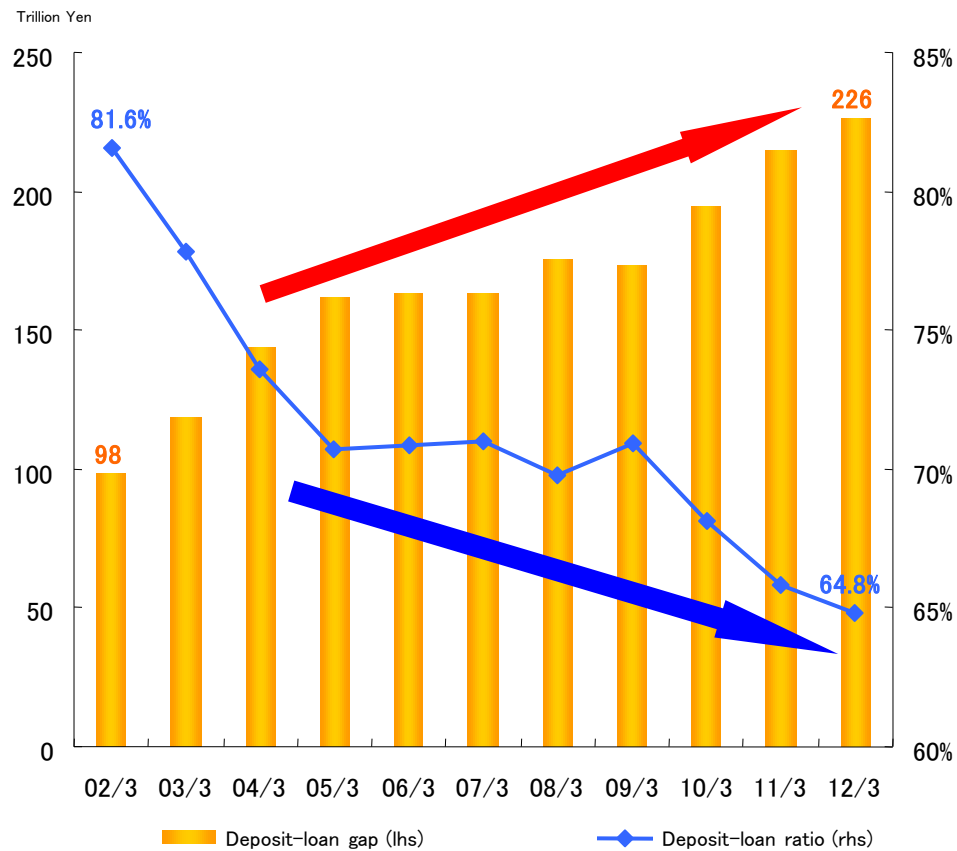
Loan and deposit balances and Mortgages as a % of total loans (Japanese banks)



Source: Prepared based on data from the Bank of Japan

The balance of deposits is up. Loans outstanding are down. Mortgages as a percentage of loans is rising every year.

Deposit-loan gap and deposit-loan ratio for Japanese banks

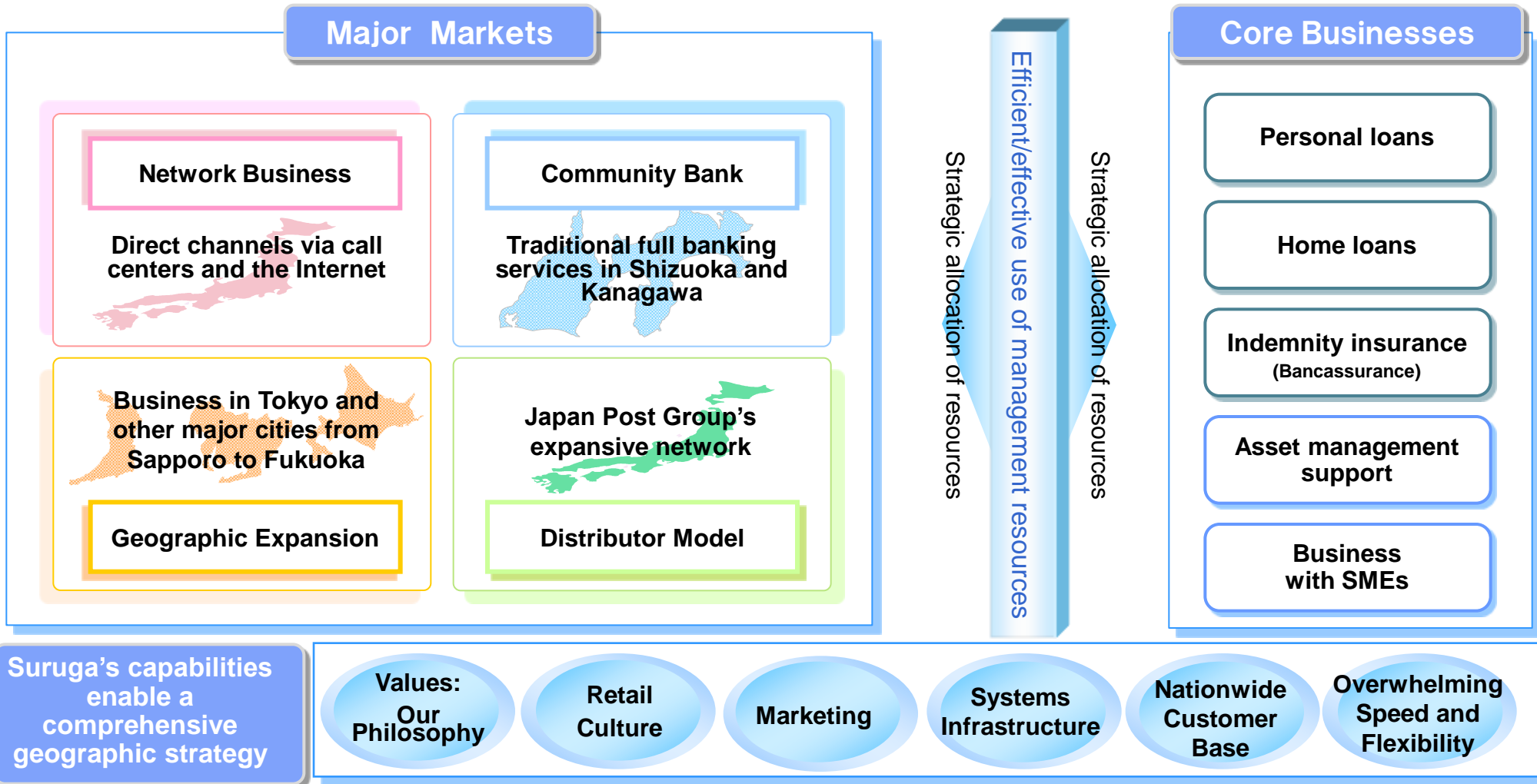


Source: Prepared based on data from the Bank of Japan

Growing gap between deposits and loans outstanding on weak demand for funds. The loan-deposit ratio continues to fall.

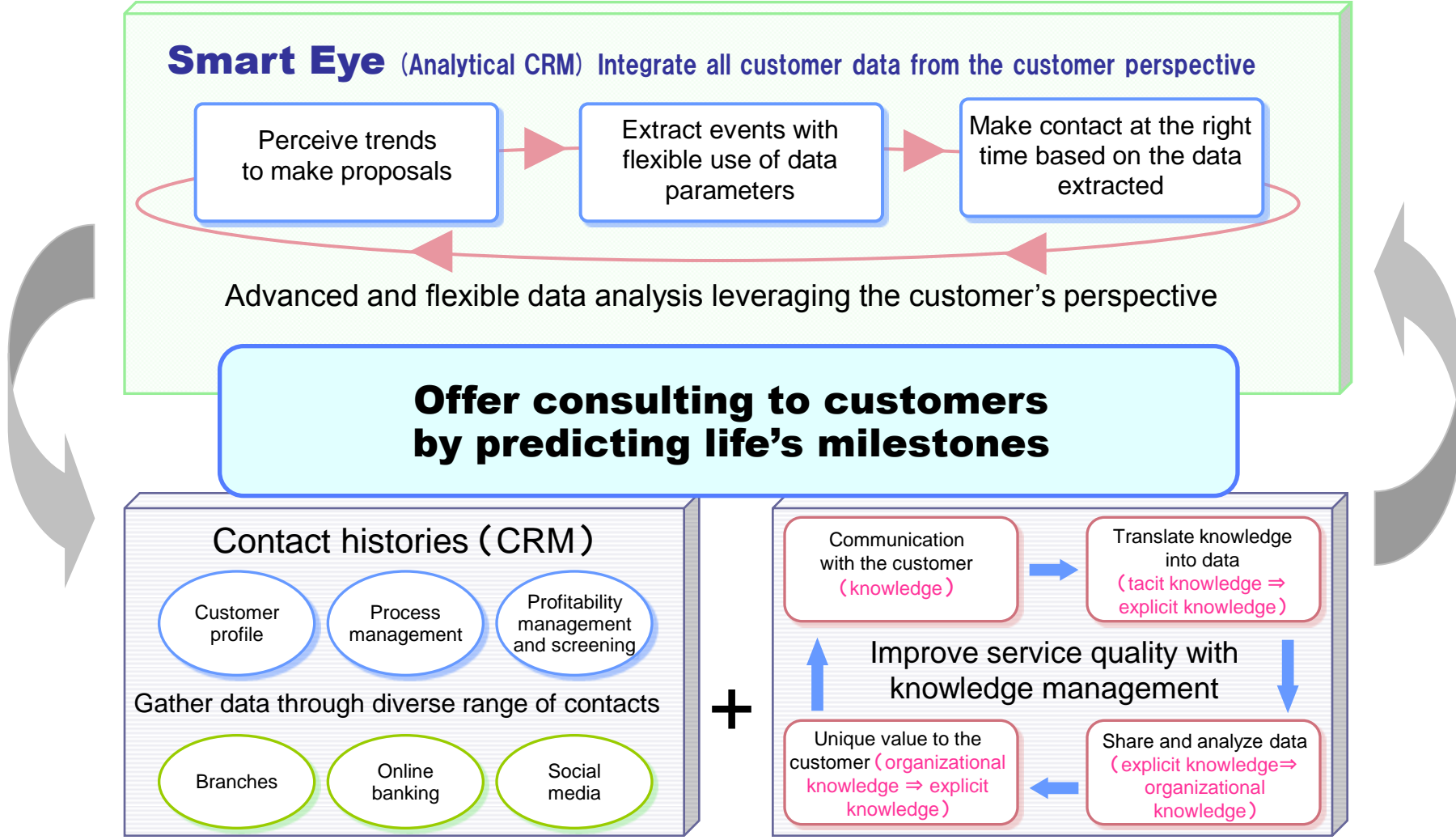
# Phase 4 Management Plan Grand Design

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



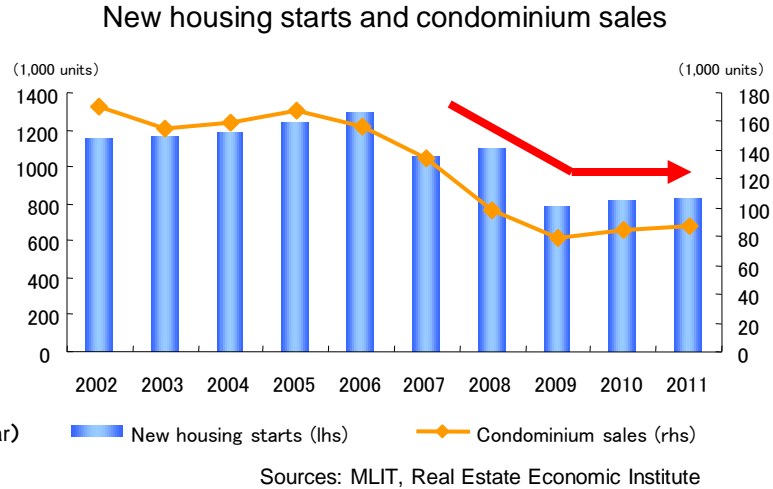
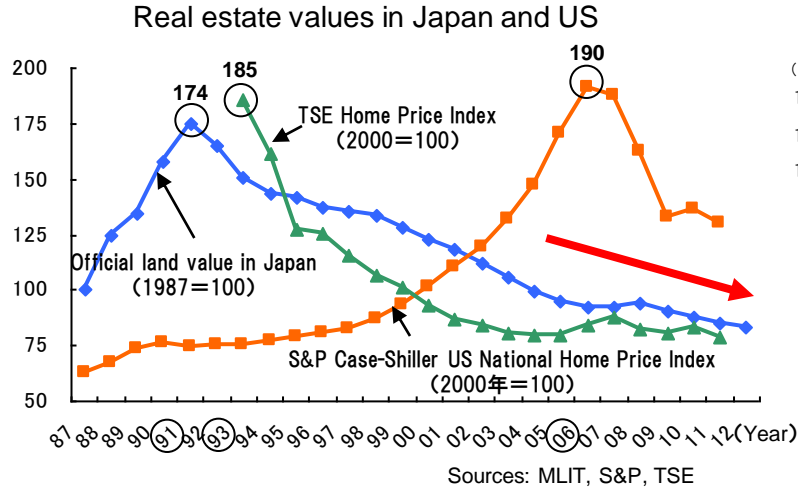
# Aiming for New Financial Services With a Customer-oriented Approach

Integrate and consolidate information from a customer-oriented perspective to become even better at making proposals at the right time.



# Environment Surrounding the Mortgage Market

## Changes in the real estate market environment



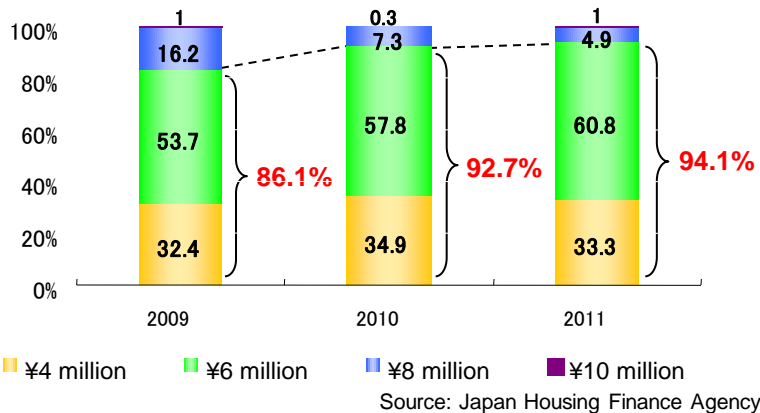
Difficult to expect land value appreciation and real estate market expansion in the future



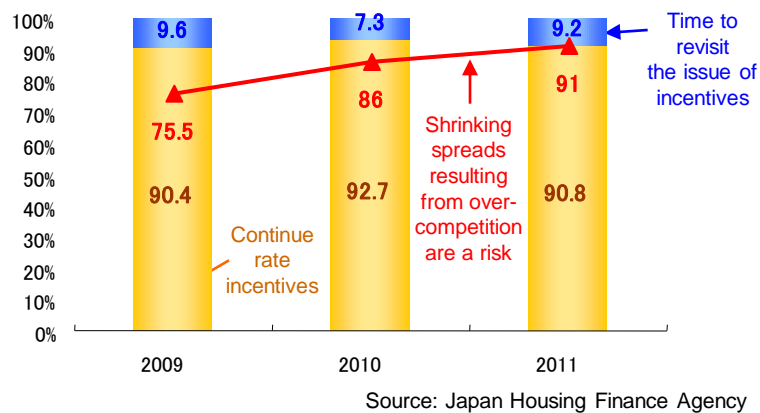
Conventional business models will no longer work

## Domestic banks' mortgage business

### Mortgage customer targets (annual income)



### Change in awareness about rate incentives



Declining customer demographics  
Hard to make profit  
Limits of incentive model



Competition will be won by adding value outside of interest rates

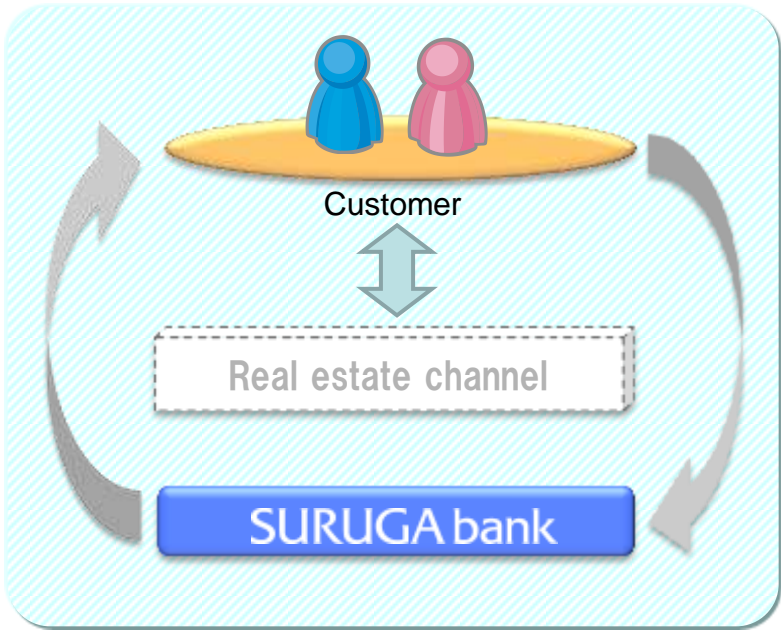
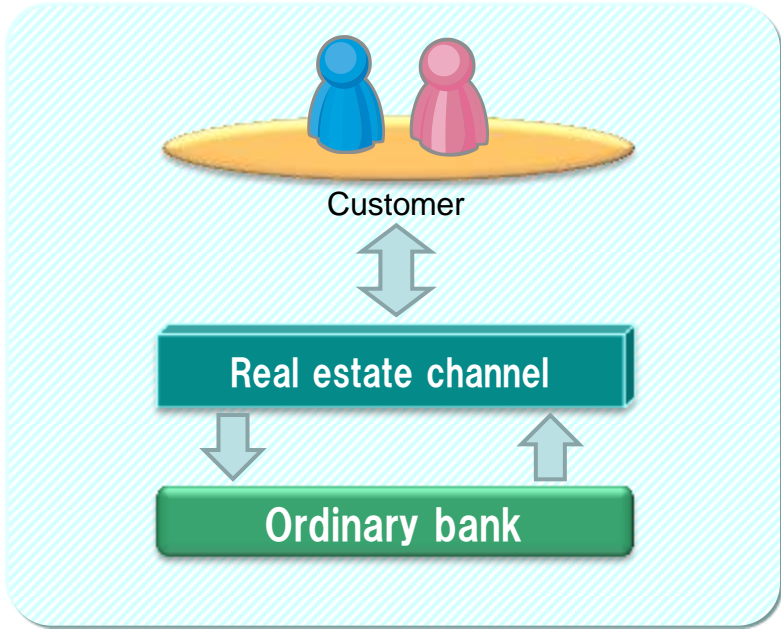
# Suruga Bank's Home Loan Business

Mortgage businesses at ordinary banks

Suruga Bank's home loan business

**B to B to C model**  
Offer low interest rates  
(started by real estate channels)

**B to C model that adds value**  
leveraging our database and Smart Eye



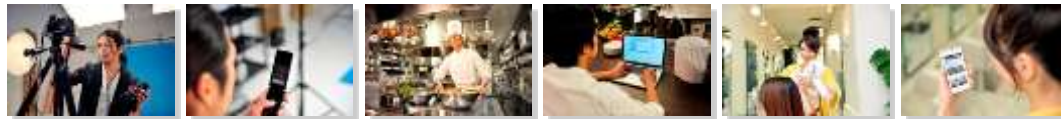
Suruga's home loan business is not reliant on sales channels.

Deploying a business model free from price competition by focusing on the customer perspective

# Consolidating DIRECT ONE Co., Ltd.

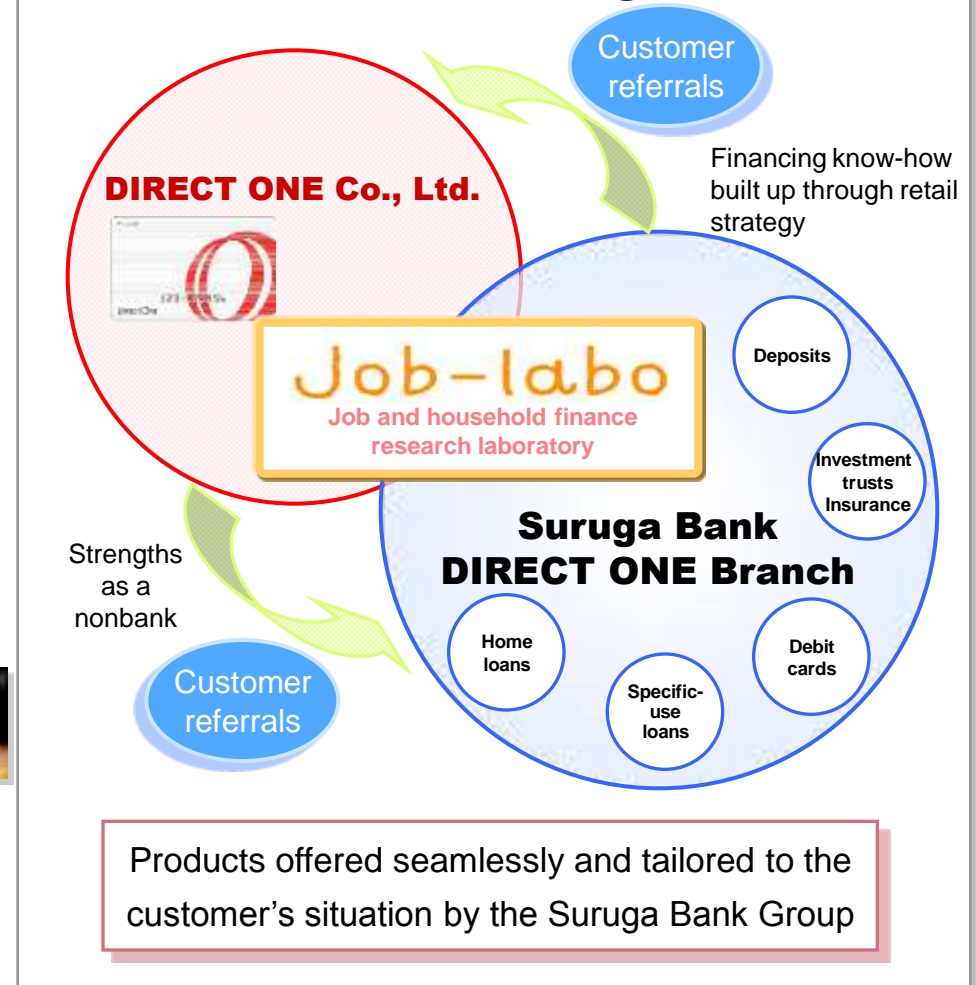
## Consolidating DIRECT ONE Co., Ltd.

Aiming to create and deliver new customer value in consumer finance in collaboration with Suruga, who aims to create new markets for personal loans leveraging differentiated business concepts.



Providing financing support to people working to create a brighter future

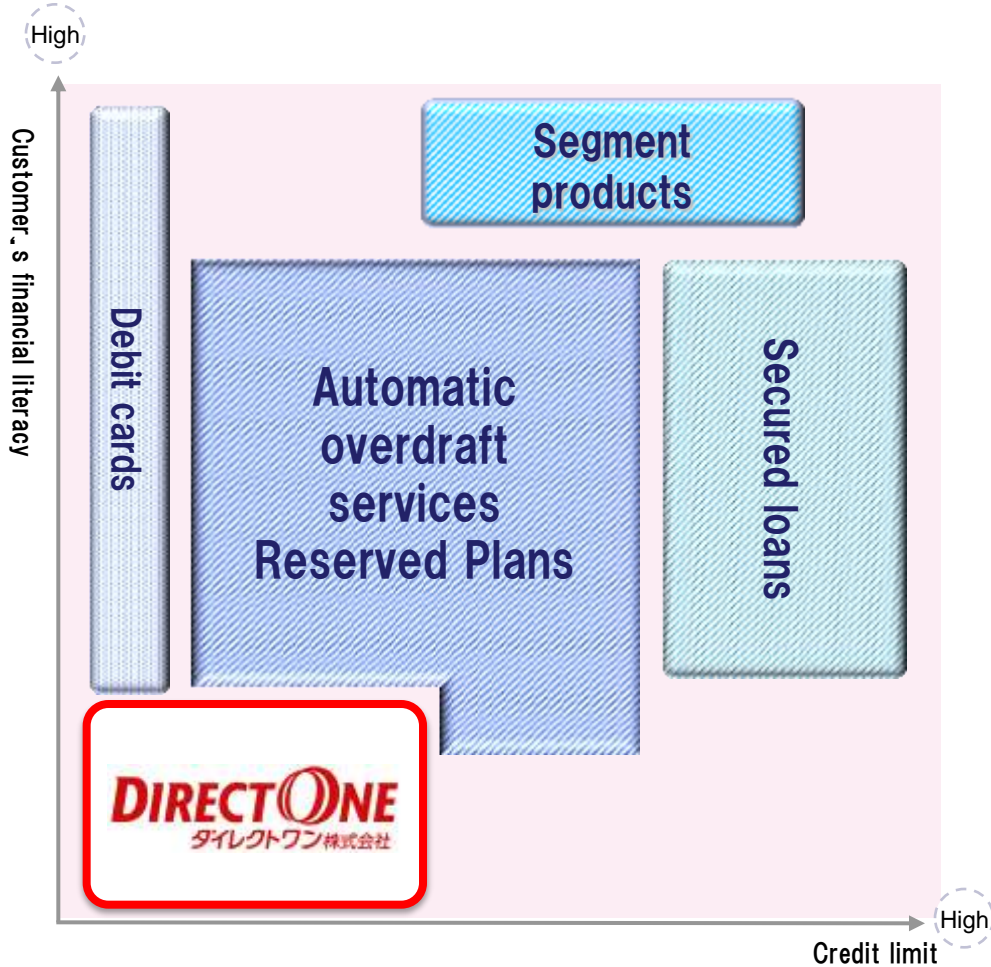
## Suruga Bank and DIRECT ONE What we are aiming to do





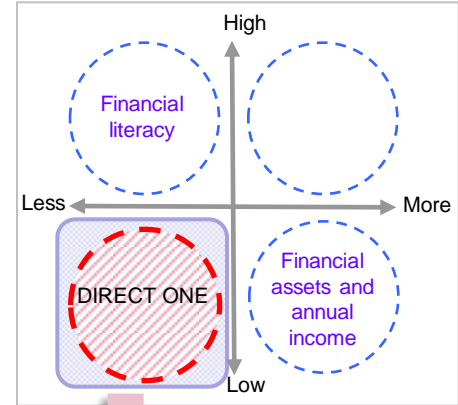
# An Overview of Suruga's Personal Loan Business

An overview of Suruga's personal loan business



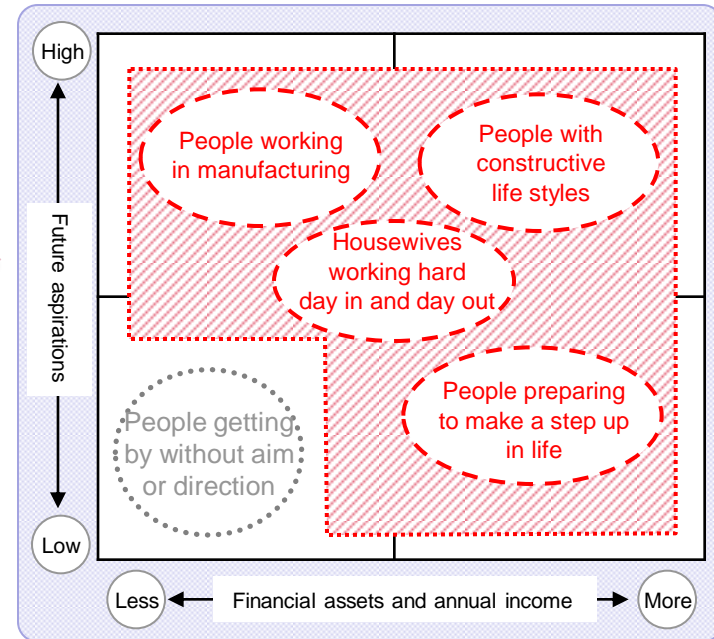
**Building a Suruga Bank Group capable of providing tailored solutions to customer needs**

Customer demographics in our personal loan business



Suruga Bank Group's personal loan business considers not only income levels but also the customer's values and lifestyle in offering the optimal product

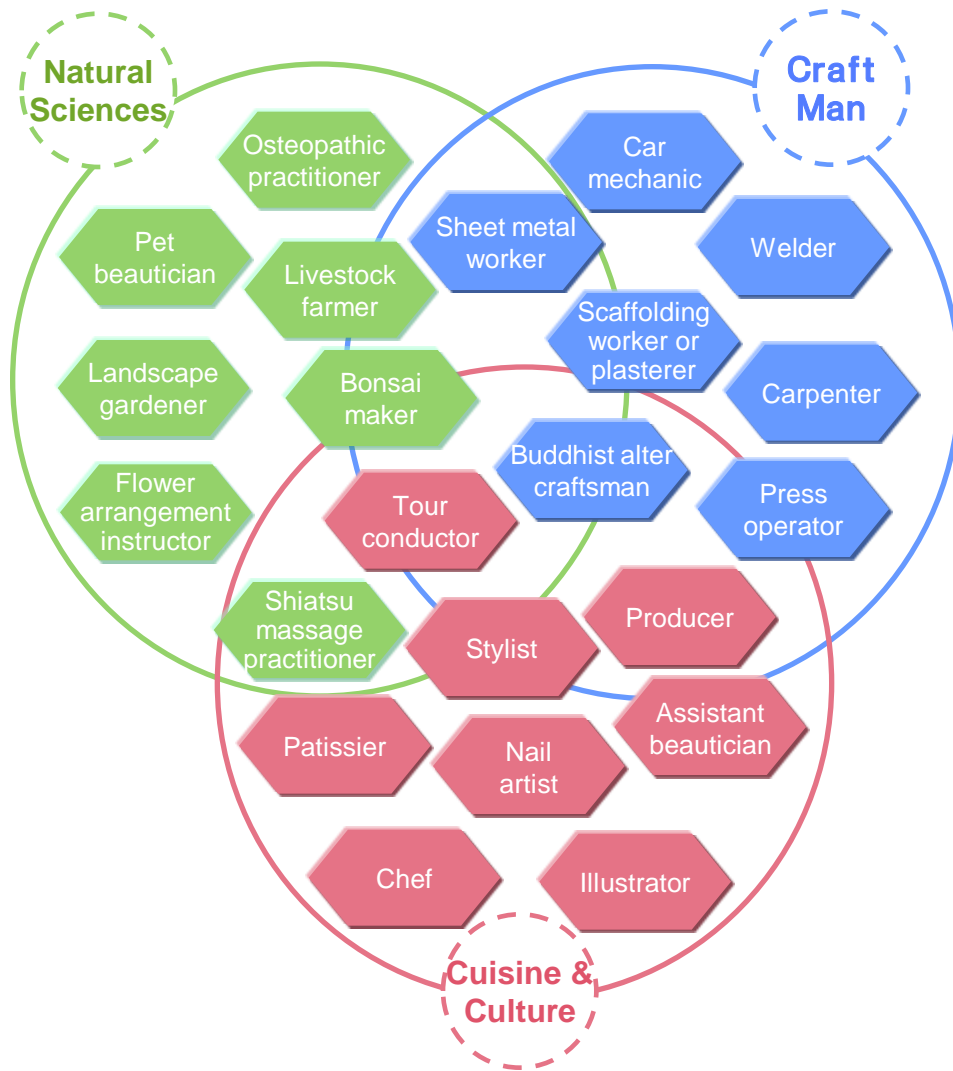
Take a closer look and you find...



# Doorway to the Future for People Striving to Live Their Dreams

~Job labo (Job and household finance research laboratory)~

## DIRECT ONE target customer image



## (D-one Style) Job-labo pamphlet

D-one style

Mix D-one concepts into stories about occupations, certifications and hobbies, mainly targeting housewives and youth.

### DIRECT ONE Concept

Your beliefs and hard work are not just for you; they are an irreplaceable source of power needed for the future of Japan. We support you who strive to grow and achieve your dreams.



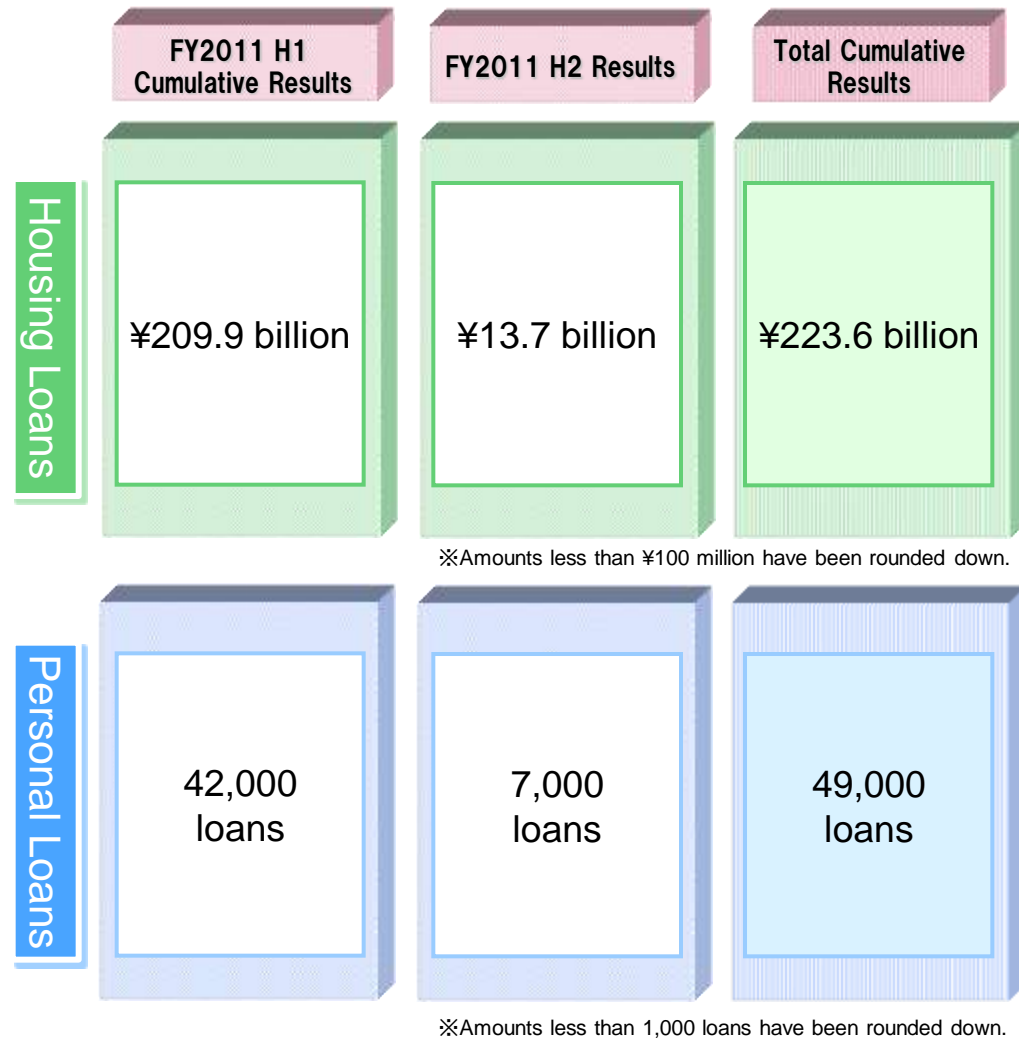
# Business Alliance with Japan Post Bank

More branches carrying *Shitaku* cash advance cards (Apr 2012)

Beginning April 1, 2012, all 233 Japan Post Bank branches will carry specific-use loans and cash advance cards, making these loans available to more customers.

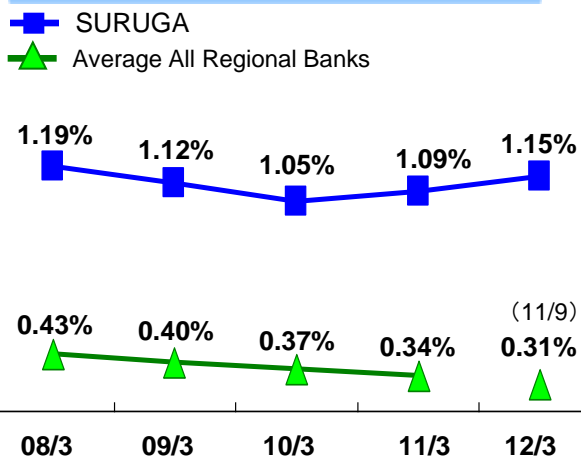
	Branches carrying housing loans, specific-use loans and cash advance cards	Branches carrying only specific-use loans and cash advance cards	Total number of branches that carry personal loan products
Hokkaido and Tohoku	2	13	15
Kanto	44	65	109
Koshin'etsu and Tokai	9	25	34
Kinki	16	28	44
Chugoku and Shikoku	7	10	17
Kyushu and Okinawa	4	10	14
<b>Total</b>	<b>82</b>	<b>151</b>	<b>233</b>

Cumulative results through the end of March 2012

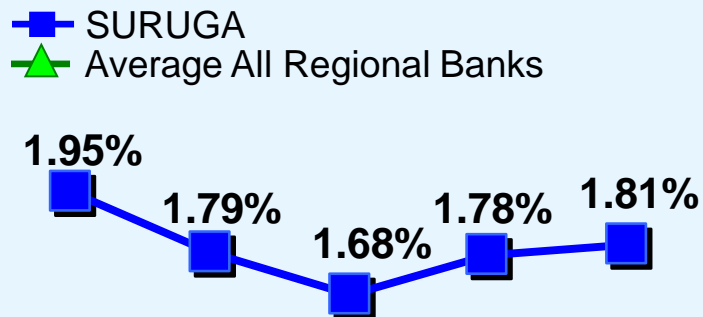


# Yield / Margins (Overall)

## Net interest margin

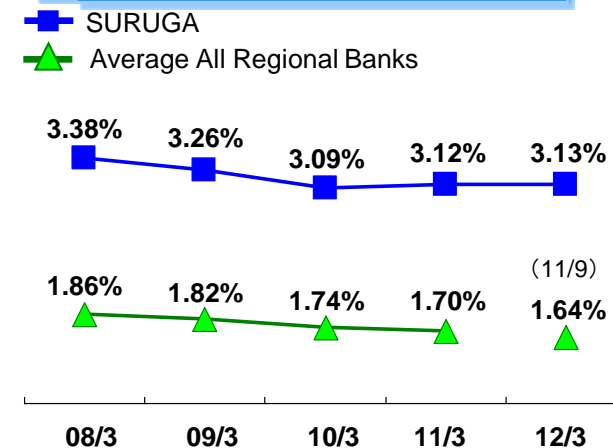


## Loan-deposit margin (after deduction from expense ratio)



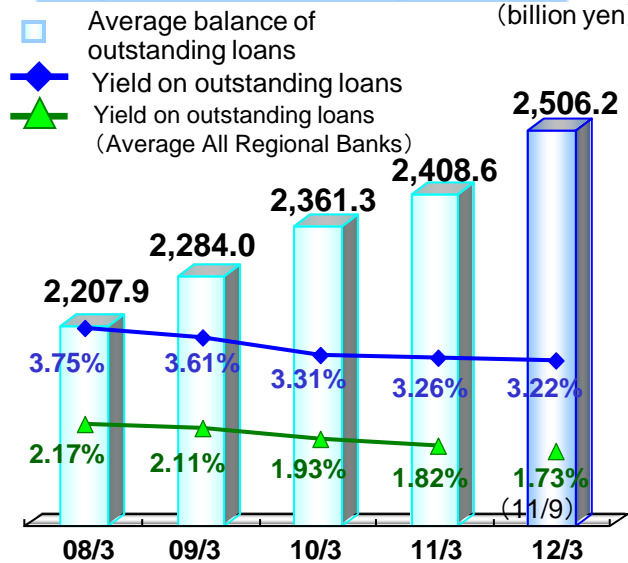
## Loan-deposit margin

(Yield on outstanding loans - Yield on deposits)



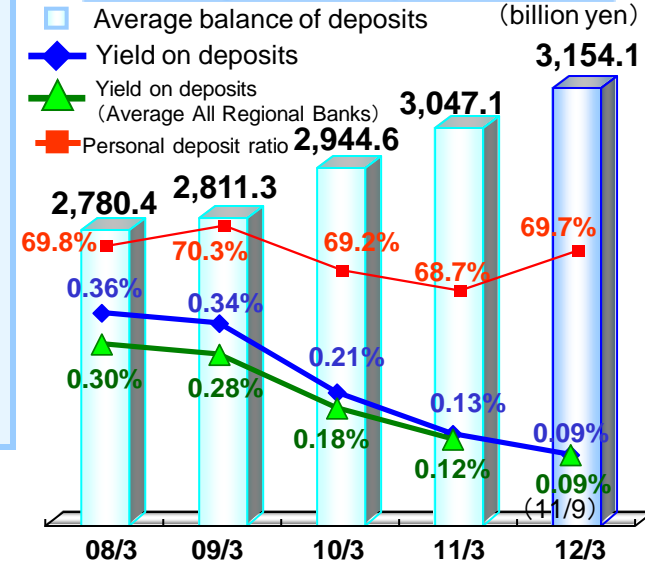
## Average balance and yield on outstanding loans

(billion yen)



## Average balance and yield on deposits

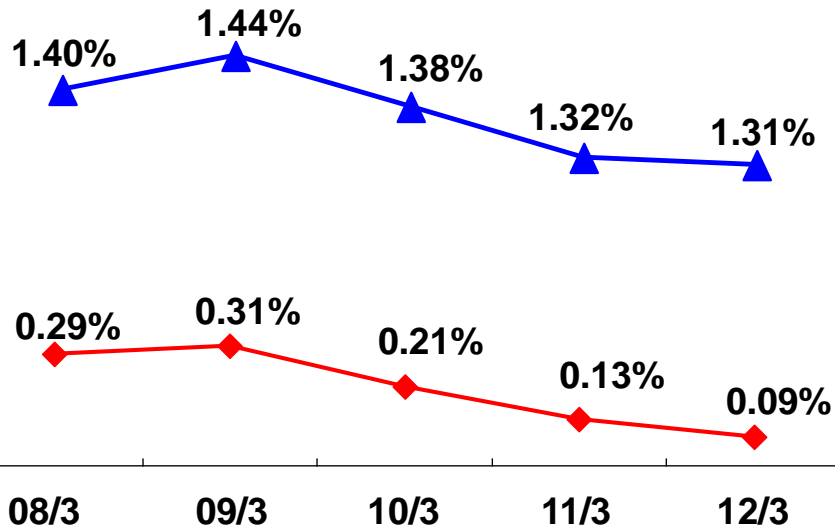
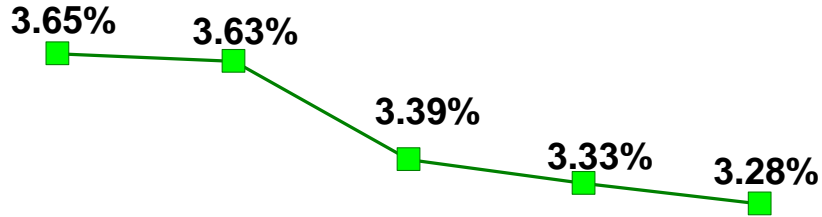
(billion yen)



# Yield / Margins (Domestic)

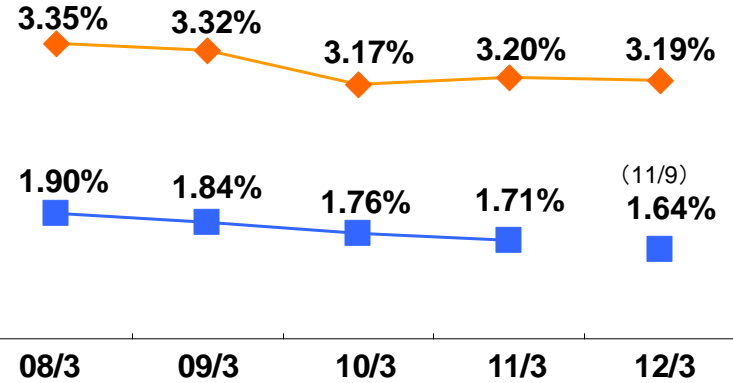
## Yield-Expense ratio

■ Yield on outstanding loans    ◆ Yield on deposits    (yen)  
▲ Expense ratio



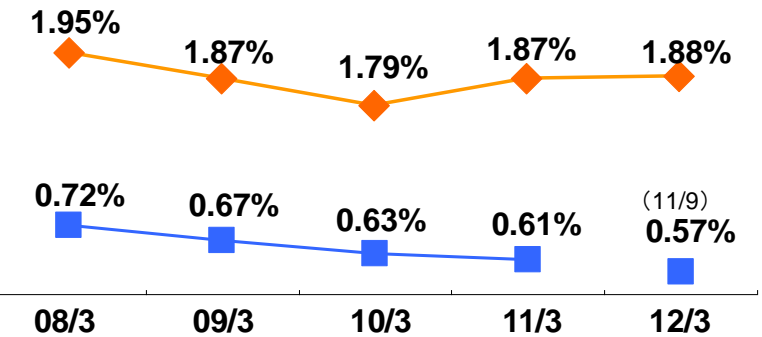
## Loan-deposit margin (Yield on outstanding loans - Yield on deposits)

◆ SURUGA  
■ Average All Regional Banks



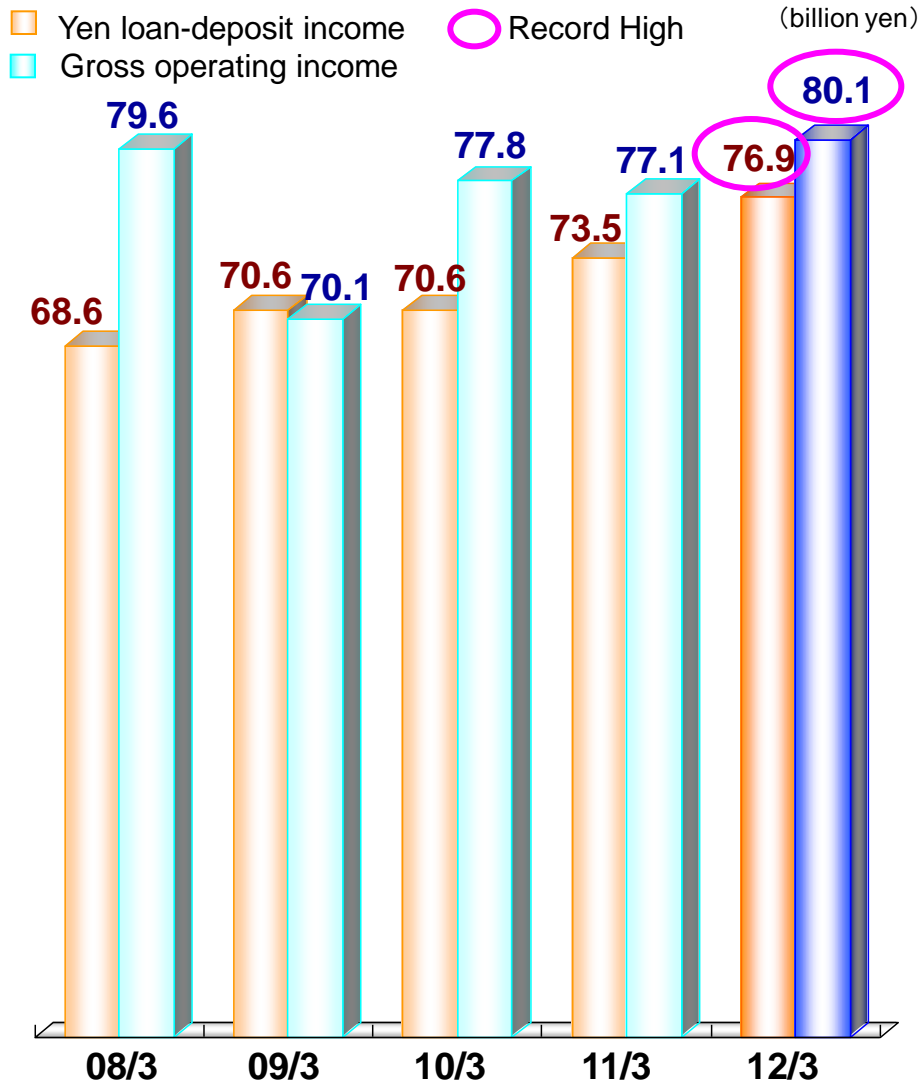
## Loan-deposit margin (after deduction from expense ratio)

◆ SURUGA  
■ Average All Regional Banks

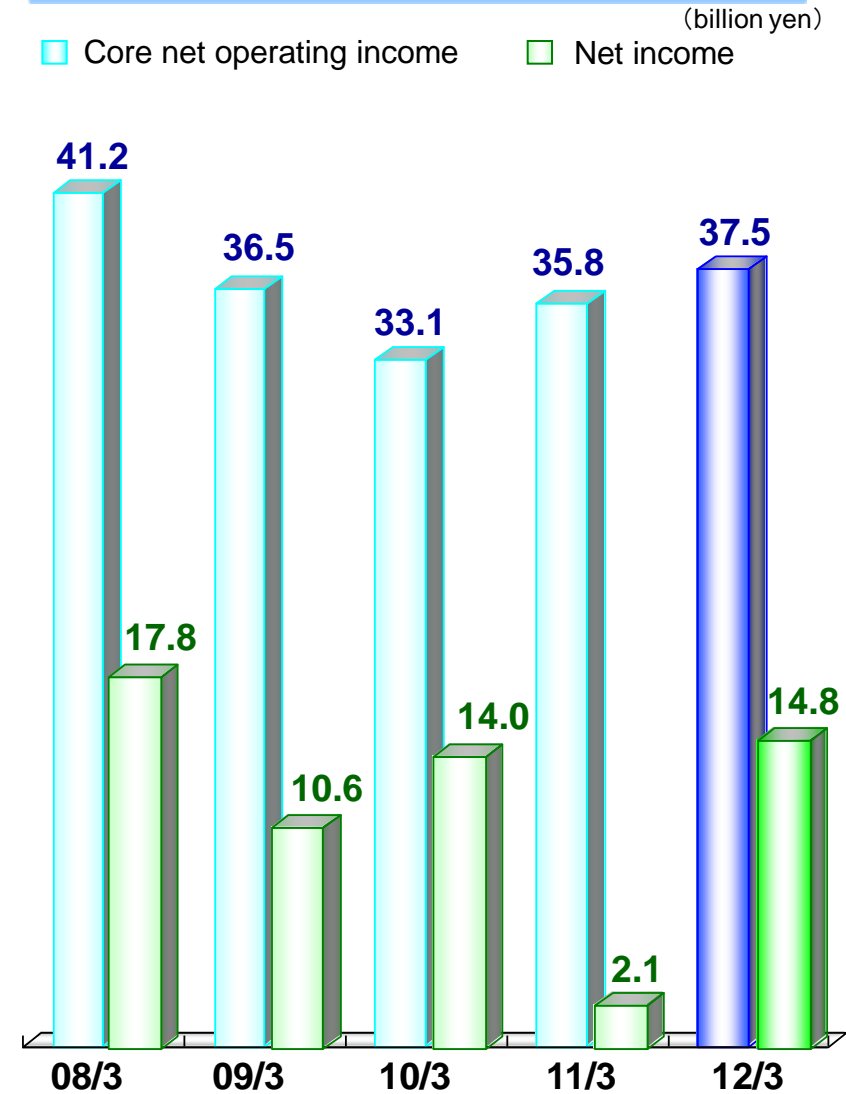


# Income

Gross operating income / Yen loan-deposit income



Core net operating income / Net income



# 10-year Balance Sheet Comparisons

## Balance sheets of Japanese banks

**[FY2000]**

**[FY2010]**

## Balance sheets of Japanese banks

**[FY2000]**

**[FY2011]**

Source (BS): BoJ website

Source (Loan-deposit margin): JBA

\*Loan-deposit margin based on Domestic,

Yield on outstanding loans - Yield on deposits

Loan-deposit margin : 1.88%

Loan-deposit margin : 1.55%

Loan-deposit margin : 2.66%

Loan-deposit margin : 3.19%

Total assets: ¥780 trillion

Total assets: ¥840 trillion

Total assets: ¥2.9 trillion

Total assets: ¥3.4 trillion

Loans ¥460 trillion	Deposits ¥480 trillion
Wholesale ¥350 trillion	
Retail ¥60 trillion	
Securities ¥100 trillion	
Other assets ¥220 trillion	Other liabilities ¥300 trillion

Loans ¥430 trillion	Deposits ¥600 trillion
Wholesale ¥270 trillion	
Retail ¥100 trillion	
Securities ¥200 trillion	
Other assets ¥210 trillion	Other liabilities ¥240 trillion

Loans ¥1.9 trillion	Deposits ¥2.7 trillion
Wholesale ¥0.9 trillion	
Retail ¥1 trillion	
Securities ¥0.4 trillion	
Other assets ¥0.6 trillion	Other liabilities ¥0.1 trillion
	Total stockholders equity ¥0.1 trillion

Loans ¥2.6 trillion	Deposits ¥3.2 trillion
Wholesale ¥0.4 trillion	
Retail ¥2.2 trillion	
Securities ¥0.3 trillion	
Other assets ¥0.5 trillion	Other liabilities ¥0.1 trillion
	Total stockholders equity ¥0.2 trillion

Loan deposit ratio : 95%  
Security-deposit ratio : 20%

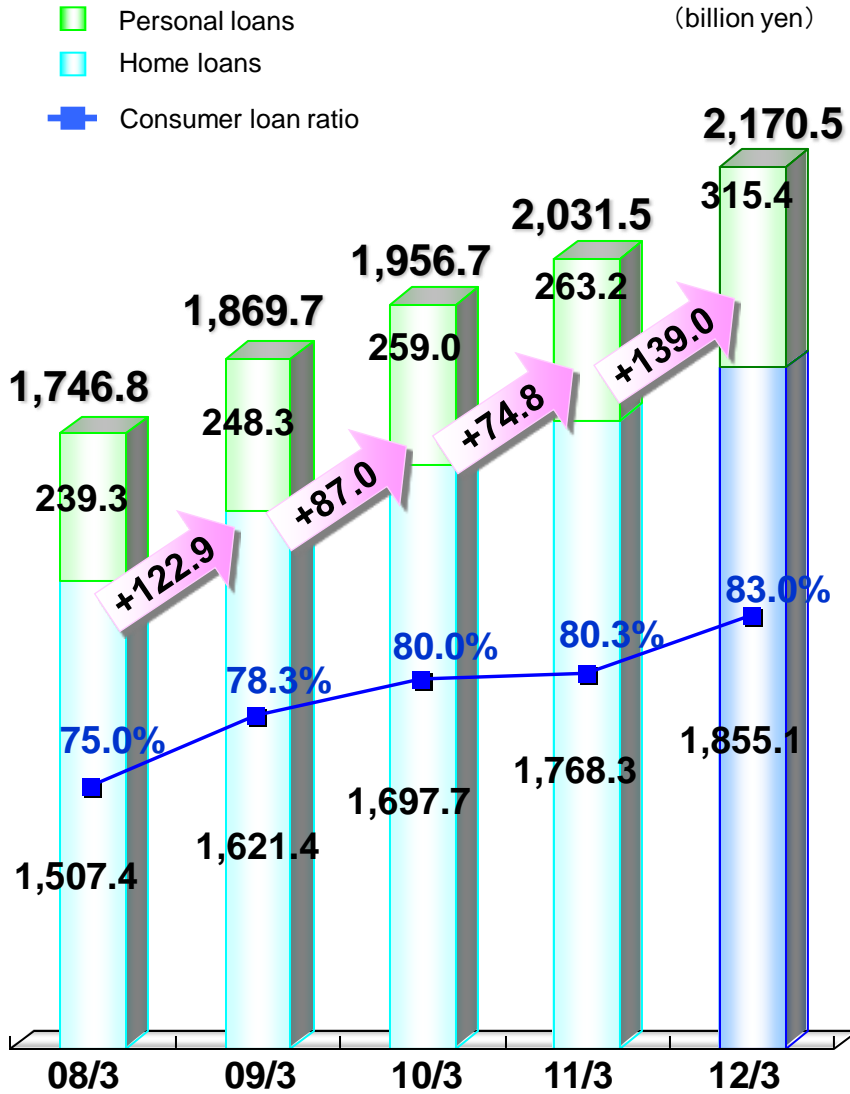
Loan deposit ratio : 71%  
Security-deposit ratio : 33%

Loan deposit ratio : 70%  
Security-deposit ratio : 14%

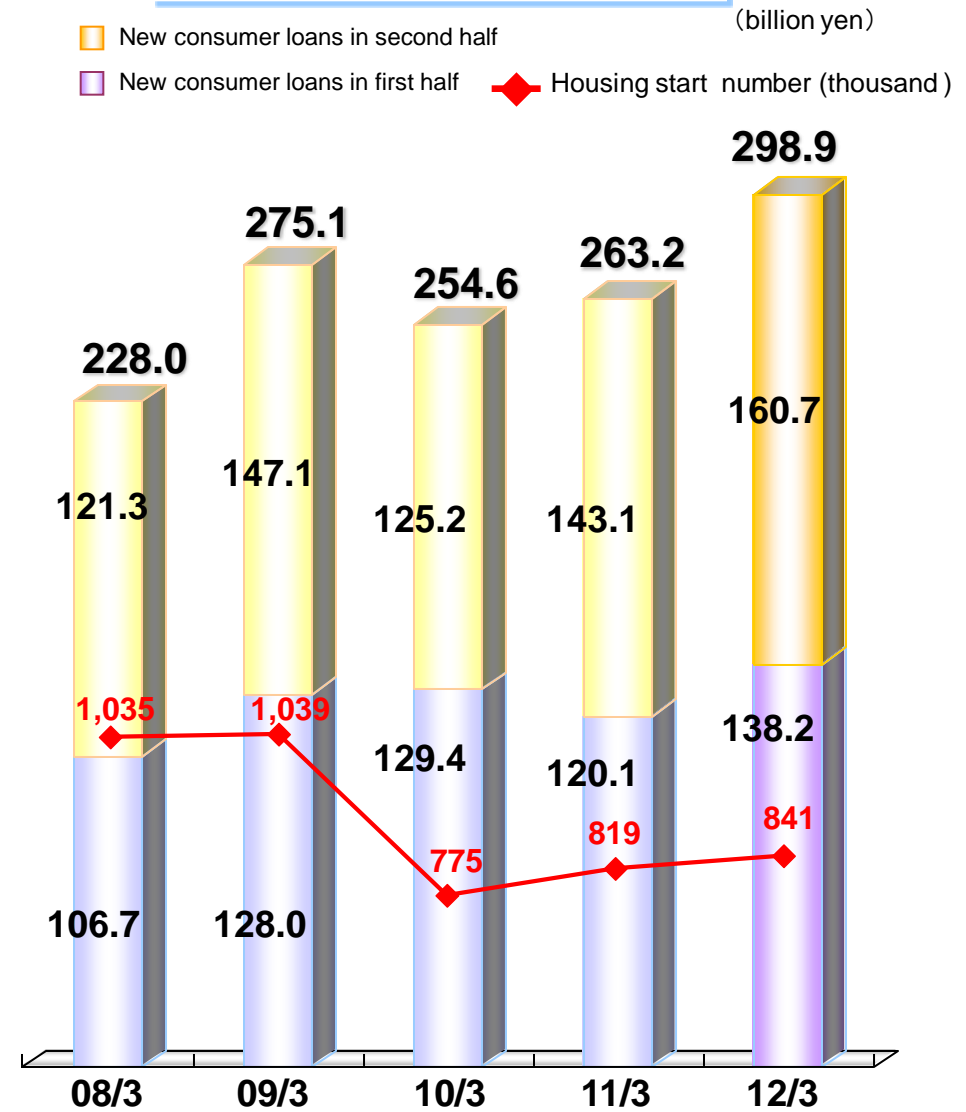
Loan deposit ratio : 81%  
Security-deposit ratio : 9%

# Strong Focus on Retail

Consumer loan balance and ratio



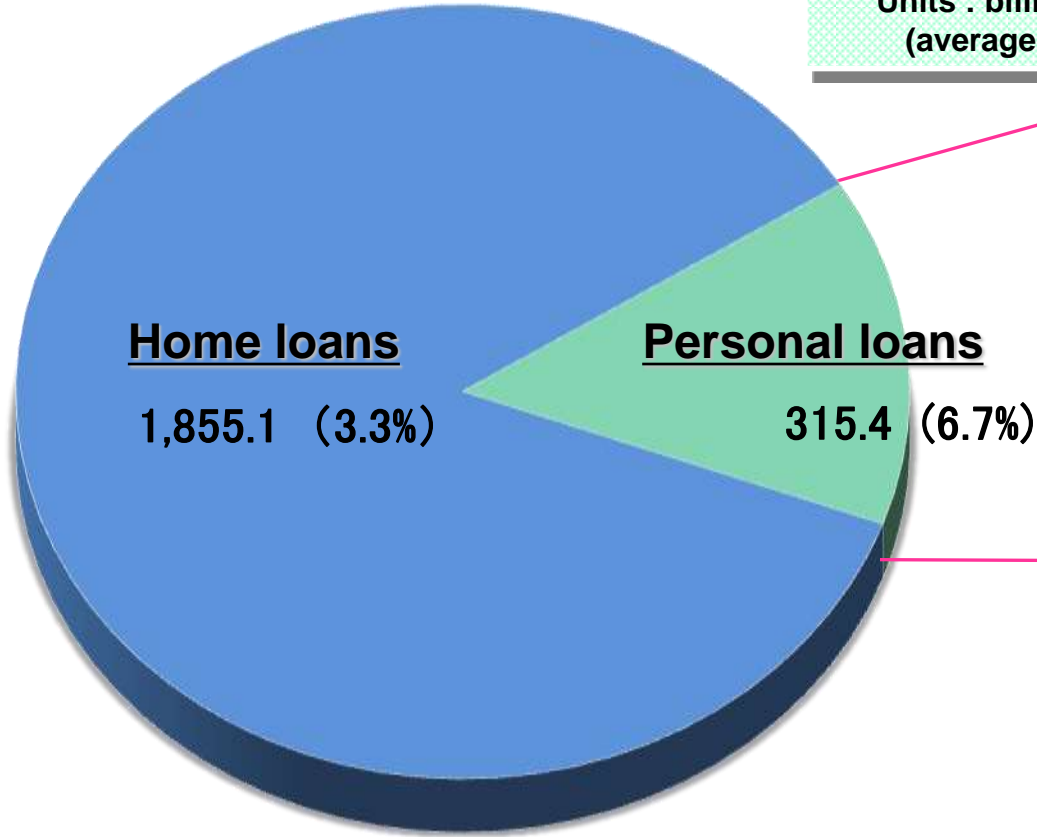
New loan contracts





# Focus on More Profitable Products

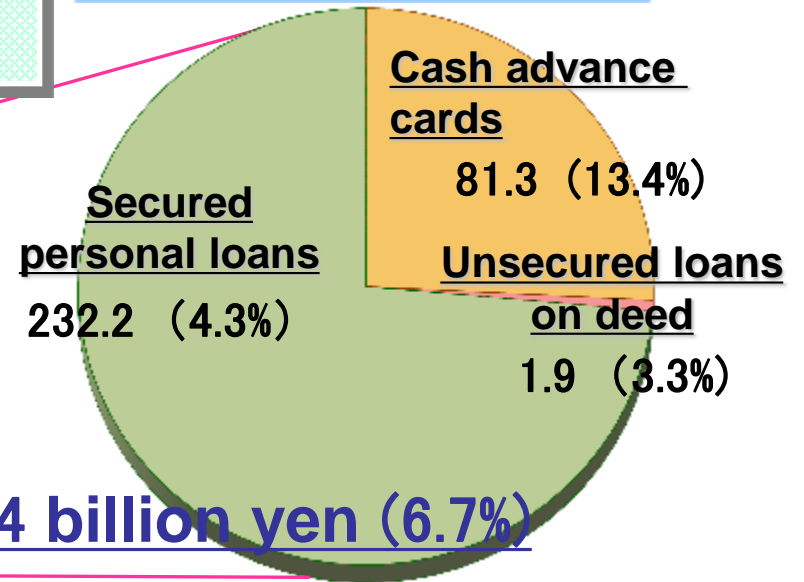
Consumer loans



**2,170.5 billion yen (3.8%)**

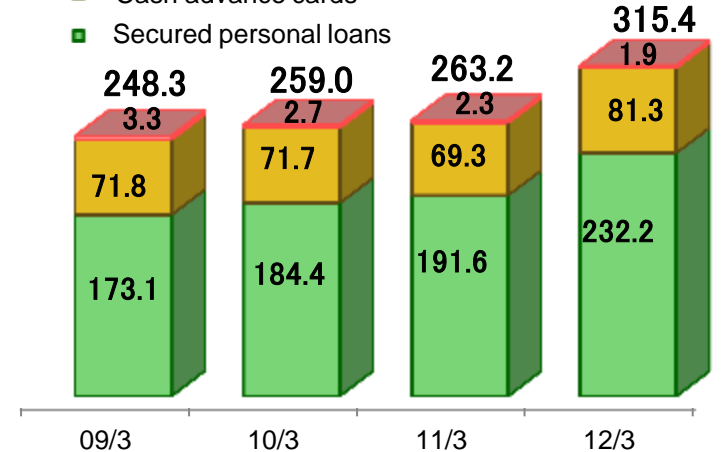
As of Mar. 31, 2012  
Units : billion yen  
(average rate)

Personal loans



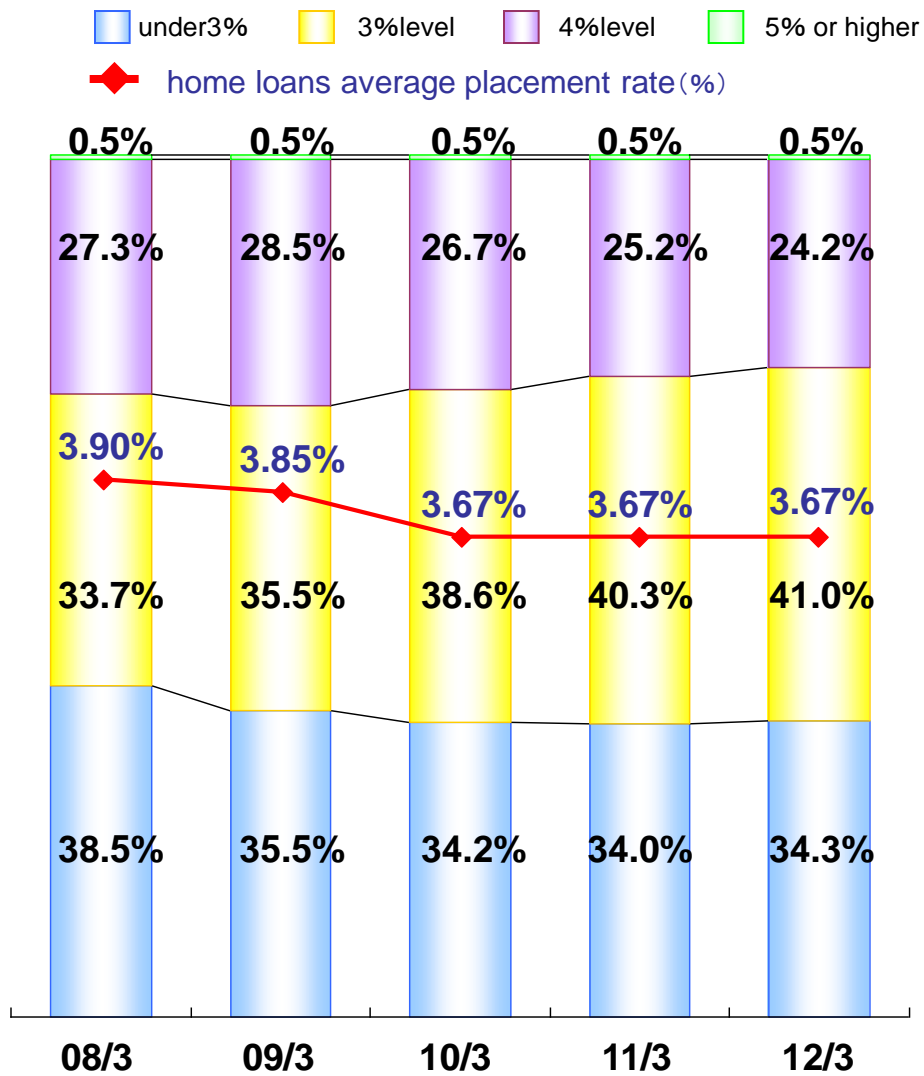
**315.4 billion yen (6.7%)**

- Unsecured loans on deed
- Cash advance cards
- Secured personal loans

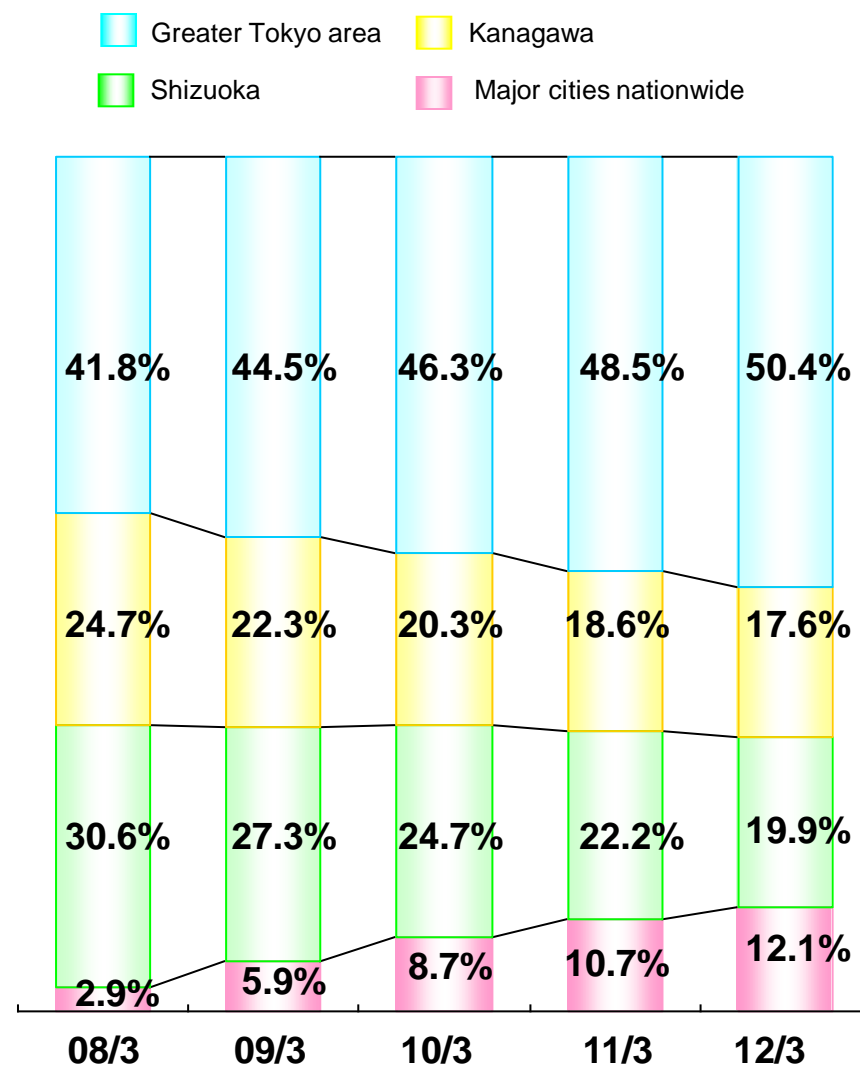


# Home Loans

Distribution of practical rates for home loans (cumulative)



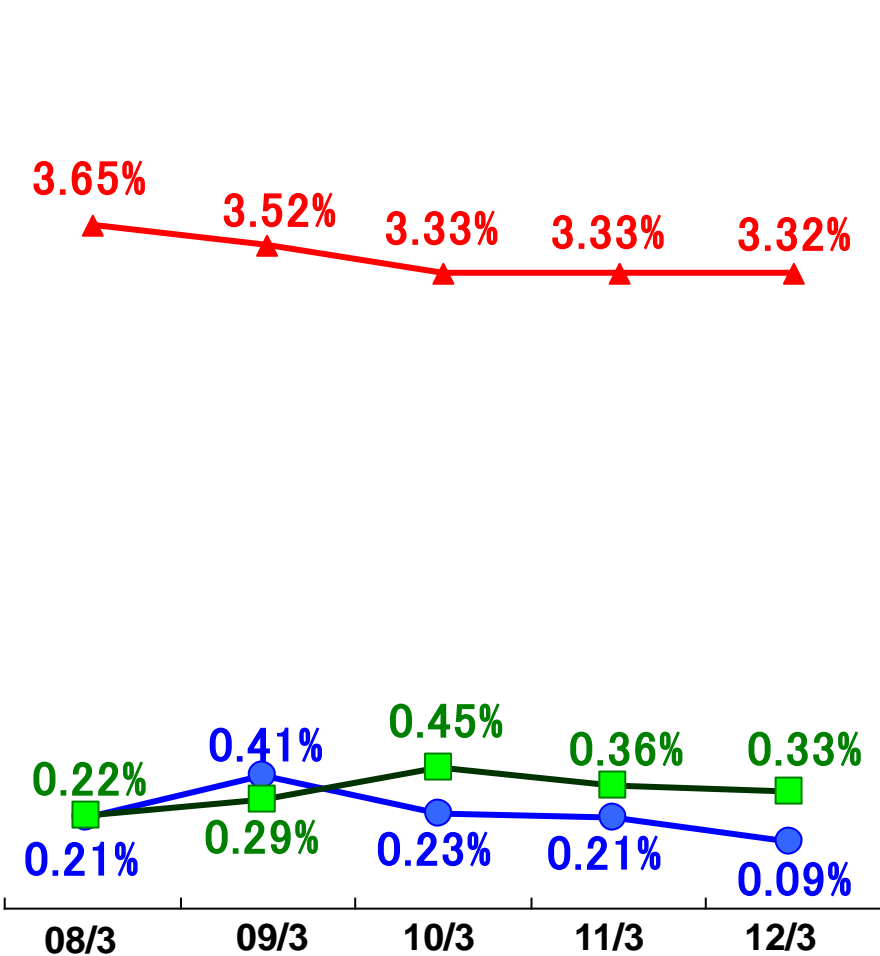
Home loan balance by geographical area



# Delinquency and Loss Rates on Consumer Loans

## Home loans

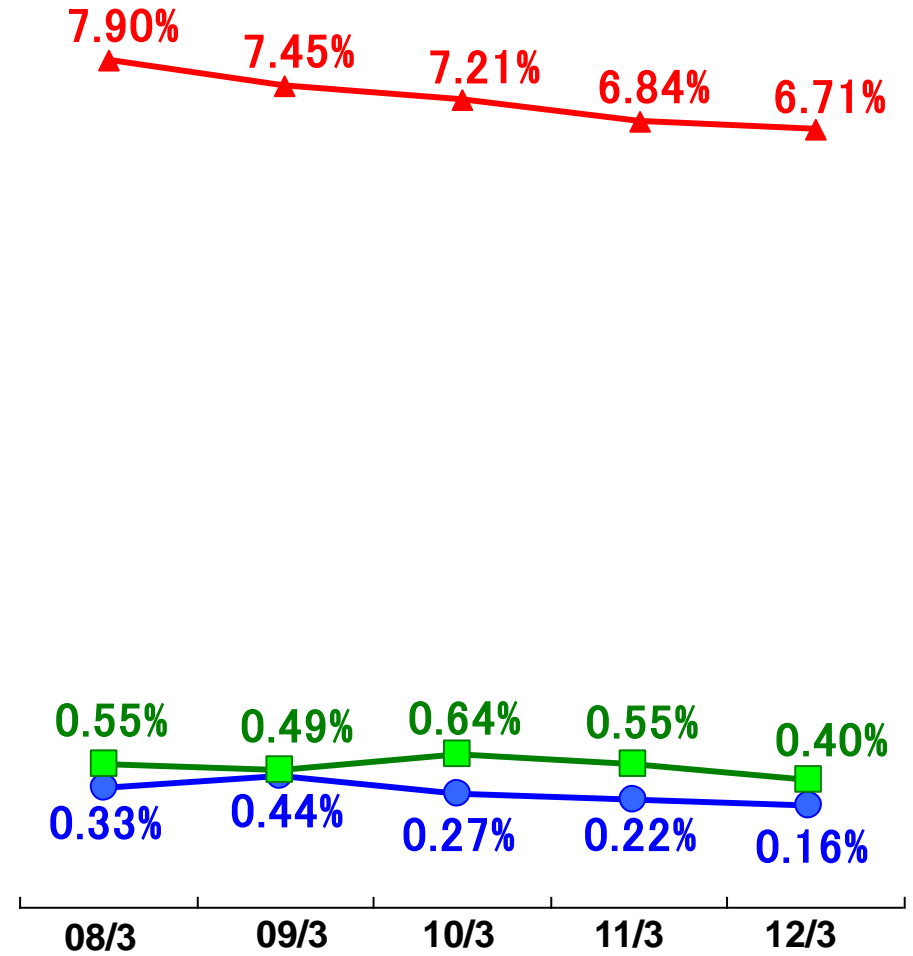
▲ Yield   ● Delinquency rate   ■ Loss rate



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

## Personal loans

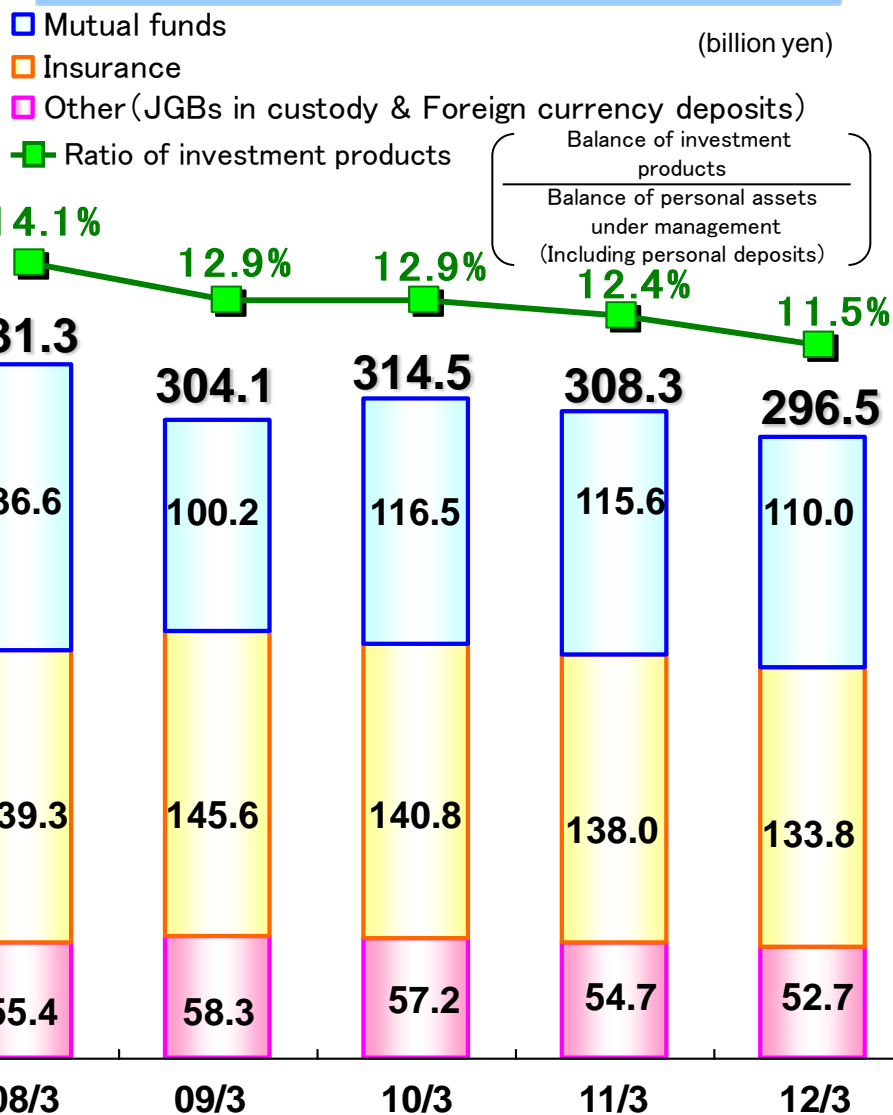
▲ Yield   ● Delinquency rate   ■ Loss rate



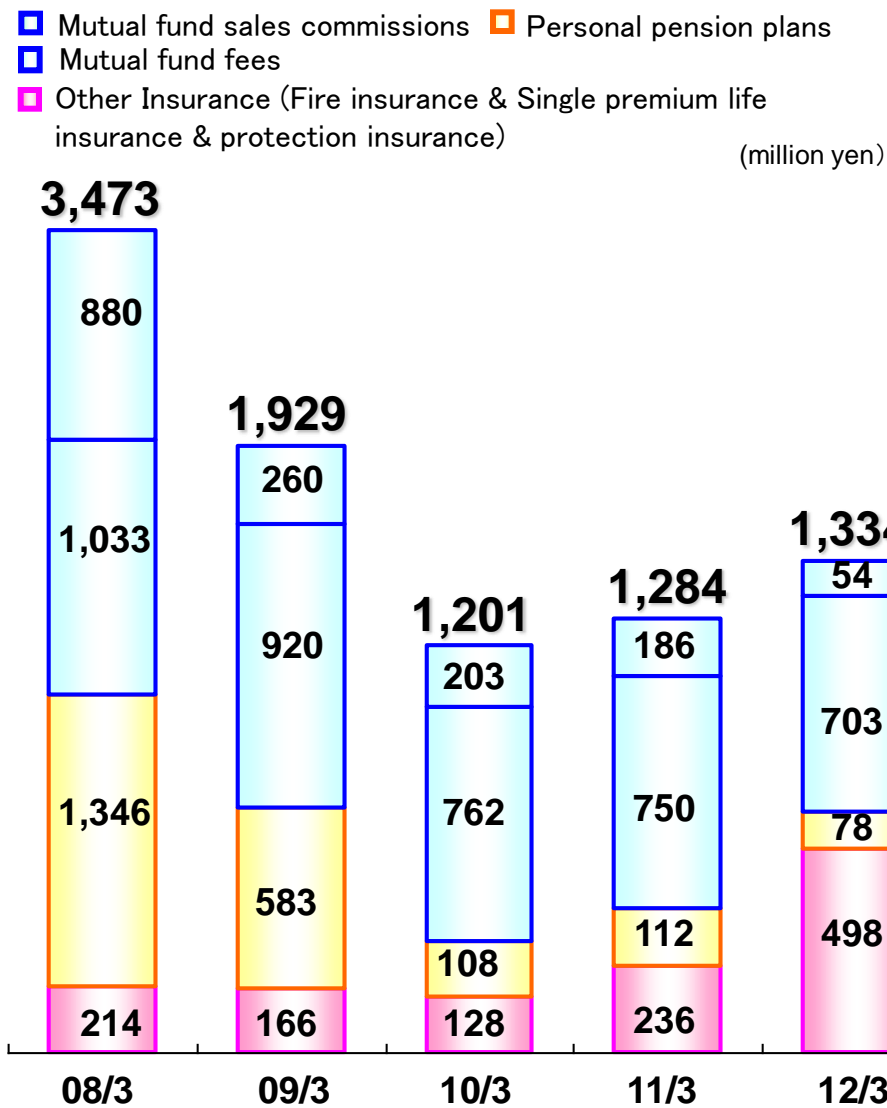
Loss rate = default ratio × (1 - recovery rate)

# Fees income

## Balance breakdown of investment products

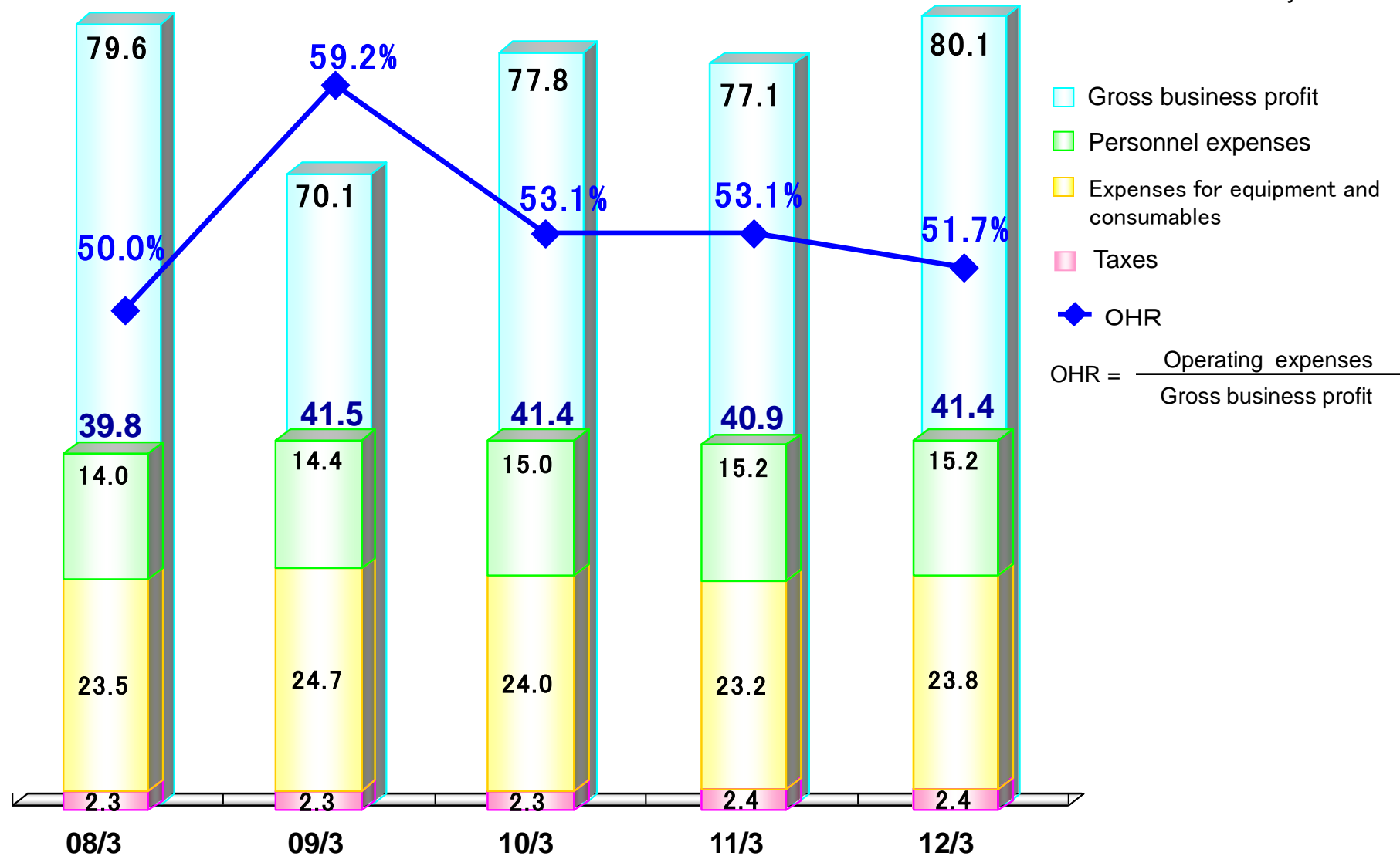


## Commission from mutual funds and insurance products



# Expenses and OHR

(billion yen)



# Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

Debtor classification	Mar. 12 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	11.9	0.45%	Consumer	9.5	0.44%	5.5	4.6	0.9	57.92%	4.0	100%	100%
			Corporate	2.4	0.54%	2.2	1.1	1.1	91.50%	0.2	100%	100%
Claims with collection risk	20.3	0.77%	Consumer	3.9	0.18%	2.4	1.8	0.6	61.16%	1.2	77.08%	91.10%
			Corporate	16.4	3.64%	14.0	5.4	8.6	85.36%	1.8	77.09%	96.64%
Claims for special attention	19.5	0.74%	Consumer	8.7	0.40%	5.7	5.6	0.1	66.10%	0.7	24.64%	74.45%
			Corporate	10.8	2.39%	4.3	4.3	0.0	40.52%	1.2	18.82%	51.72%
Sub-total	51.7	1.96%	Consumer	22.1	1.02%	13.6	12.0	1.6	61.71%	5.9	69.63%	88.37%
			Corporate	29.6	6.57%	20.5	10.8	9.7	69.57%	3.2	36.23%	80.60%
Normal assets	2,579.1	98.04%	Consumer	2,158.2	98.98%							
			Corporate	420.9	93.43%							
Total	2,630.8	100%	Consumer	2,180.4	100%							
			Corporate	450.4	100%							

**Total coverage ratio 83.92%**

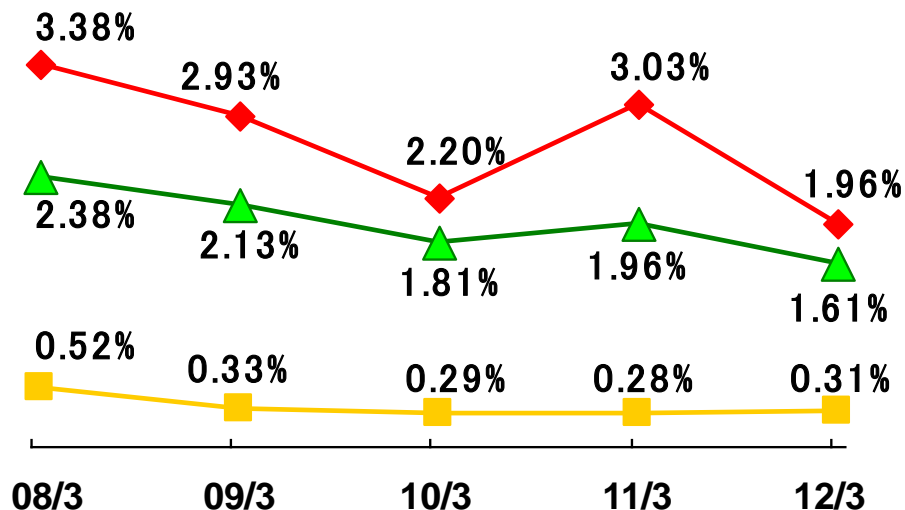
Coverage ratio : Covered by collateral and guarantees  
 Reserved ratio : Reserved for unsecured portion  
 Total coverage ratio : Covered by collateral, guarantees and reserves

\* 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

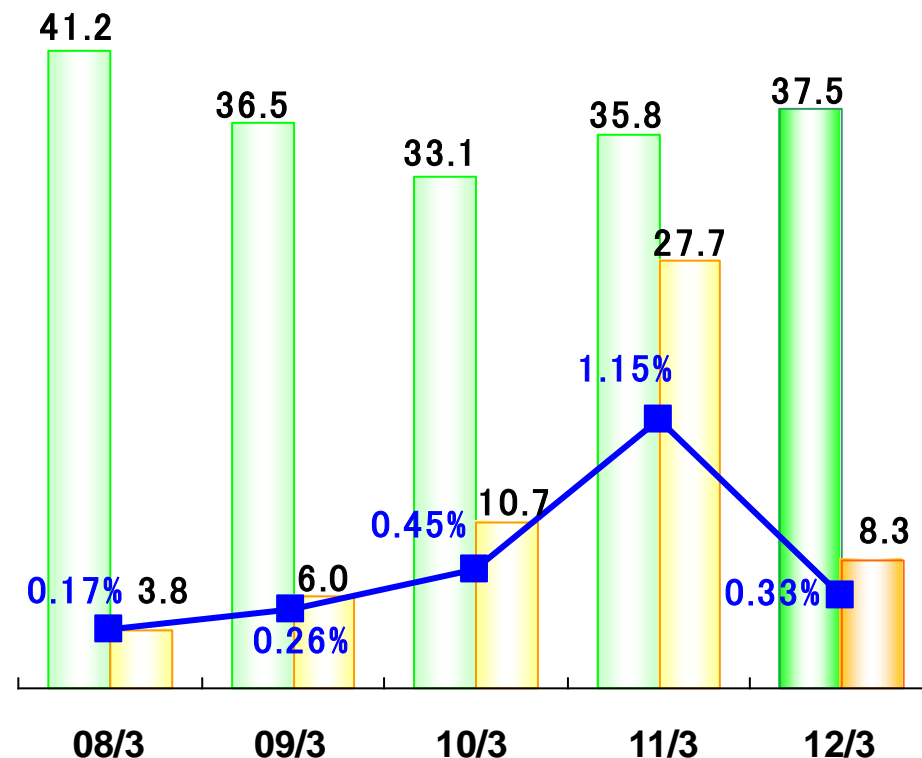
Bad - loan ratio

- ◆ Ratio of disclosed claims on the Financial Reconstruction Law
- ▲ Ratio of disclosed claims deduction from reserves
- Ratio of disclosed claims after deduction from reserves, collateral and guarantees



Credit costs status

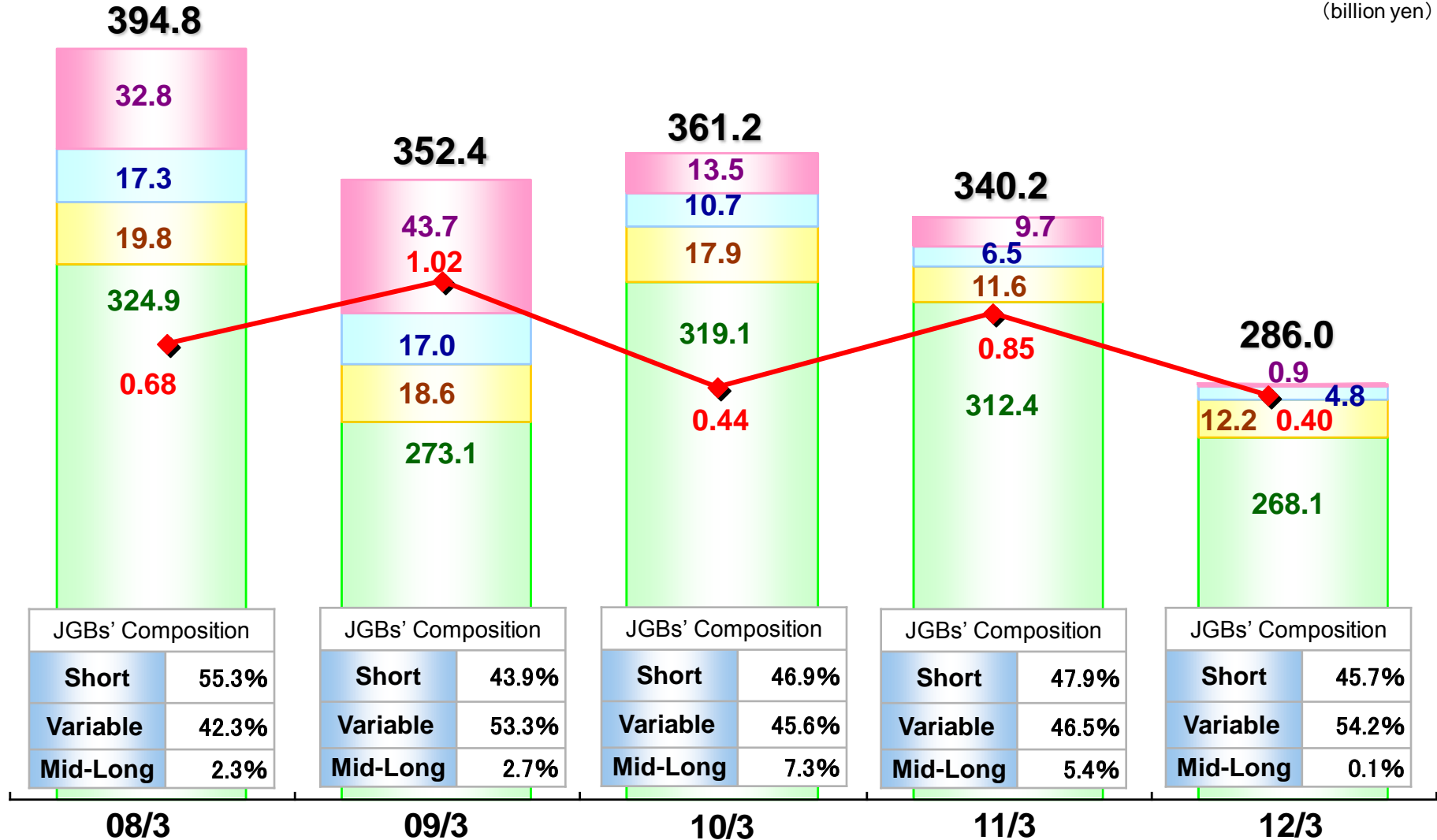
- Core net operating income (billion yen)
- Actual credit costs (credit costs-collection of claims written off)
- Actual credit costs ratio (actual credit costs/loan average balance)



# Bond Portfolio

■ JGBs   
 ■ Foreign bonds   
 ■ Corporate bonds   
 ■ Regional government bonds  
—◆— Average remaining maturity (Year)

(billion yen)



JGBs' Composition

Short	55.3%
Variable	42.3%
Mid-Long	2.3%

JGBs' Composition

Short	43.9%
Variable	53.3%
Mid-Long	2.7%

JGBs' Composition

Short	46.9%
Variable	45.6%
Mid-Long	7.3%

JGBs' Composition

Short	47.9%
Variable	46.5%
Mid-Long	5.4%

JGBs' Composition

Short	45.7%
Variable	54.2%
Mid-Long	0.1%



# ■ Status of Risk Amount

## Integrated Risk Management

(billion yen)

2011/9  
Tier I

185.0

↑  
**Buffer**  
(Unallocated Capital)  
118.0

67.0

21.0

32.8

13.2

Second Half,  
2011  
Allocated Capital

45.4

15.0

18.0

12.4

As of the end of  
March, 2012  
Risk Amount

Credit Risk

Market Risk

Operational Risk

- 1. Confidence level 99% (common)**
- 2. Holding period (business days)**
  - Credit risk 240 days
  - Deposits and loans, bonds, etc. Interest & price fluctuation risk 60 days (Trading assets is 10 days)
  - Price fluctuation risk for equities 120 days
- 3. Operational risk**  
Basic methods

## Outlier Ratio

As of the end of  
March, 2012

Interest Rate  
Shock range

± 200bp

Interest Rate  
Risk Amount

8. 0  
billion  
yen

Outlier Ratio

3. 9%

As of the end of  
September, 2011  
Sources for Allocation

# Capital Levels

## Share Buybacks

**1st Repurchased**  
( Feb 2009 to May 2009 )

**7.54 million shares**  
**6.0 billion yen**

**2nd Repurchased**  
( Oct 2009 to Jun 2010 )

**9.82 million shares**  
**8.0 billion yen**

**3rd Repurchased**  
( Jul 2010 to Oct 2010 )

**3.99 million shares**  
**3.0 billion yen**

**4th Repurchased**  
( May 2011 to Sep 2011 )

**5.62 million shares**  
**3.6 billion yen**

**5th Repurchased**  
( Mar 2012 to Apr 2012 )

**0.93 million shares**  
**0.7 billion yen**

**Total**

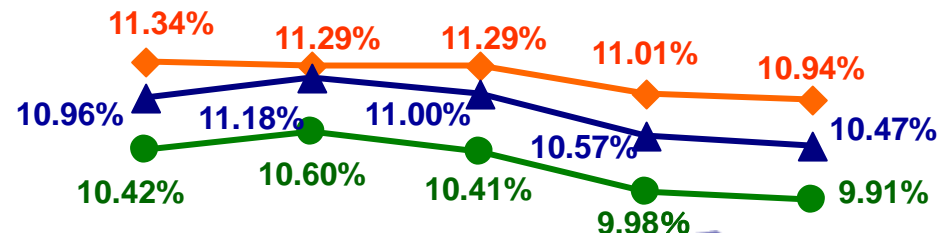
**27.90 million shares**  
**21.3 billion yen**

**Retired**  
( Aug 2009 )

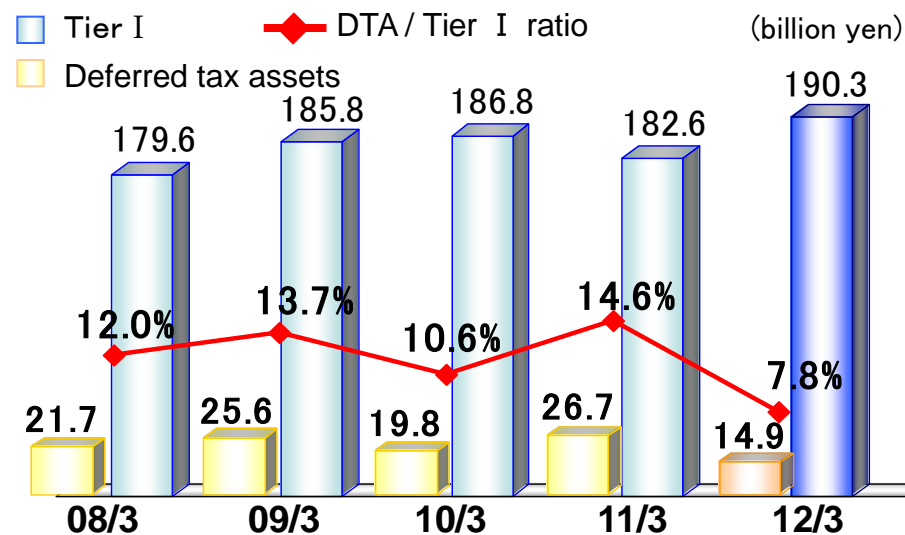
**▲ 6.80 million shares**  
**▲ 5.9 billion yen**

## Capital Adequacy Ratio

- International standard capital adequacy ratio (consolidated)
- Domestic standard capital adequacy ratio (Non-consolidated)
- Domestic Tier I ratio (non-consolidated)



**As of end- March 2012: 8.7% Core Tier I ratio**  
Accounts for valuation losses on securities holdings, deferred tax assets, investments in common shares of financial institutions, software, etc.



# ■ FY2011 Results and FY2012 Forecast

(billion yen)

	FY2010 Results (A)	FY2011 Results (B)	Increase or Decrease (B-A)	FY2012 Forecast
Gross operating profit	77.1	80.1	+ 3.0	81.0
Operating expenses	40.9	41.4	+ 0.5	42.5
Net operating profit	33.0	36.4	+ 3.4	37.5
Core net operating profit	35.8	37.5	+ 1.7	38.5
Ordinary profit	1.0	27.8	+ 26.8	28.0
Net income	2.1	14.8	+ 12.7	17.0
Actual credit cost	27.7	8.3	△ 19.4	7.5
ROE (%) (net income basis)	1.13	8.24	+ 7.11	8.98
EPS (Yen)	8.63	62.26	+ 53.63	72.03
Dividends (Yen)	13.0	13.0	0	13.0

# Corporate Social Responsibility As Suruga Sees It

## CSR of the Future

### Value creation CSR

- Values-based communication
- Going beyond compliance and doing what is right
  - Unshakable trust from our stakeholders
  - Differentiation in the marketplace
  - Extremely transparent and reasonable management

## CSR start line

### Essential CSR

- Functional communication  
Essential CSR to do business in society
- The bare minimum required by society
  - Mitigating negative risks, and others

Social activities

Environmental activities

Economic activities

Co-existence

Fairness

Balance

Sustainable growth

## Helping Dreams Come True and Protecting the Environment

### 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 Mecca



### SURUGA ECO ACTION Environmental activities to secure our important future



1. Offer environmental financial products
2. Contribute to society
3. Make office space more eco-friendly
4. Raise awareness about the environment

### Actively supporting small businesses within Shizuoka Prefecture implement business succession plans

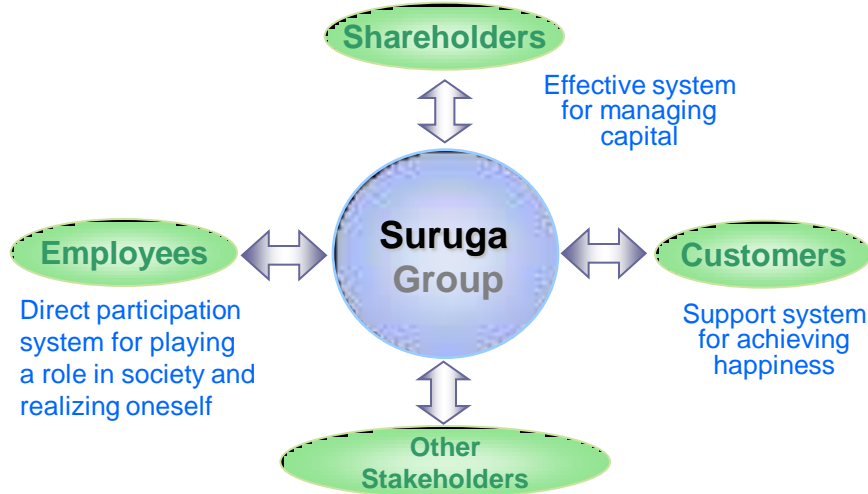
Under the corporate philosophy that we help put our customers on schedule to achieve their dreams, we at Suruga seek to fulfill our social responsibility and meet stakeholder expectations through the pursuit of offering value propositions to our customers and helping them make their dreams a reality. Agreed to a deal to support a business succession, working together with the business succession assistance center operated by the Shizuoka Chamber of Commerce and Industry

**First deal reached nationwide by an assistance center aimed at providing business succession assistance**

# Growth Within Our Corporate Philosophy

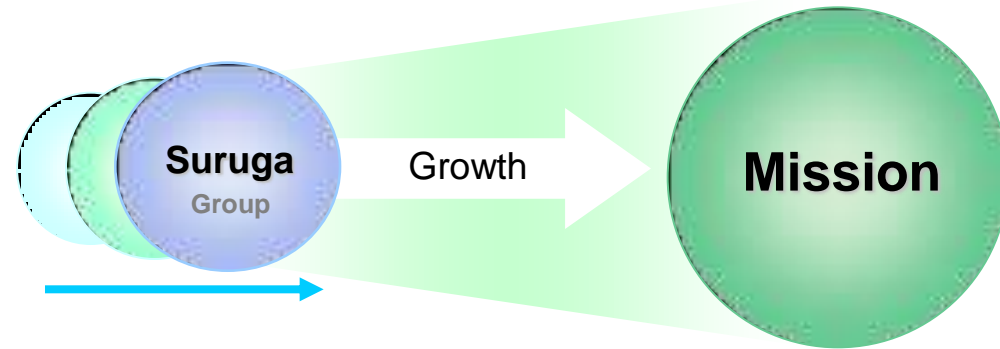
## Growth as a Value Exchange System

Define growth as greater exchange of value with all stakeholders.

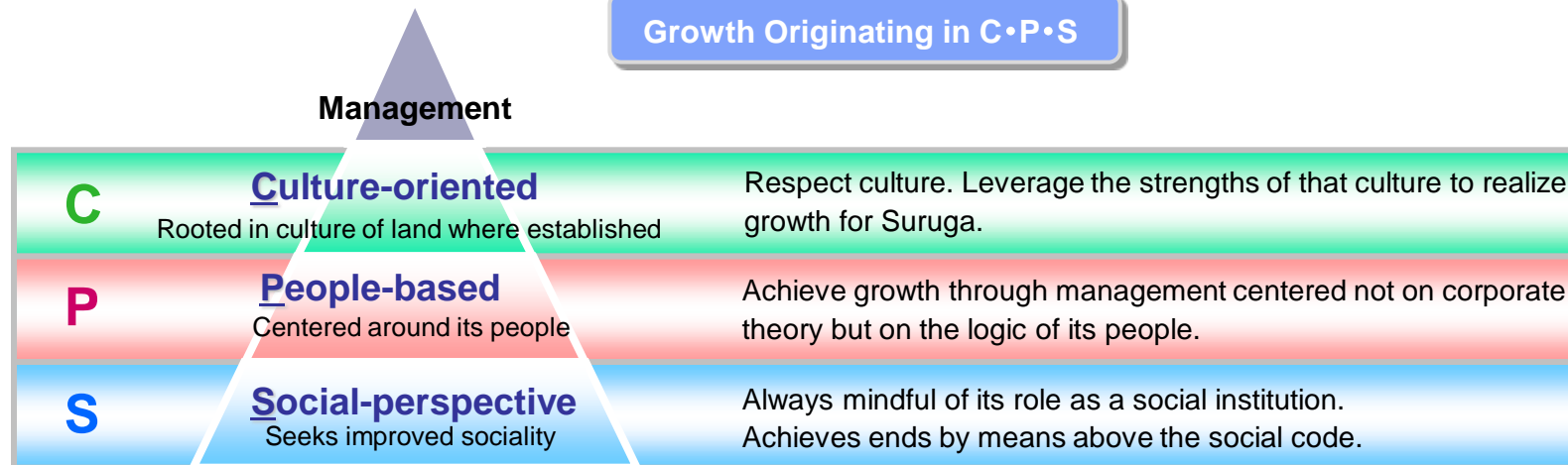


## Growth as a Mission-Based Company

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



For further details regarding the above, please contact

**IR Office,  
Suruga Bank Ltd.**

**Tel: +81-3-3279-5536**

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

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.