

SURUGA bank

## Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended September 30, 2012



# Management Discussion of the Environment

## Global Capitalism Facing a Tremendous Challenge

### Three fundamental faults of Western-centric global capitalism

**Movement of global capital across borders destabilizes the global economy**

The rapid flows of enormous sums of capital in and out of economies create bubbles and their collapse, leading to relentless financial crises

**Accelerates the contamination and destruction of the global environment**

Unavoidably nature is exploited in the name of achieving the self-multiplication of capital

**Bipolarizes society into two extremes as the middle class is wiped out**

Global competition results in greater uneven distribution of wealth and income disparity

There is an urgent need to create a new model for globalization based on new values

The values Japan has held dear are essential to economic and corporate management moving forward

**Co-existence with nature**

Co-existence and co-prosperity between nature and human

**Importance of personal relationships**

Harmony as a virtue

**Long-term relationships built on trust**

Co-existence and co-prosperity within society

**Creating social values**

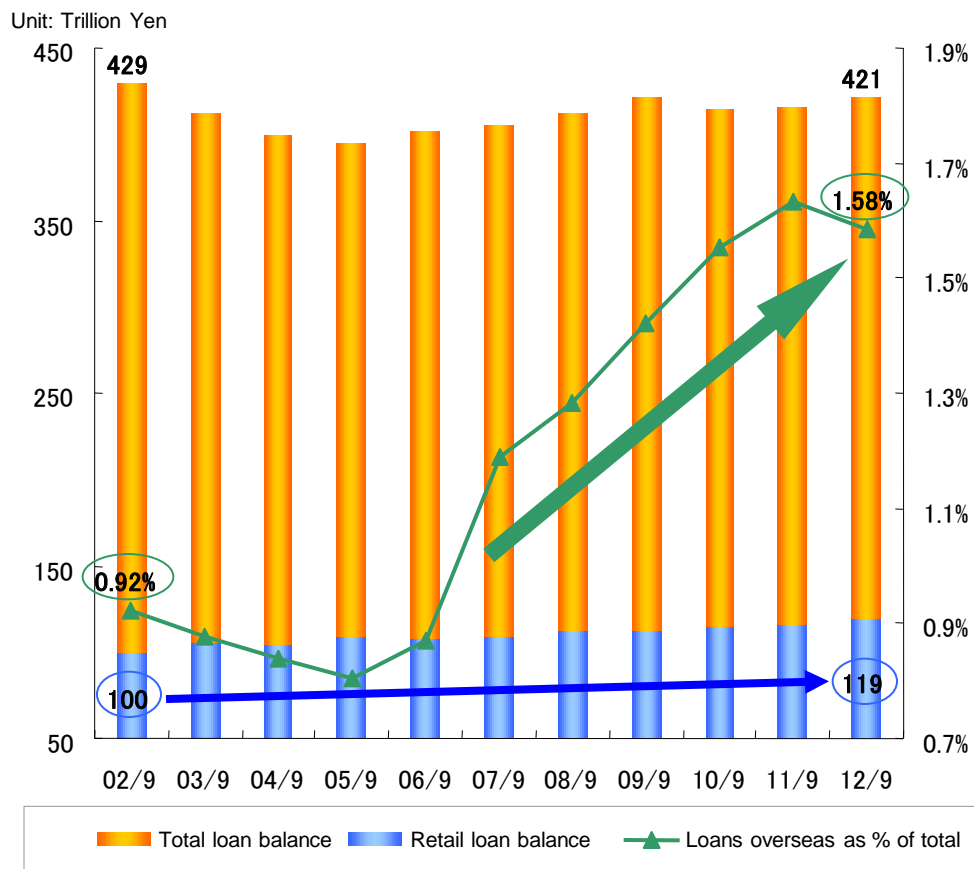
Recognizing oneself as a member of society

Our ability to create a new business model rooted in Japanese values is key to survive in a future world of global capitalism

Source: Iwao Nakatani

# Environment Surrounding Japanese Banks

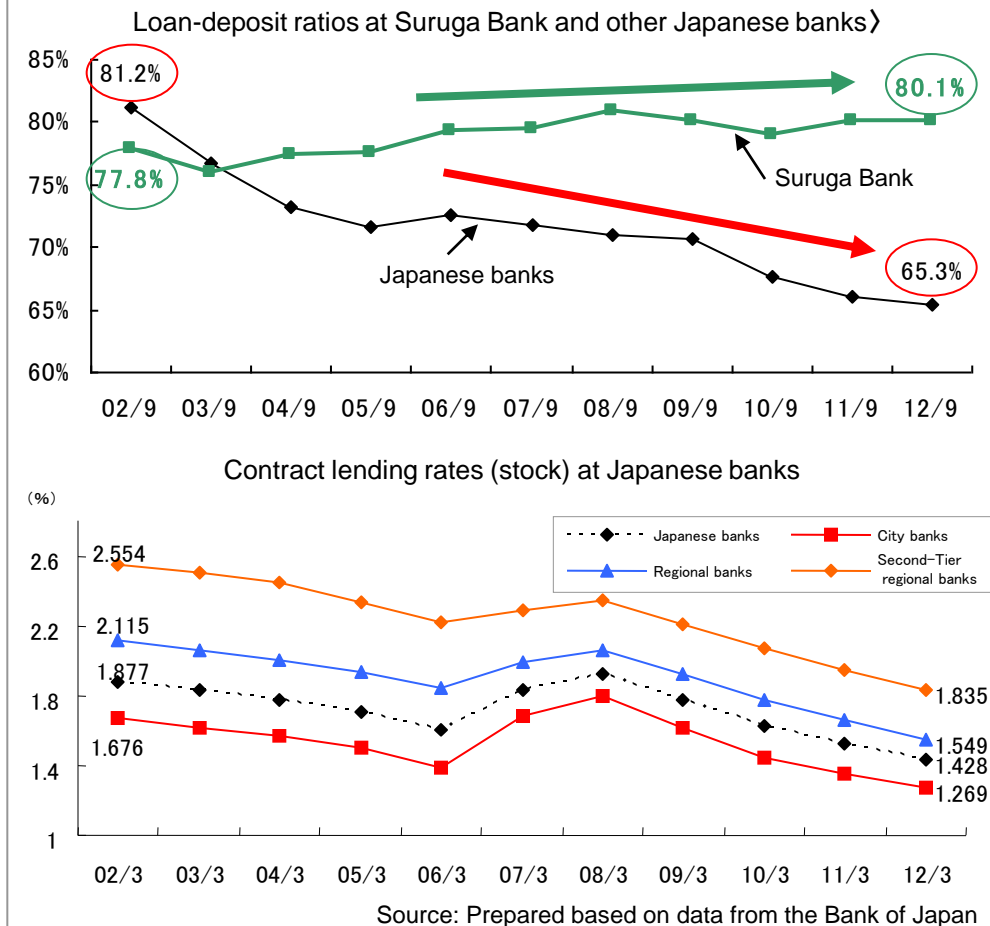
Total loan balance of Japanese banks and Balance of loans directed overseas by major banks



Source: Prepared based on data from the Bank of Japan

Retail loans and loans for overseas investments to drive future growth in demand for funds

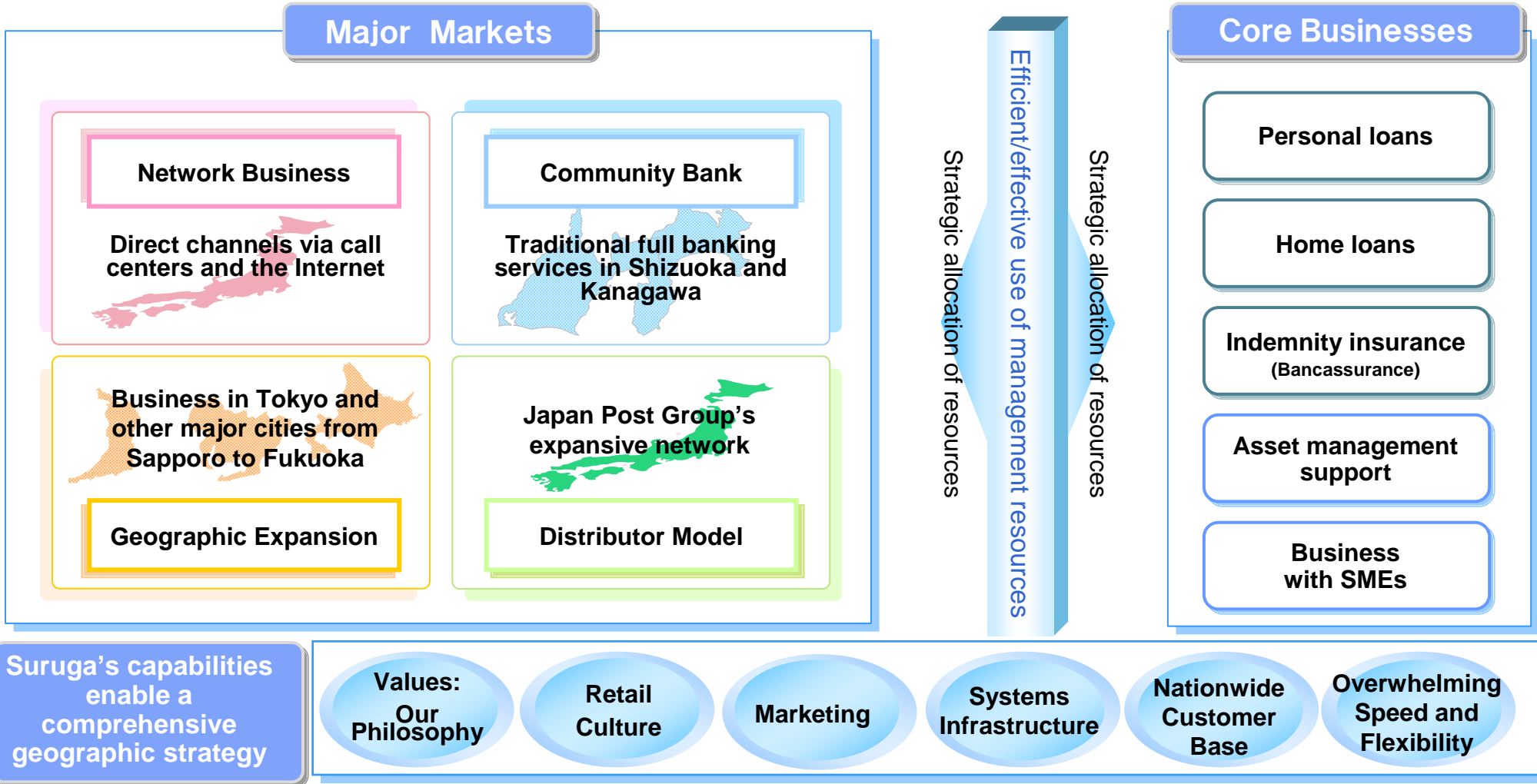
Loan-deposit ratios and contract lending rates



Unrelenting fall in loan-deposit ratios. Securing profitability in lending business becoming a challenge.

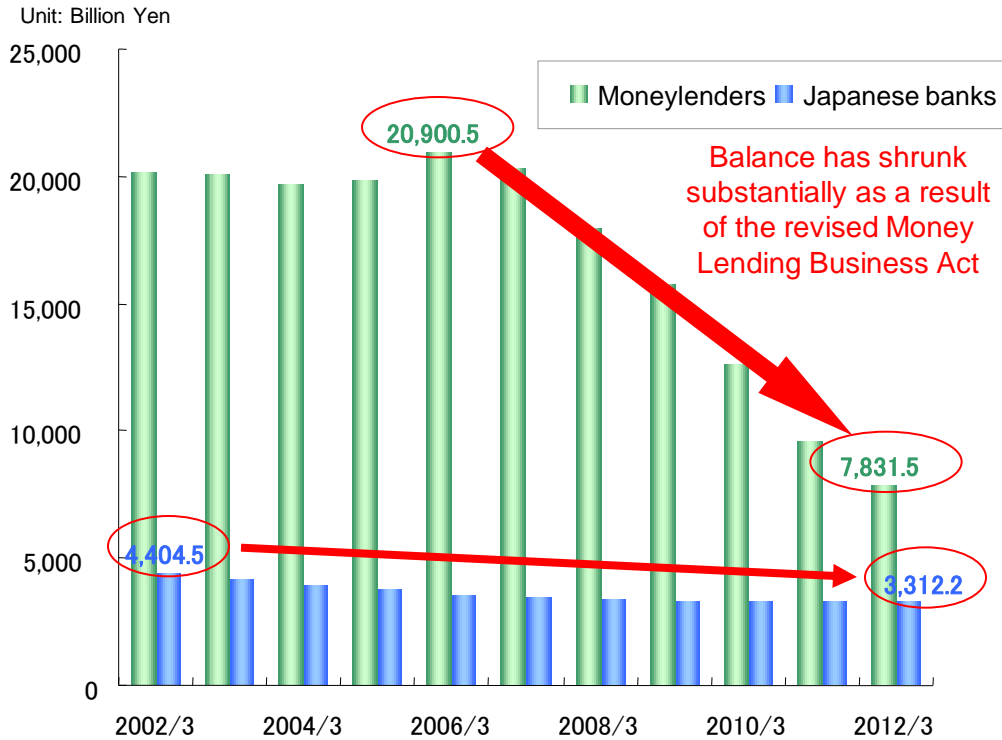
# Phase 4 Management Plan Grand Design

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



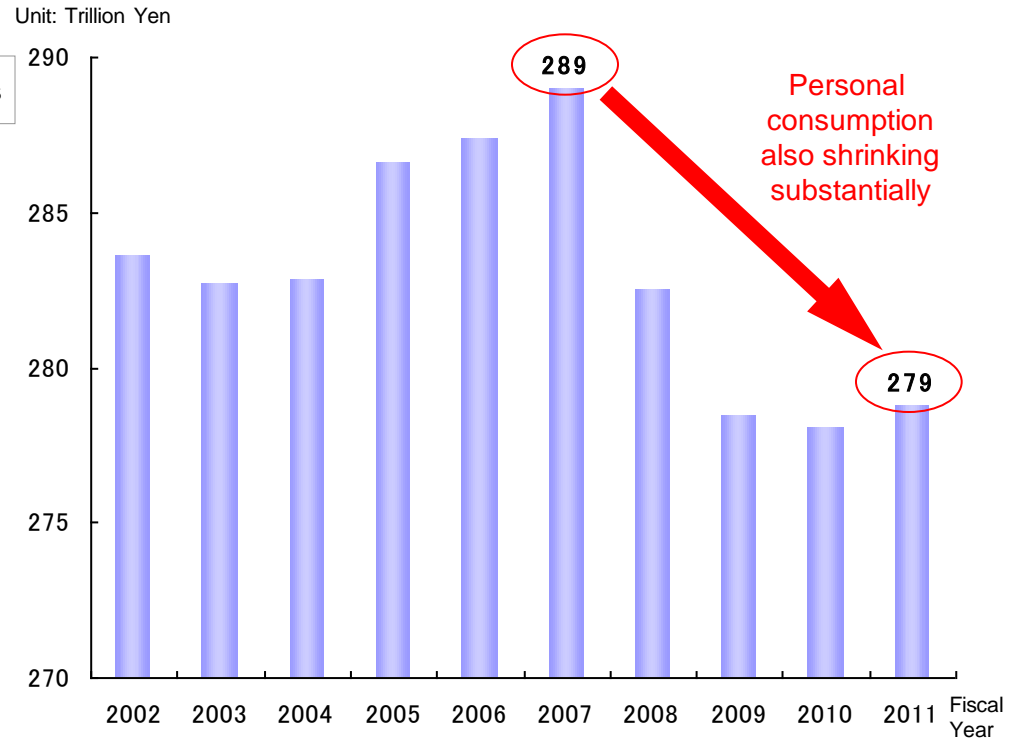
# Current Status of the Personal Loan Market

Moneylenders' consumer loan balance and Japanese banks' cash advance card balances



Source: Prepared based on data from the FSA and the BoJ

Personal consumption (nominal GDP)



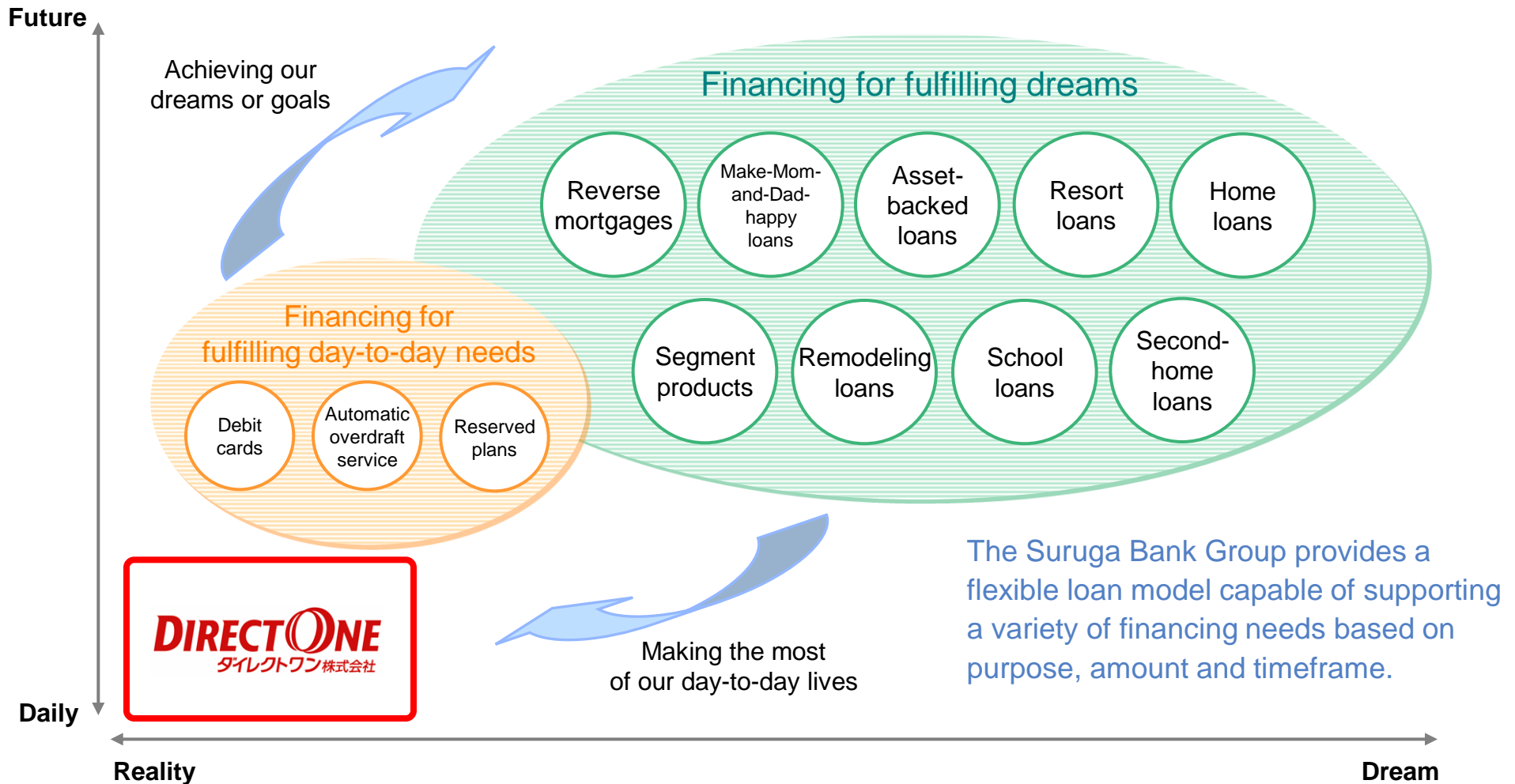
Source: Prepared based on data from the Cabinet Office



Dearth of players providing financial services to the sound consumption activities of consumers is weighing on consumer-oriented economic growth at the same time it is creating enormous opportunity!

# Personal Loan Business at the Suruga Bank Group

The Suruga Bank Group is capable of supporting all types of lifestyles and life stages, from loans to make the most of our day-to-day lives to loans aimed at making dreams come true.

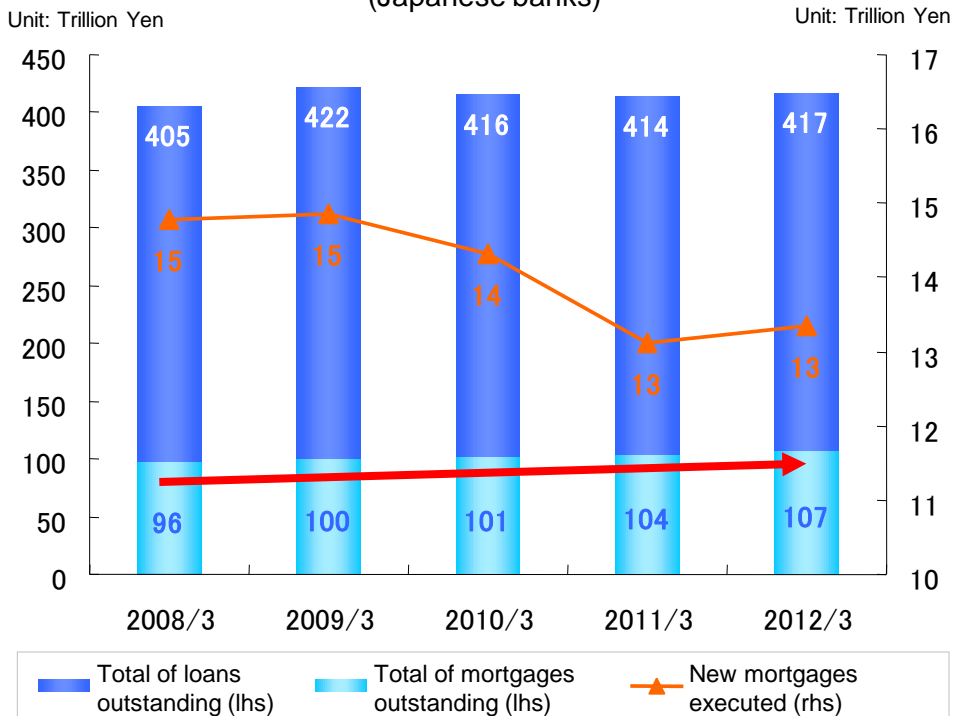


# ■ Suruga Bank's Unique and Differentiated Personal Loan Business

	Suruga Bank	Ordinary banks	Nonbanks
Regulatory issues	Limited impact from the revised Money Lending Business Act	Limited impact from the revised Money Lending Business Act	Significant impact from the revised Money Lending Business Act
Communication with the customer	Communication using a customer-oriented approach	Communication using a product-oriented approach	Limitations on available means of communication
Know-how in consumer loans	Accumulated our own know-how in-house	Insufficient internal know-how	Strength in credit screening, credit appraisal updates and collection
Accumulation and utilization of customer data	Customer demographics + Personal loan data	Rely on customer demographics	Rely on consumer loan data

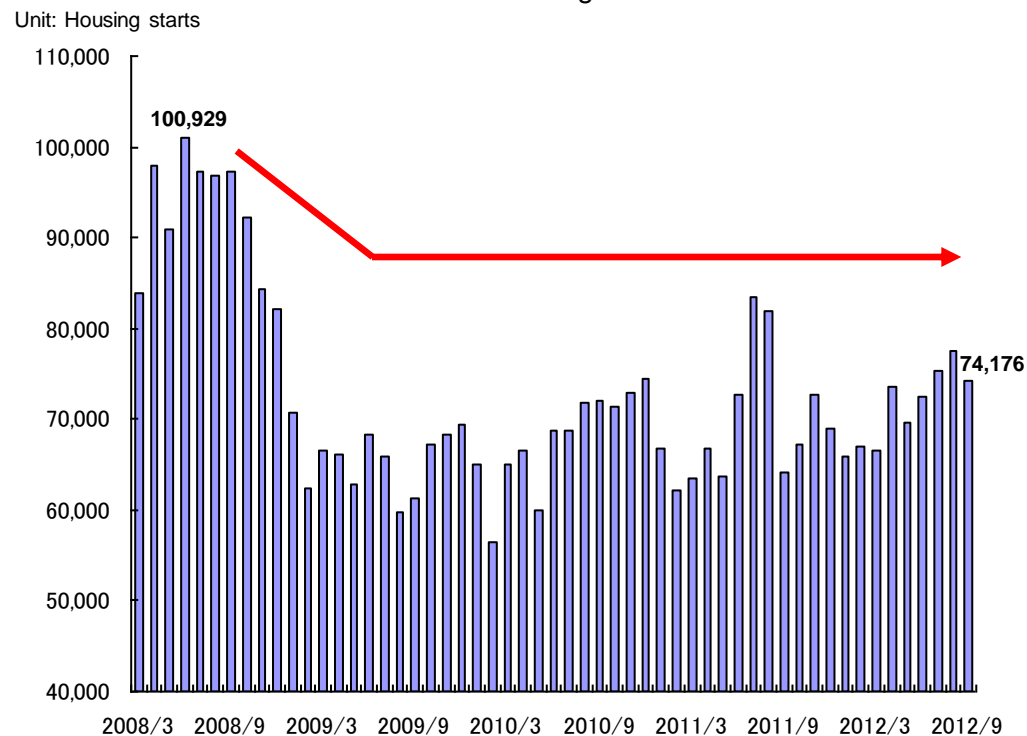
# Environment Surrounding the Mortgage Market

Balances of loans, mortgages and new mortgages executed (Japanese banks)



Sources: Bank of Japan and Japan Housing Finance Agency

New housing starts



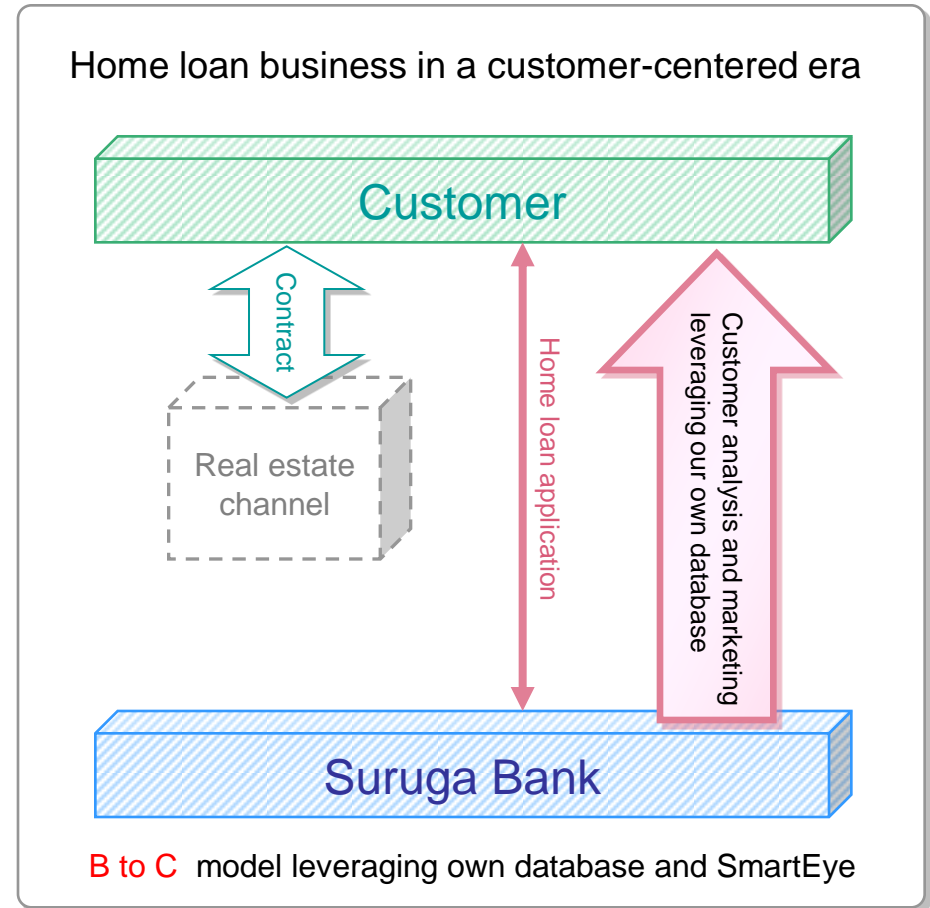
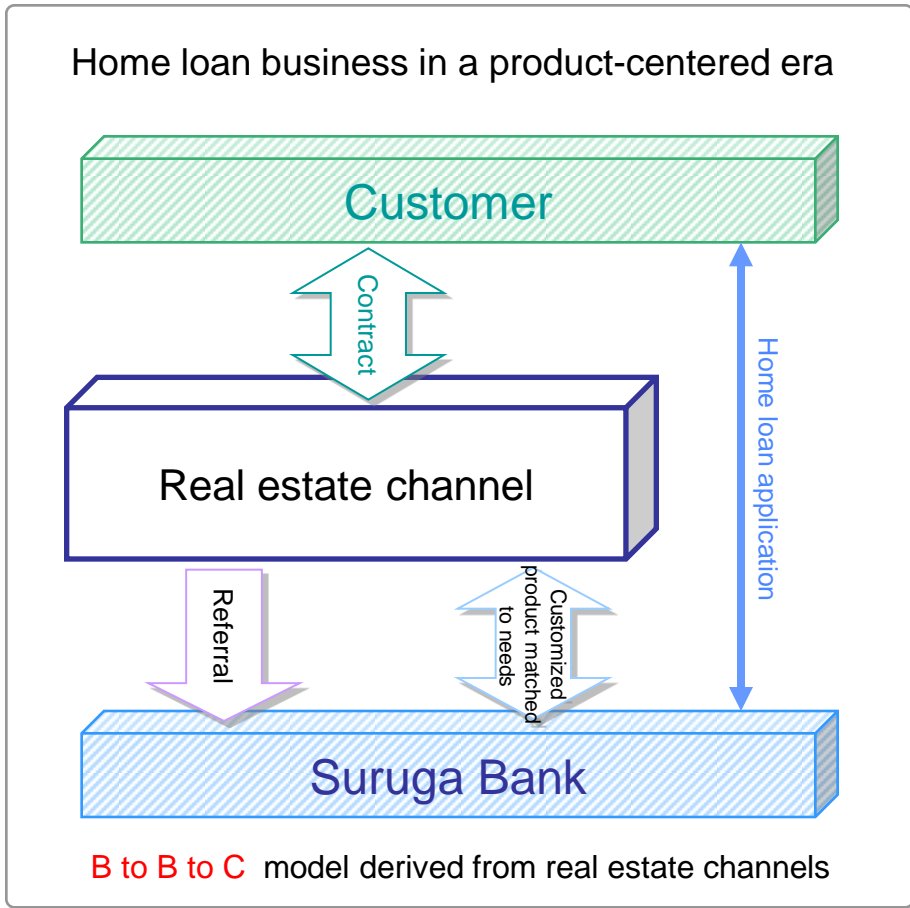
Source: MLIT

A shrinking market coupled with intensifying price competition and the focus given by so many banks have escalated the mortgage business into a war of attrition where there is no winner



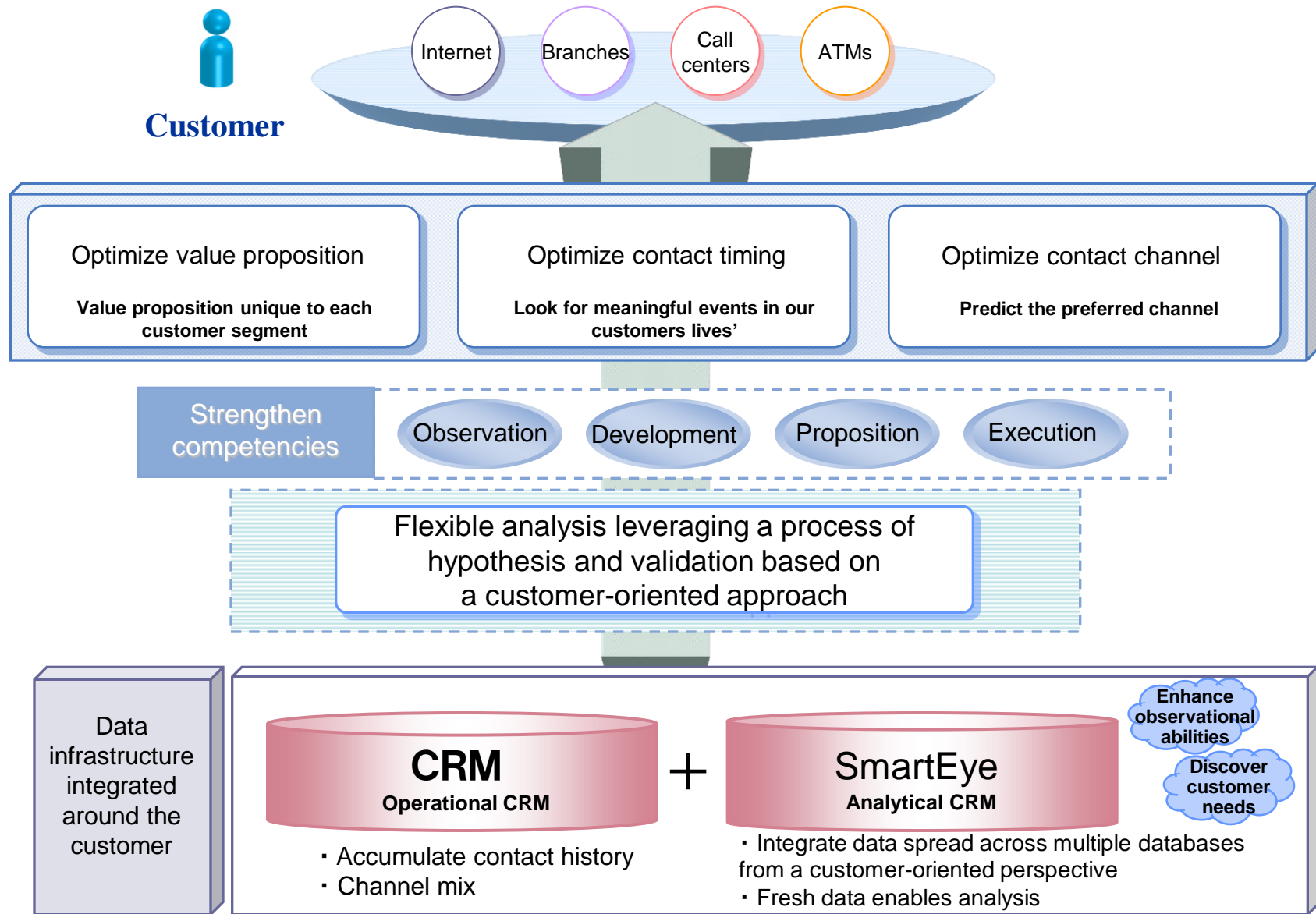
# Suruga Bank's Home Loan Business

**Suruga Bank's home loan business continues to evolve as times change**



**Suruga Bank's home loan business does not rely on channel sales. Our business model uses a customer-oriented approach to isolate ourselves from interest-rate pricing competition.**

# Suruga Bank's Unique Marketing

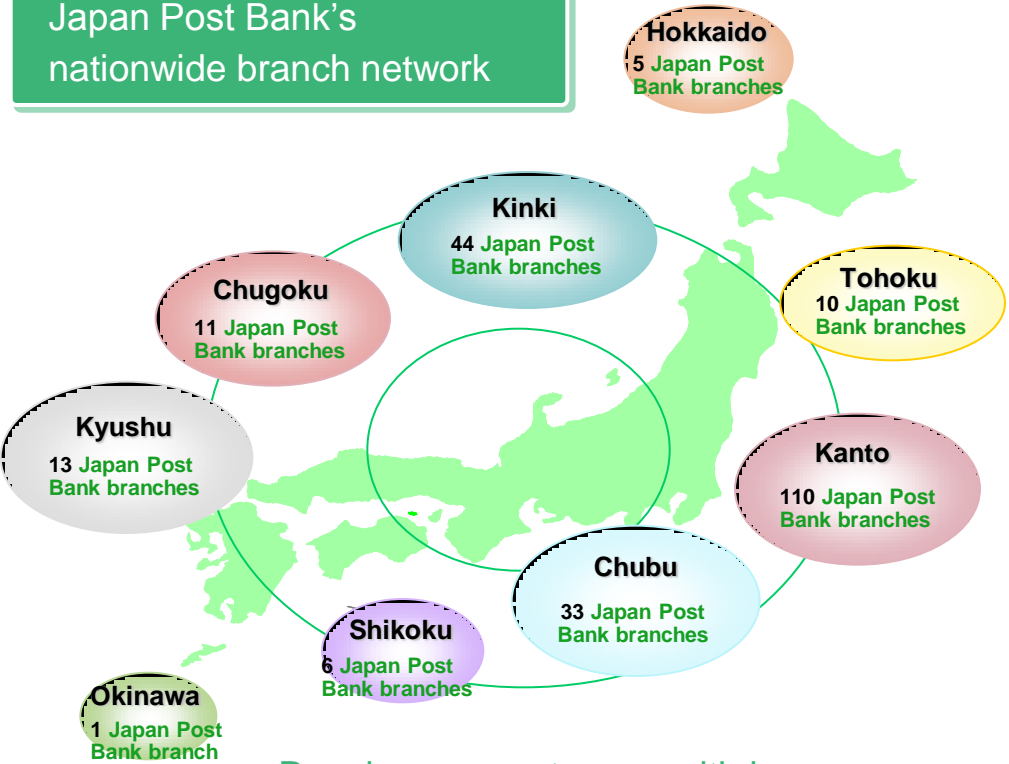


# Business Alliance with Japan Post Bank

Leveraging Japan Post Bank's nationwide network

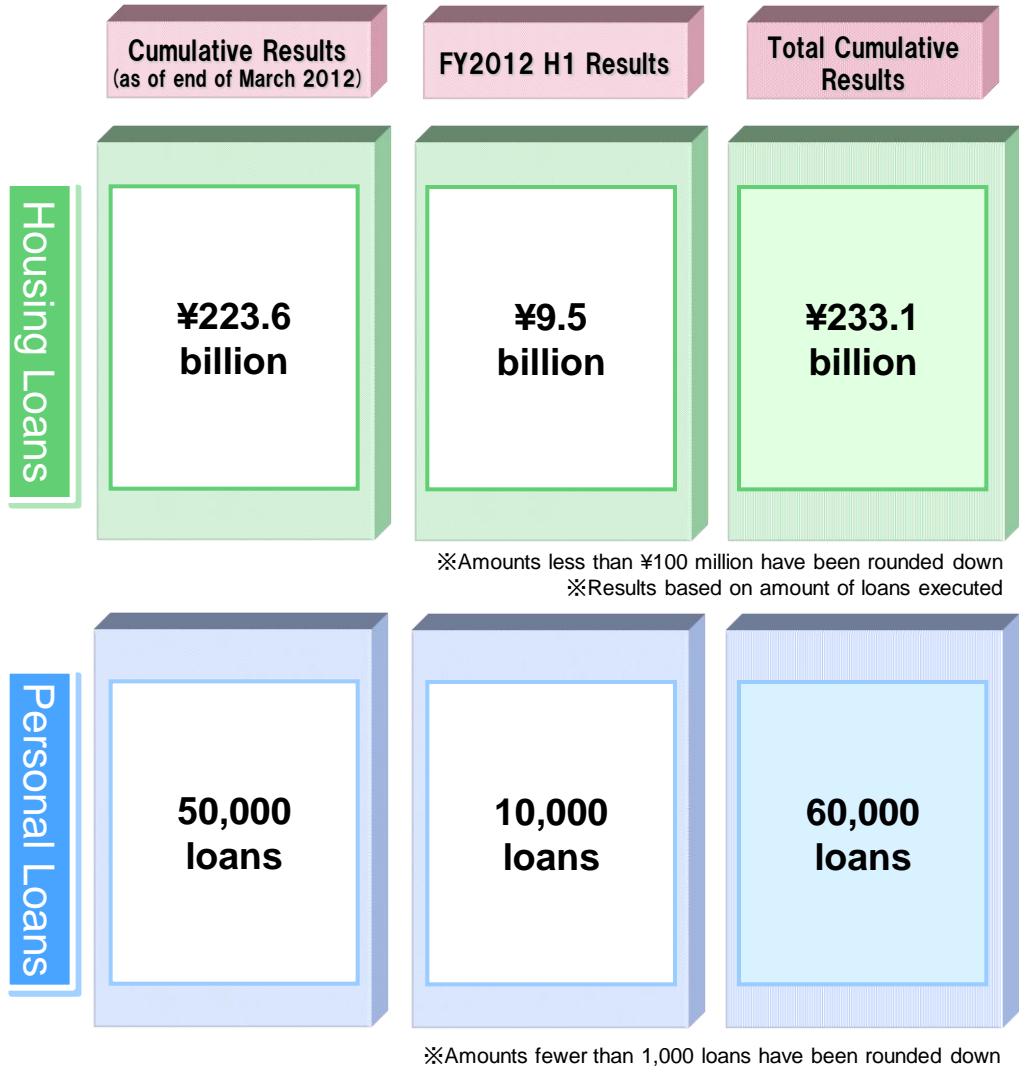
Customers can apply for our Personal loans at all 233 Japan Post Bank branches

Japan Post Bank's nationwide branch network



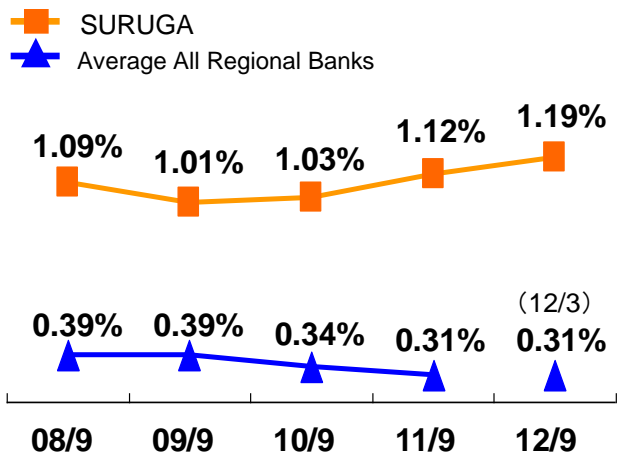
Reach more customers with loan products that meet customer needs

Cumulative results since the alliance launched

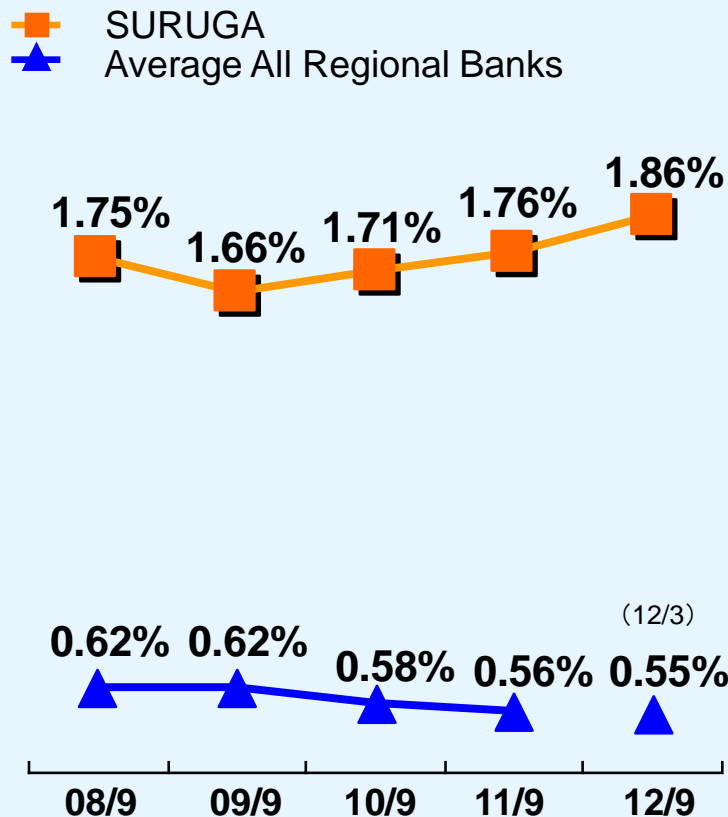


# Yield / Margins (Overall)

## Net interest margin

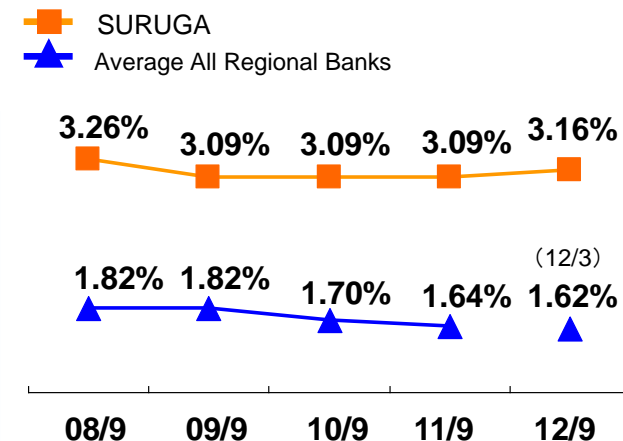


## Loan-deposit margin (after deduction from expense ratio)

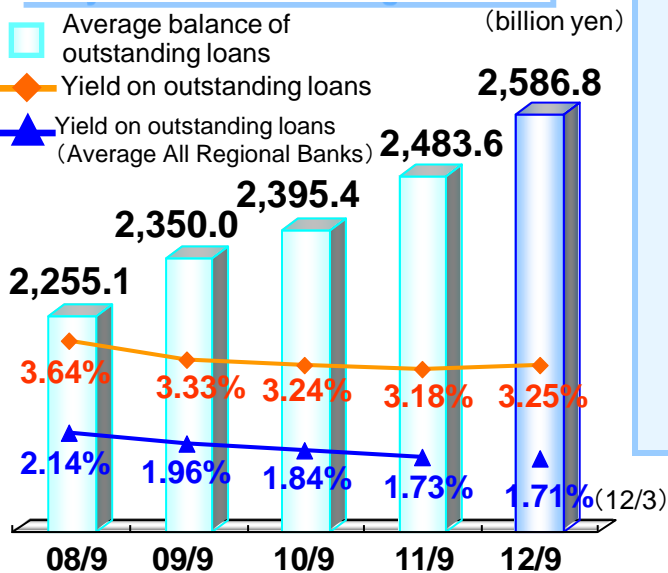


## Loan-deposit margin

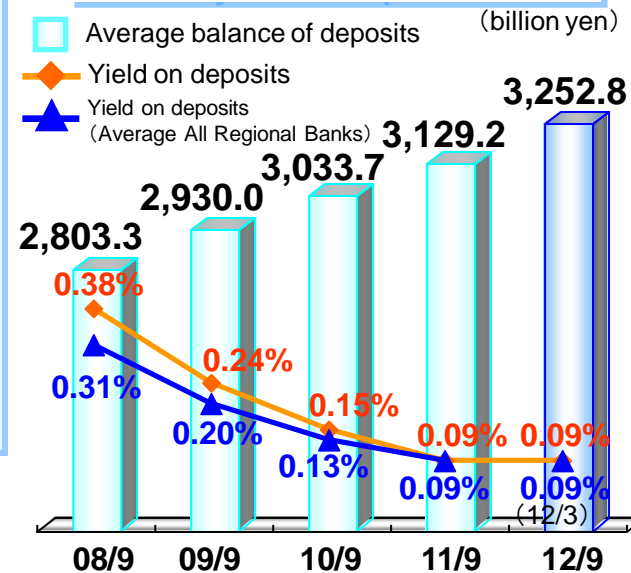
(Yield on outstanding loans - Yield on deposits)



## Average balance and yield on outstanding loans



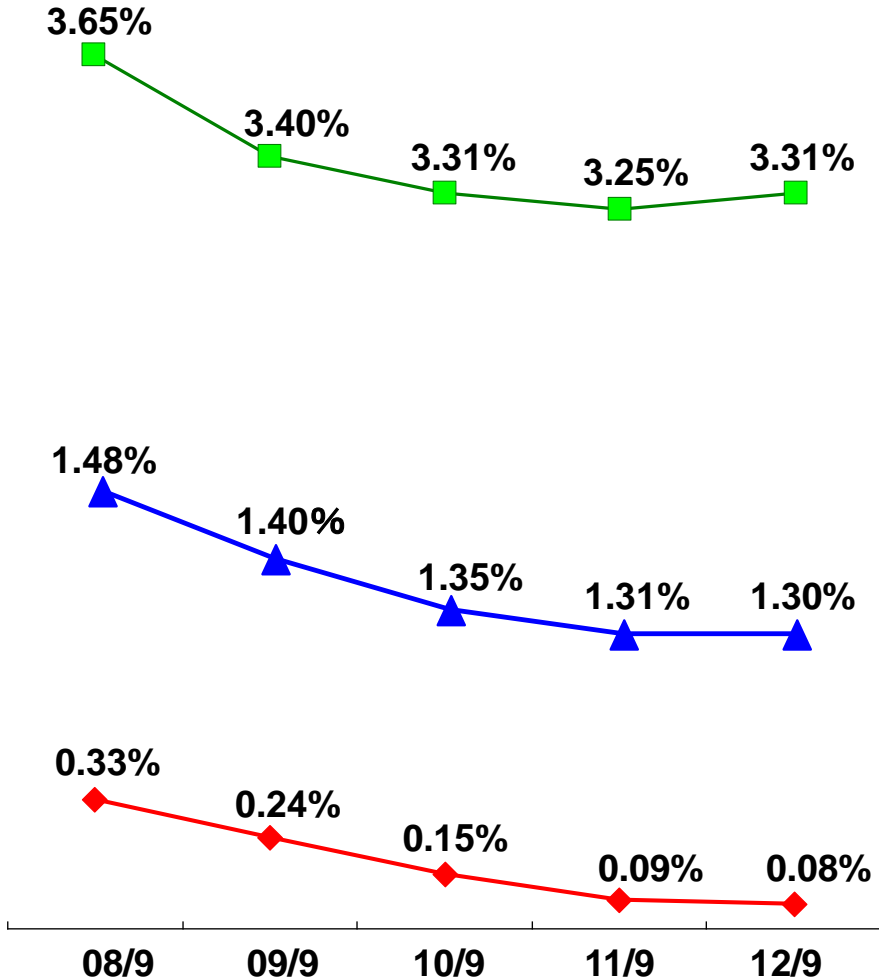
## Average balance and yield on deposits



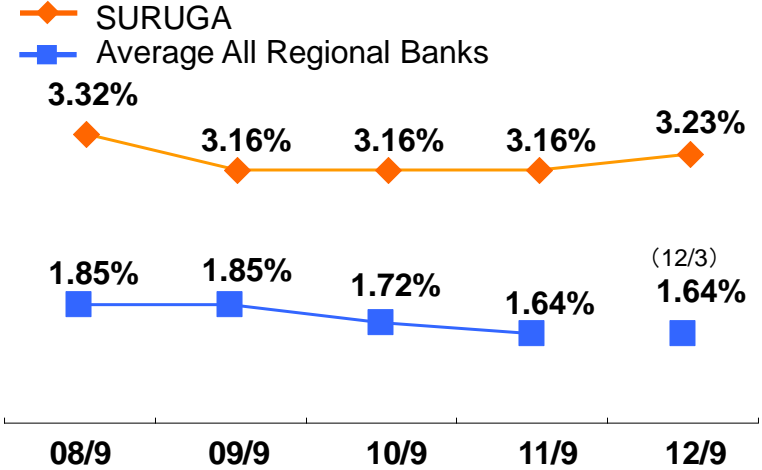
# Yield / Margins (Domestic)

## Yield-Expense ratio

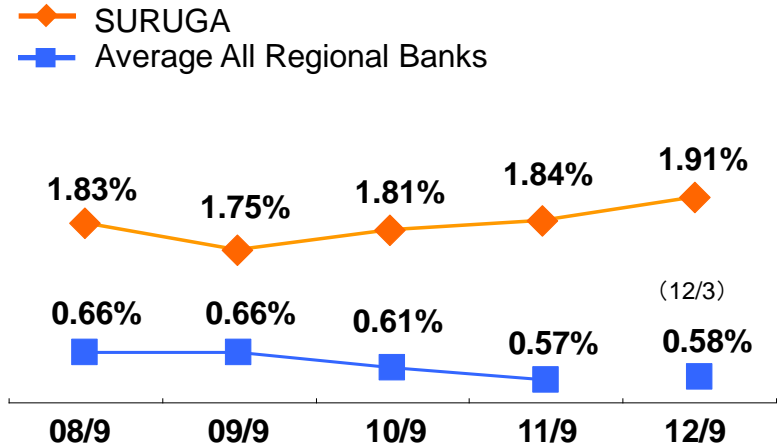
- Yield on outstanding loans
- Expense ratio
- Yield on deposits



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

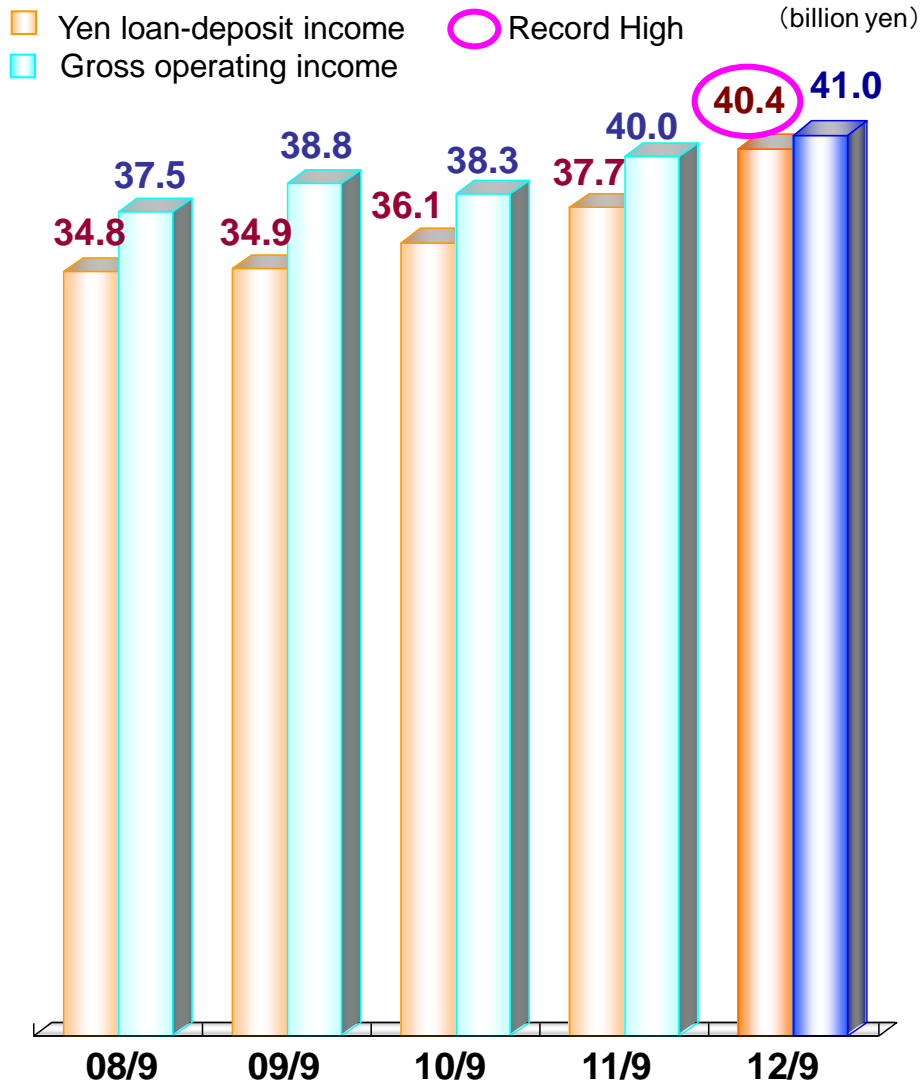


## Loan-deposit margin (after deduction from expense ratio)

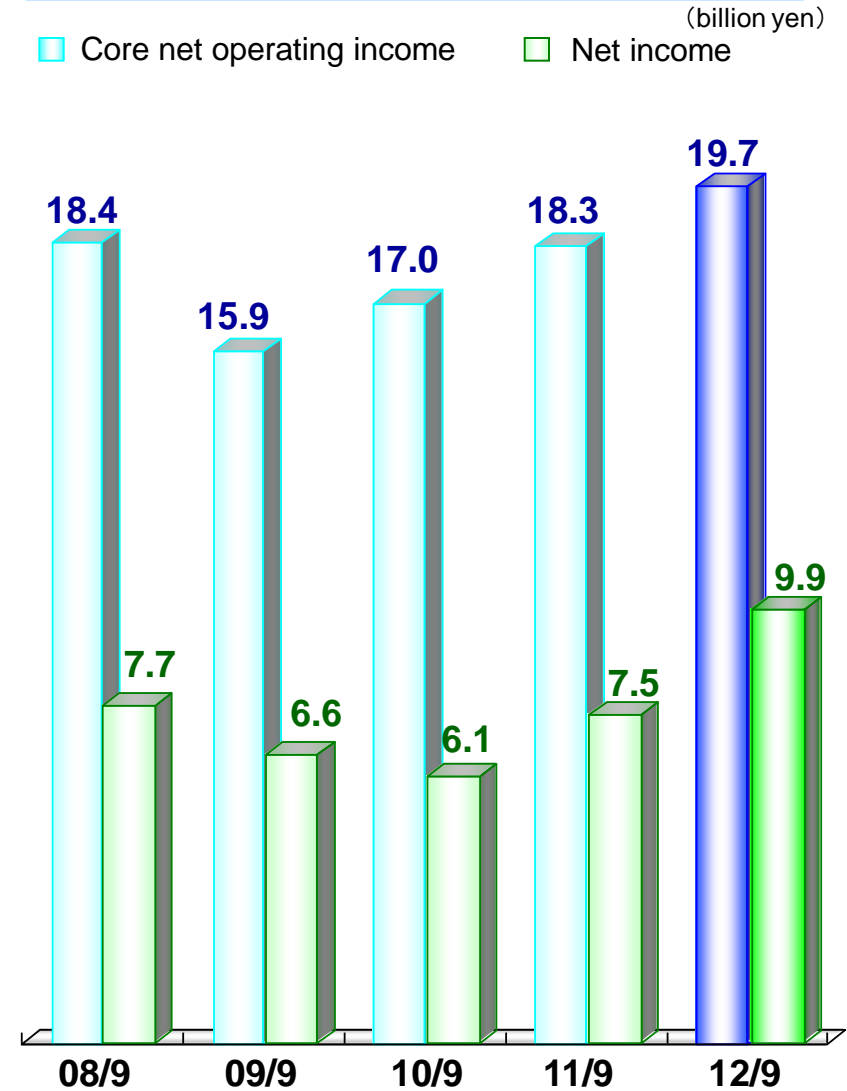


# Income

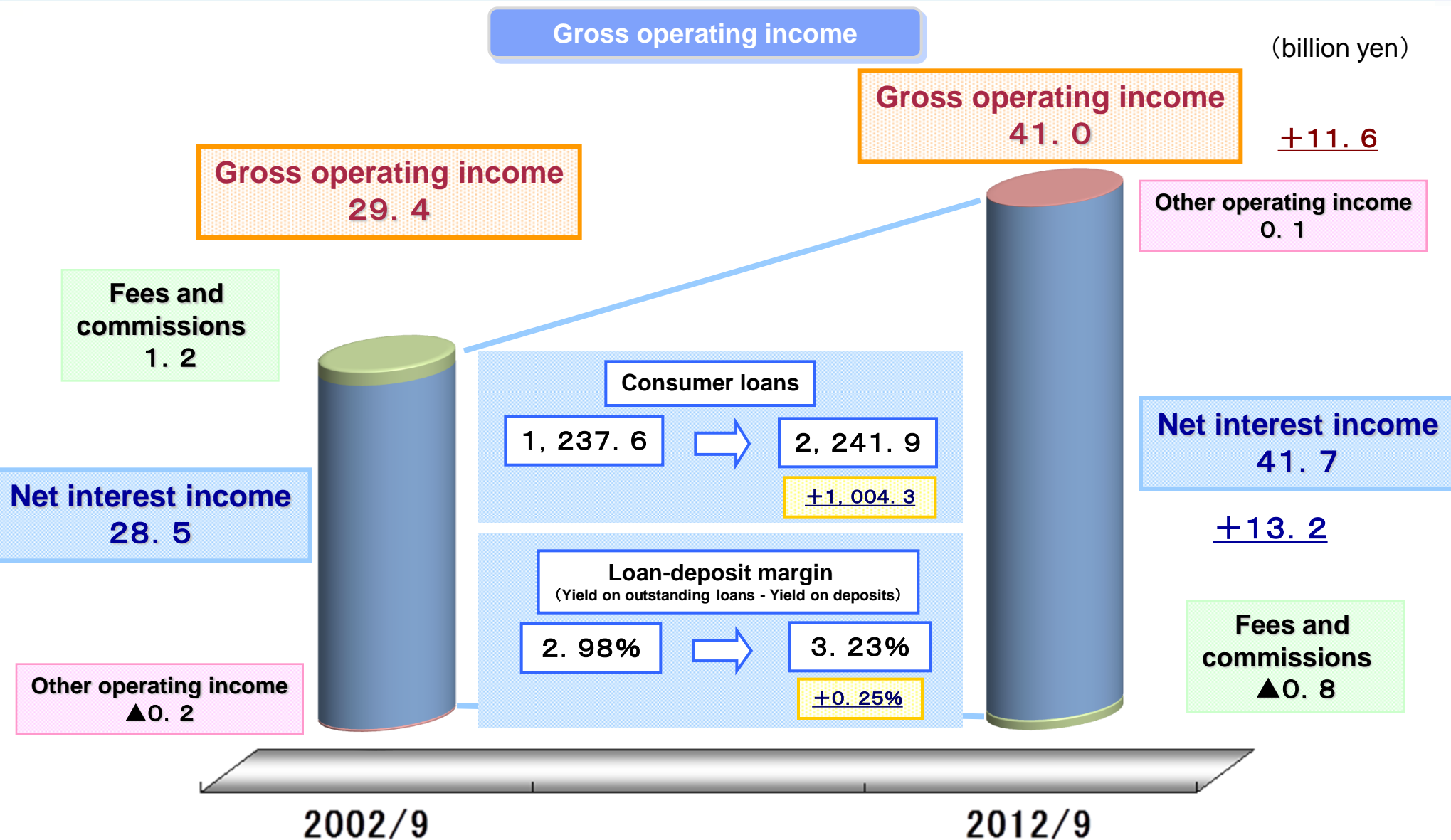
Gross operating income / Yen loan-deposit income



Core net operating income / Net income

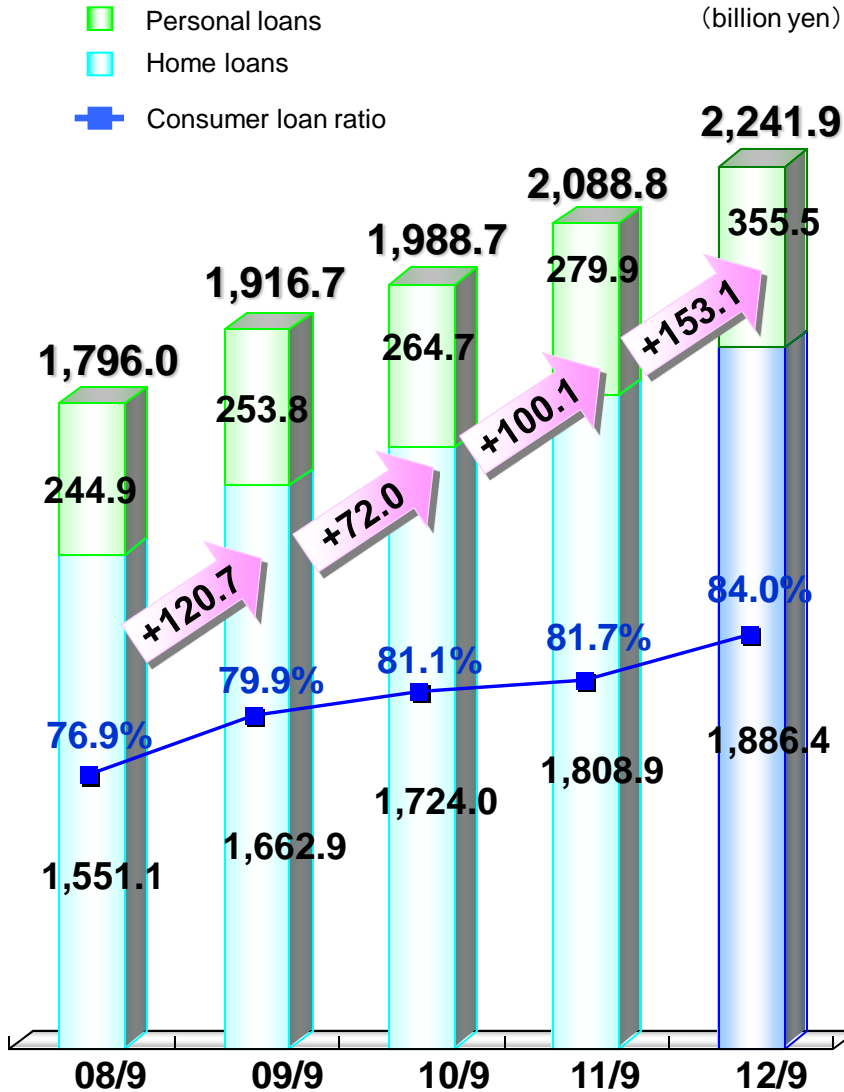


# Progress of Profit base (Compared to 10 years ago)

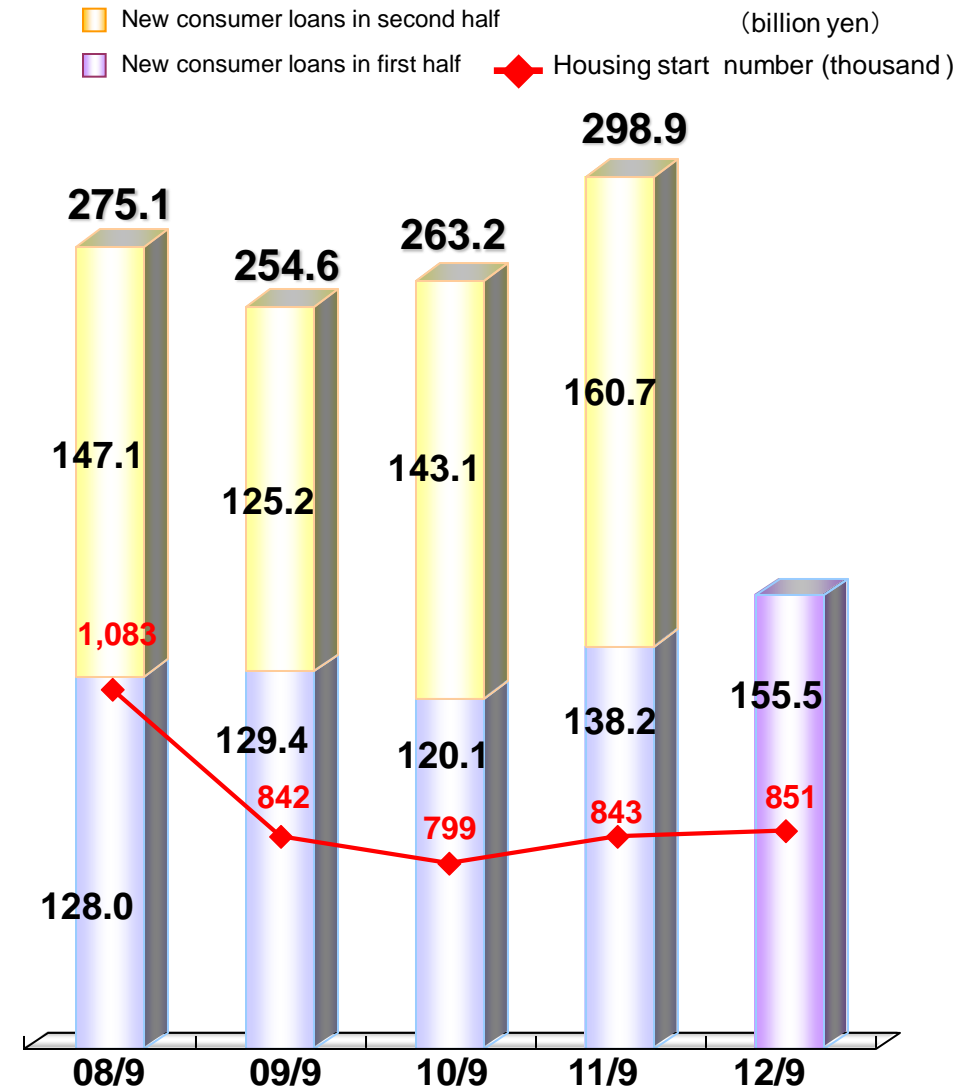


# Strong Focus on Retail

Consumer loan balance and ratio

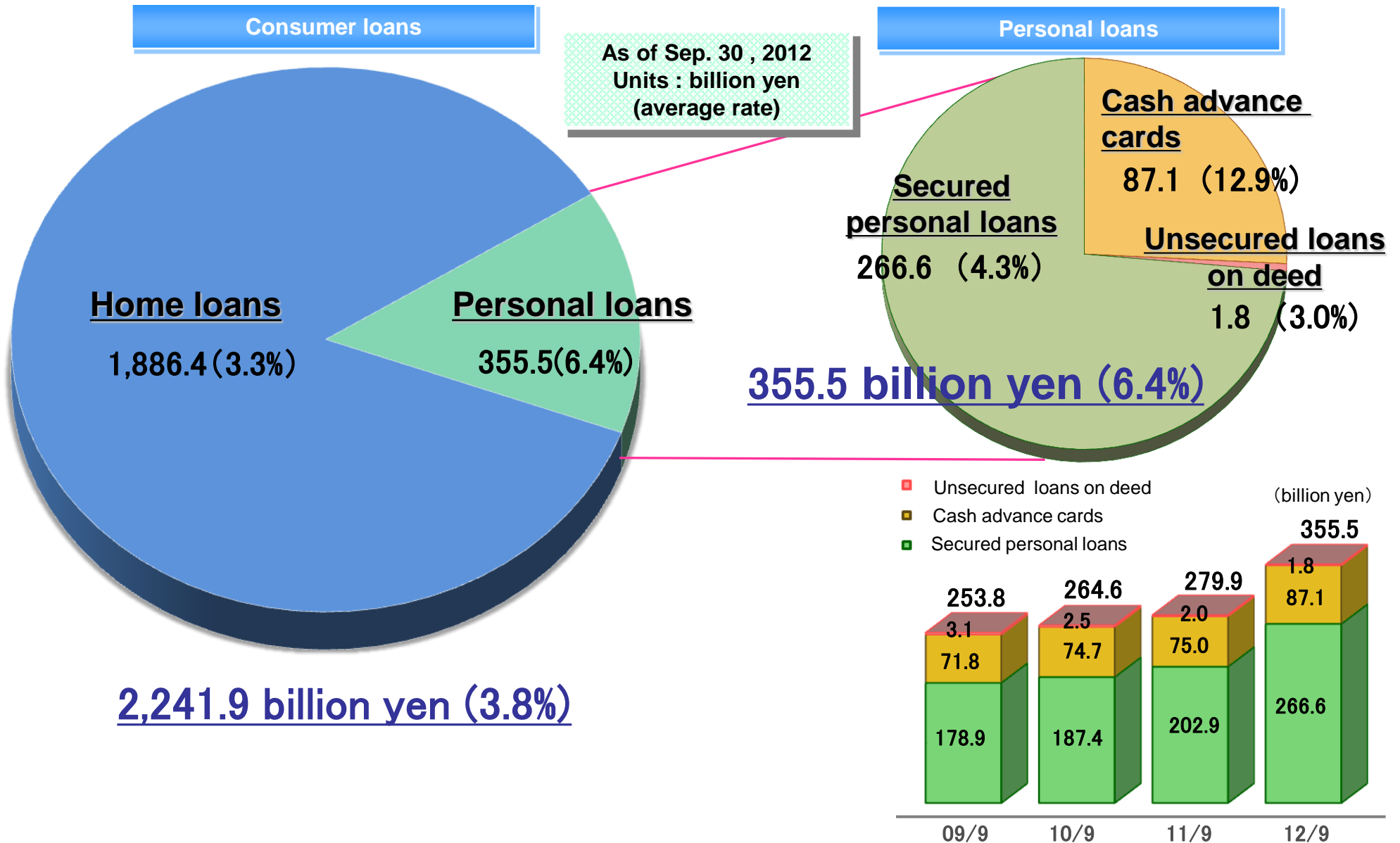


New loan contracts





# Focus on More Profitable Products

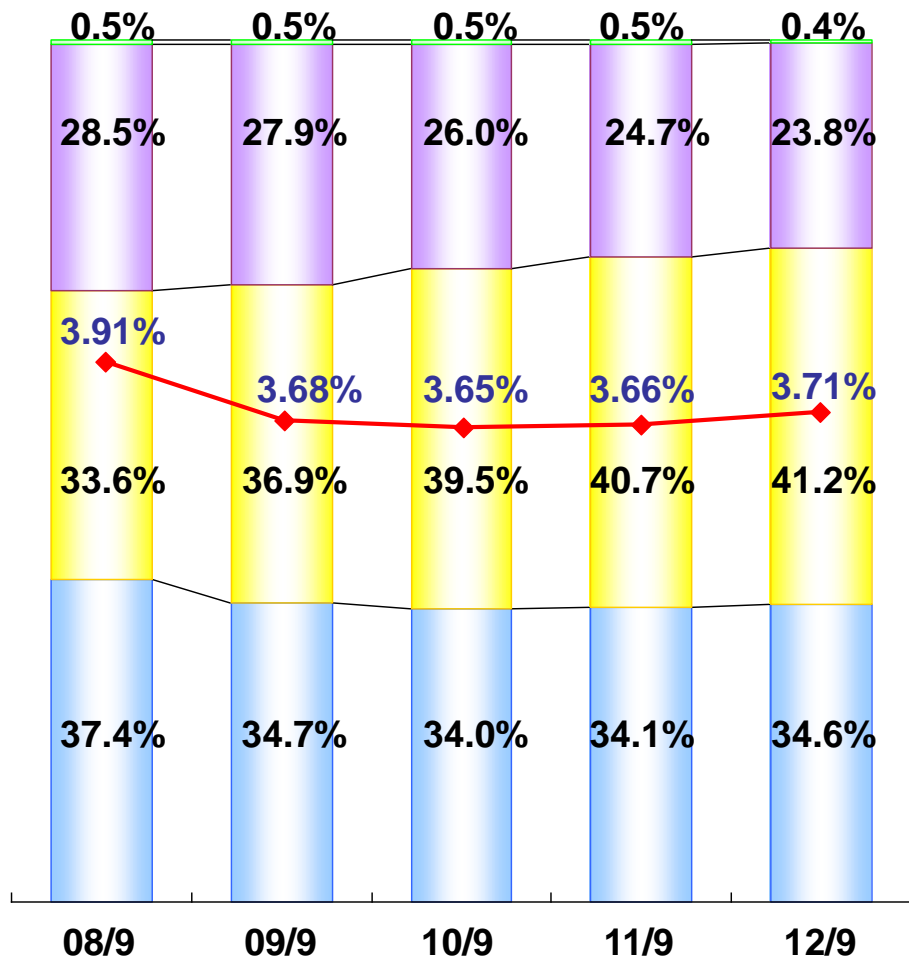


# Home Loans

Distribution of practical rates for home loans (cumulative)

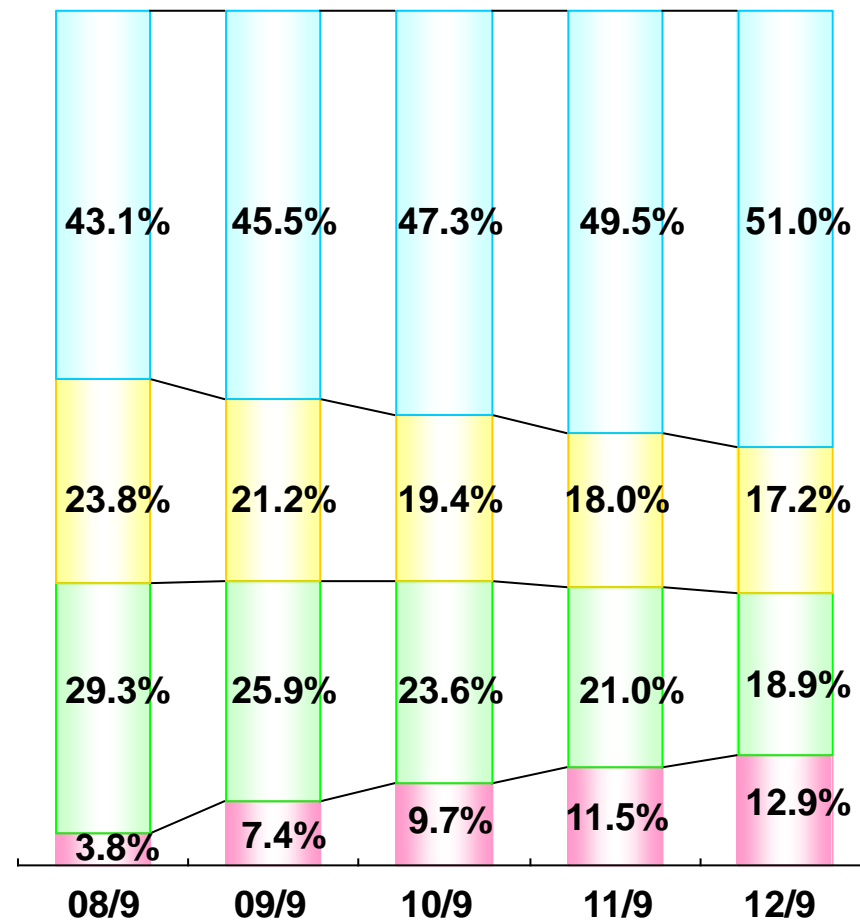
under3%   3%level   4%level   5% or higher

◆ home loans average placement rate (%)



Home loan balance by geographical area

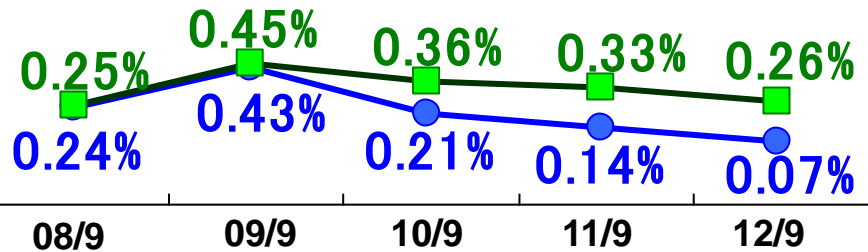
Greater Tokyo area   Kanagawa  
Shizuoka   Major cities nationwide



# Delinquency and Loss Rates on Consumer Loans

## Home loans

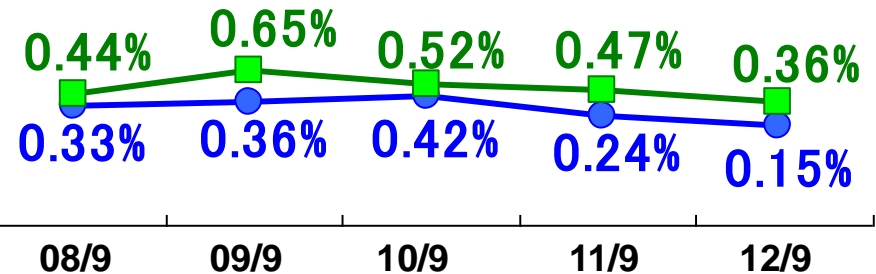
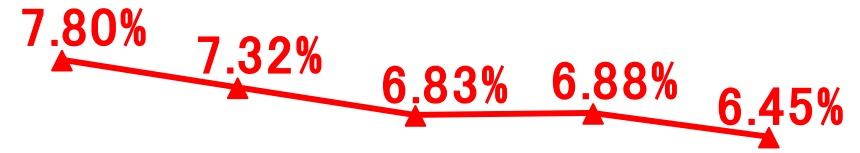
▲ Yield   ● Delinquency rate   ■ Loss rate



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

## Personal loans

▲ Yield   ● Delinquency rate   ■ Loss rate

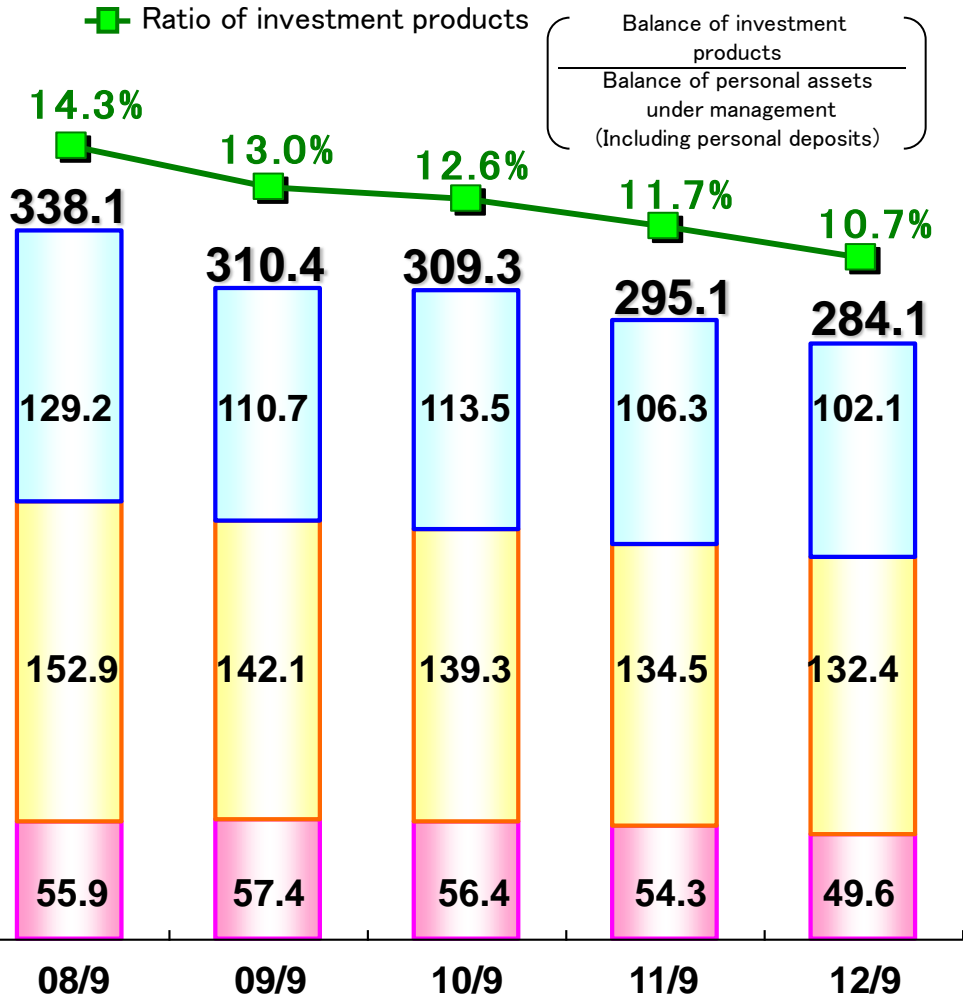


Loss rate = default ratio × (1 - recovery rate)

# Fees income

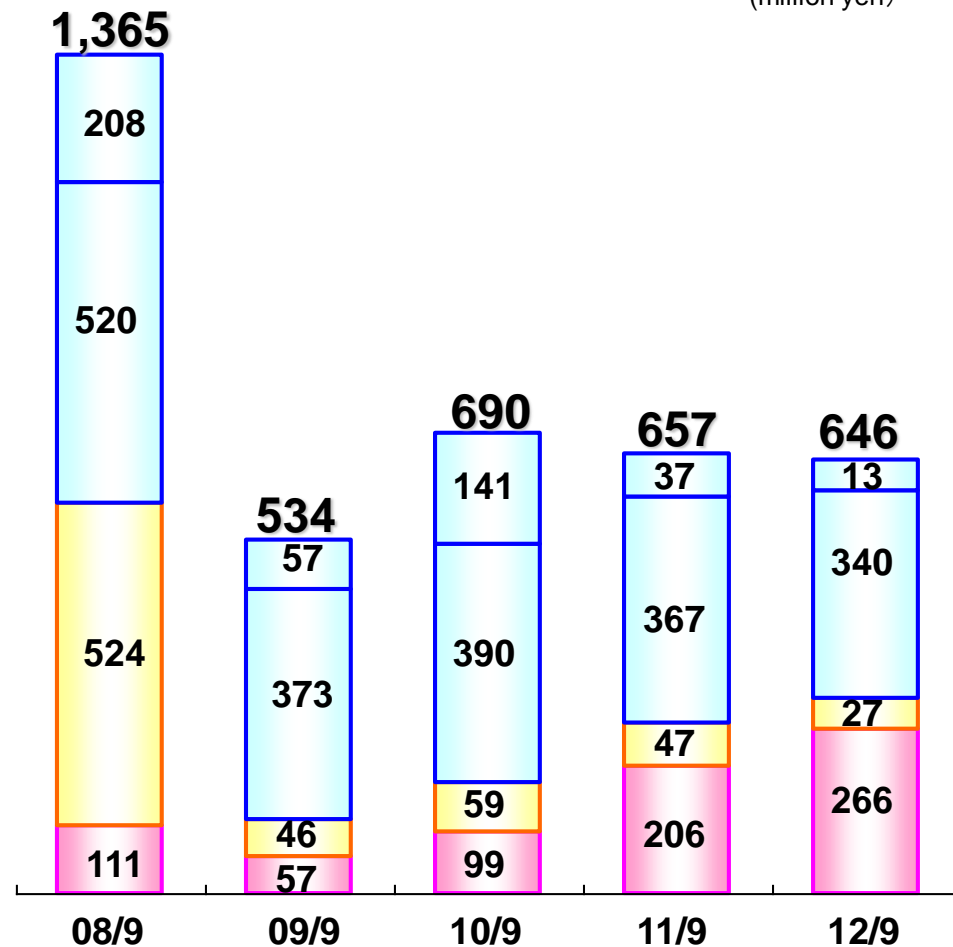
## Balance breakdown of investment products

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



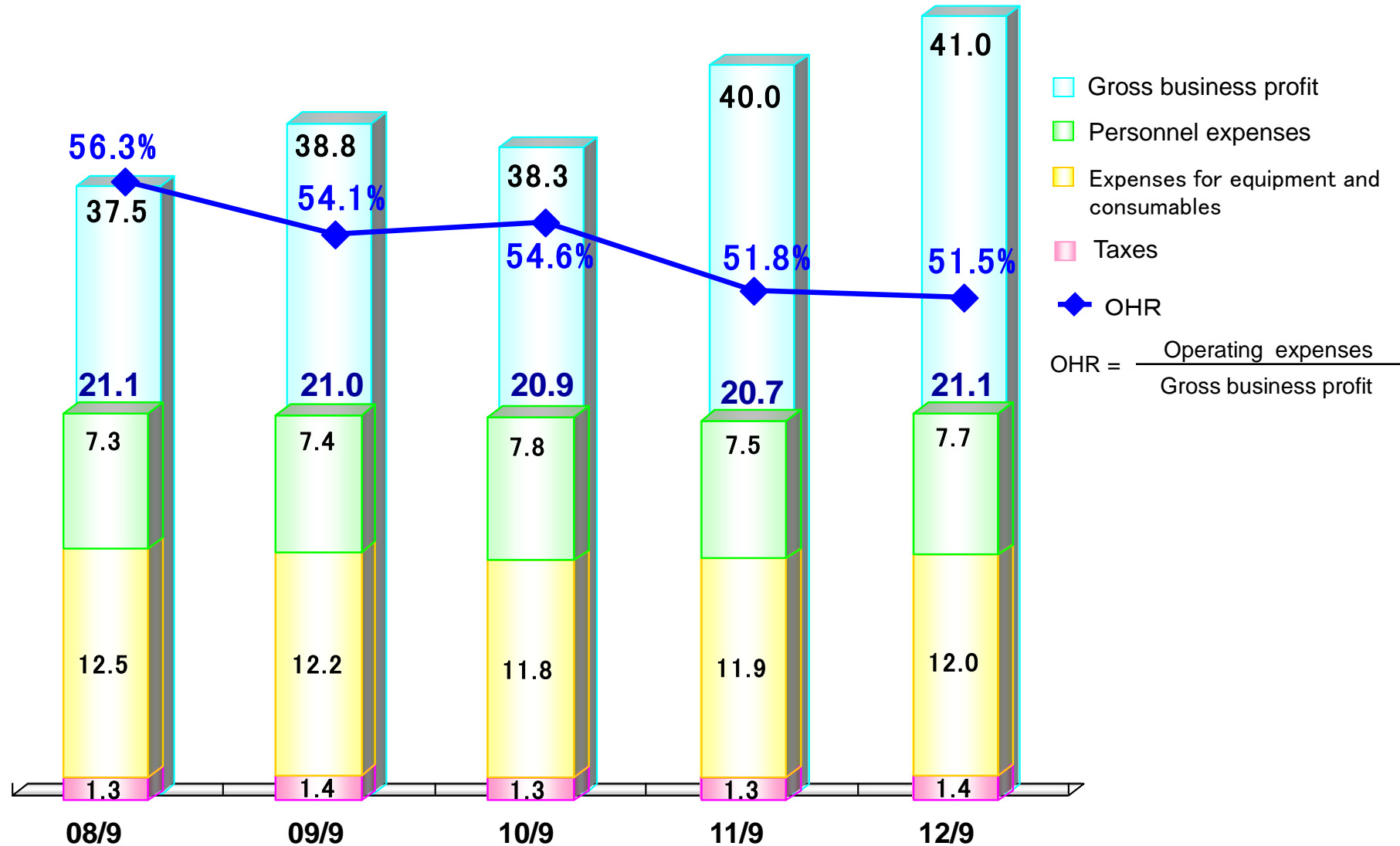
## Commission from mutual funds and insurance products

- 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

(billion yen)



# Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

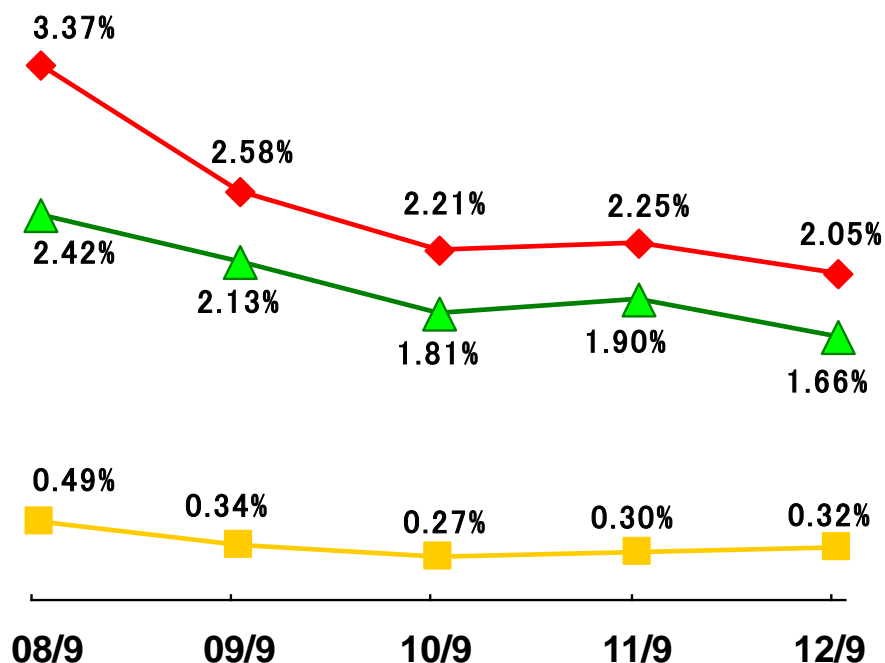
Debtor classification	Sep. 12 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees * NOTE	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio
Claims against bankrupt and substantially bankrupt obligors	12.7	0.47%	Consumer	9.5	0.42%	5.7	4.8	0.9	60.52%	3.8	100%	100%
			Corporate	3.2	0.73%	2.5	1.5	1.0	80.91%	0.7	100%	100%
Claims with collection risk	22.0	0.82%	Consumer	4.7	0.21%	2.8	2.1	0.7	59.69%	1.3	72.61%	88.96%
			Corporate	17.3	3.98%	14.4	5.1	9.3	83.67%	2.0	72.67%	95.53%
Claims for special attention	20.4	0.76%	Consumer	9.3	0.41%	6.2	6.1	0.1	66.88%	0.8	26.53%	75.67%
			Corporate	11.1	2.56%	4.0	4.0	0.0	36.77%	1.9	27.05%	53.88%
Sub-total	55.1	2.05%	Consumer	23.5	1.04%	14.8	13.0	1.8	62.86%	5.9	68.19%	88.18%
			Corporate	31.6	7.27%	21.1	10.8	10.3	66.88%	4.5	43.60%	81.32%
Normal assets	2,629.9	97.95%	Consumer	2,227.8	98.96%	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <b>Total coverage ratio</b>    <b>84.26%</b> </div>						
			Corporate	402.1	92.73%							
Total	2,685.0	100%	Consumer	2,251.3	100%	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> <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                 </div>						
			Corporate	433.7	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

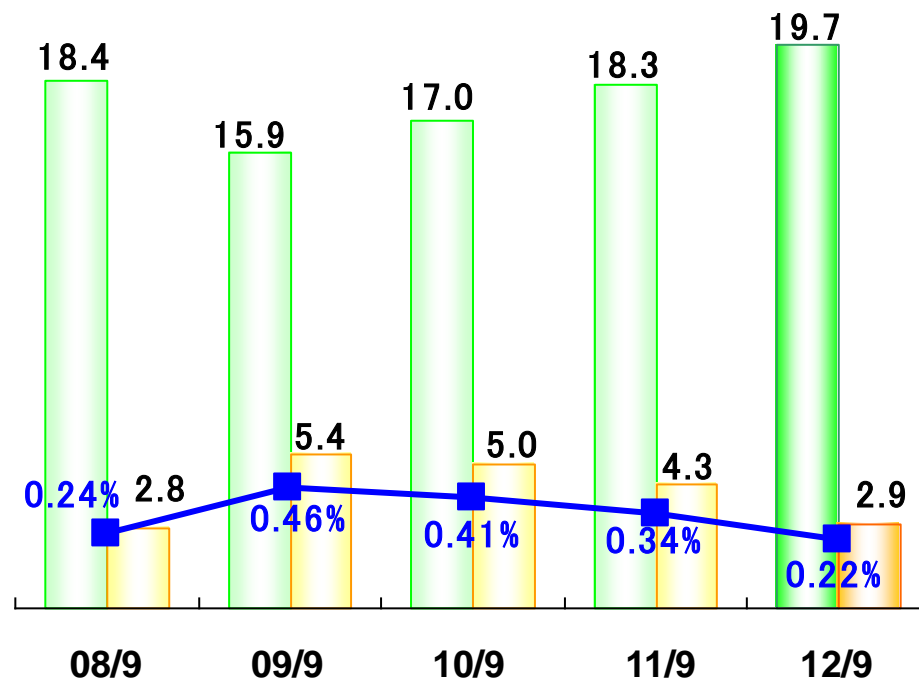
Bad - loan ratio

- ◆ Ratio of disclosed 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

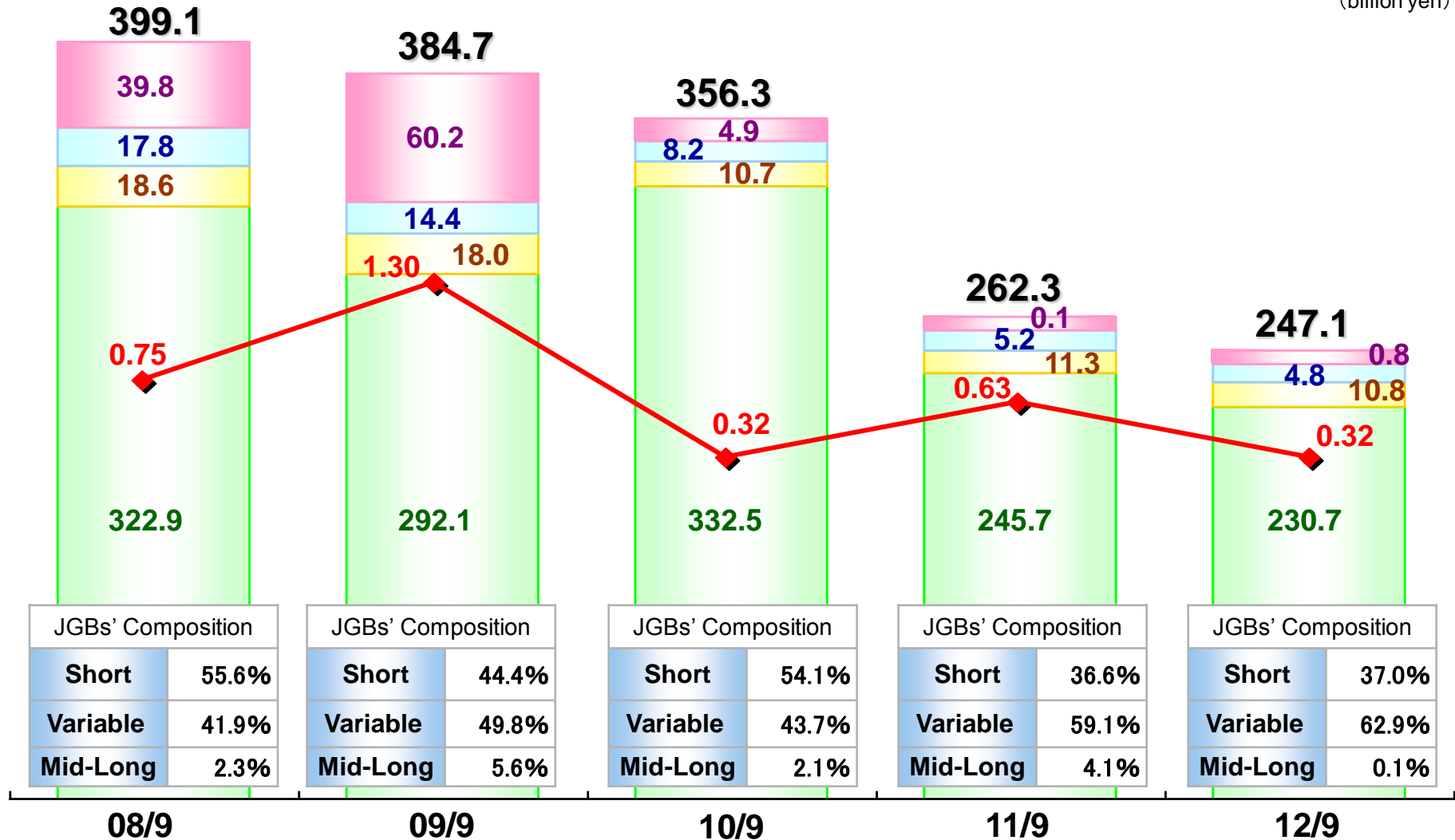
- Core net operating income (billion yen)
- Actual credit costs (credit costs-collection of claims written off)
- Actual credit costs ratio (actual credit costs/loan average balance)



# Bond Portfolio

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

(billion yen)





# ■ Status of Risk Amount

## Integrated Risk Management

(billion yen)

2012/3  
Tier I

190.3

**Buffer**  
(Unallocated Capital)

126.6

63.7

22.5

27.7

13.5

- 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

Credit Risk

Market Risk

Operational Risk

46.3

15.1

18.6

12.6

As of the end of March, 2012 Sources for Allocation

First Half, 2012 Allocated Capital

As of the end of September, 2012 Risk Amount

## Outlier Ratio

As of the end of  
Sep, 2012

Interest Rate  
Shock range

±200bp

Interest Rate  
Risk Amount

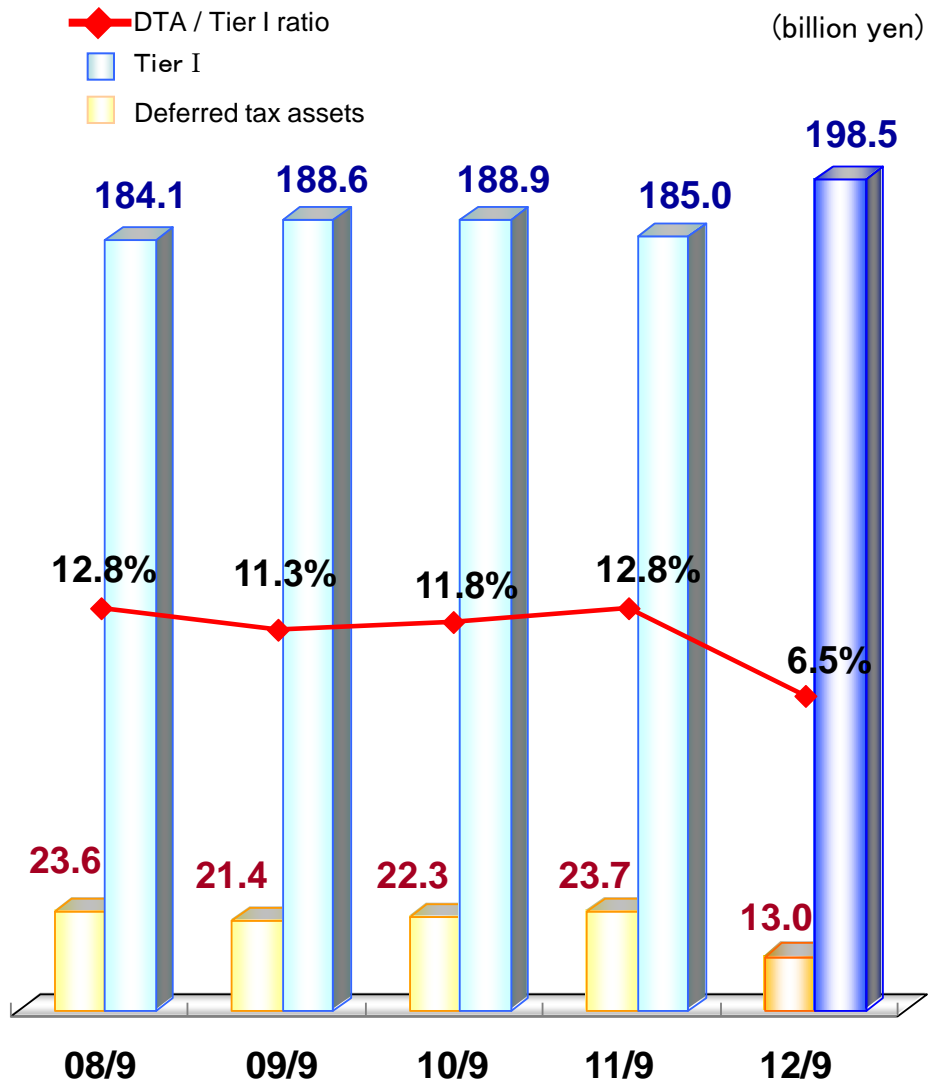
6.7  
billion  
yen

Outlier Ratio

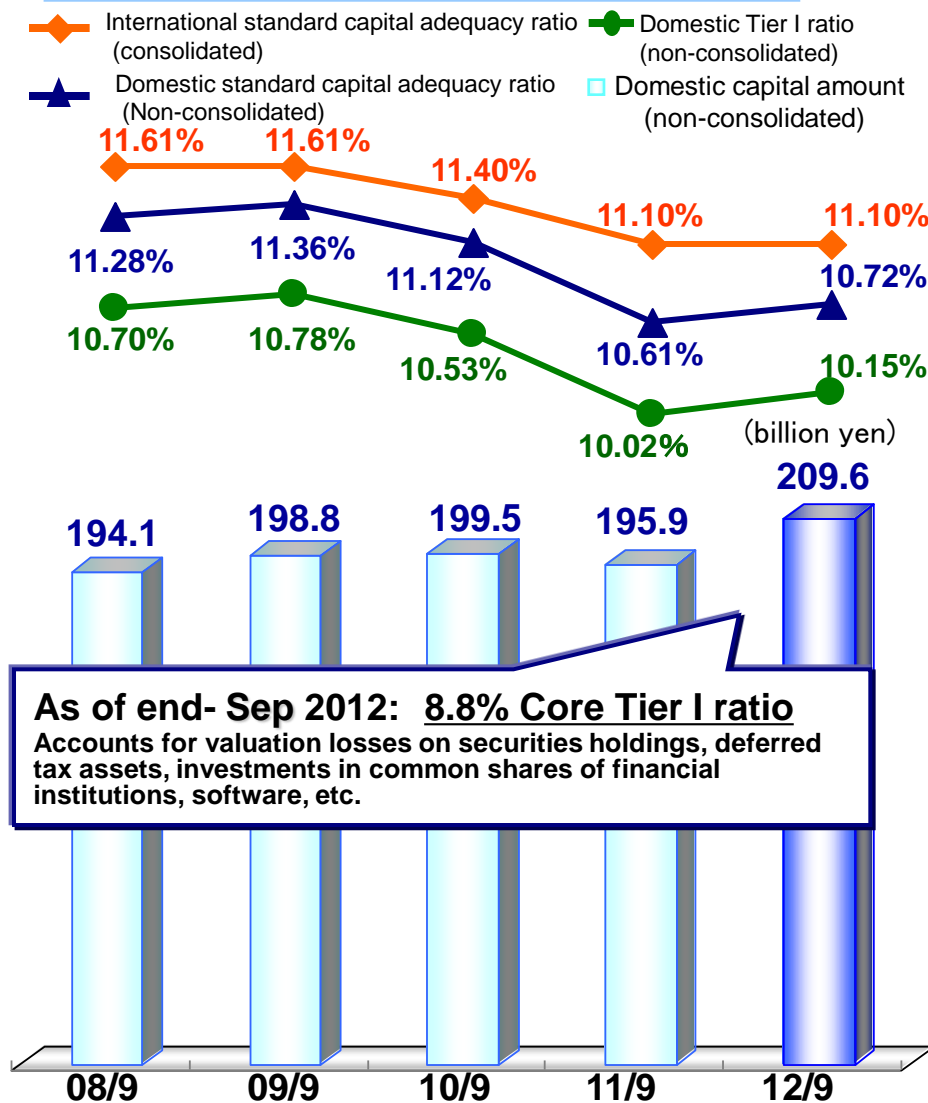
3.1%

# Capital Levels

## Tier I Capital & Deferred tax assets



## Capital Adequacy Ratio



# ■ FY2012 First half Results and FY2013 Forecast

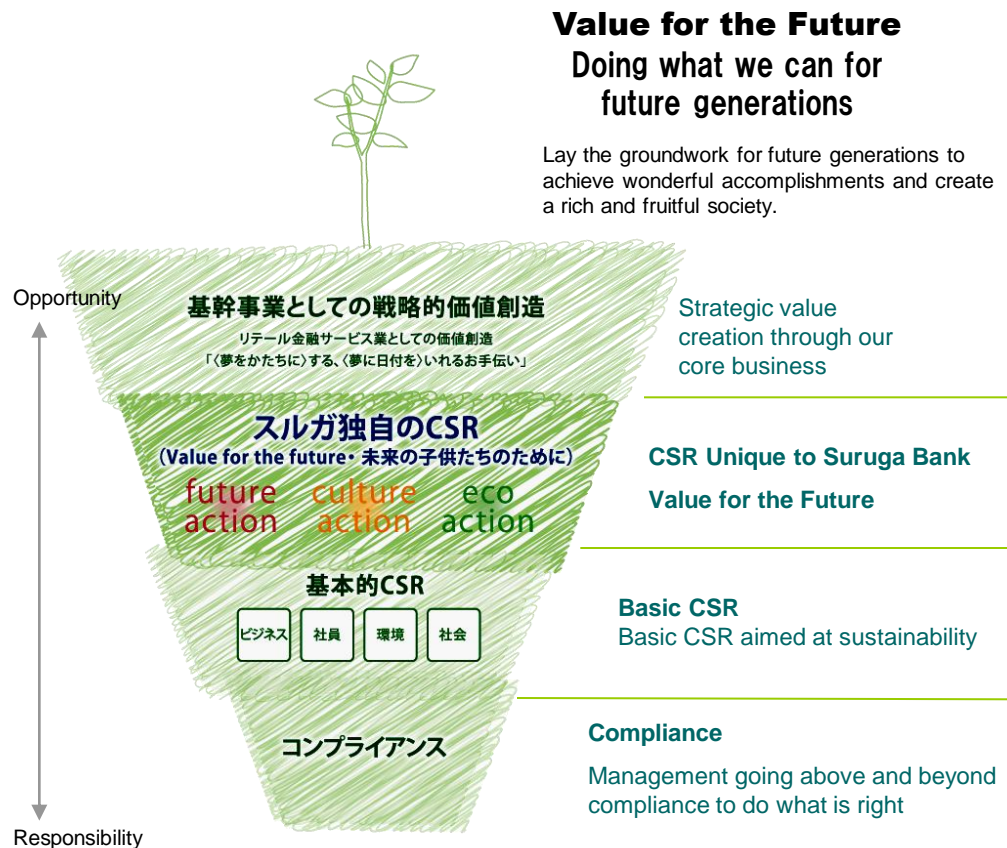
(billion yen)

	Results Sep 2011 (A)	Results Sep 2012 (B)	Increase or Decrease (B-A)	FY 2012 Forecast
Core net operating income	18.3	19.7	+ 1.4	38.5
Ordinary profit	13.2	16.1	+ 2.9	28.0
Net income	7.5	9.9	+2.4	17.0
Actual credit cost	4.3	2.9	△1.4	7.5
Dividends (Yen)	6.5	6.5	0	13

# CSR for Creating the Future

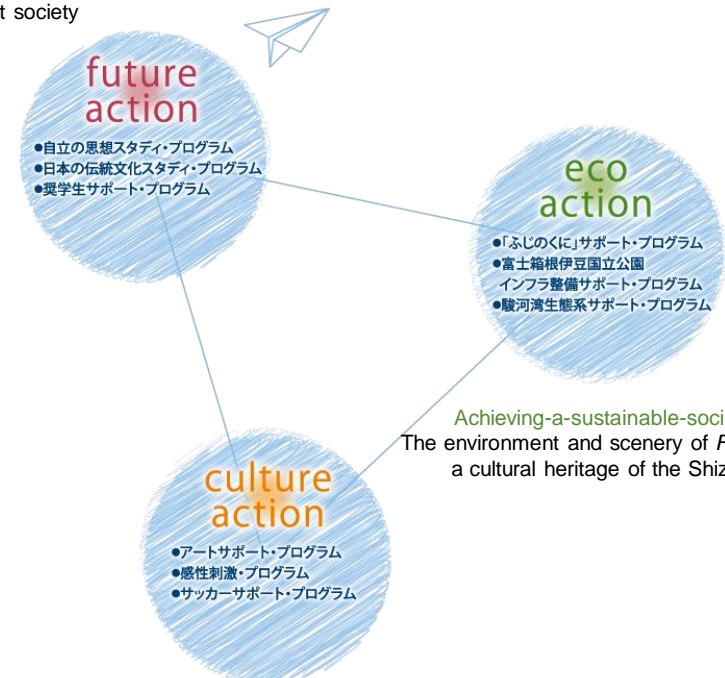
We will continue to strive tirelessly to work toward creating a society with value and build a rich environment where future generations can thrive as we seek to answer the needs of ever-changing times and achieve a sustainable society.

## CSR as Suruga Bank Sees It



### Creating-the-future support program

Aiming for a self-reliant and independent society



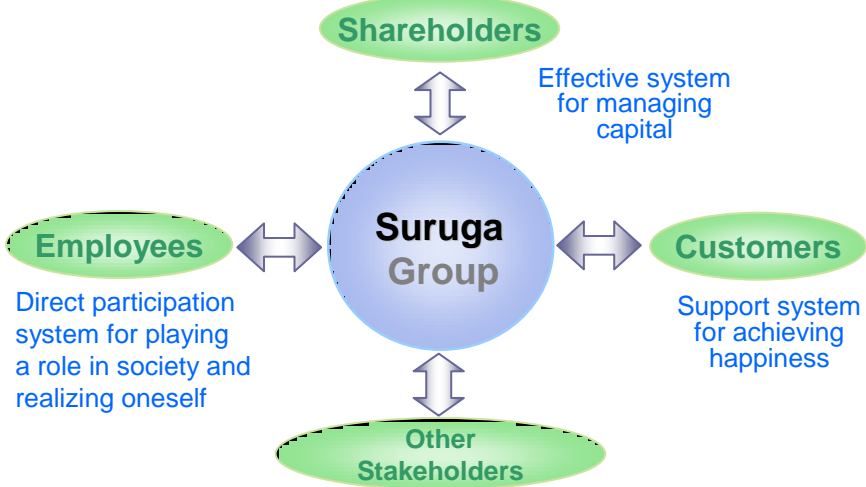
**Achieving-a-sustainable-society program**  
The environment and scenery of *Fujinokuni* as a cultural heritage of the Shizuoka region

**Cultivating-the-next-generation support program**  
For children to will inherit responsibility for the future

# Growth Within Our Corporate Philosophy

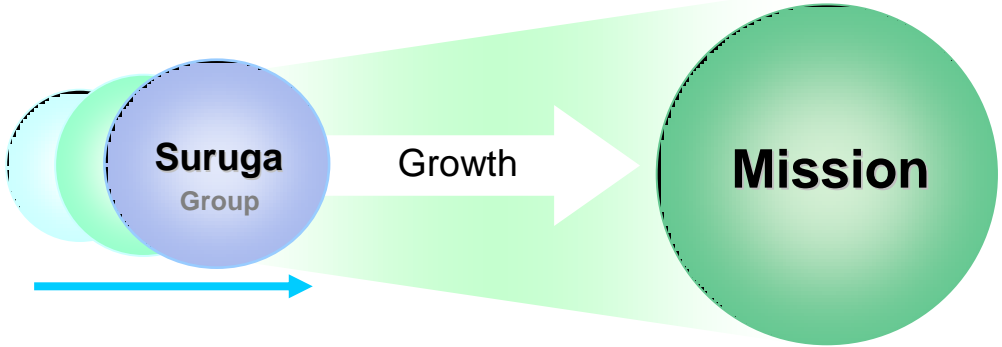
## Growth as a Value Exchange System

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

<b>Management</b>		
<b>C</b>	<p><b>Culture-oriented</b> Rooted in culture of land where established</p>	Respect culture. Leverage the strengths of that culture to realize growth for Suruga.
<b>P</b>	<p><b>People-based</b> Centered around its people</p>	Achieve growth through management centered not on corporate theory but on the logic of its people.
<b>S</b>	<p><b>Social-perspective</b> Seeks improved sociality</p>	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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