

**SURUGA** bank

## Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended September 30, 2013



# Management Discussion & Analysis

Enhance economic and social value ⇒ Revitalize and Create a Future for Japan

## Creating a Sustainable Society

Fiscal stimulus, monetary easing, structural reform, etc.  
**Reflationary policies**

Adapt to demographic changes  
**Social security system reforms**

Environmental issues and the balance of supply and demand reflected in  
**Energy policies**

More financial support to help companies grow  
**Stimulating employment, the economy**

## Driving Innovations

Creating new business models via  
**Active corporate investment**

Doing business globally  
**Cultivating entrepreneurship**

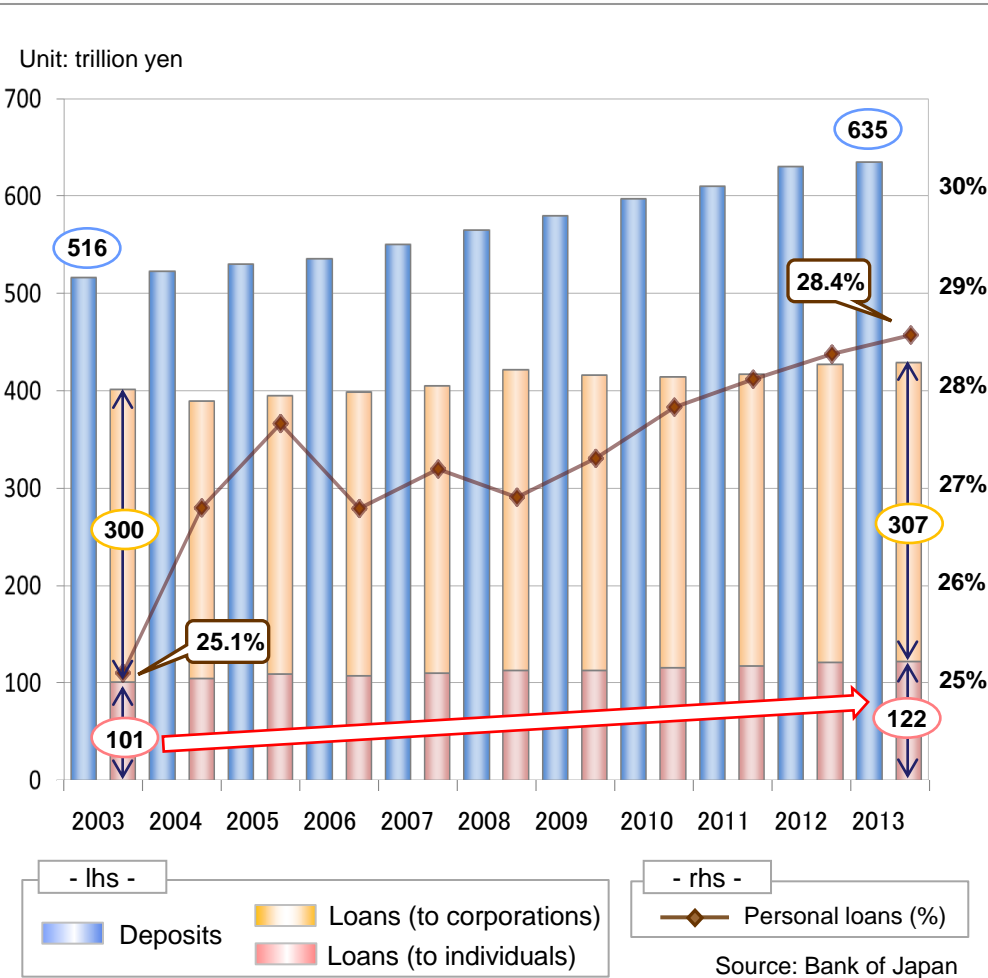
From increasing visibility to predicting the future  
**Leveraging big data and other IT**

Grasp tacit knowledge on the ground and reflect in the business  
**Being agile**

Key to revitalizing Japan are continuous innovations based on creating knowledge under policies aimed at sustainability

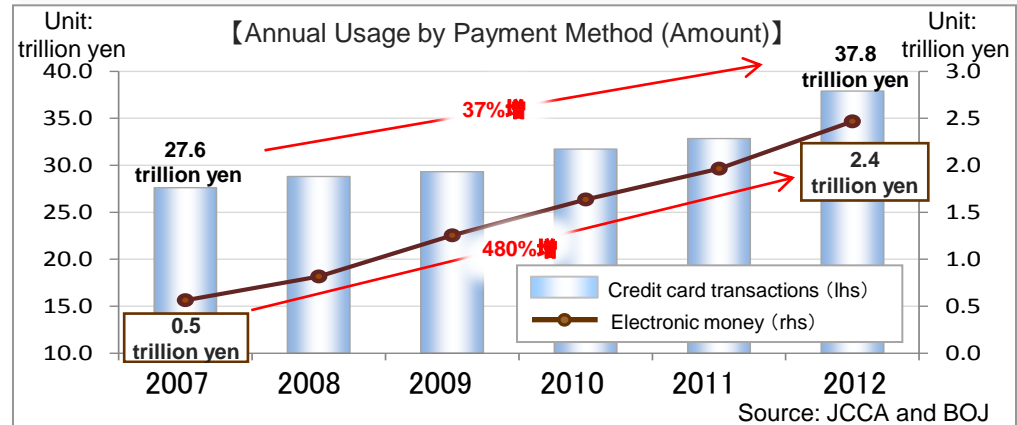
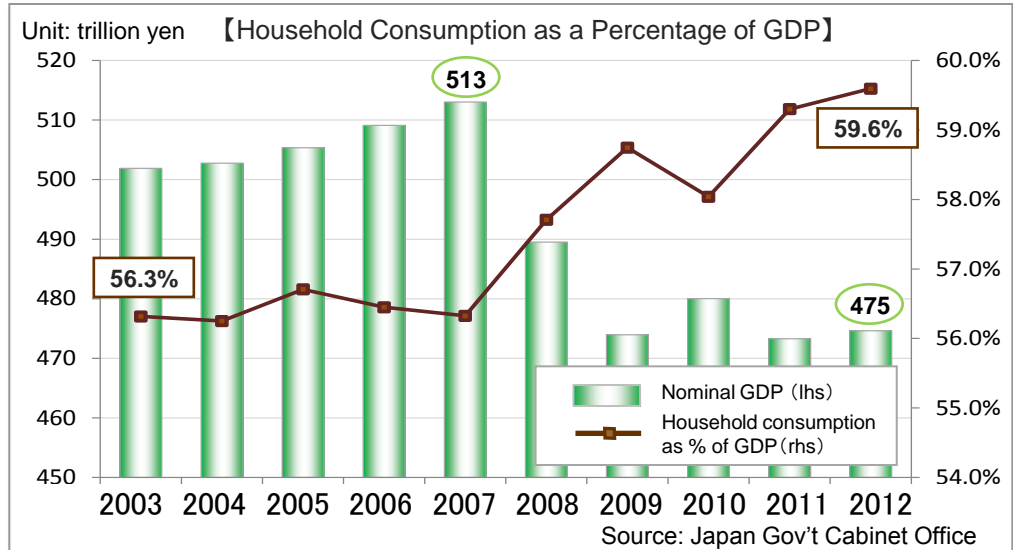
# Environment Surrounding Japanese Banks

Balances of Deposits, Loans and Personal Loans at Japanese Banks



Banks focused on personal loans for borrowers to supplement corporate customers. Balances continue to rise but rivals rely on interest rate discounts to attract customers.

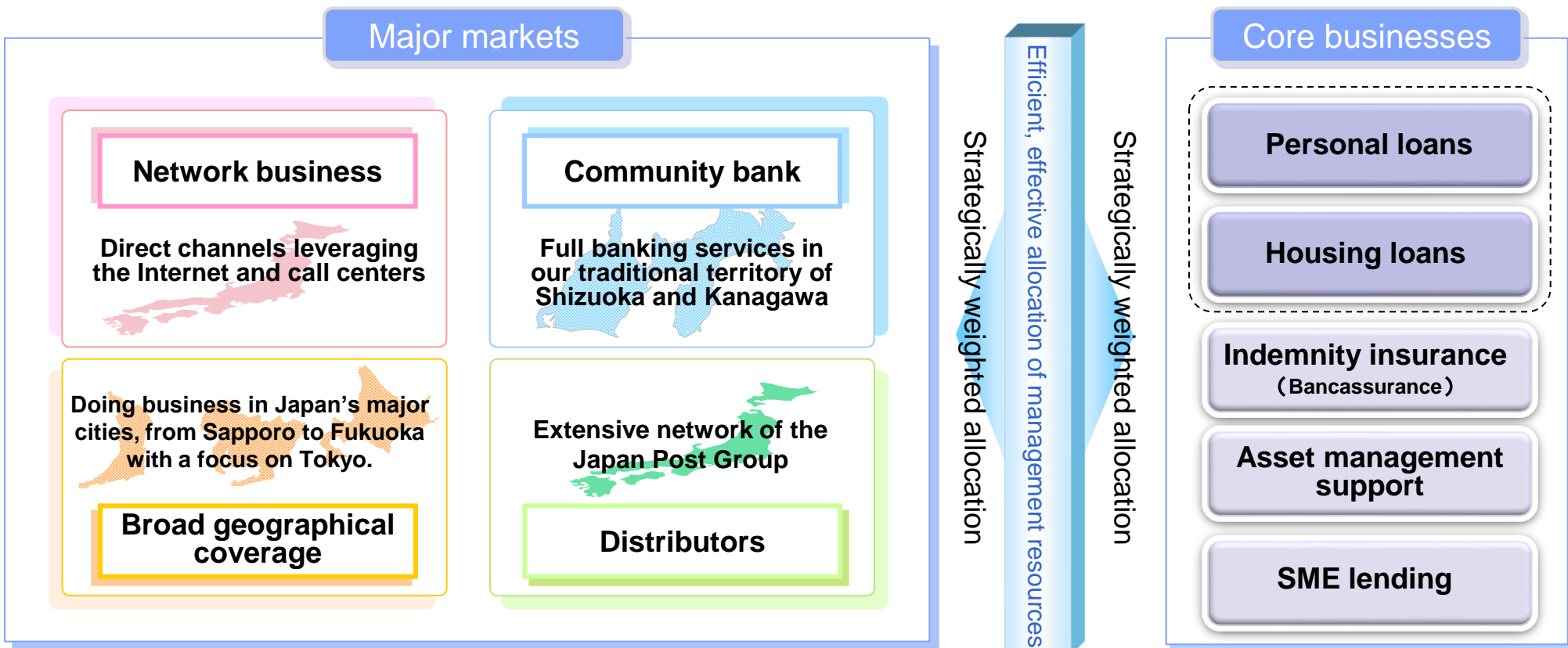
Household Consumption as % of GDP and Payment Methods



Technological innovations are expected to drive further diversification and sophistication in payment methods. Finance providers need to adopt approaches that meet changing consumption processes.

# Grand Design of the 5<sup>th</sup> Management Plan

Leverage market characteristics to create value from the customer's perspective  
 – Maximizing the know-how developed as a result of Suruga Bank's retail strategy –



Suruga's capabilities make it possible to pursue a comprehensive geographical strategy

Values  
Our  
Philosophy

Retail  
mindset

Marketing

IT  
infrastructure

Customer  
base spread  
nationwide

Speed and  
flexibility that  
overwhelms the  
competition

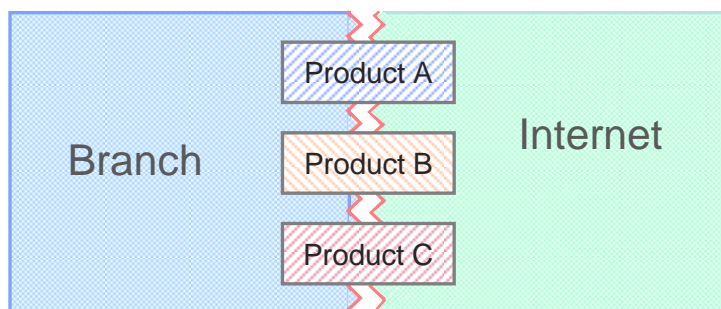
# Communication the Suruga Way

## General Communication

### Product-oriented

Focus is on Product.  
Branches and the Internet exist as sales channels.

#### The Customer



#### 【Perspective for delivering value】

Branches and the Internet are disconnected, so there is not enough interaction.

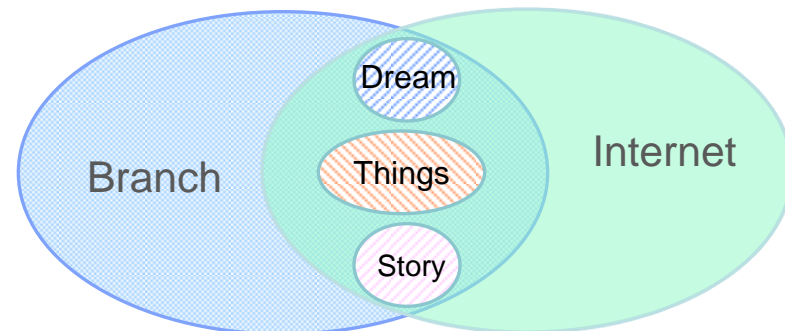
Deploy on the Internet in addition to Branches  
⇒ Tie into enhanced customer **convenience**

## Communication the Suruga Way

### Customer-oriented

Focus is on attentive care and dialogue. Branches and the Internet exist to uncover customers' true needs.

#### The Customer



#### 【Perspective for delivering value】

Customer-oriented is the concept used.  
So relationships are **seamless**.

Communication closely tied to lifestyles.  
⇒ Tie into creation of **emotional value**.

Leverage customer contacts to stimulate interest. Navigate the lifestyle to get close to a mindset of sympathy and understanding. ⇒ **Communication the Suruga Way**

# The Environment Surrounding the Home Loan Market

## Changes to the Macro Environment

Total population and number of households shrinking ⇒ Inflow of population to Tokyo

Single occupant households increasing as people live longer, marry later or forgo marriage entirely.

Increasing demand for elderly housing and low-priced housing.

Expanding market for buying and renovating existing homes.

## Gov't Policies ⇒ Real Estate Market Trends

VAT rate hike ⇒ Rush in demand to buy homes

Mortgage tax breaks, cash benefits ⇒ Stabilize demand

Increased inheritance tax, gift tax exemption limit ⇒ Liquidity of real estate

National strategic zones ⇒ More active real estate market ⇒ Urban revitalization

## Suruga's Direction for the Home Loan Business

The right advice for customers' life plans

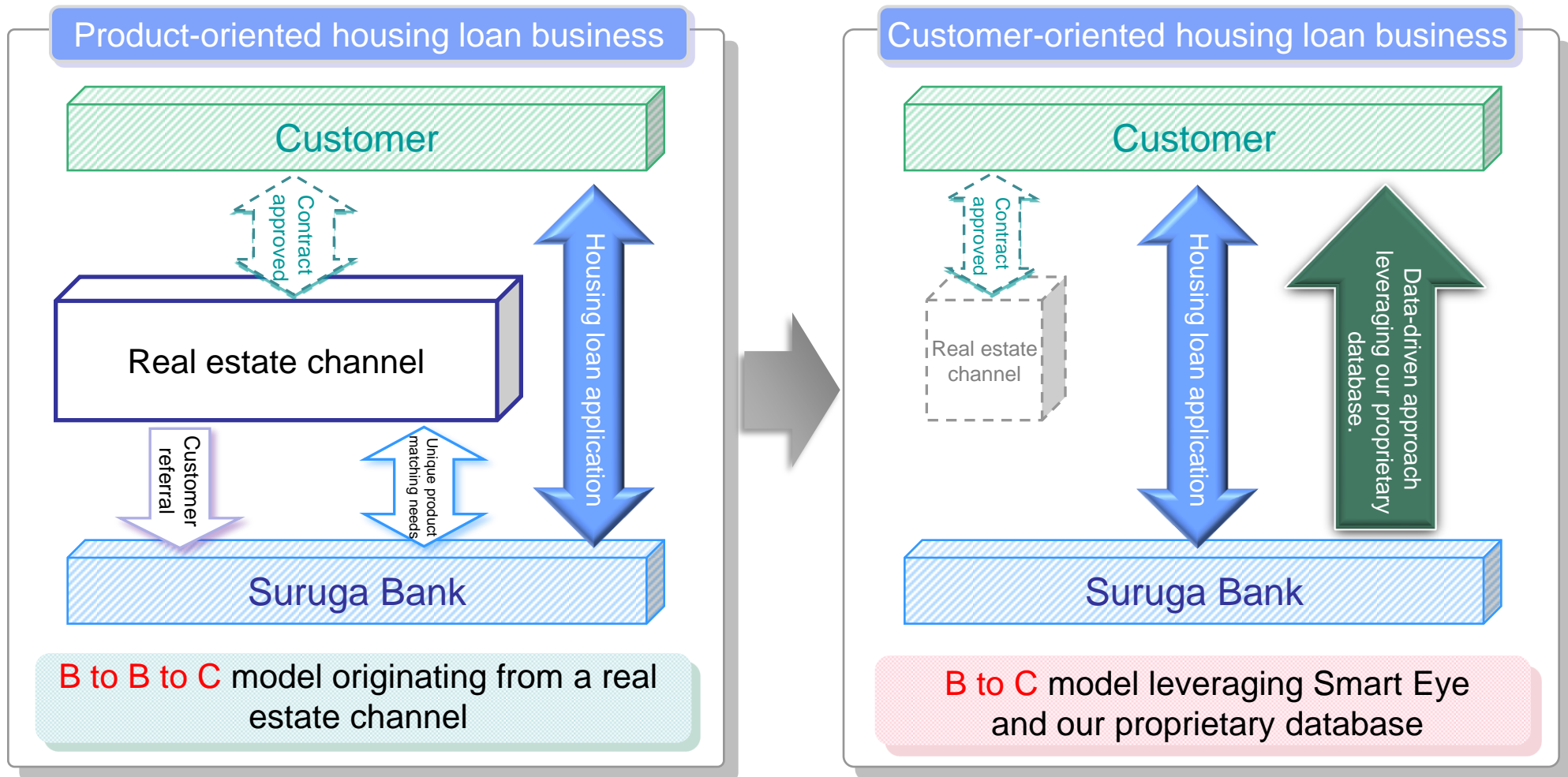
Multifaceted support that meets diversifying values.

Supporting a wide range of needs including the inheritance of assets

Deliver unique value that meets the needs of a market for existing homes that is becoming more active.

# Suruga Bank's Housing Loan Business

Suruga Bank's housing loan business continues to evolve with the times



Suruga Bank's housing loan business is not reliant on channel sales. Our business model leverages a customer-oriented approach to insulate ourselves from rate-pricing competition

# Personal Loan Market Moving Forward

## Trends in Consumer Finance Market

Stronger regulations, e.g., Revised Moneylending Business Act

**Shrinking number of moneylenders**

Statistical decline in number of debtors with multiple loans

**Restrictions on lending to sound, viable borrowers**

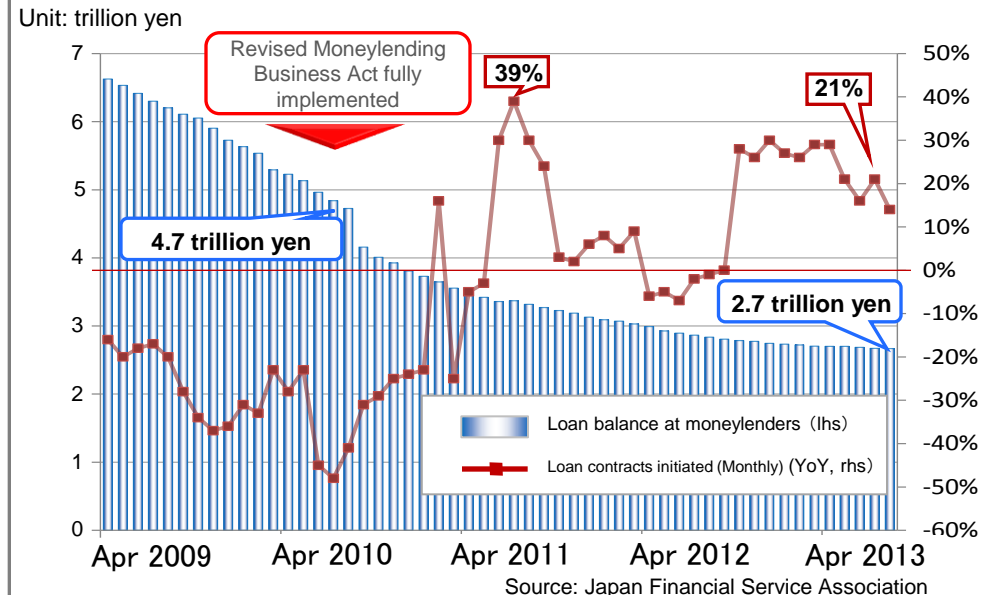
Entry into banking and online banking from other industries

**Intensified competition within the industry**

Intensified competition to acquire customers

**Concerns of war of attrition in interest rate pricing war**

## Moneylender Loan Balances and Loans Initiated (Monthly)



〈Shrink rates of loan balances tapering off〉  
 〈Loan contracts recovering steadily〉

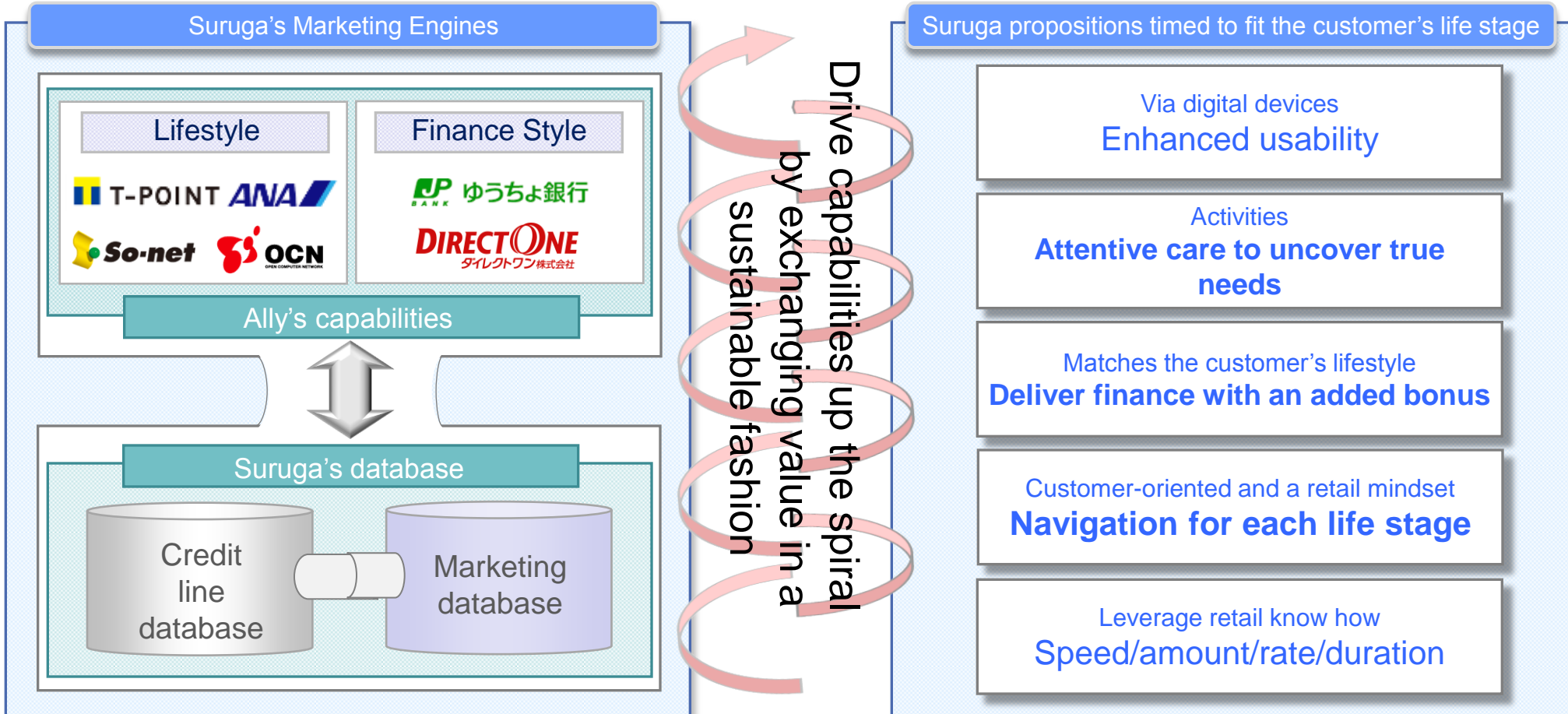
Expectations for future growth  
 in consumer finance market

Banks expected to play central role in personal loan market.  
 Escaping from the homogenous models pursued  
 by rivals ⇒ Enormous business chance



# Suruga's Unique Personal Loan Business

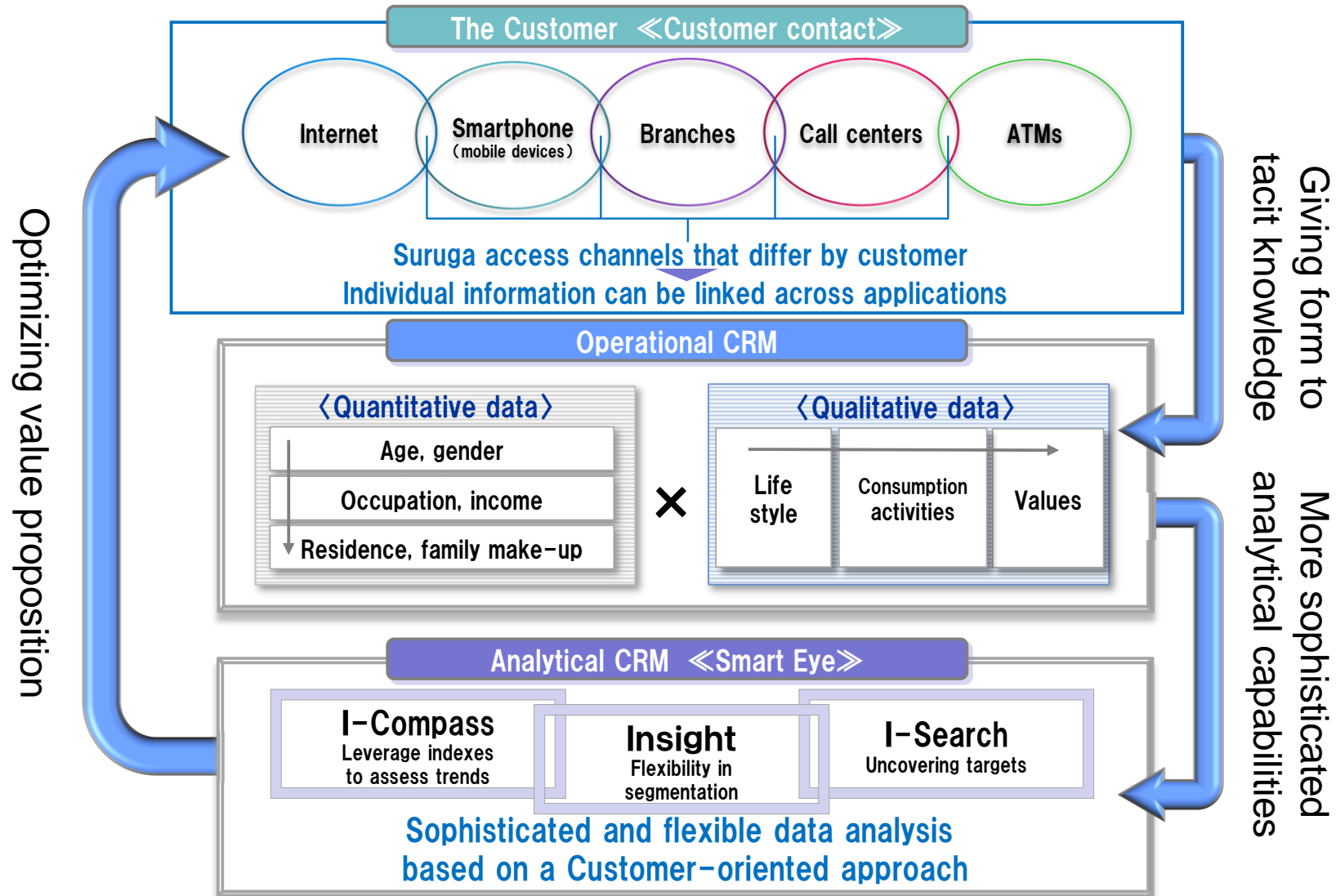
Suruga's personal loan business supports the realization of a mature and energetic society



Leverage our personal loan business to deliver finance that makes life more fulfilling and supports those who have a passion for creating a future for Japan

# Suruga's Marketing Meets Diversifying Values

Leverage a customer-oriented approach to integrate and consolidate data collected via diversifying access channels. Practice consulting that predicts life events using proprietary analysis.

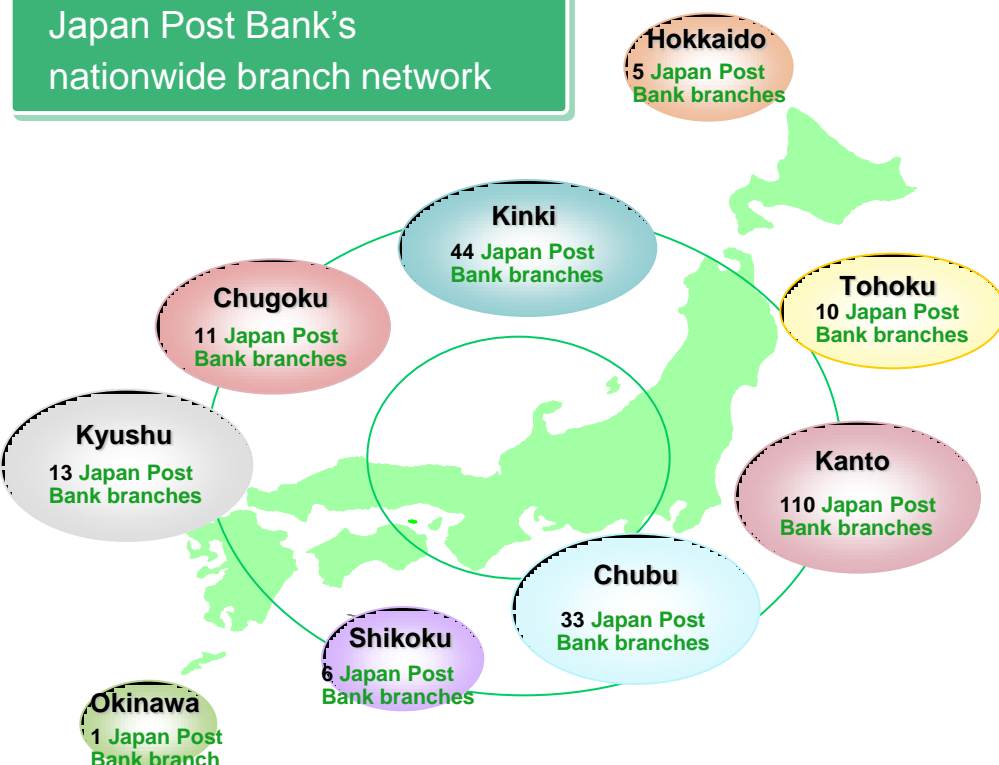


# Business Alliance with Japan Post Bank

Leveraging Japan Post Bank's nationwide network

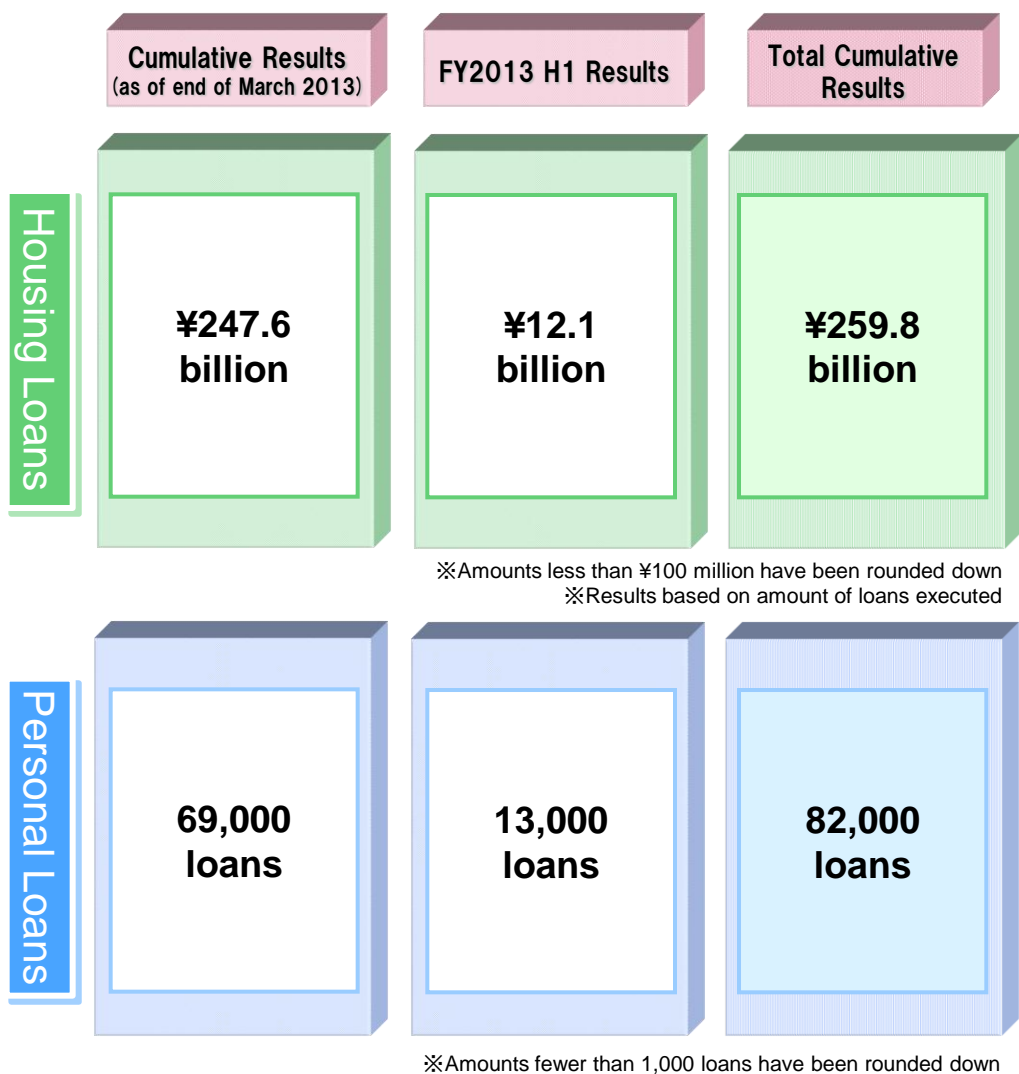
Customers can apply for our Personal loans at all 233 Japan Post Bank branches

Japan Post Bank's nationwide branch network



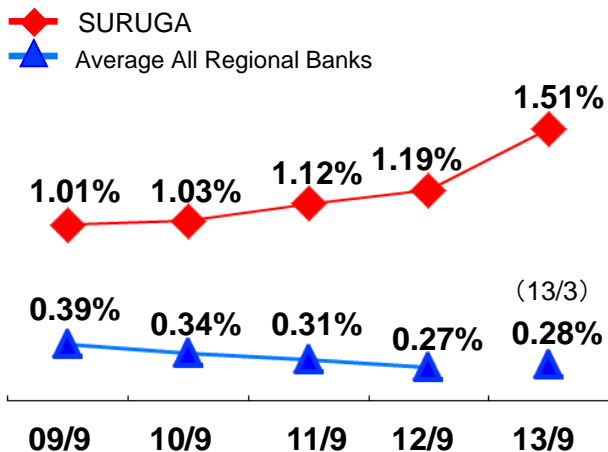
Reach more customers with loan products that meet customer needs

Cumulative results since the alliance launched

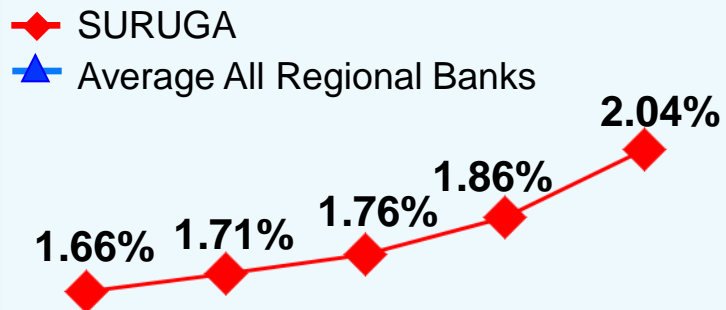


# Yield / Margins (Overall)

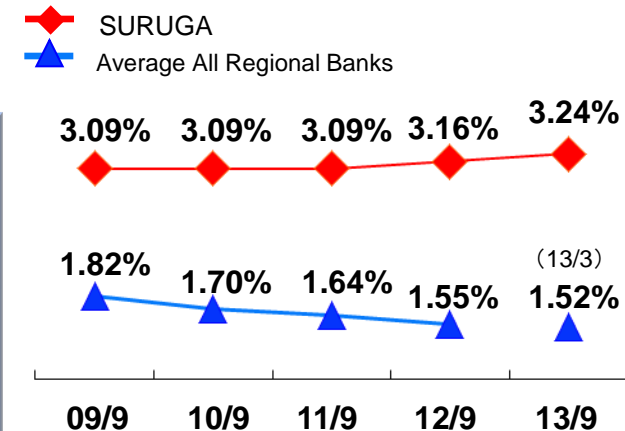
## Net interest margin



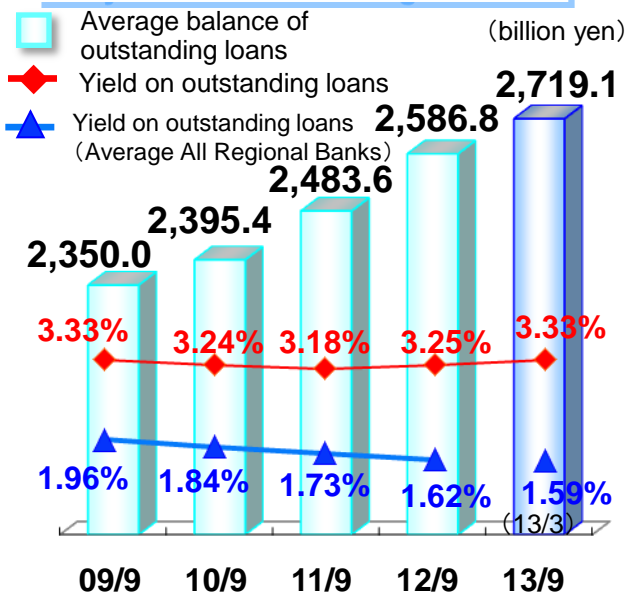
## Loan-deposit margin (after deduction from expense ratio)



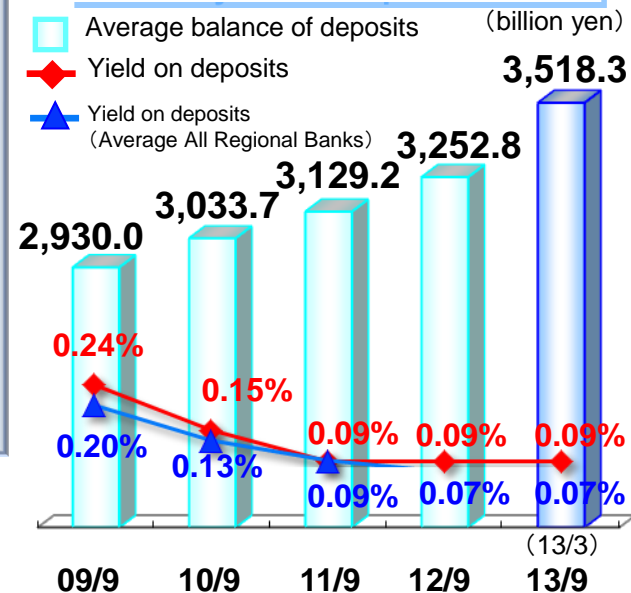
## Loan-deposit margin (Yield on outstanding loans - Yield on deposits)



## Average balance and yield on outstanding loans



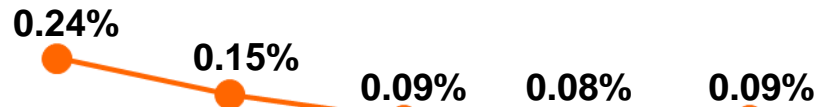
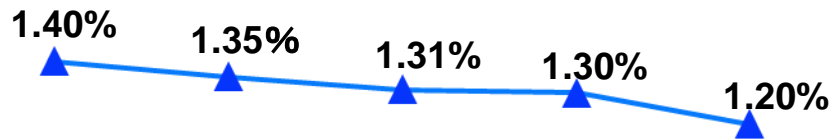
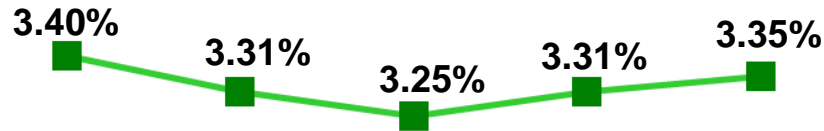
## Average balance and yield on deposits



# Yield / Margins (Domestic)

## Yield-Expense ratio

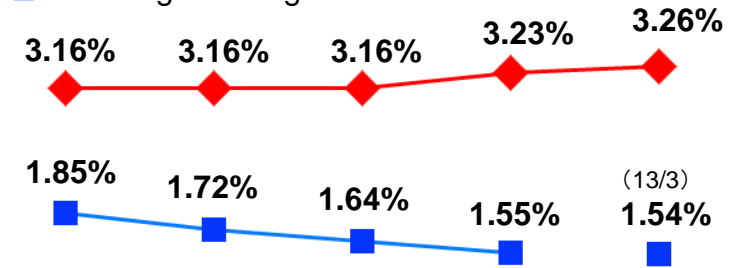
- Yield on outstanding loans
- Yield on deposits
- ▲ Expense ratio



09/9    10/9    11/9    12/9    13/9

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

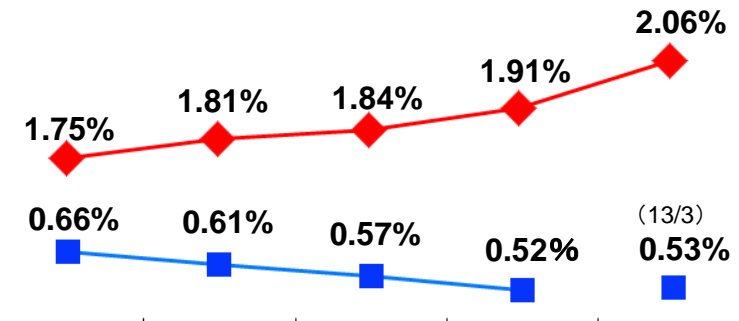
- ◆ SURUGA
- Average All Regional Banks



09/9    10/9    11/9    12/9    13/9

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

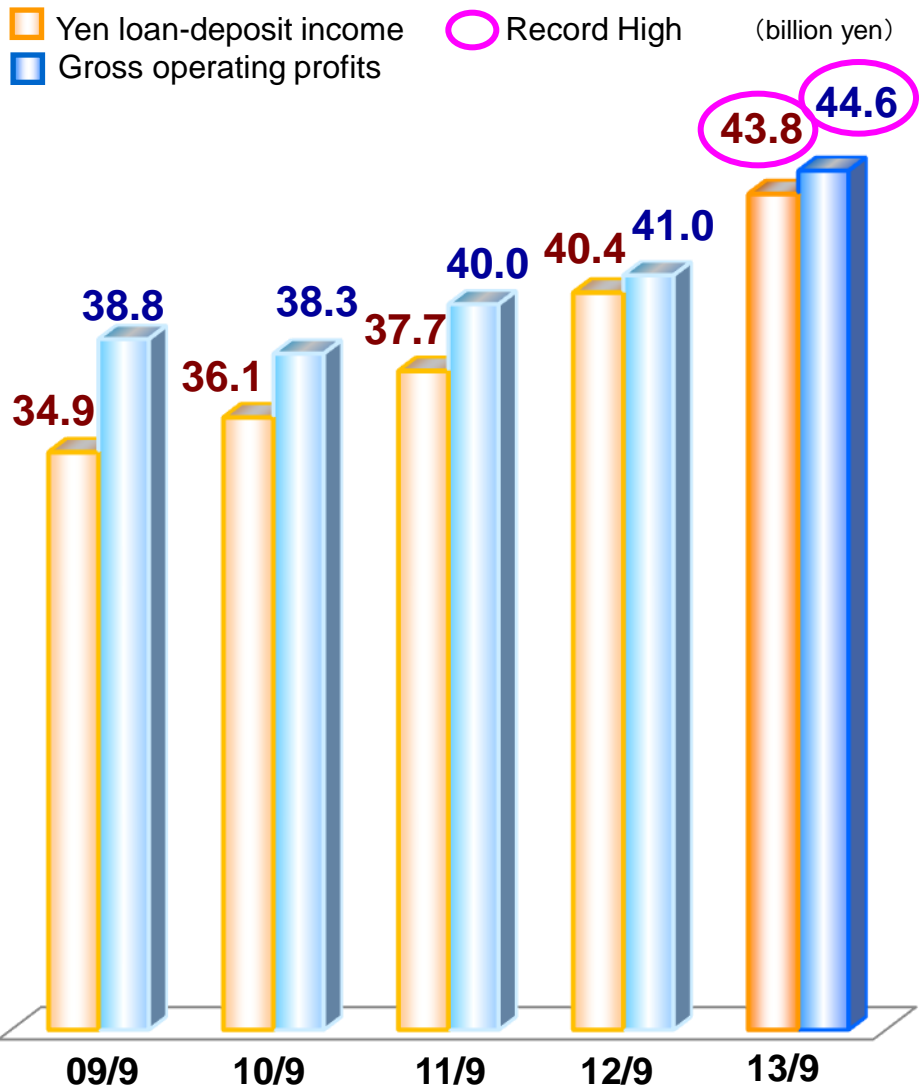
- ◆ SURUGA
- Average All Regional Banks



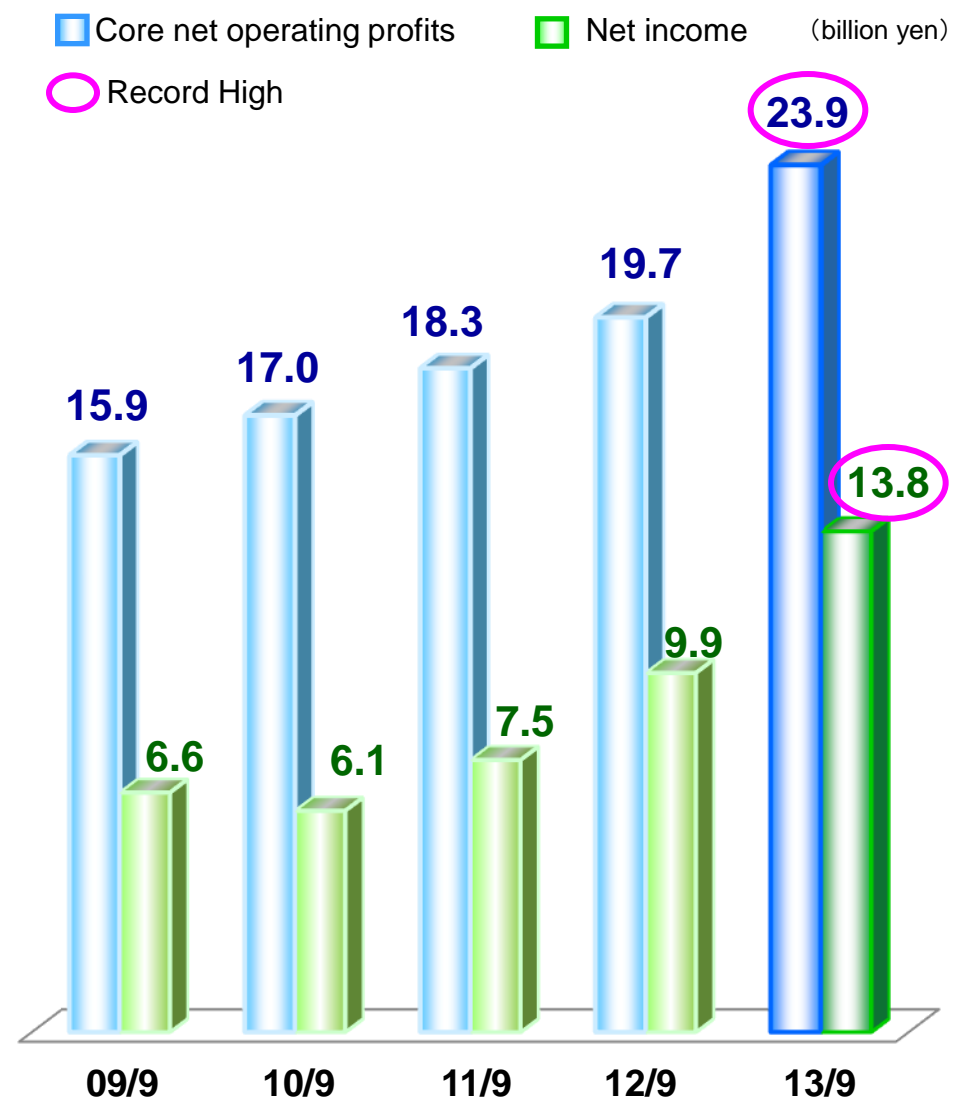
09/9    10/9    11/9    12/9    13/9

# Income

Gross operating profits / Yen loan-deposit income

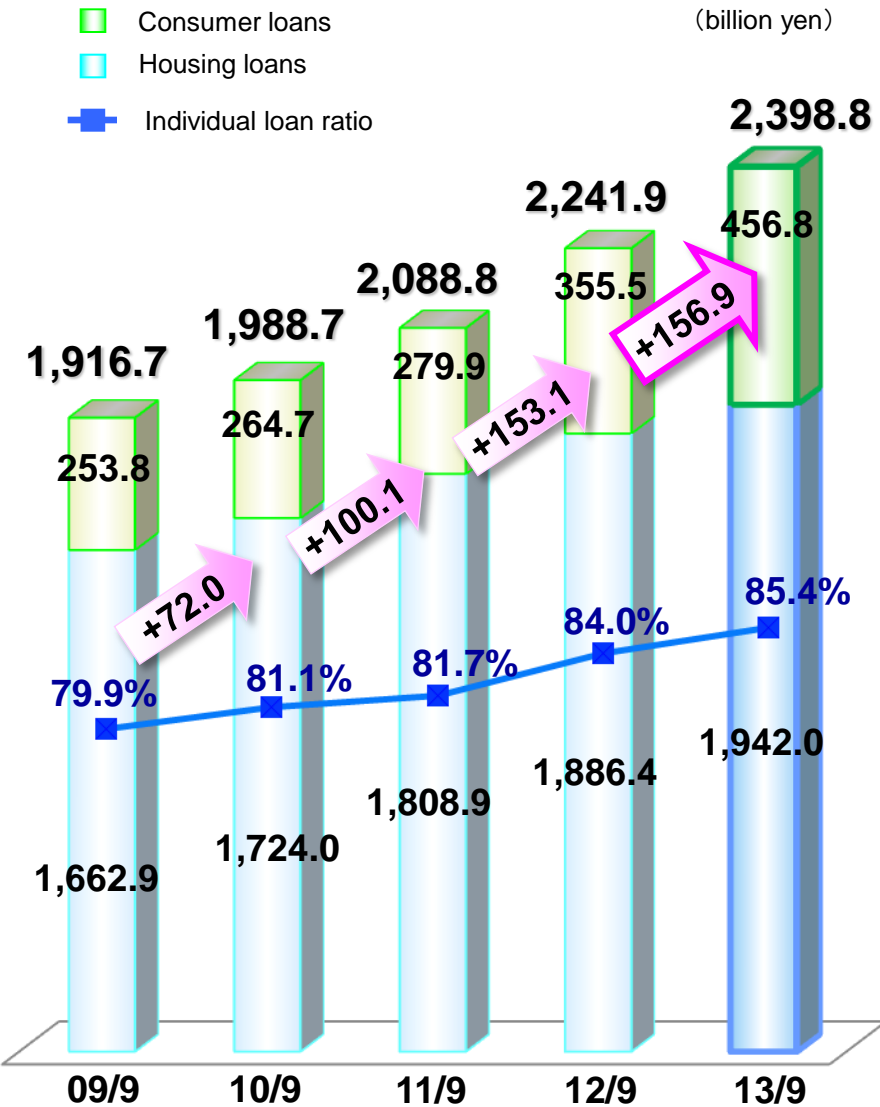


Core net operating profits / Net income

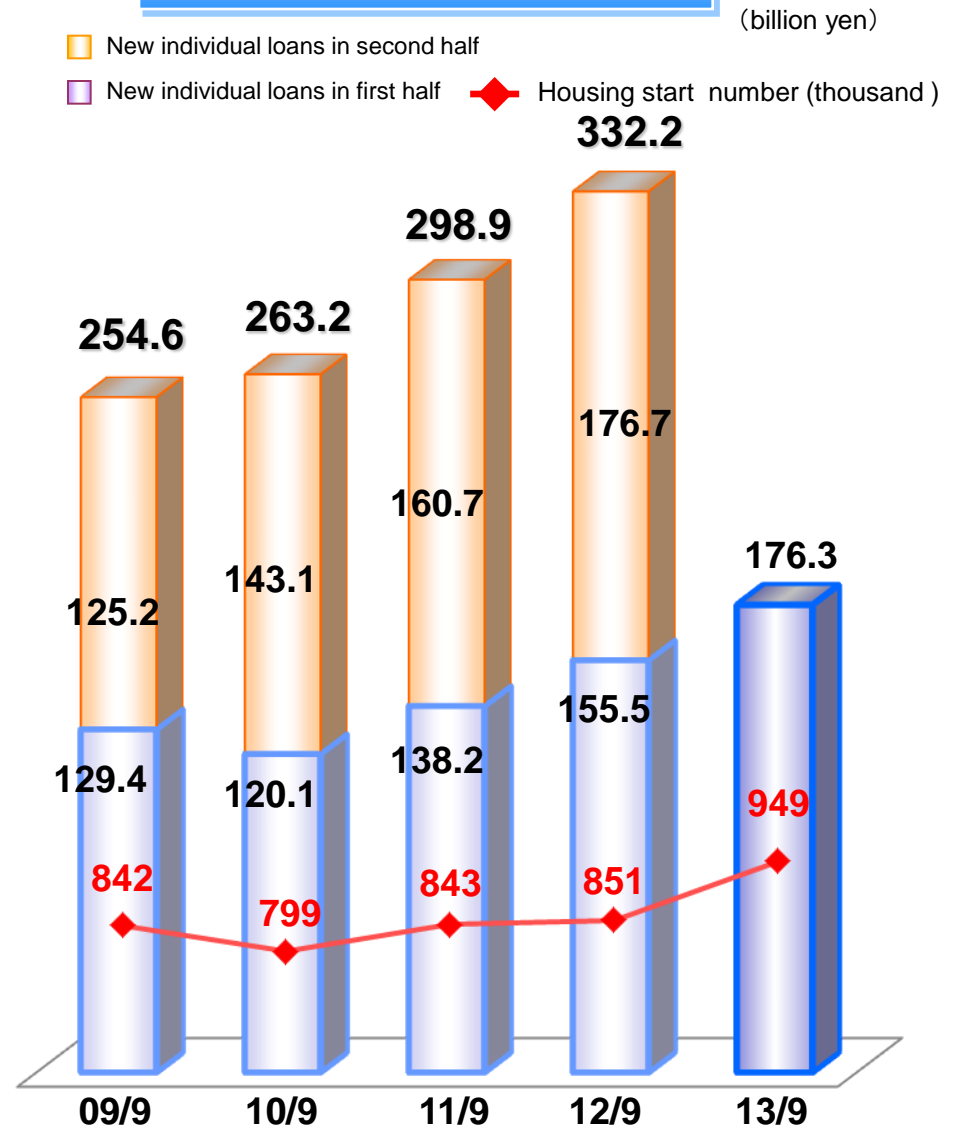


# Strong Focus on Retail

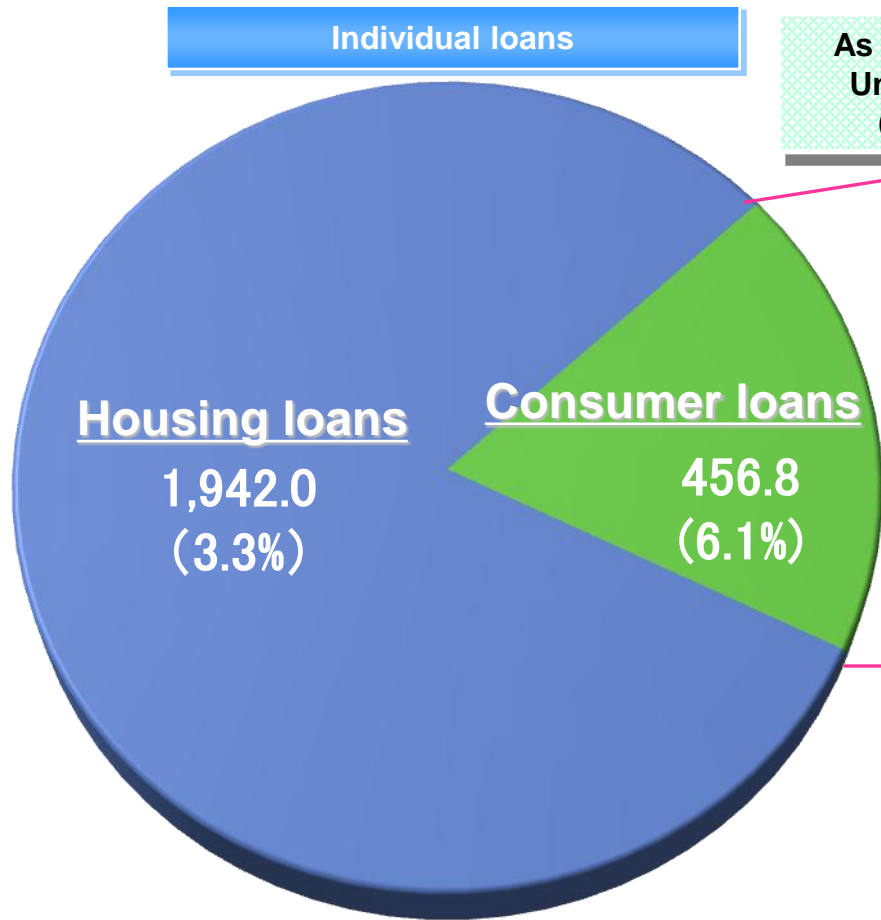
Individual loan balance and ratio



New loan contracts

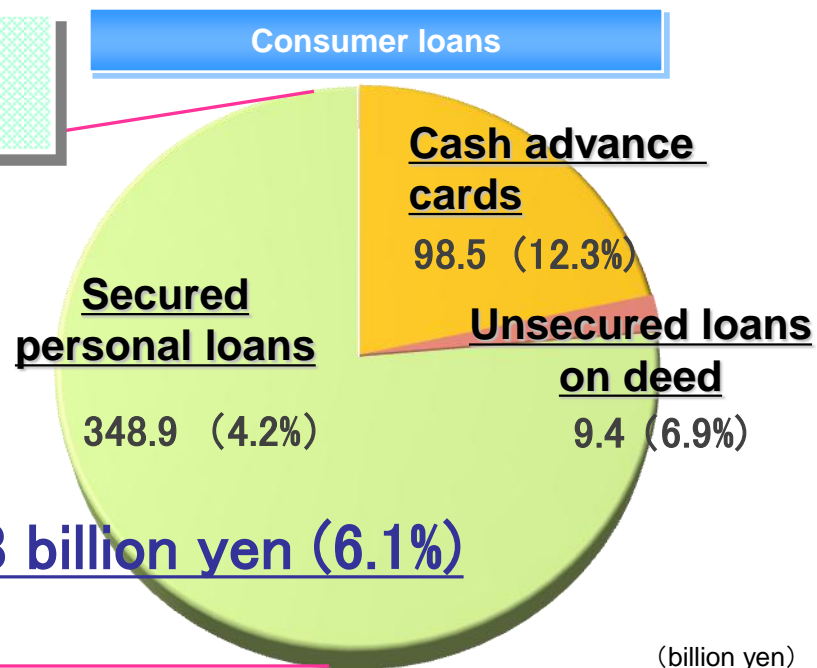


# Focus on More Profitable Products

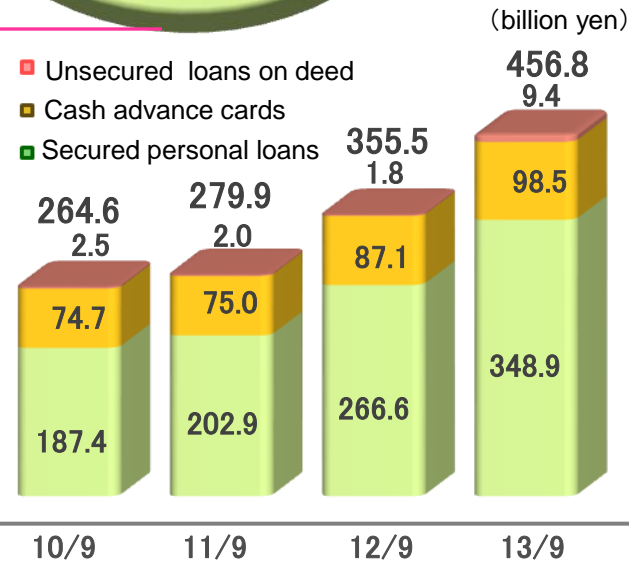


**2,398.8 billion yen (3.8%)**

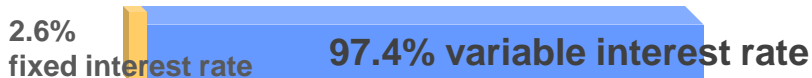
As of Sep. 30, 2013  
Units : billion yen  
(average rate)



**456.8 billion yen (6.1%)**



《The type of Housing loans' interest rate》





# Business expansion of DIRECT ONE

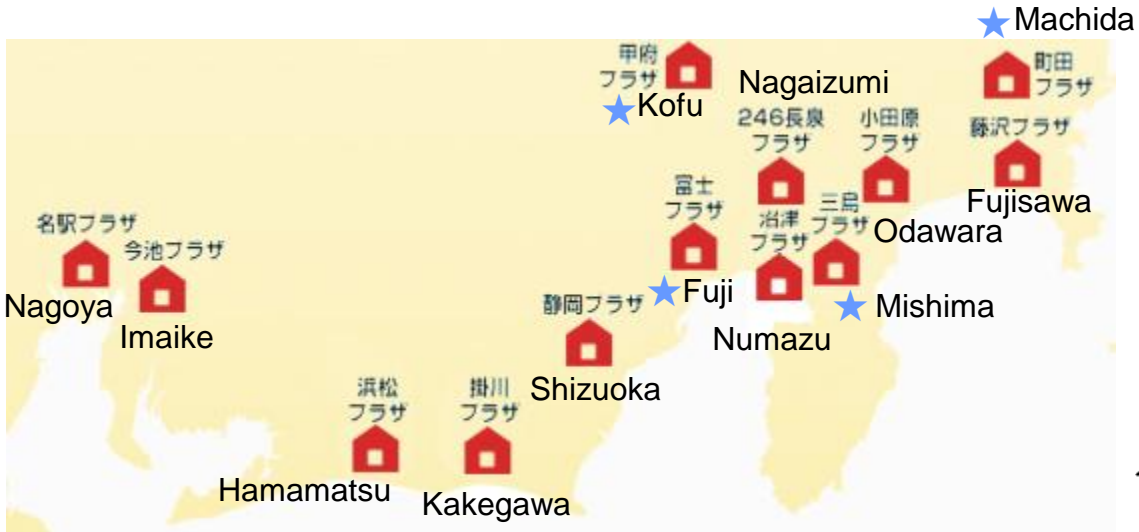
## DIRECT ONE's branch network

### 14 branches (2013/9)

(Real branch: 13, Internet branch :1)

#### 【New branches in 2013】

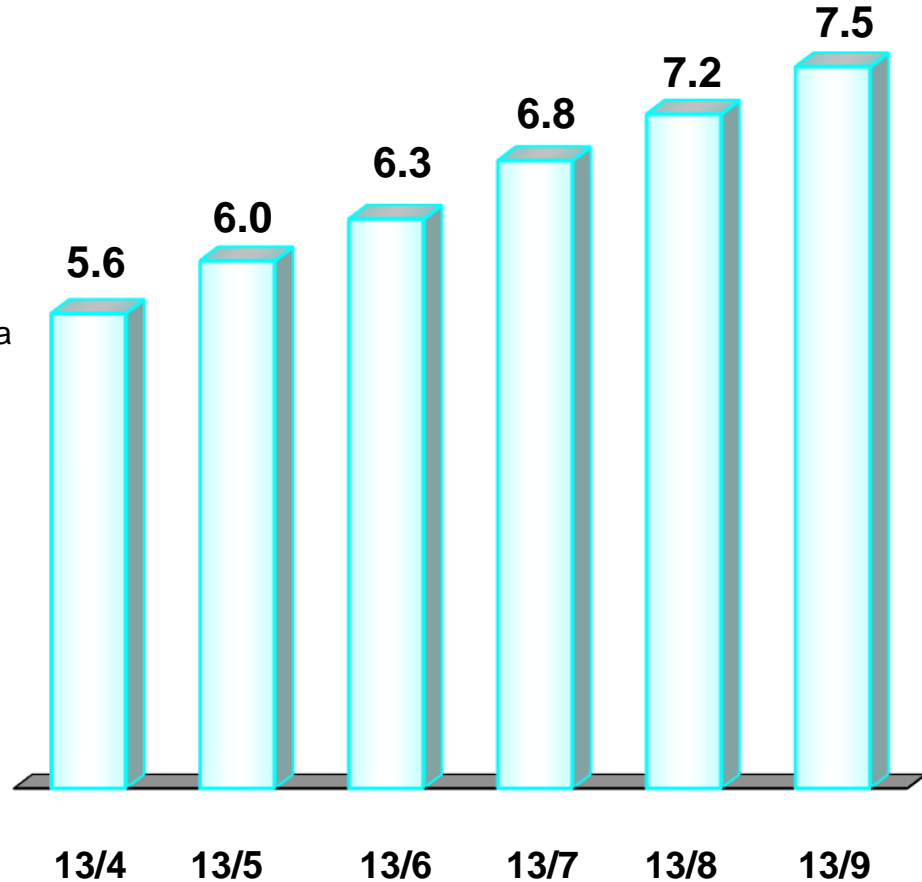
- 2013/ 5/17      Machida
- 2013/ 9/11      Fuji
- 2013/ 9/20      Kofu
- 2013/11/22     Mishima



★New

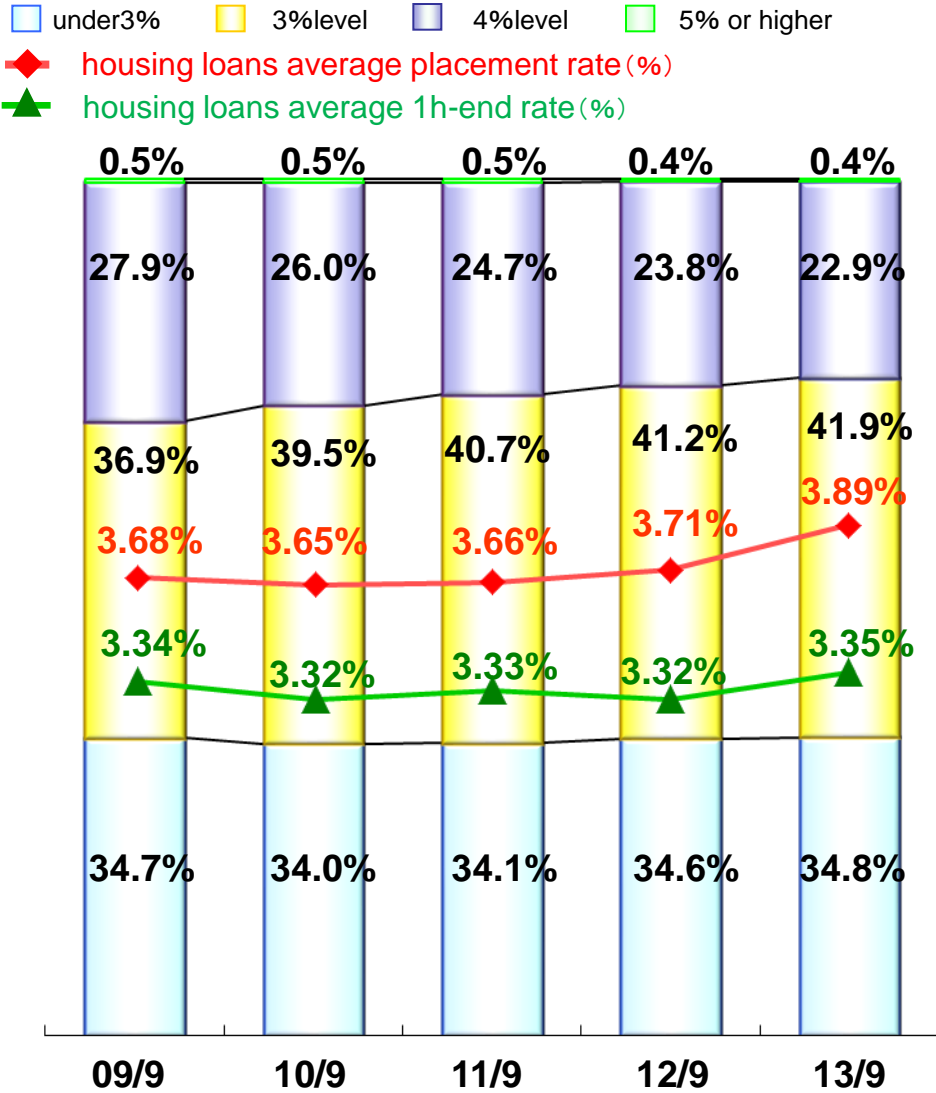
## Receivables Outstanding

(billion yen)

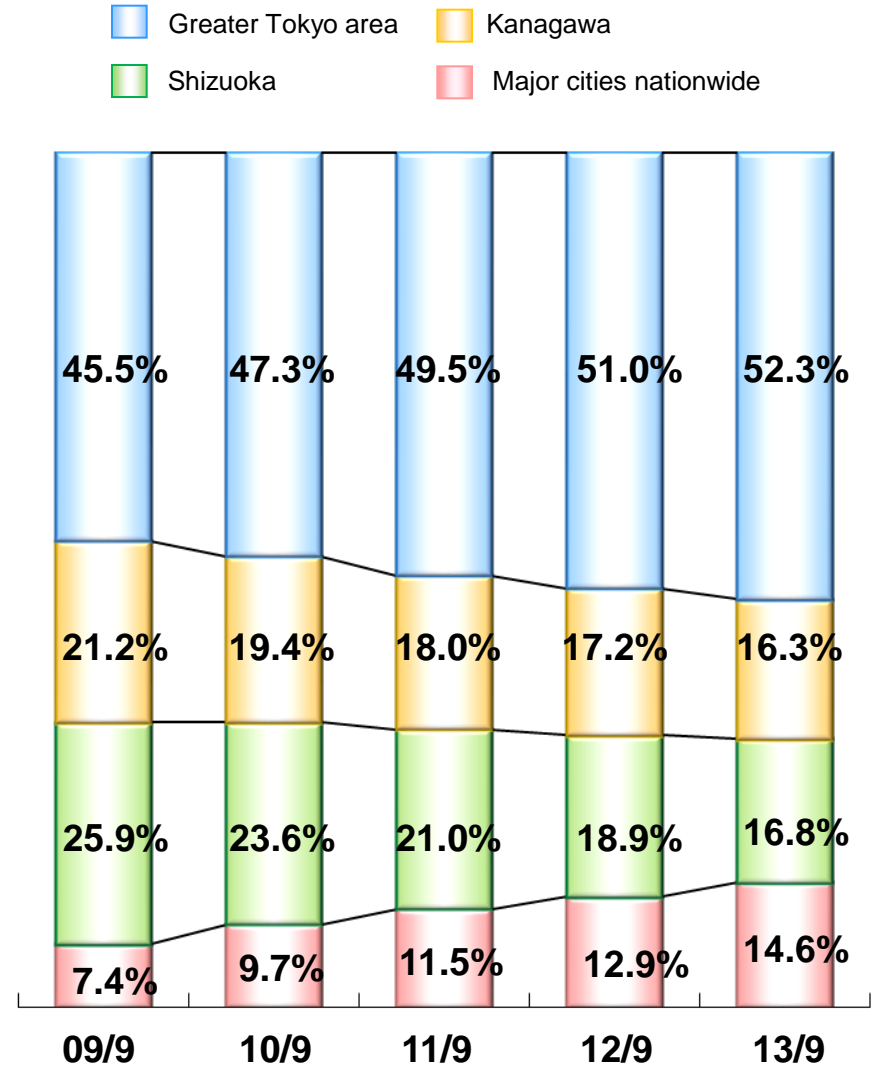


# Housing Loans

Distribution of practical rates for housing loans (cumulative)



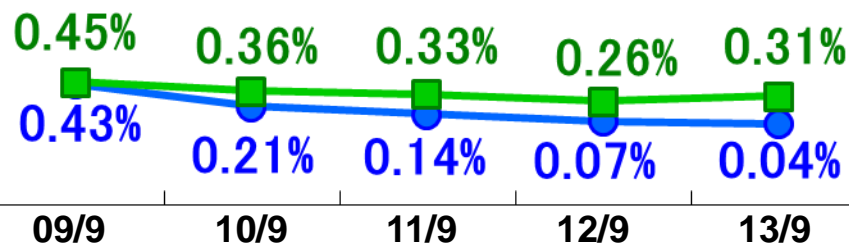
Housing loan balance by geographical area



# Delinquency and Loss Rates on Individual Loans

## Housing loans

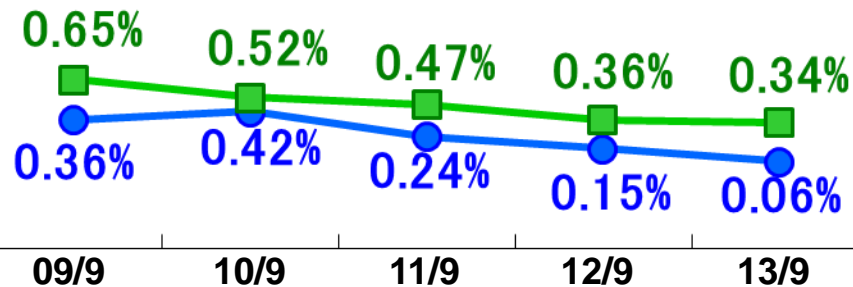
▲ Yield    ● Delinquency rate    ■ Loss rate



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

## Consumer loans

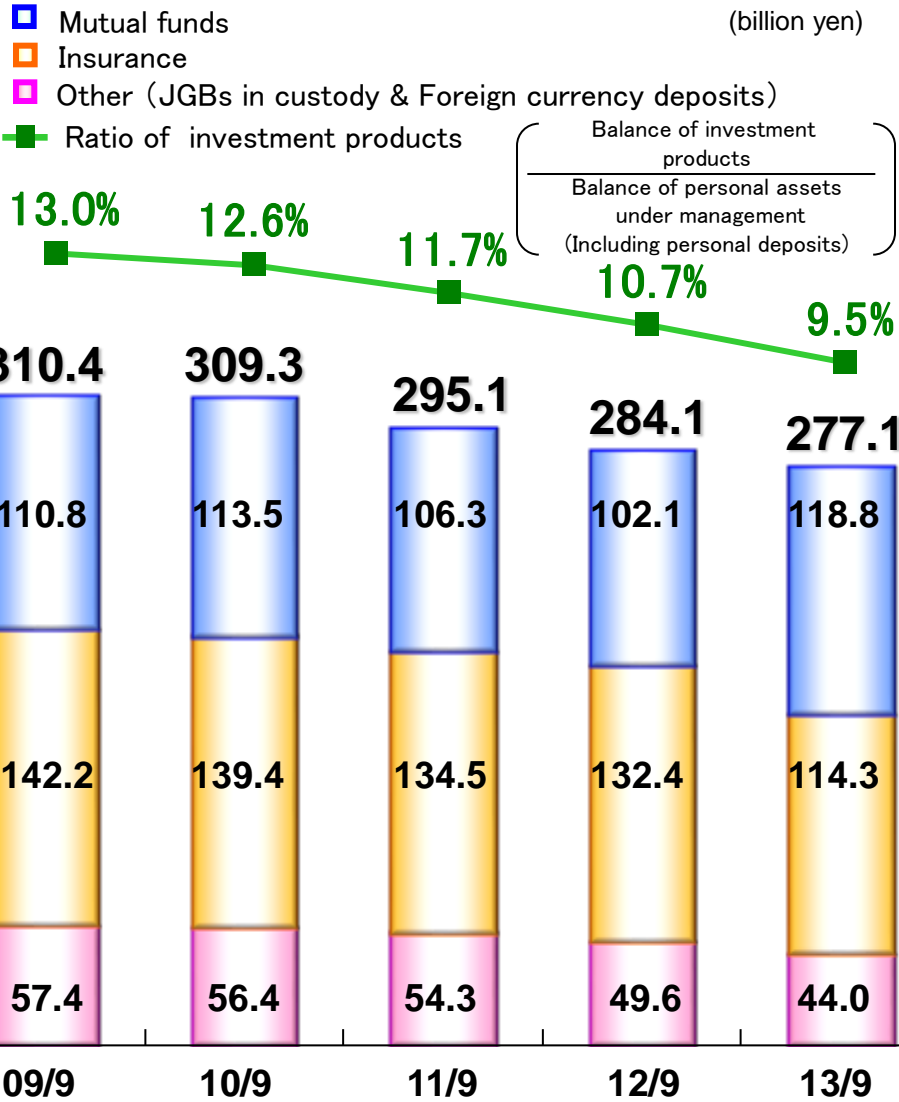
▲ Yield    ● Delinquency rate    ■ Loss rate



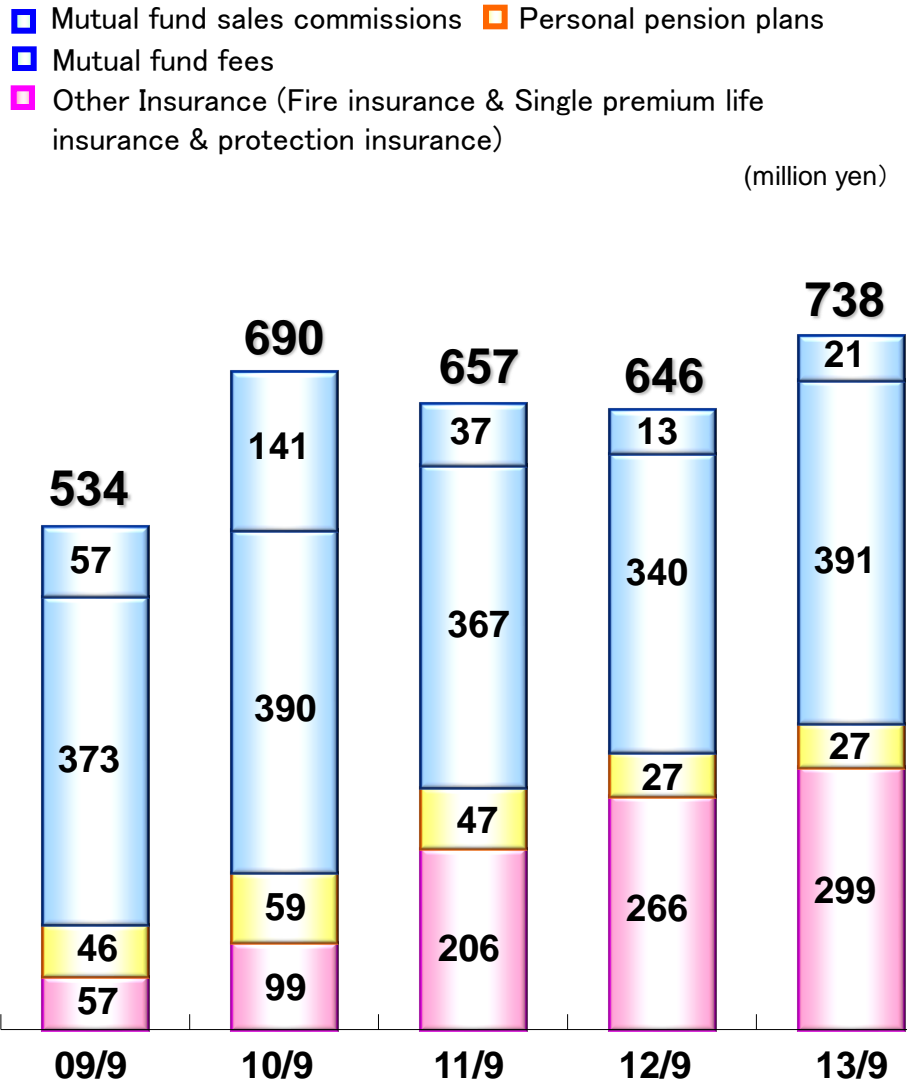
Loss rate = default ratio × (1 - recovery rate)

# Fees income

## Balance breakdown of investment products

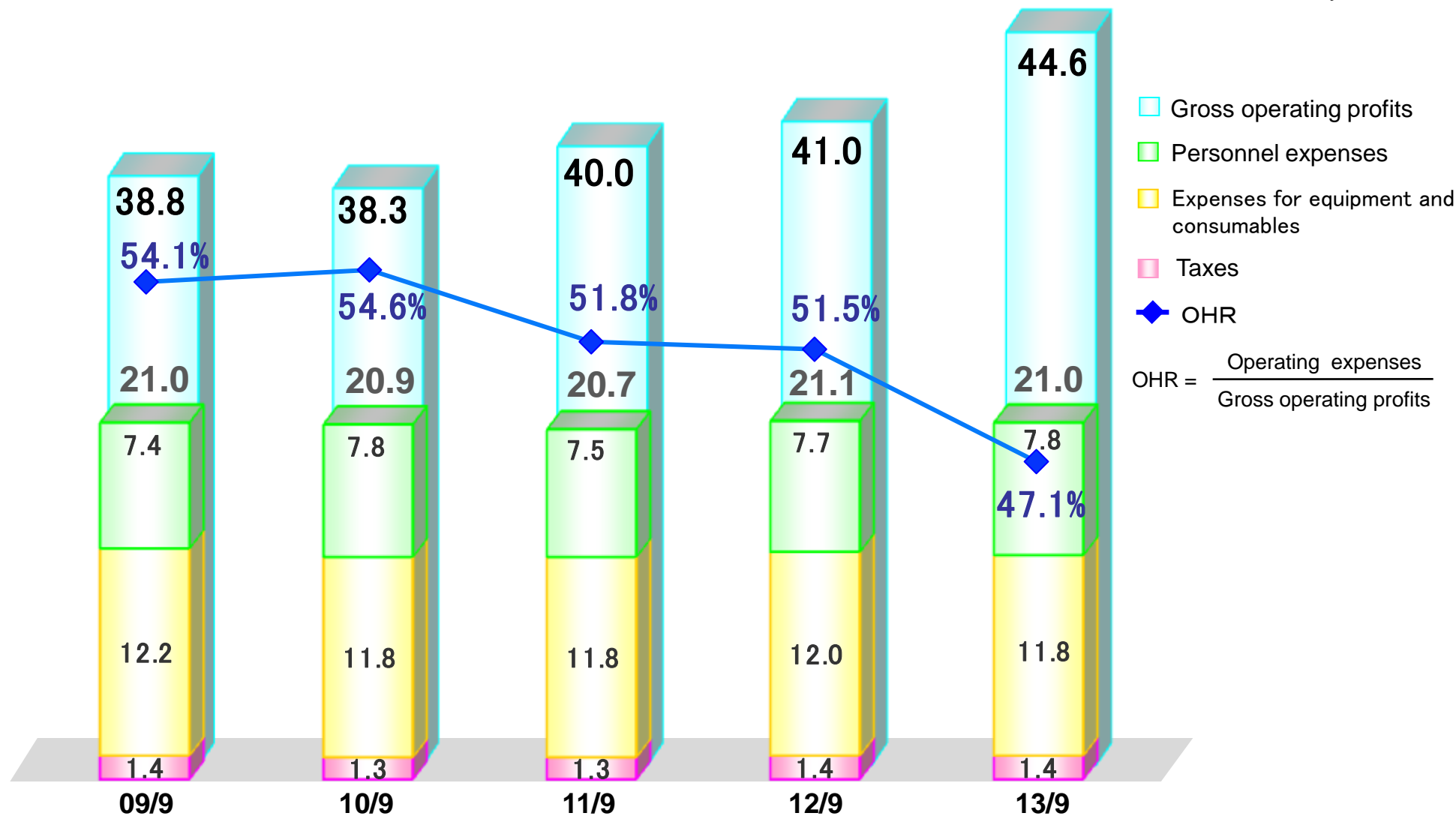


## Commission from mutual funds and insurance products



# Expenses and OHR

(billion yen)



# Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

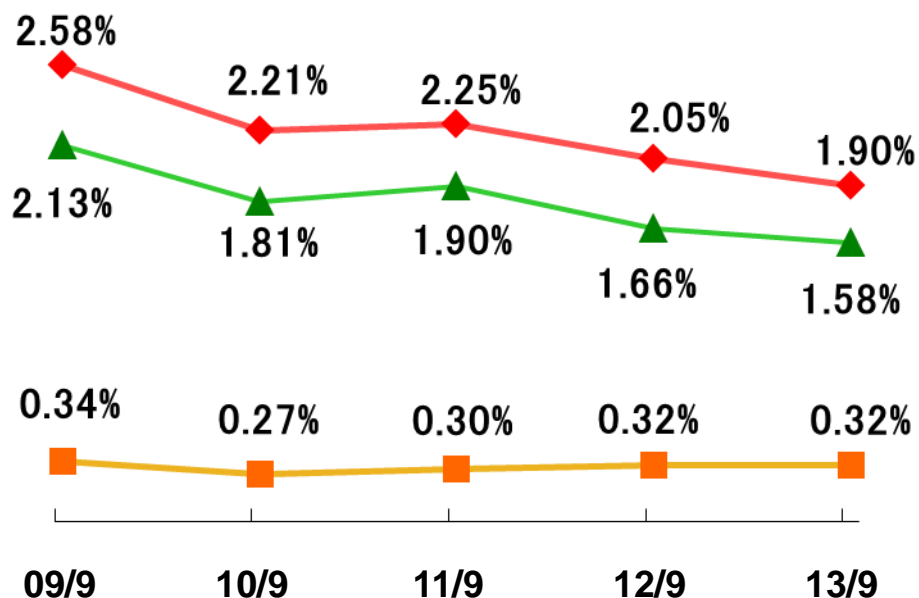
Debtor classification	Sep. 13 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees * NOTE	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio												
Claims against bankrupt and substantially bankrupt obligors	9.4	0.33%	Consumer	7.2	0.29%	4.3	3.5	0.8	60.12%	2.8	100%	100%												
			Corporate	2.2	0.54%	2.1	1.0	1.1	93.03%	0.1	100%	100%												
Claims with collection risk	23.2	0.82%	Consumer	5.3	0.21%	3.2	2.6	0.6	61.01%	1.3	62.72%	85.46%												
			Corporate	17.9	4.34%	14.7	5.5	9.2	82.18%	2.0	62.72%	93.35%												
Claims for special attention	21.1	0.75%	Consumer	10.8	0.44%	7.5	7.4	0.1	69.04%	0.9	26.59%	77.28%												
			Corporate	10.3	2.48%	3.8	3.8	0.0	36.92%	1.6	25.55%	53.04%												
Sub-total	53.7	1.90%	Consumer	23.3	0.96%	15.0	13.5	1.5	64.47%	5.0	61.04%	86.16%												
			Corporate	30.4	7.38%	20.6	10.3	10.3	67.73%	3.8	38.82%	80.26%												
Normal assets	2,771.7	98.10%	Consumer	2,389.9	98.03%	<table border="1"> <tr> <td colspan="11" style="text-align: right;"><b>Total coverage ratio</b></td> <td style="background-color: yellow;"><b>82.82%</b></td> </tr> </table>							<b>Total coverage ratio</b>											<b>82.82%</b>
			<b>Total coverage ratio</b>											<b>82.82%</b>										
Corporate	381.8	92.61%																						
Total	2,825.4	100%	Consumer	2,413.2	100%	<table border="1"> <tr> <td>Coverage ratio</td> <td>:</td> <td>Covered by collateral and guarantees</td> </tr> <tr> <td>Reserved ratio</td> <td>:</td> <td>Reserved for unsecured portion</td> </tr> <tr> <td>Total coverage ratio</td> <td>:</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	412.2	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.

# NPL ratio / Credit costs status

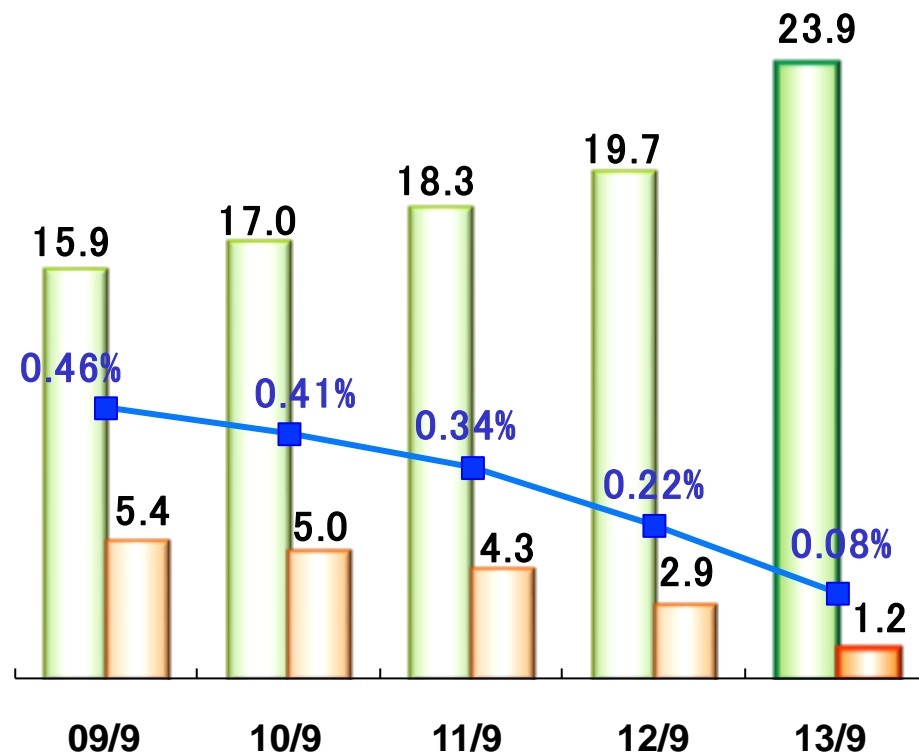
## NPL ratio

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



## Credit costs status

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



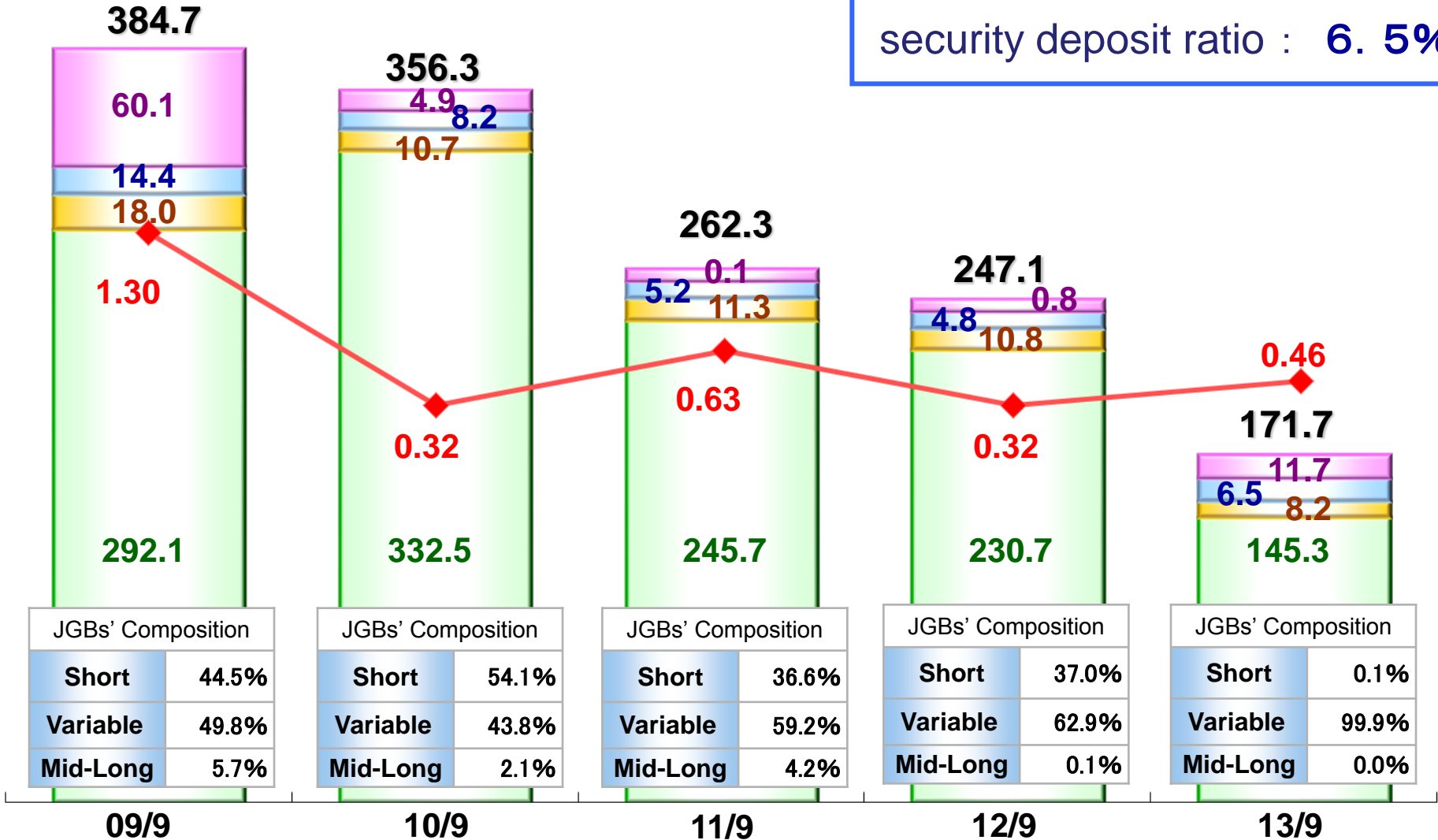
# Bond Portfolio

■ JGBs   
 ■ Foreign bonds   
 ■ Corporate bonds   
 ■ Regional government bonds

(billion yen)

◆ Average remaining maturity (Year)

security deposit ratio : 6.5%



JGBs' Composition

Short	44.5%
Variable	49.8%
Mid-Long	5.7%

JGBs' Composition

Short	54.1%
Variable	43.8%
Mid-Long	2.1%

JGBs' Composition

Short	36.6%
Variable	59.2%
Mid-Long	4.2%

JGBs' Composition

Short	37.0%
Variable	62.9%
Mid-Long	0.1%

JGBs' Composition

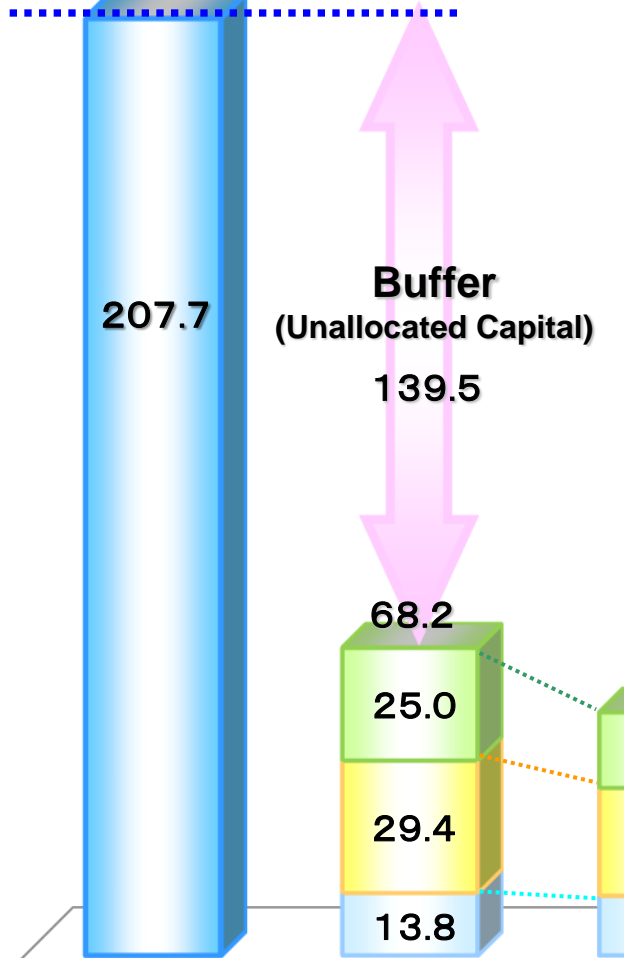
Short	0.1%
Variable	99.9%
Mid-Long	0.0%



# Status of Risk Amount

## Integrated Risk Management

2013/3  
Tier I  
(billion yen)



- 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

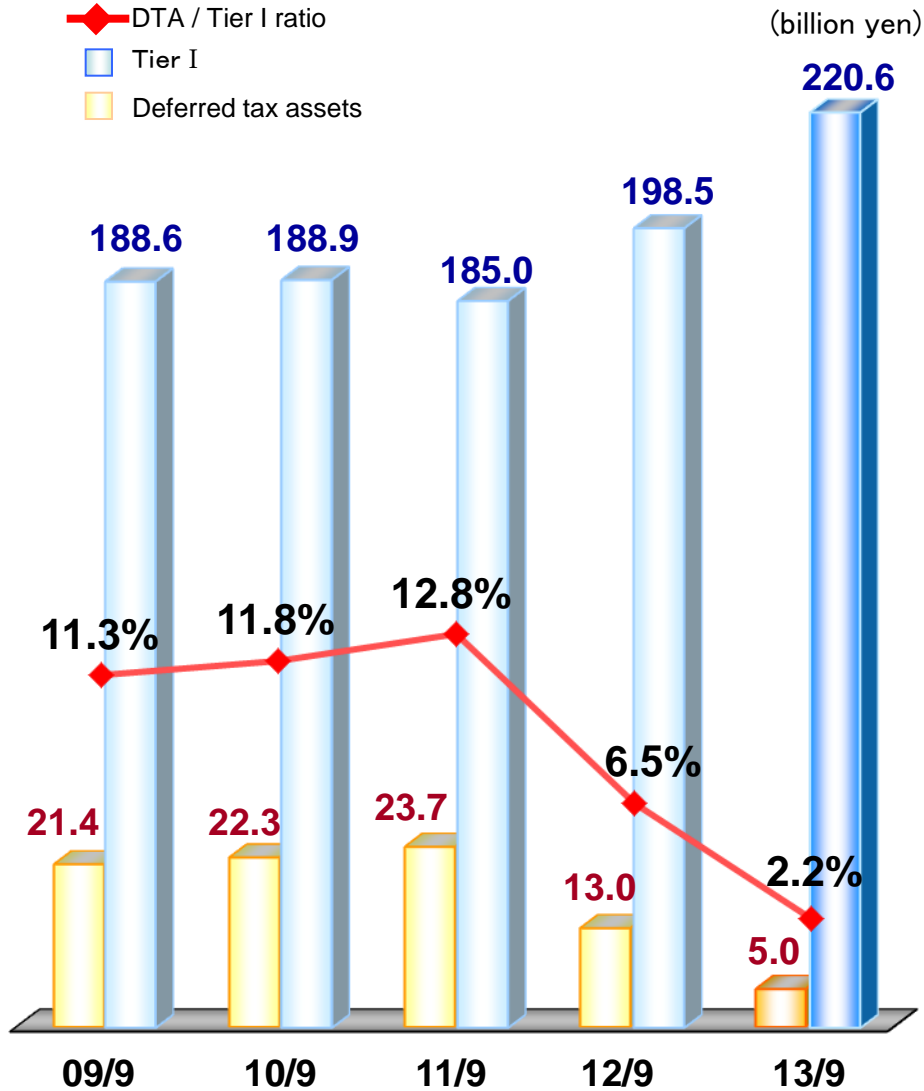
## Outlier Ratio

As of the end of Sep, 2013	
Interest Rate Shock range	± 200bp
Interest Rate Risk Amount	5.4 billion yen
Outlier Ratio	2.3%

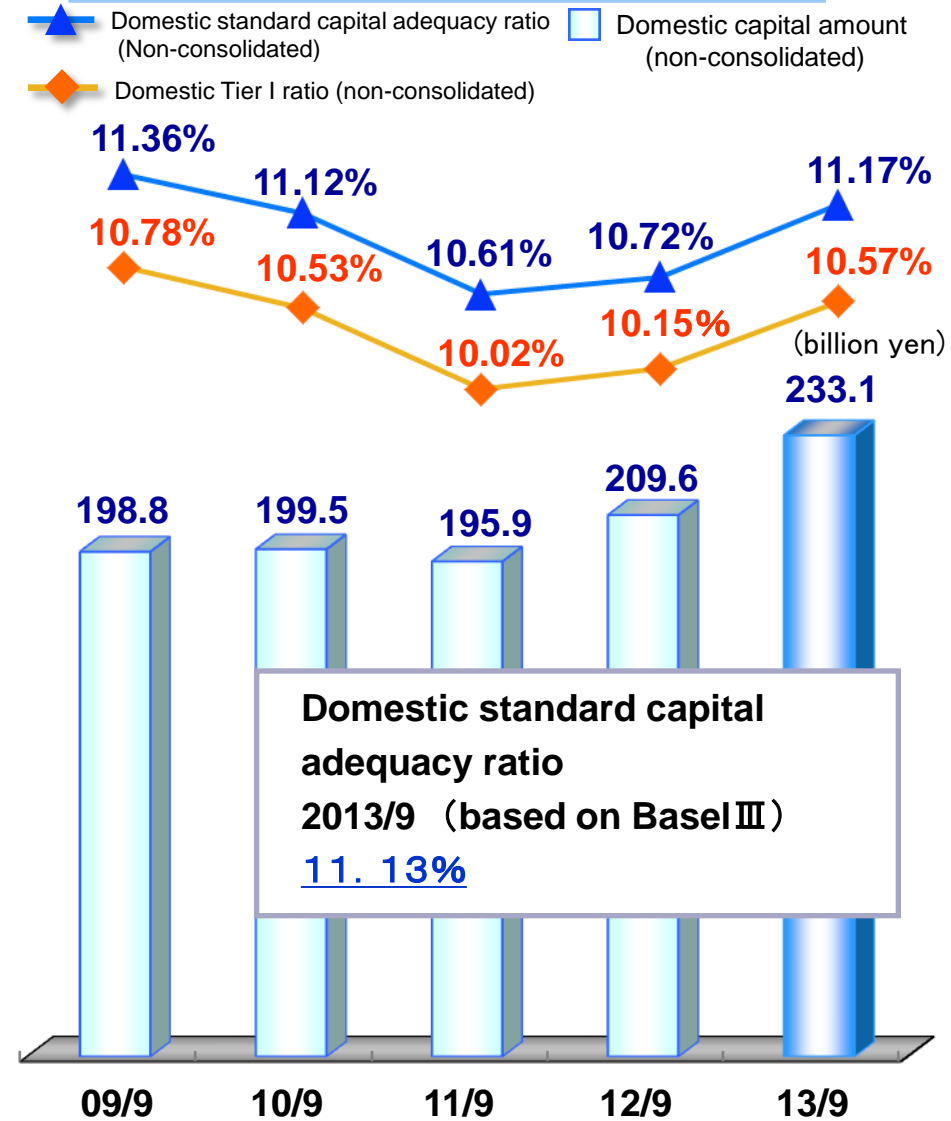
As of the end of March, 2013 Sources for Allocation  
First Half, 2013 Allocated Capital  
As of the end of September, 2013 Risk Amount

# Capital Levels

## Tier I Capital & Deferred tax assets



## Capital Adequacy Ratio



# FY2013 First half Results and FY2013 Forecast

(billion yen)

	Results Sep 2012 (A)	Results Sep 2013 (B)	Increase or Decrease (B-A)	FY 2013 Forecast
Core net operating profits	19.7	23.9	+4.2	43.0
Ordinary profits	16.1	22.0	+ 5.9	37.5
Net income	9.9	13.8	+3.9	23.0
Actual credit costs	2.9	1.2	△1.7	4.0
Dividends (Yen)	6.5	7.5	+1.0	15

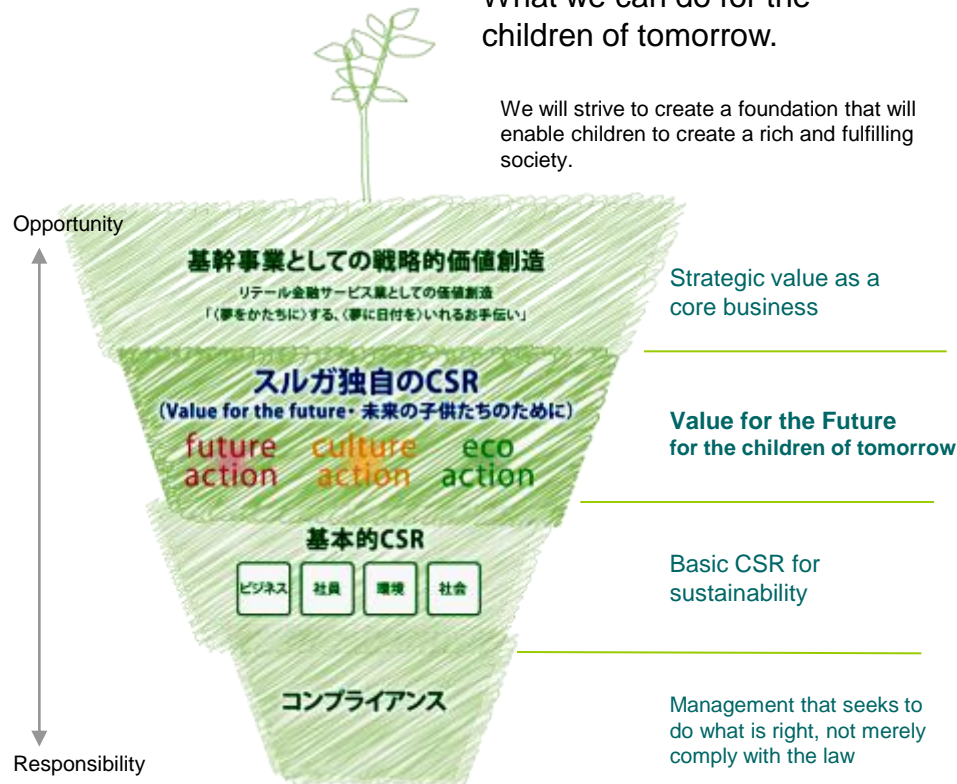
# CSR as Suruga Sees It--Creating the Future

## Suruga's CSR Framework Concept

Answer the needs of ever-changing times and work toward realizing a sustainable society so that tomorrow's children can grow in good health. To that end, we will strive tirelessly to create a rich environment and a society with value.

Value for the Future  
What we can do for the children of tomorrow.

We will strive to create a foundation that will enable children to create a rich and fulfilling society.



Efforts to support the healthy growth of the children who represent the future  
Seedlings for the Future Project

Tea Ceremony for Children – Kiku no Chakai



Program supporting creating a future  
Aiming to realize an autonomous society

Fuji no Kuni – Mizu no Junkan Workshop



Program for realizing a sustainable society  
The landscape of Fuji no Kuni is a cultural heritage of the area.



Escort kids at the Suruga Championship



Next generation training support program  
For the children of tomorrow

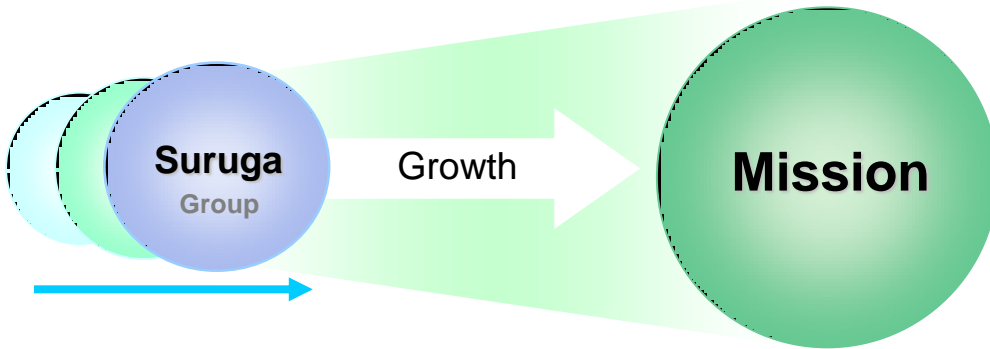


Seedlings for the Future Concert

# Growth Within Our Corporate Philosophy

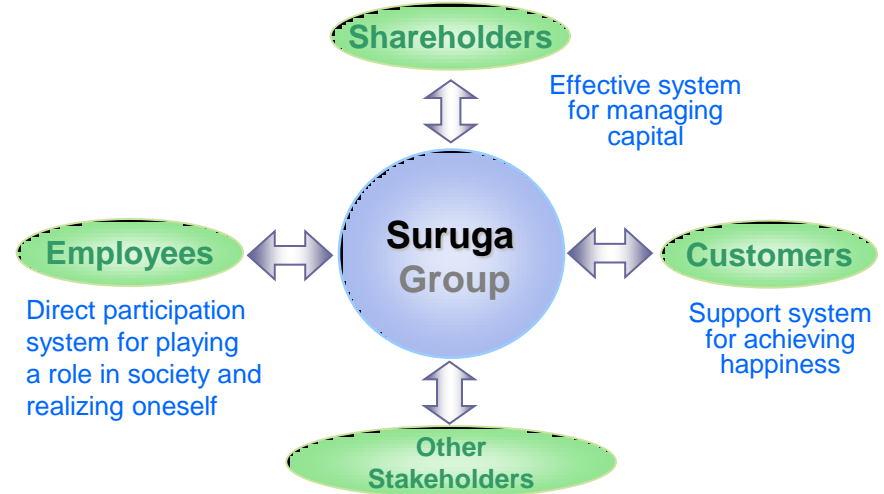
## Growth as a Mission-Based Company

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.

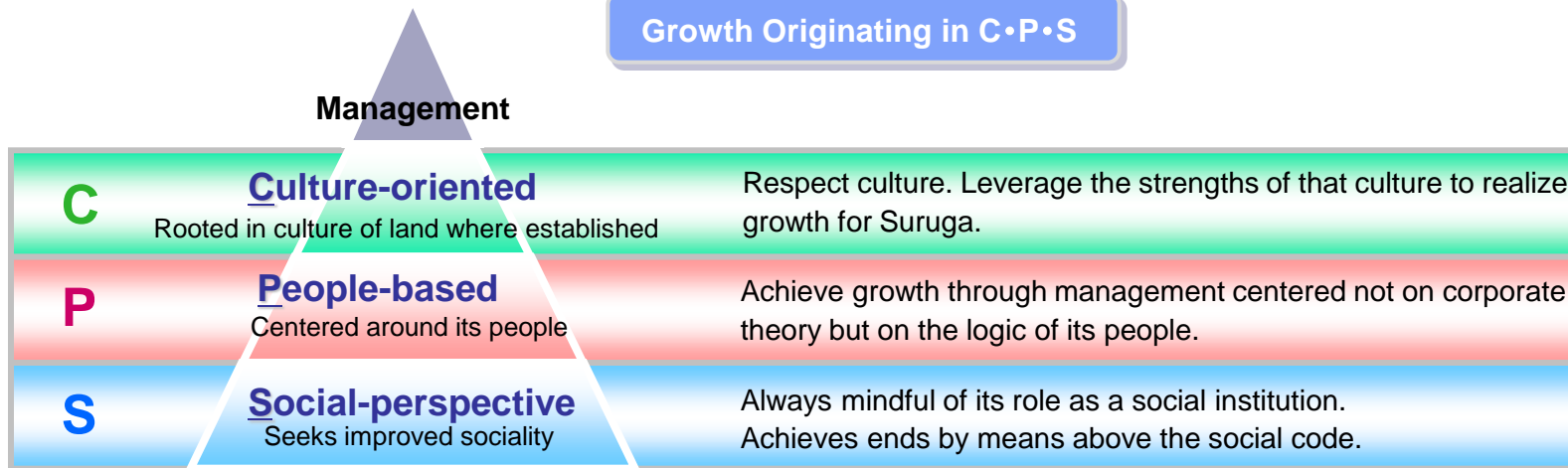


## Growth as a Value Exchange System

Define growth as greater exchange of value with all stakeholders.



## Growth Originating in C•P•S



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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.