

SURUGA bank

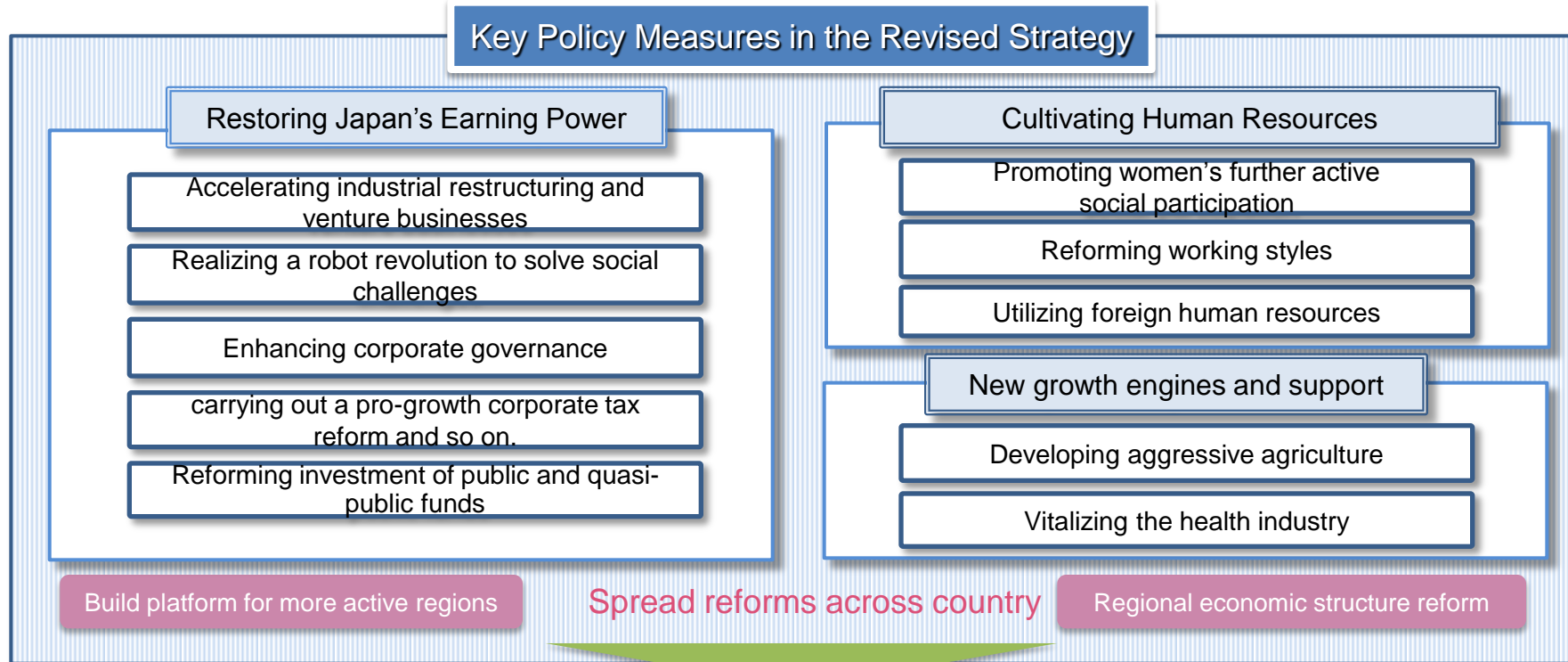
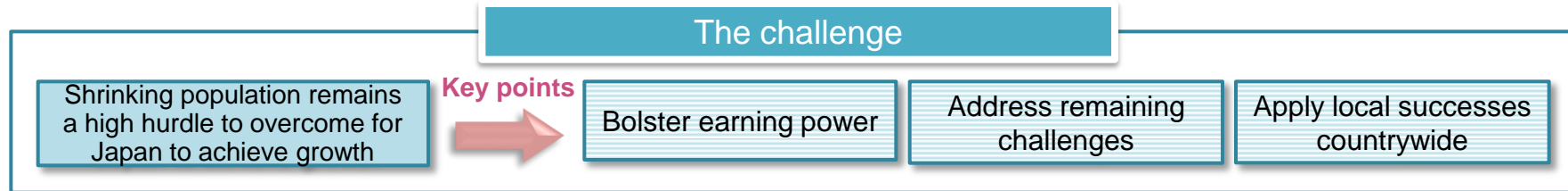
# Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended September 30, 2014



# Management Discussion & Analysis

Looking for support in a drive to tackle the challenges of restoring Japan's vitality



Key to Japan's revitalization is for the private sector to boldly pursue creating value through innovations while borrowing support from government reforms leading up to 2020.

Source: New Growth Strategy of Japan (Revised 2014)

# Environment Surrounding Japanese Banks

## Loan and deposit balances (Japanese banks)

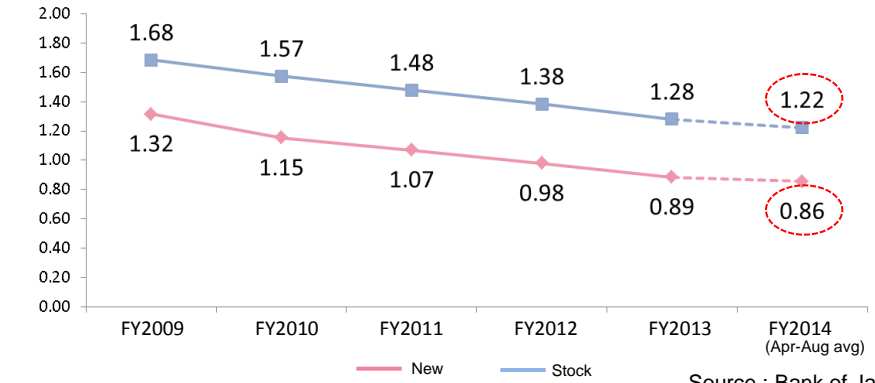
Unit: Trillion yen



Source: Bank of Japan

## Average contract interest rates (Japanese banks)

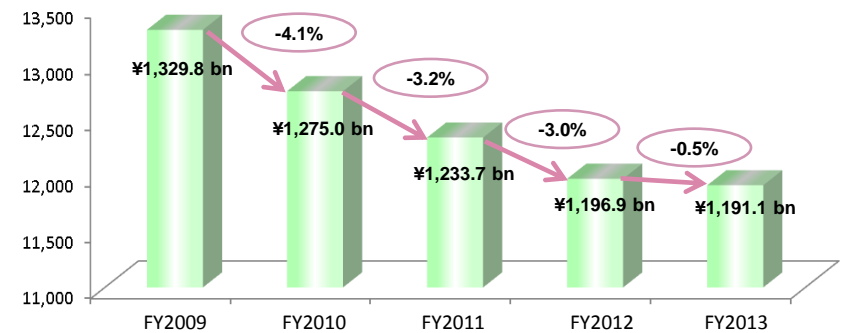
Unit: %



Source: Bank of Japan

## Core net operating profit at Japan's 64 regional banks

Unit: ¥100M



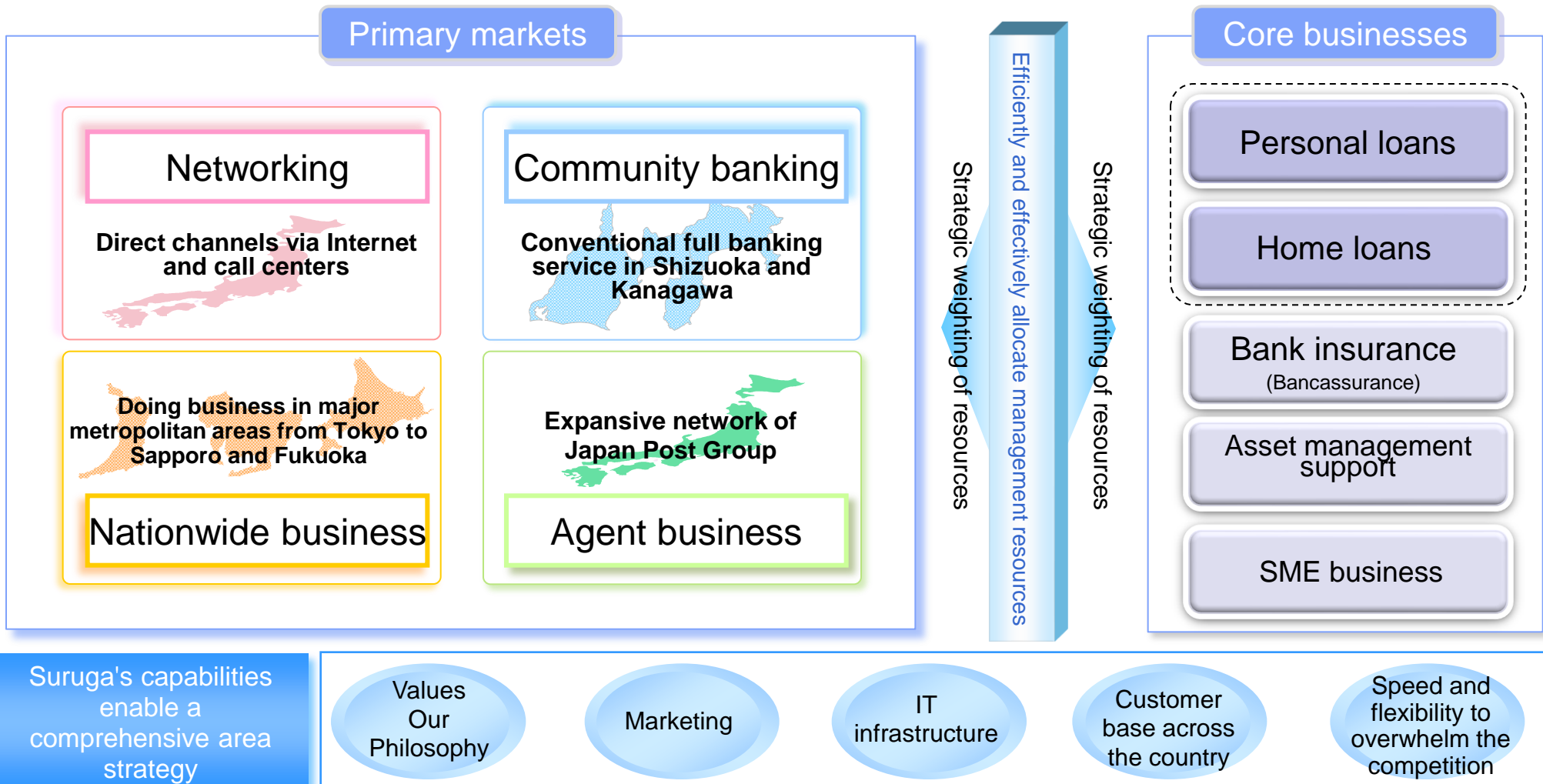
Source: Regional Banks Association of Japan

Deposits and loans are growing. But the challenge moving forward will be escaping interest rate pricing competition and establishing a core business earnings model.

# Grand Design of the 5th Management Plan

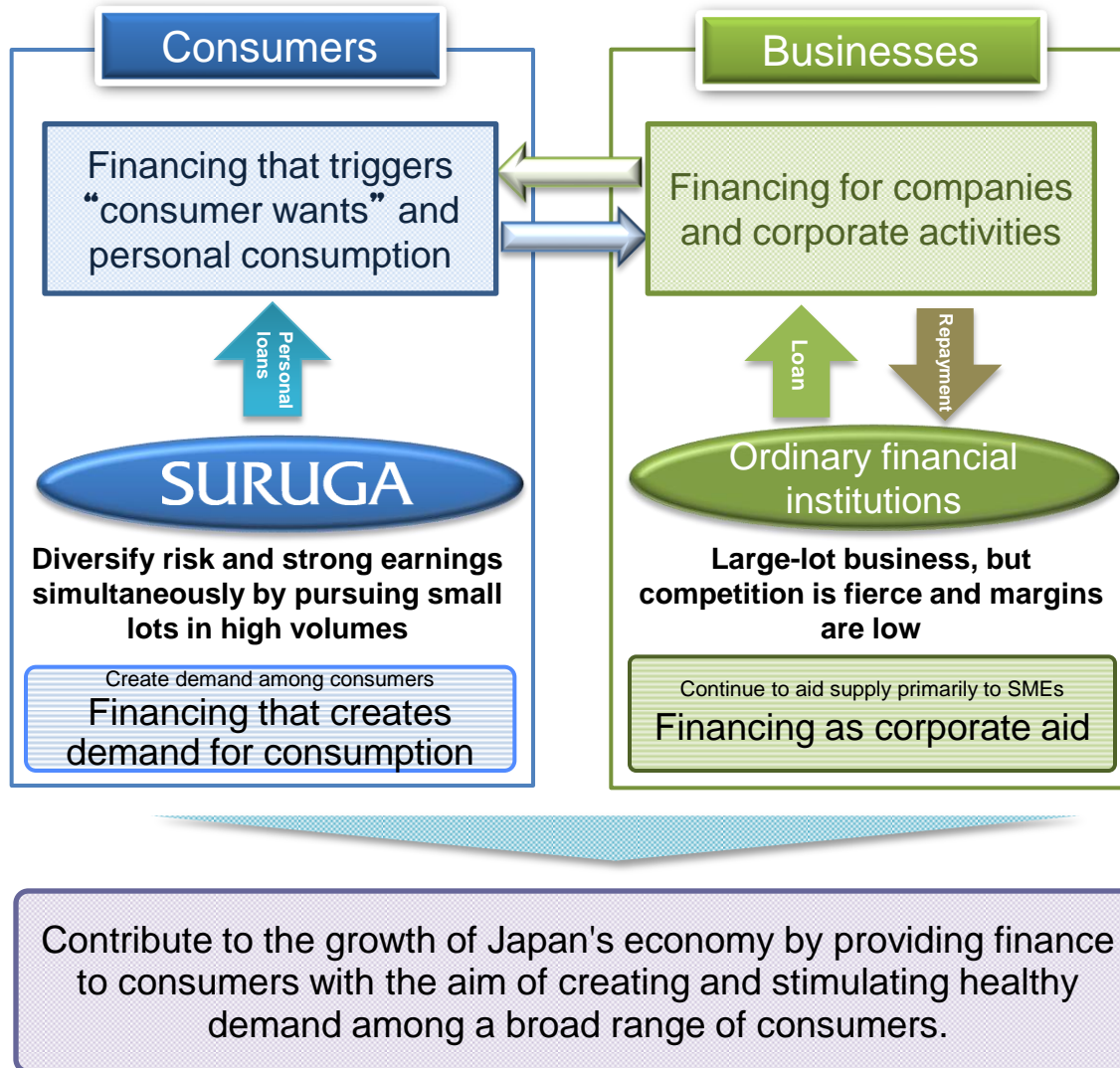
Leverage market characteristics to create value for the customer

Maximize the advantage derived from the know-how Suruga has developed through a strategy focused on retail



# Suruga's Business Model

## Suruga's Mission in the Financial Services Business



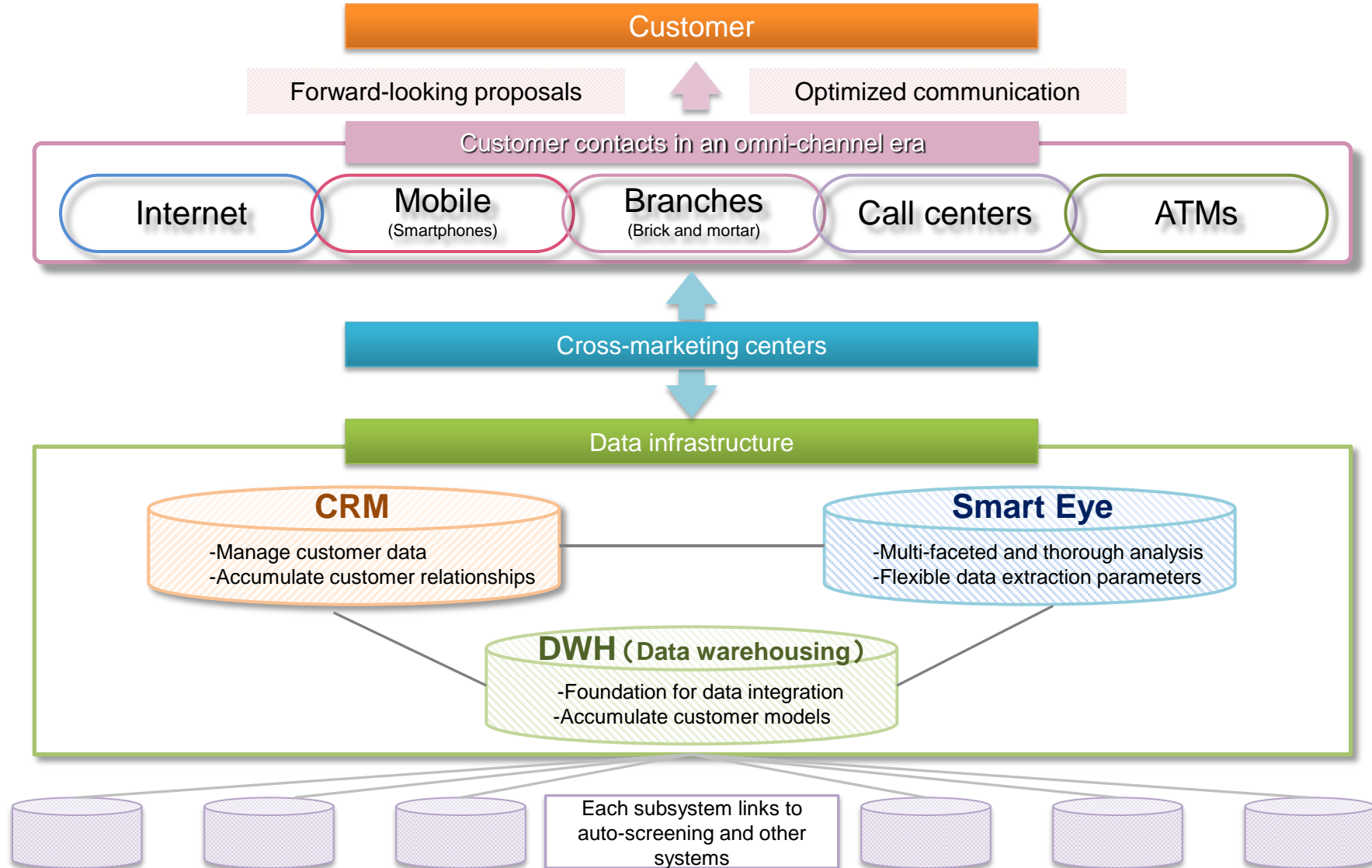
## Suruga's strategy

Generate strong earnings on efficient management

Value proposition	Be Unique Value-added financial services
Network	Branch network in Shizuoka and Kanagawa Reaching a broader area with brick-and-mortar branches in major metropolitan areas and online banking
Infrastructure	IT infrastructure dedicated to retail business Data analysis and cross-marketing
Corporate culture	Corporate culture that is motivated by achieving unprecedented success Organizational culture that instills intimacy and a free and unbridled spirit

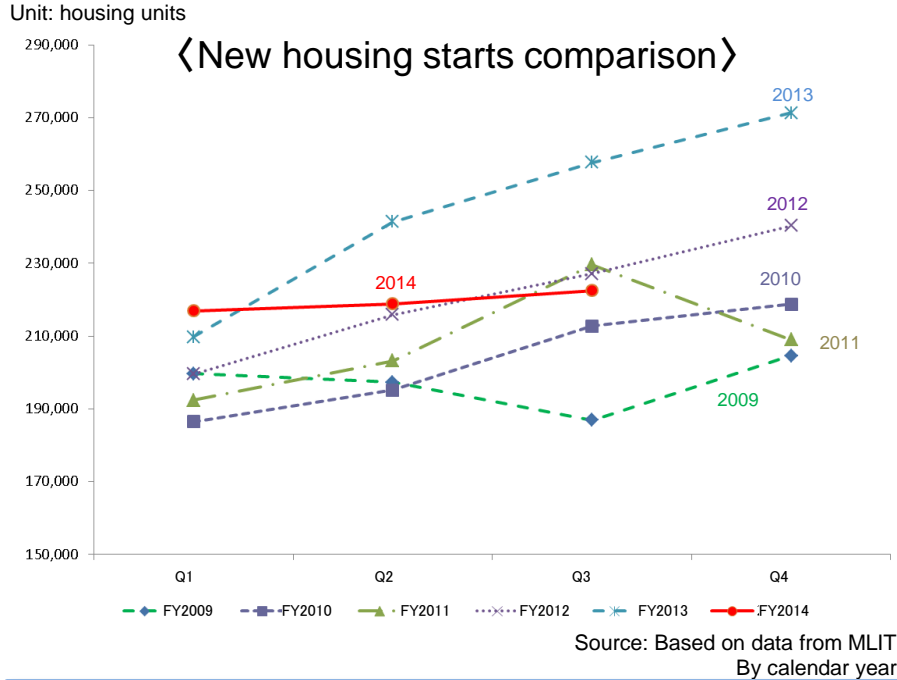
# Suruga's Marketing Strategy

Making proposals that anticipate customer wants and achieving intimate communication with our customers by leveraging our proprietary IT infrastructure



# Environment Surrounding the Mortgage Market

## New housing starts



In 2014, housing starts are down year-on-year since Q2 (Apr-Jun) due in part to a downward reversion following the implementation of the VAT hike, but levels still close to that seen in 2012.

## Long-term outlook for mortgage market

### 〈Factors influencing the market〉

Population, number of households in decline

More existing homes being inherited

Fewer skilled craft workers in construction

Housing policies affecting existing homes and renovations



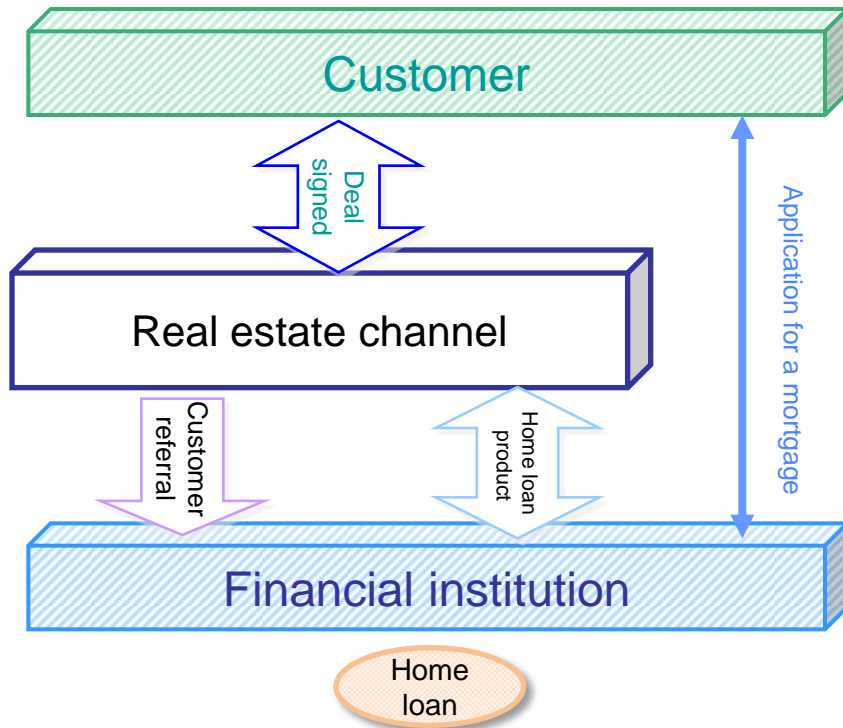
Shifting away from both demand and supply sides to scrap-and-build new construction to the secondary market.

Shift in ultimate goals for how we live--from owning a newly constructed home to different options including buying a used home or renovating an inherited home.

# Suruga's Secured Loan Business

Suruga's secured loan business evolves as times change

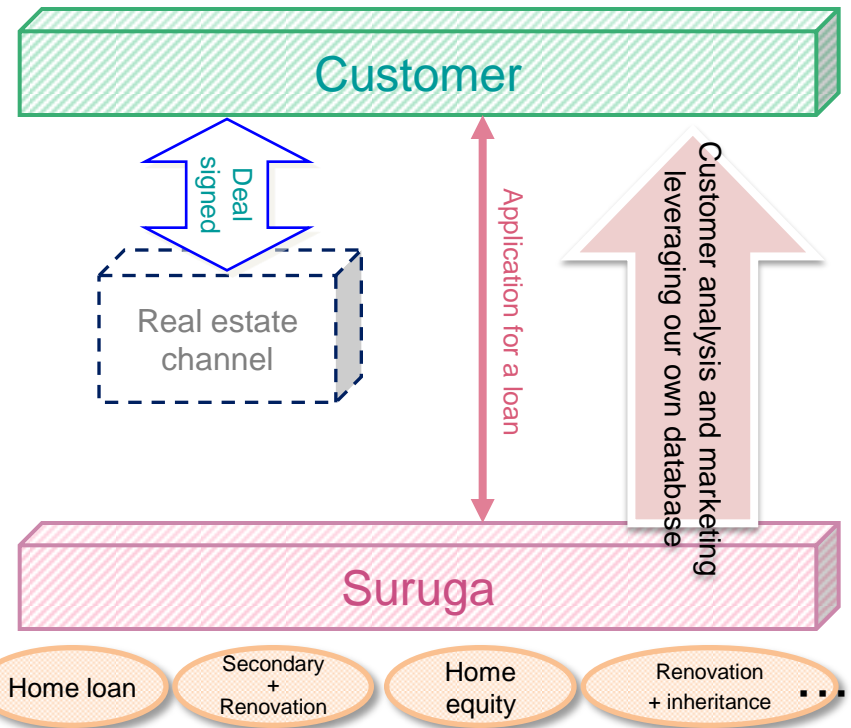
## Ordinary secured loan business



### Mono-line model =

Selling home loans mainly for new construction triggered by a real estate channel

## Suruga's secured loan business



### Full-line model =

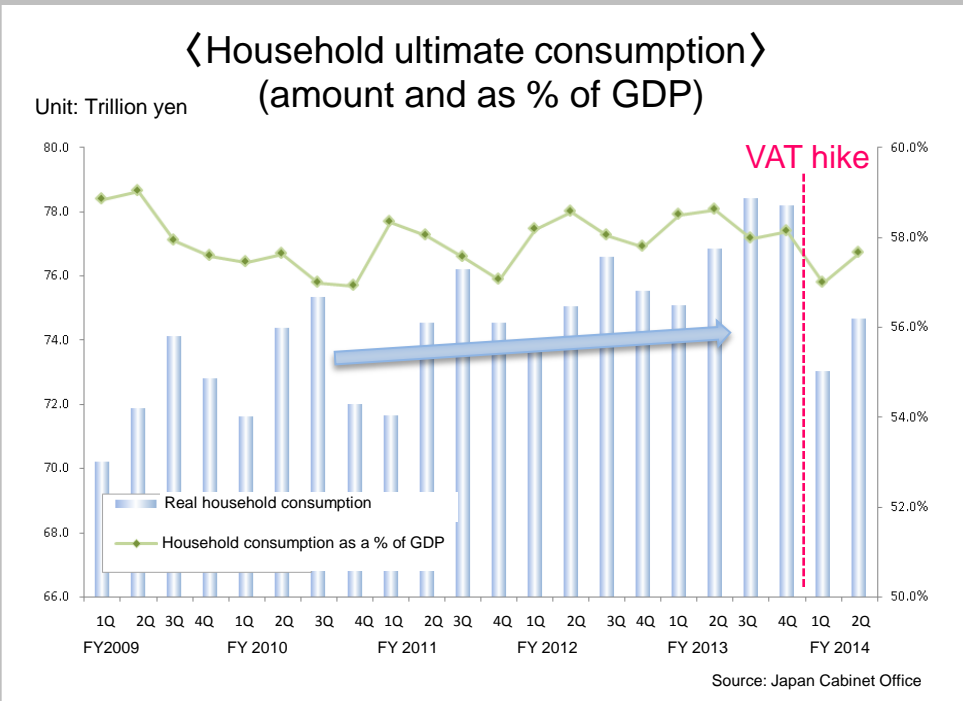
Selling secured loans that match the life events and values of the customer

Deploying a business model from a customer oriented perspective that separates us from price competition and avoids reliance on other channels.

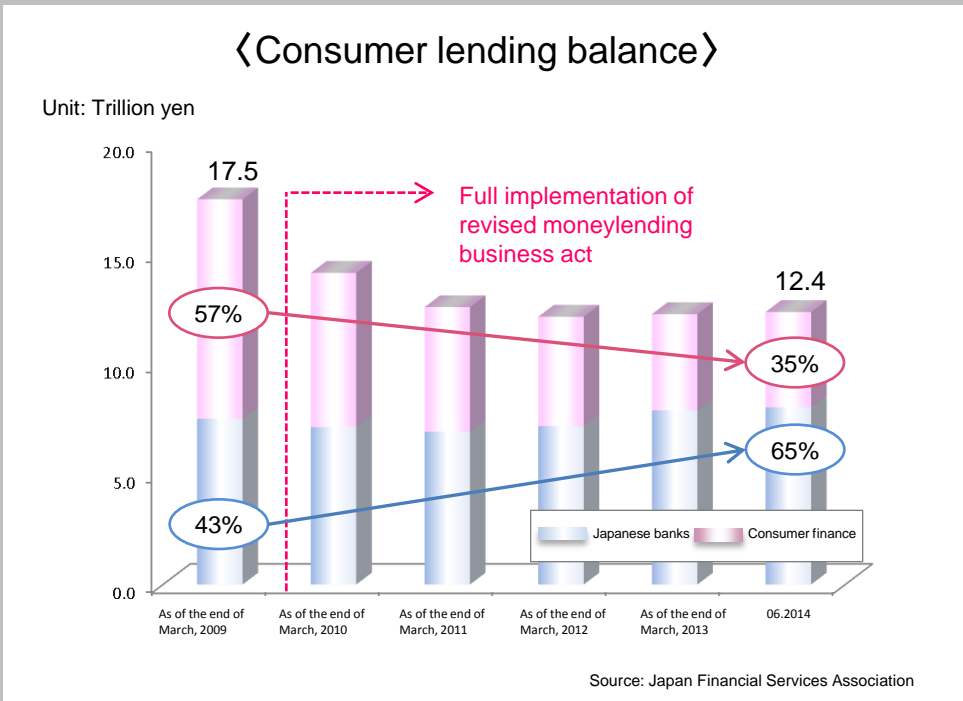


# Environment Surrounding the Consumer Loan Market

## Trends in personal consumption



## Trends in the consumer loan market



FY 2014 Q2 sees weak recovery in personal consumption following the VAT hike. Some bottom support seen, however, leading to hopes for future recovery.

Consumer loan market has grown solidly since FY 2012. Banks are now playing a leading role in consumer loans, accounting for a combined 65% of the market.

Banks have an important role in financing personal consumption now that the banks are a core provider of consumer finance.

# Suruga's Consumer Loan Business

## Suruga's value proposition

**Create a story** based on researching the customer's dreams

**Navigation** that anticipates life events of the customer

**Diverse and flexible product lineup** that matches the customer's lifestyle

**Deliver added value** that suits the customer's interests and tastes

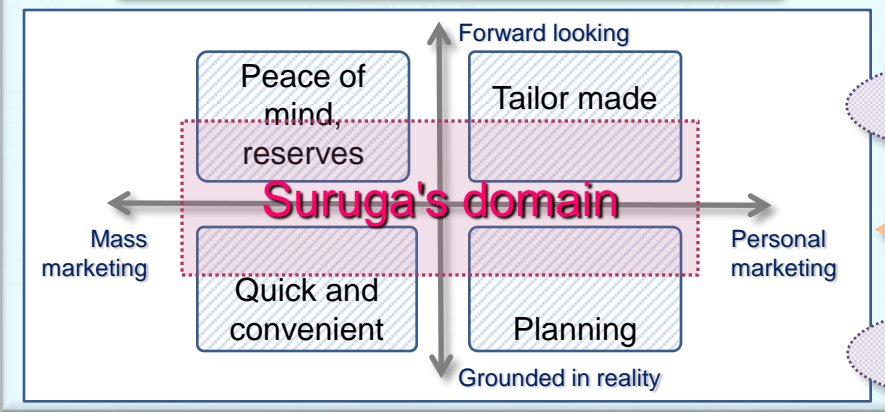
**Diverse customer contacts** over the customer's preferred channel

**Suruga's personal loan business delivers financing for a more colorful life**

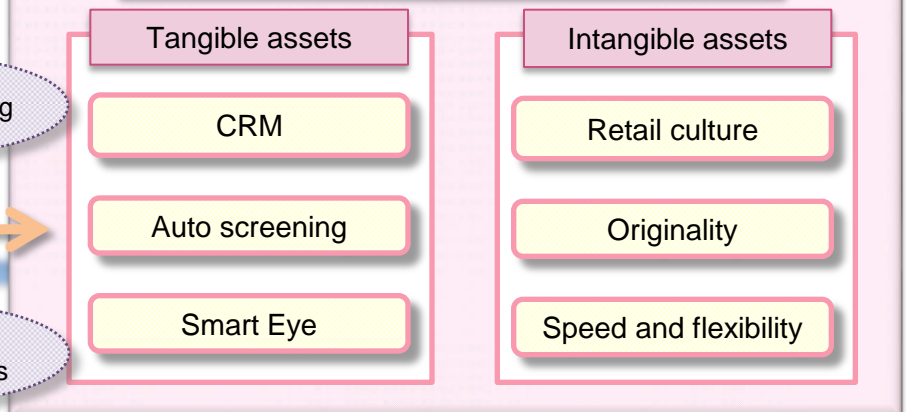
More sophisticated approach by segment

Mutual advancement of proposal capabilities and engine

## Segmentation at Suruga

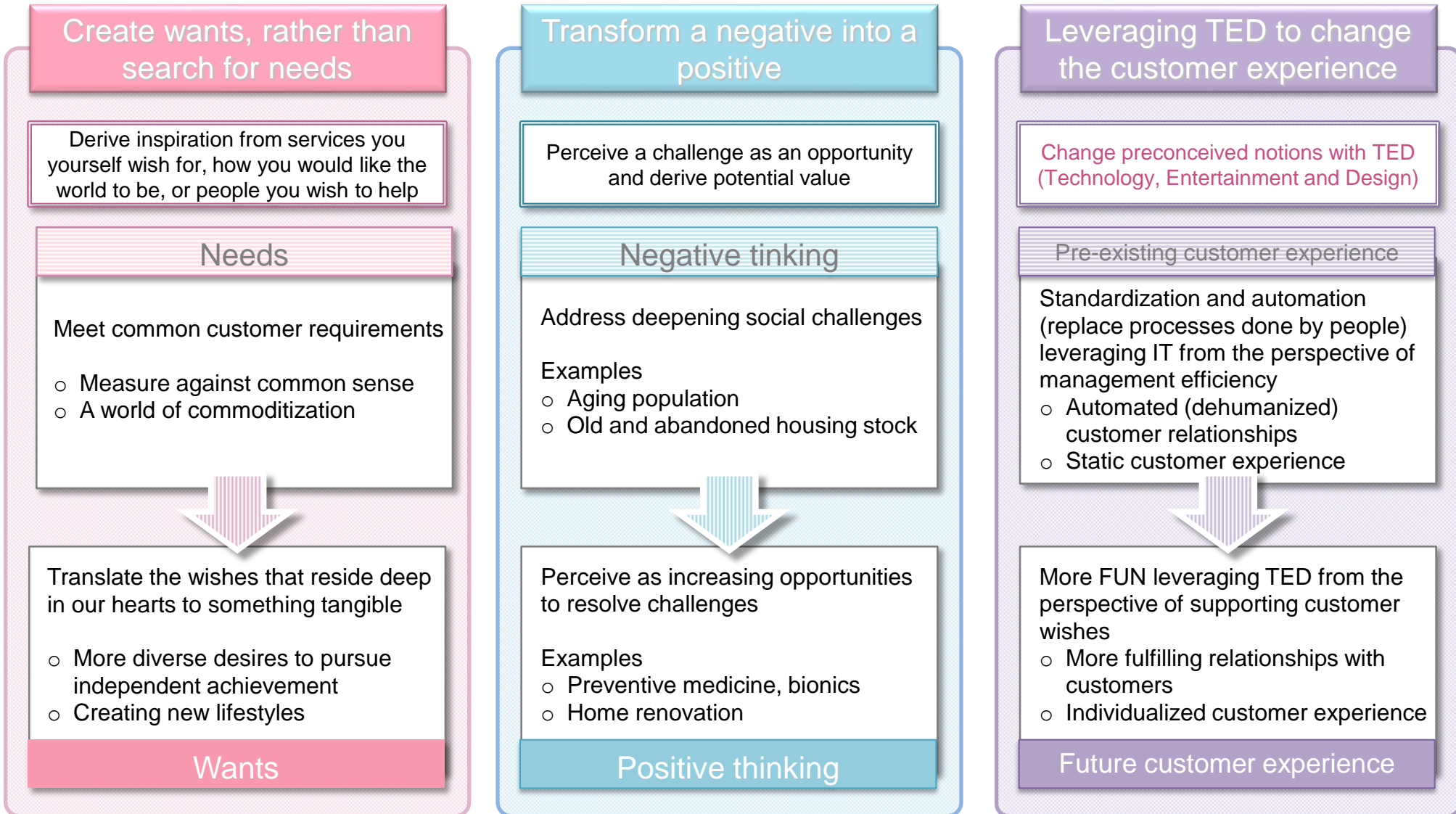


## Engines at Suruga



# Characteristics of a Value-added Business Model

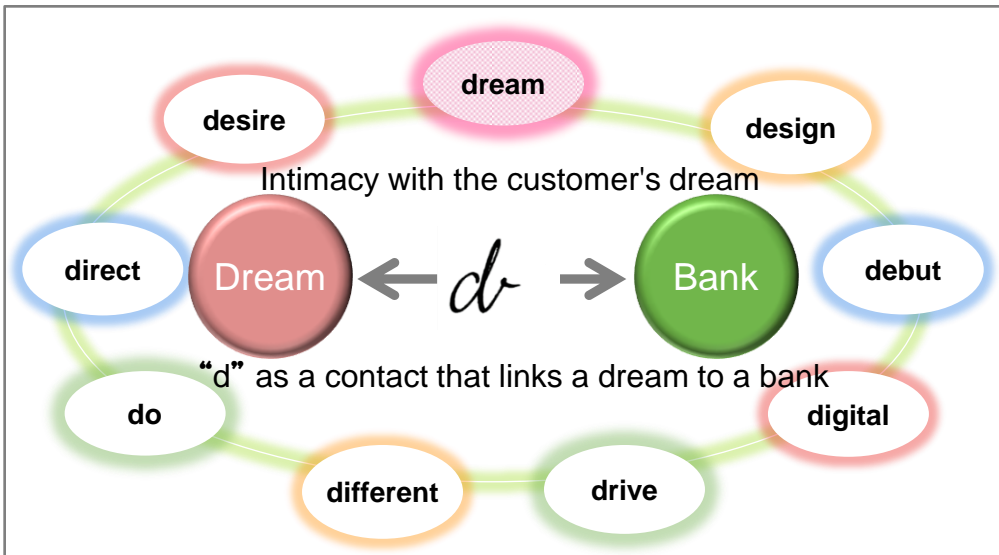
## 3 Focal Points that Drive Innovation



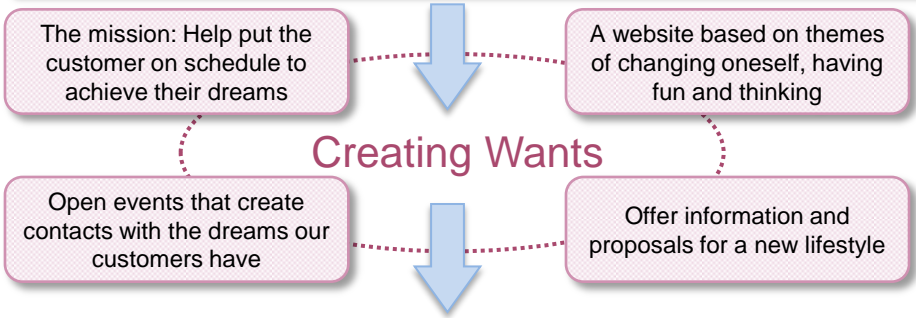
Source: Yoshiaki Saito, Year 2030 Research Department, Nomura Research Institute

# Suruga's Efforts to Create New Value

A new form of banking derived from "d"

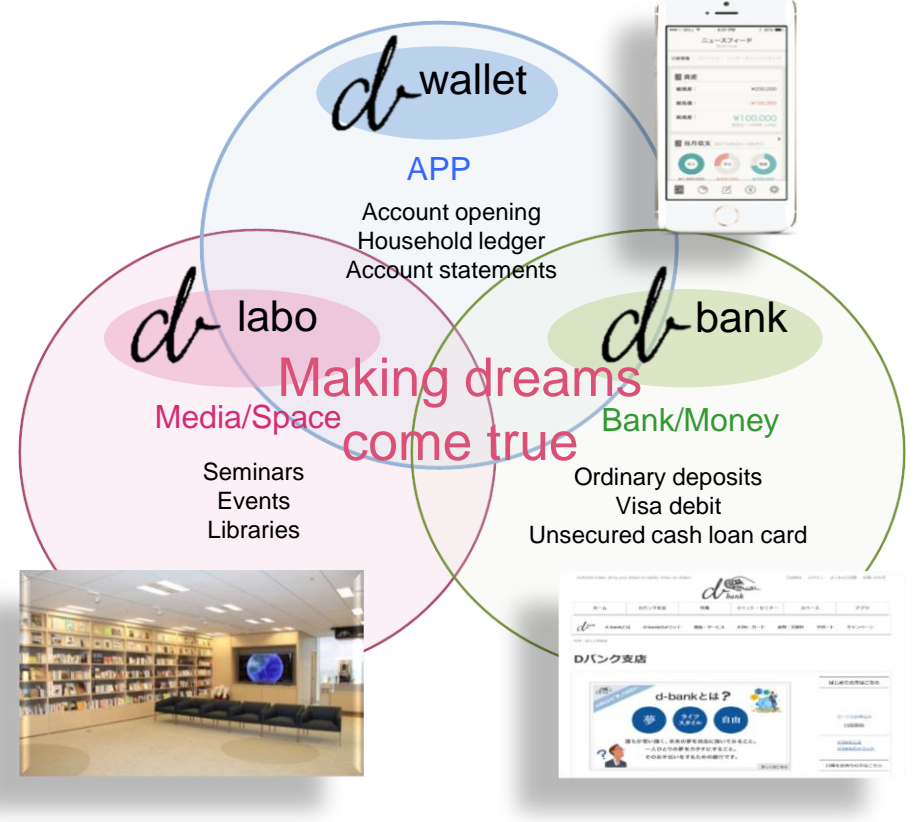


**Positive thinking** More diverse desires to pursue independent achievement



**Create value** Delivering services and offering solutions to help the customer make their dreams come true (independent achievement)

Deliver a customer experience distinct from that of a conventional bank by leveraging the synergies of the three d's



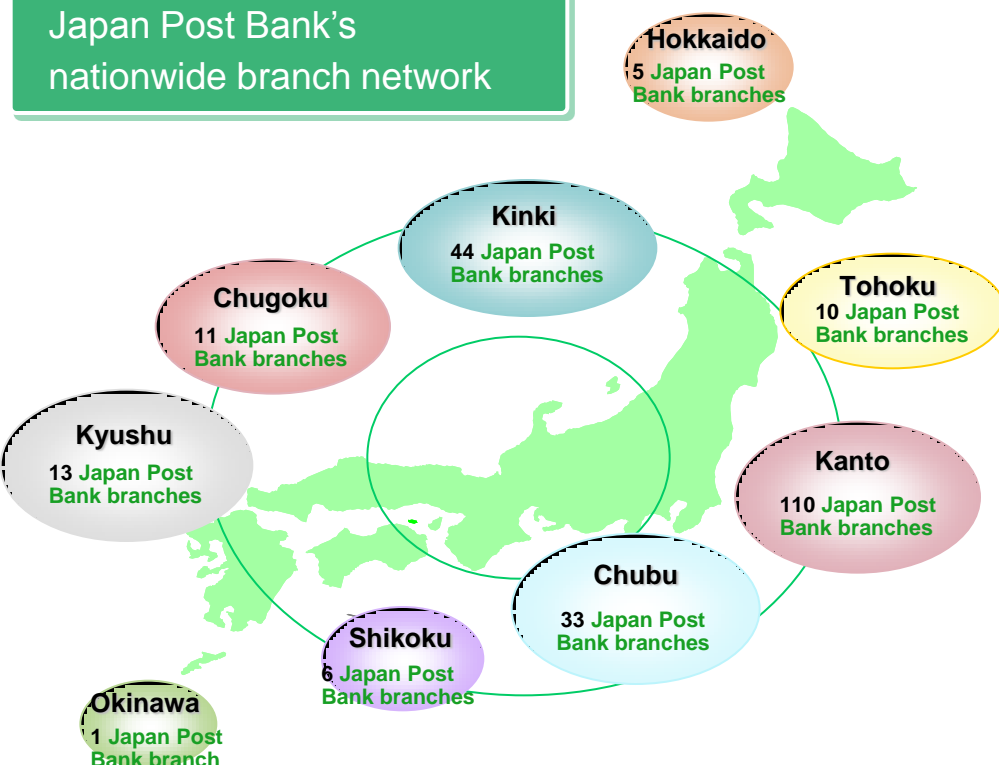
**Omni-channel execution**

# Business Alliance with Japan Post Bank

Leveraging Japan Post Bank's nationwide network

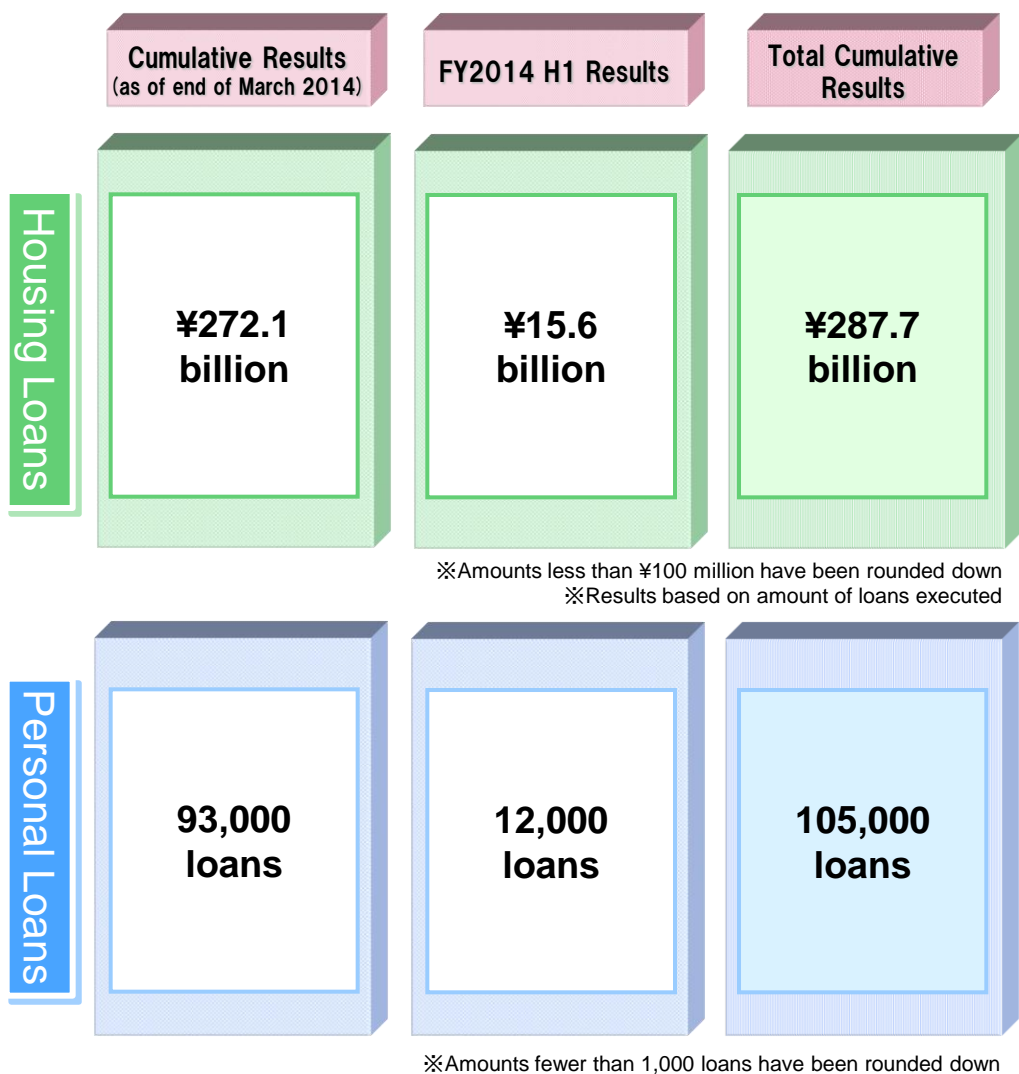
Customers can apply for our Personal loans at all 233 Japan Post Bank branches

Japan Post Bank's nationwide branch network



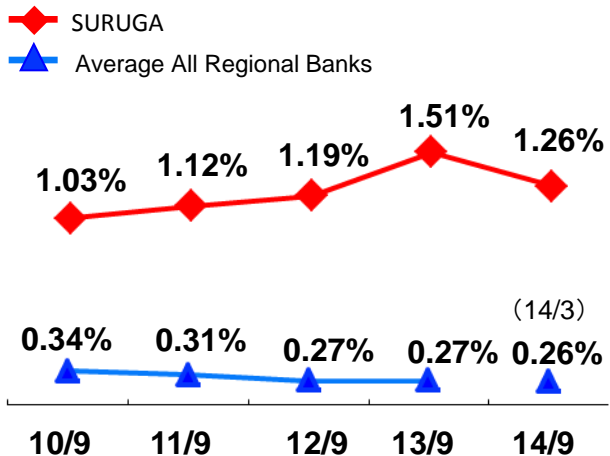
Reach more customers with loan products that meet customer needs

Cumulative results since the alliance launched

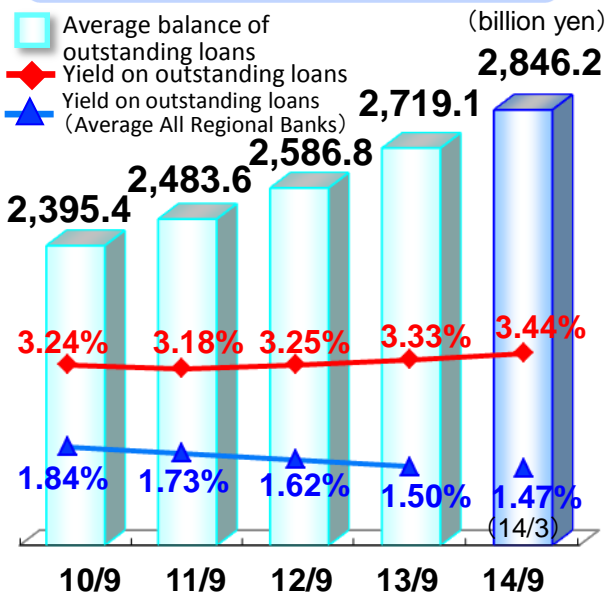


# Yield / Margins (Overall)

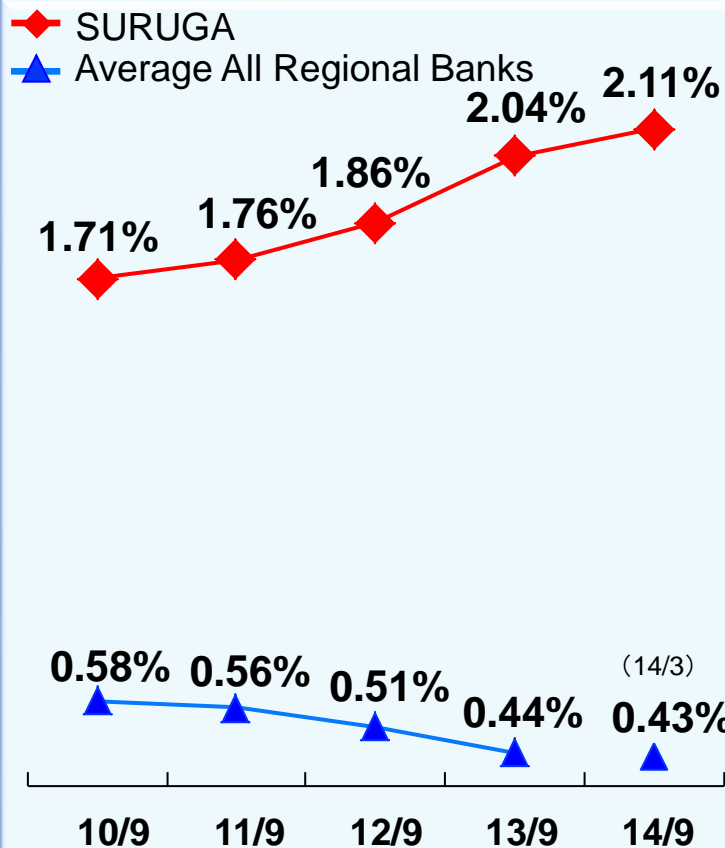
## Net interest margin



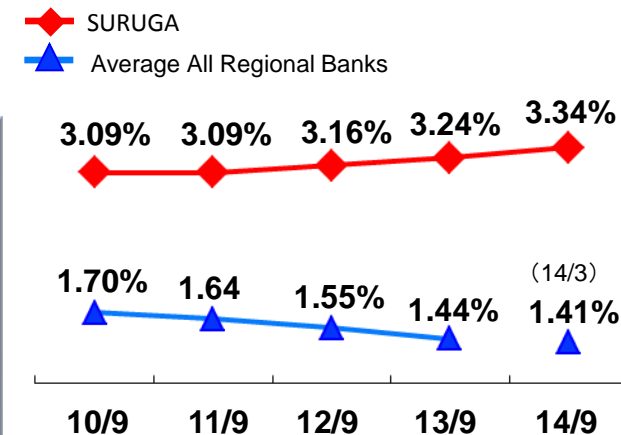
## Average balance and yield on outstanding loans



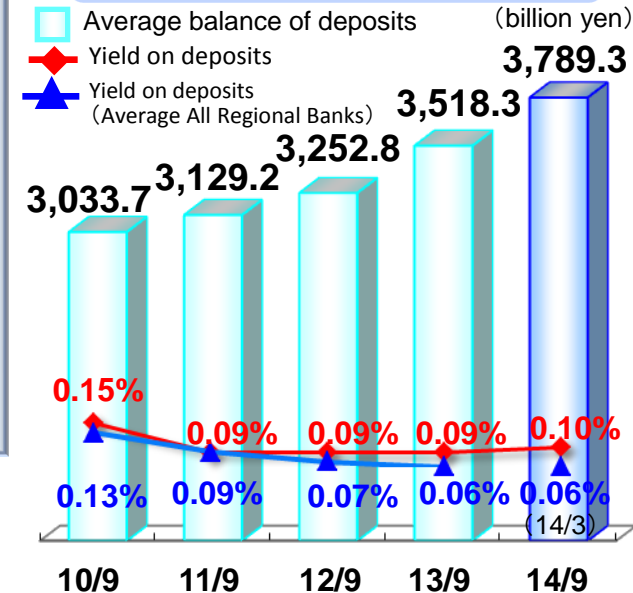
## Loan-deposit margin (after deduction from expense ratio)



## Loan-deposit margin

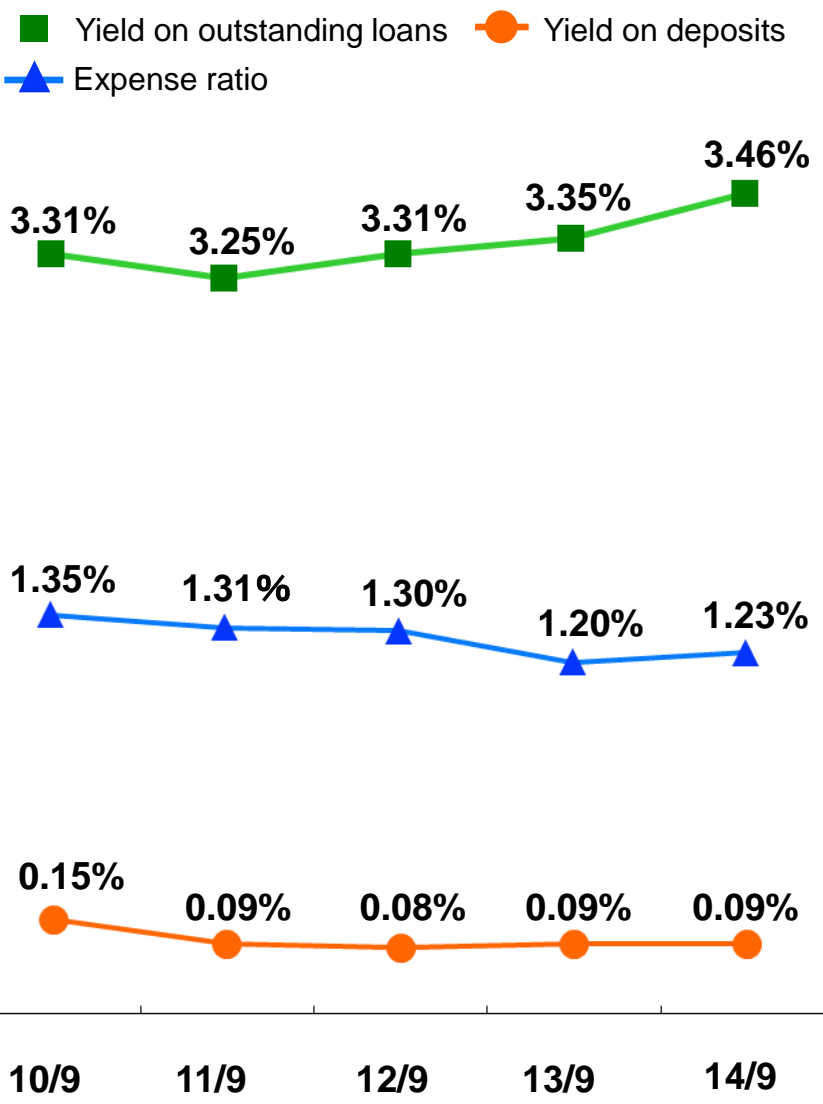


## Average balance and yield on deposits

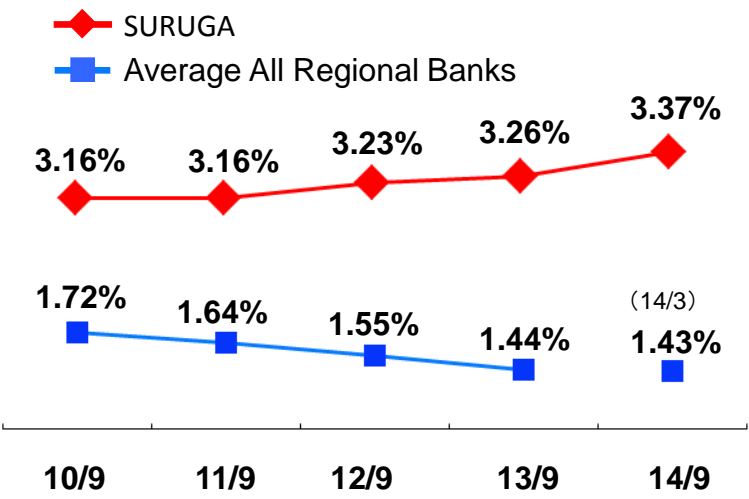


# Yield / Margins (Domestic)

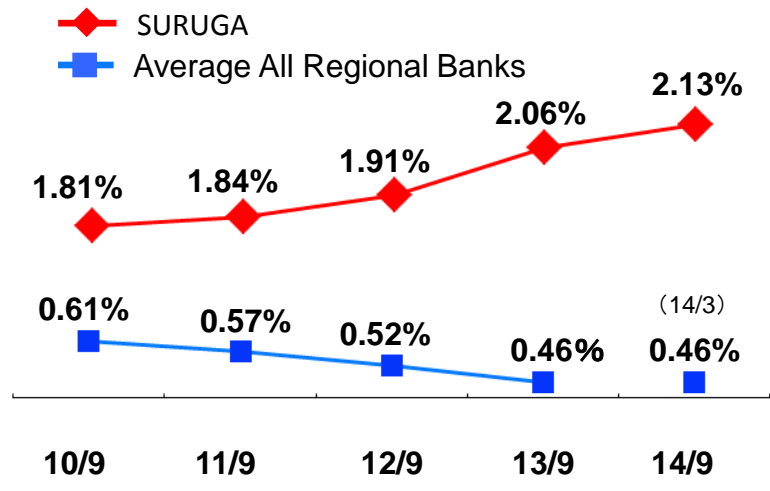
## Yield-Expense ratio



## Loan-deposit margin



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



# Income

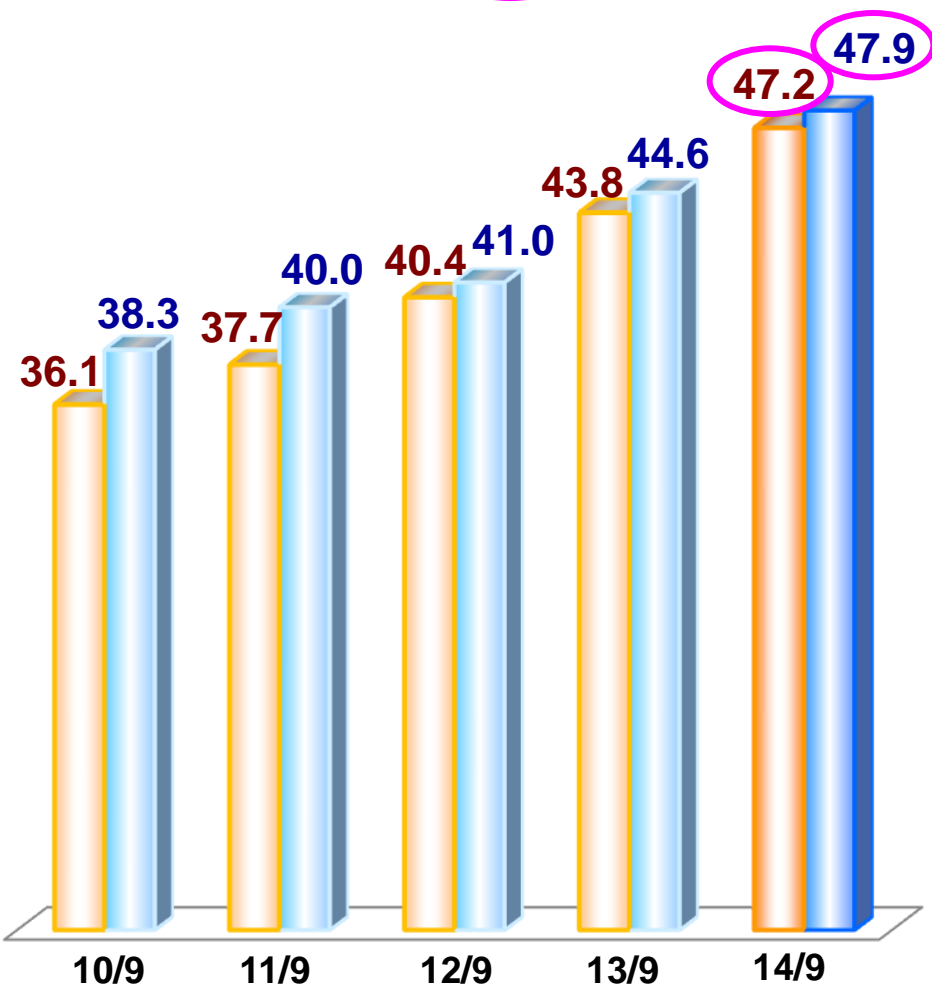
## Yen loan-deposit profits / Gross operating profits

(billion yen)

Yen loan-deposit profits

Gross operating profits

Record High



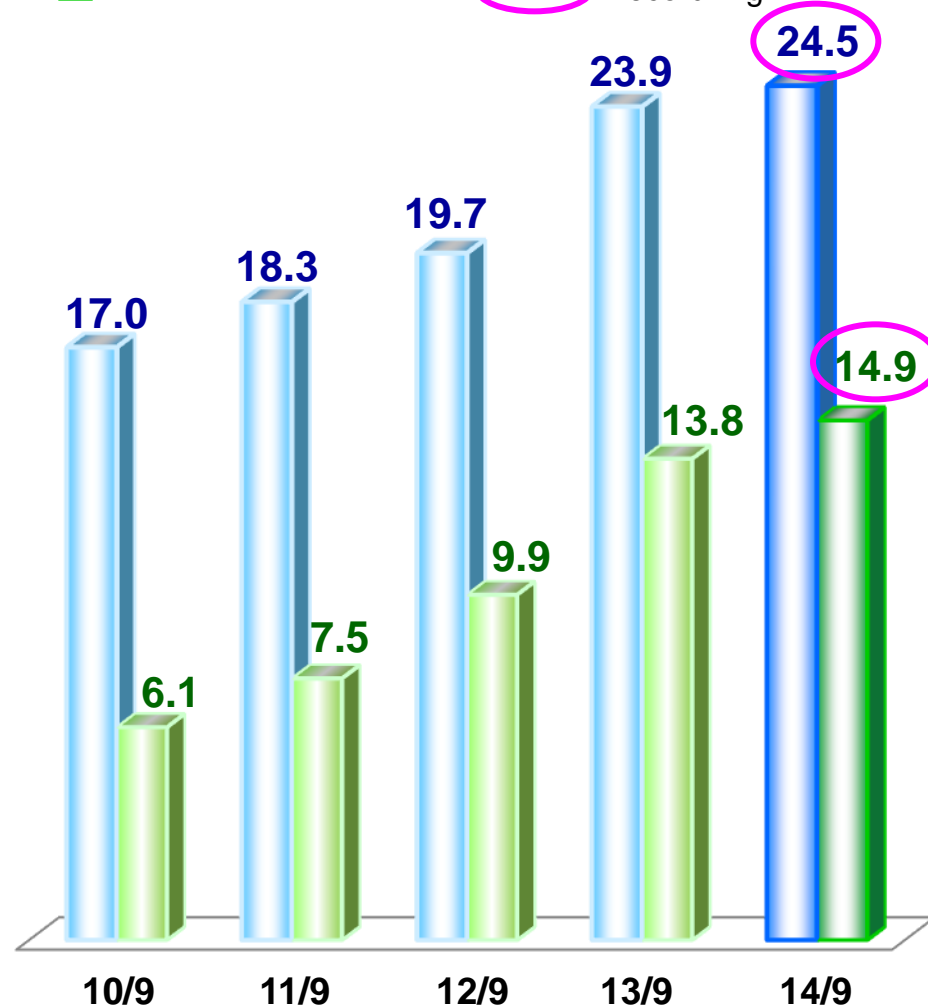
## Core net operating profits / Net income

(billion yen)

Core net operating profits

Net income

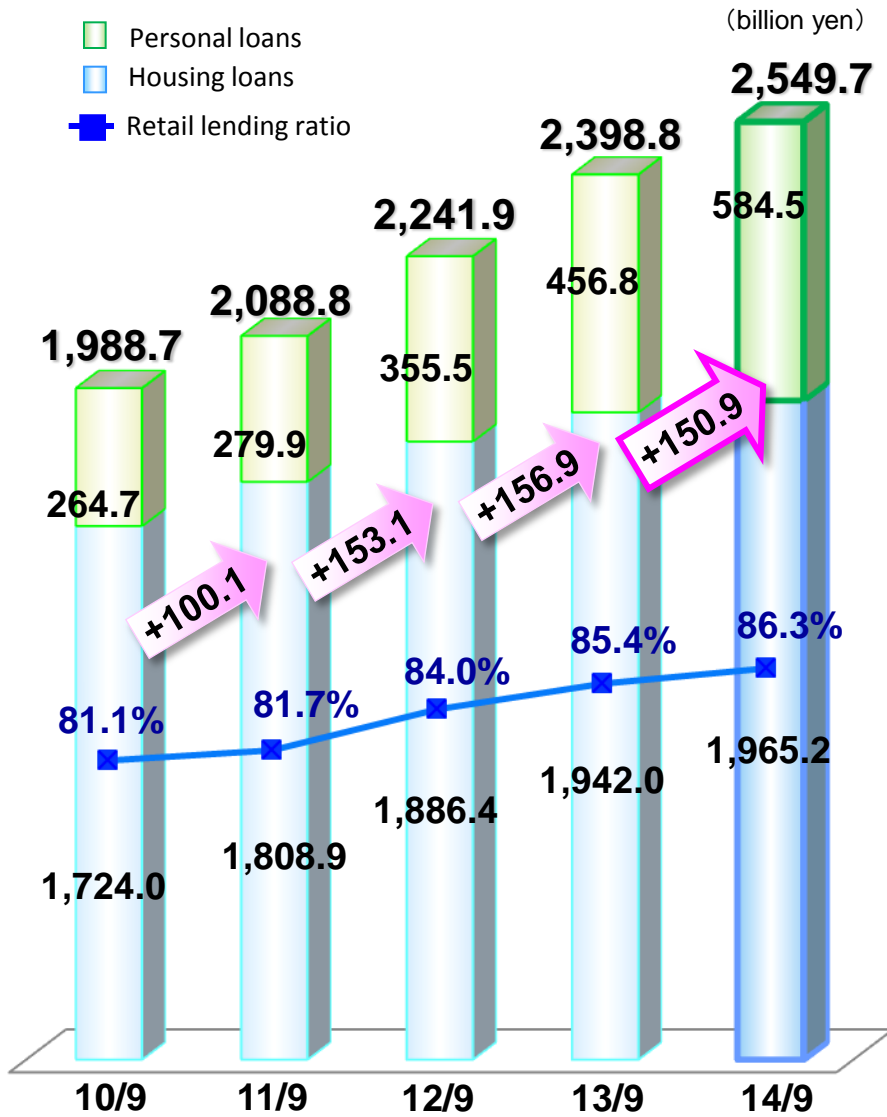
Record High



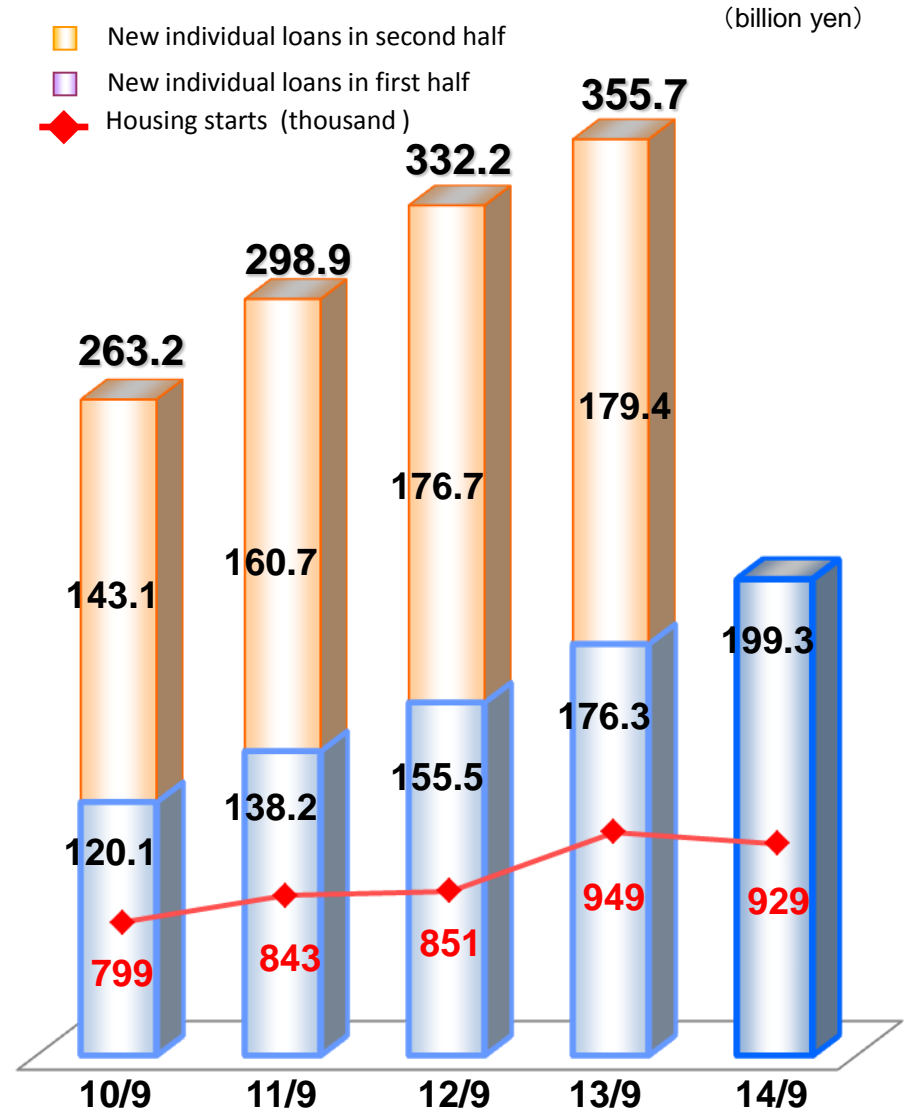


# Strong Focus on Retail

## Consumer loan balance and ratio

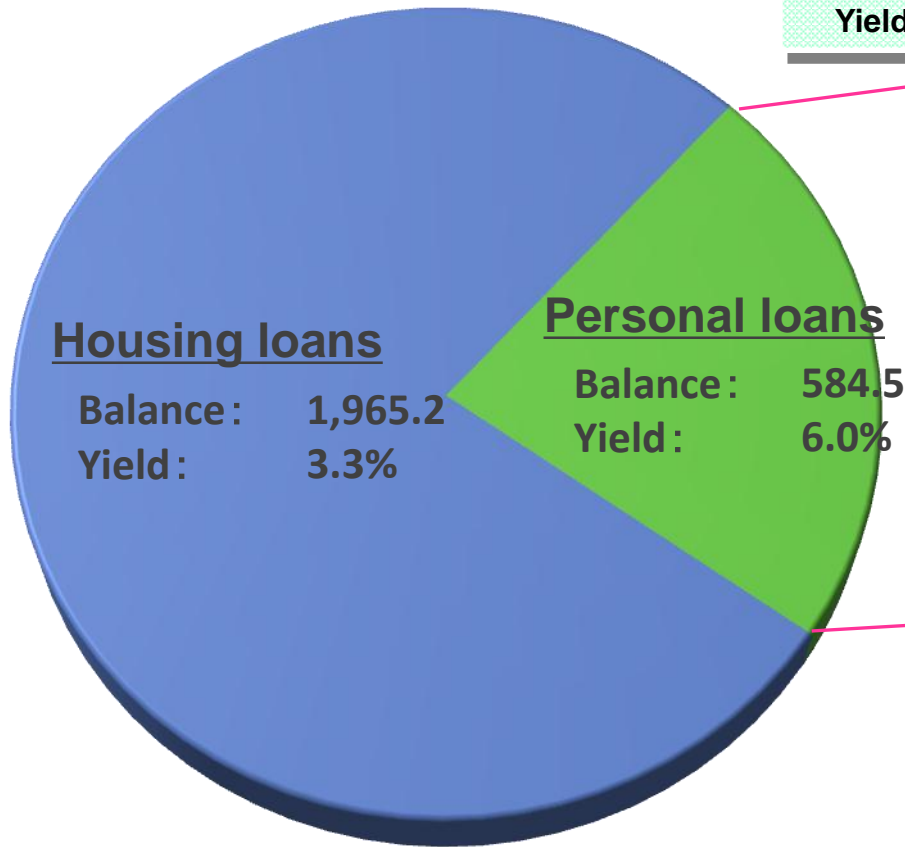


## New loan contracts



# Focus on More Profitable Products

## Consumer loans



**Balance: 2,549.7**

**Yield: 4.0%**

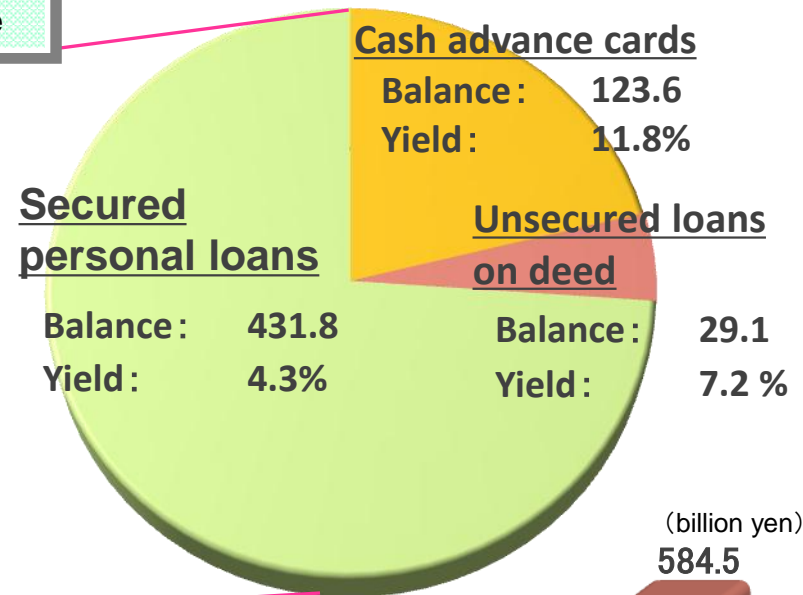
《The type of Housing loans' interest rate》

2.1%  
fixed interest rate

97.9% variable interest rate

As of Sep. 30, 2014  
Balance: billion yen  
Yield: average rate

## Personal loans



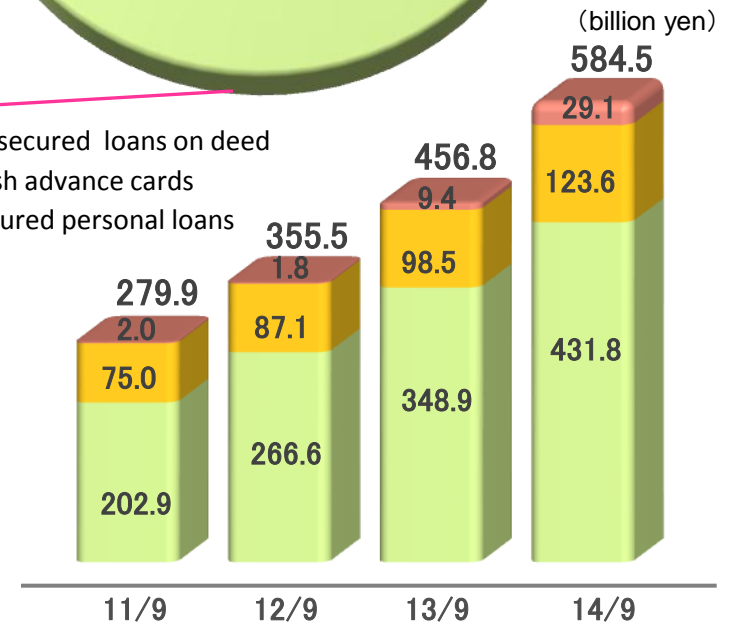
### Cash advance cards

Balance: 123.6  
Yield: 11.8%

### Unsecured loans on deed

Balance: 29.1  
Yield: 7.2%

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



# Business expansion of DIRECT ONE

## DIRECT ONE's branch network

**14 branches (2014/9)**

**Breakdown**

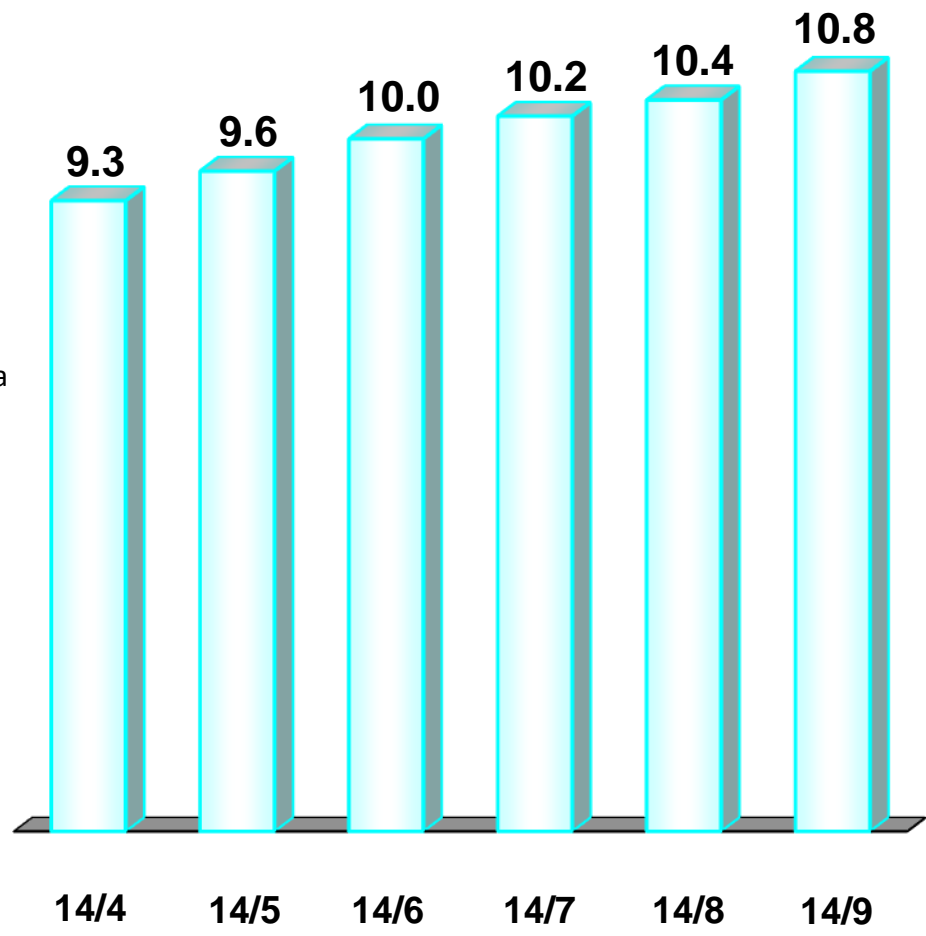
**Shizuoka : 7    Kanagawa : 2**

**Aichi : 2    Tokyo :1    Yamanashi : 1**

**Physical branch: 13    Internet branch :1**

## Receivables Outstanding

(billion yen)



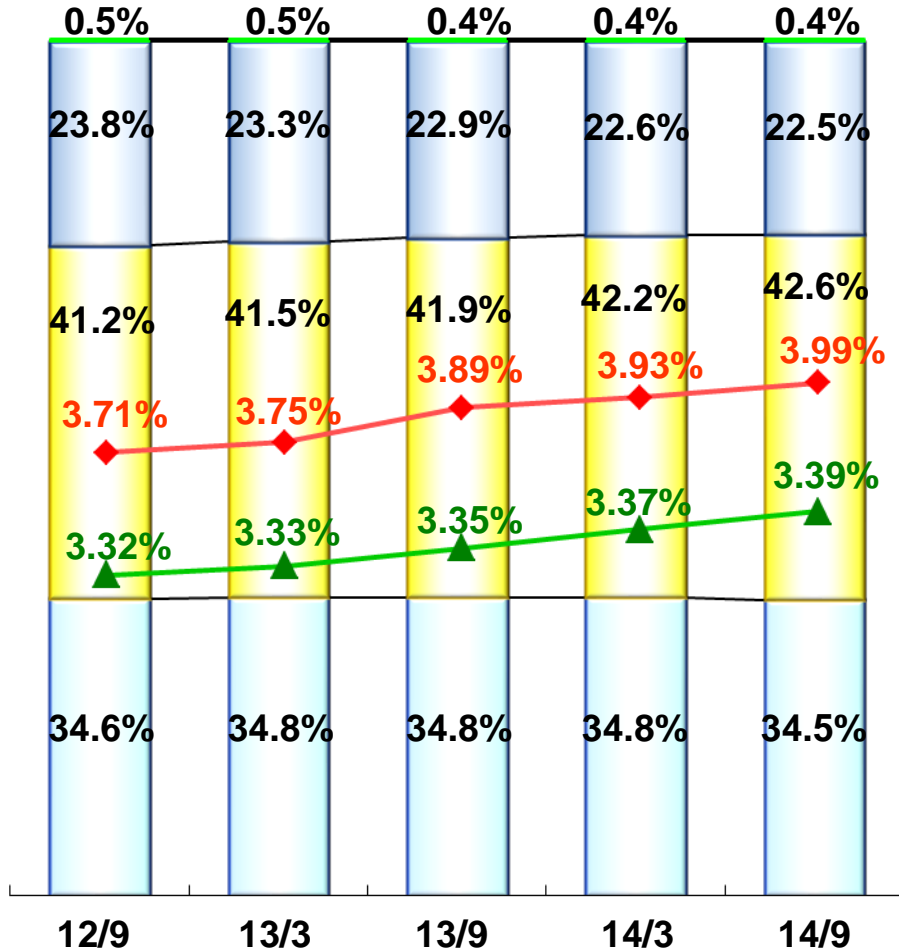
# Housing Loans

Distribution of practical rates for Housing loans (cumulative)

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

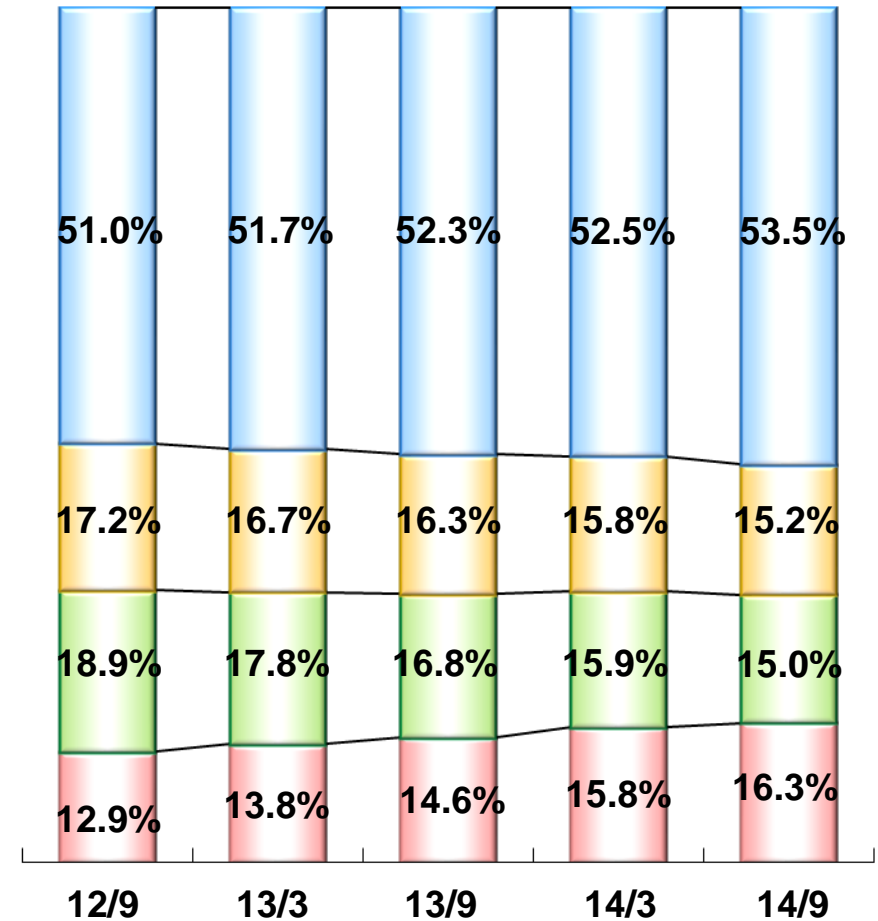
◆ Housing loans average placement rate (%)

▲ Housing loans average year-end rate (%)



Housing Loan balance by geographical area

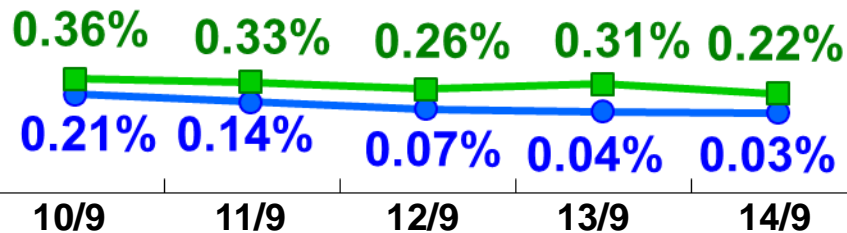
Greater Tokyo area   Kanagawa  
Shizuoka   Major cities nationwide



# Delinquency and Loss Rates on Consumer Loans

## Housing loans

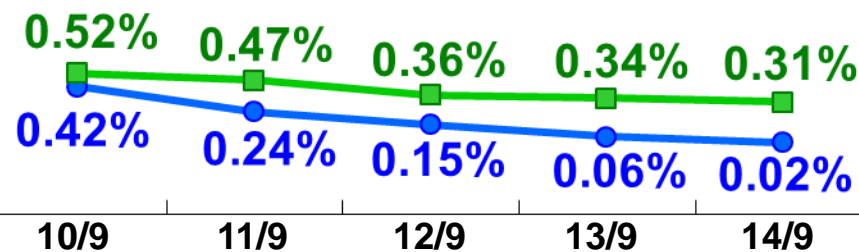
▲ Yield ● Delinquency rate ■ Loss rate



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

## Personal loans

▲ Yield ● Delinquency rate ■ Loss rate

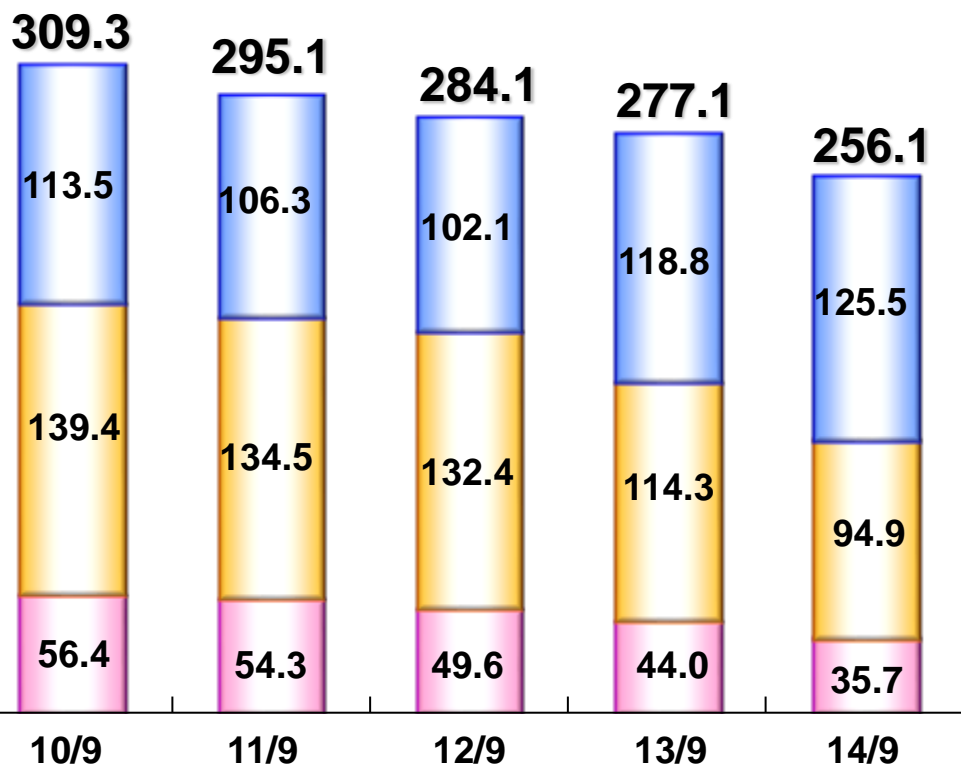
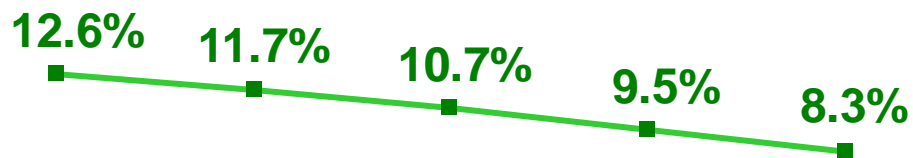


Loss rate = default ratio × (1 - recovery rate)

# Fees and Commissions

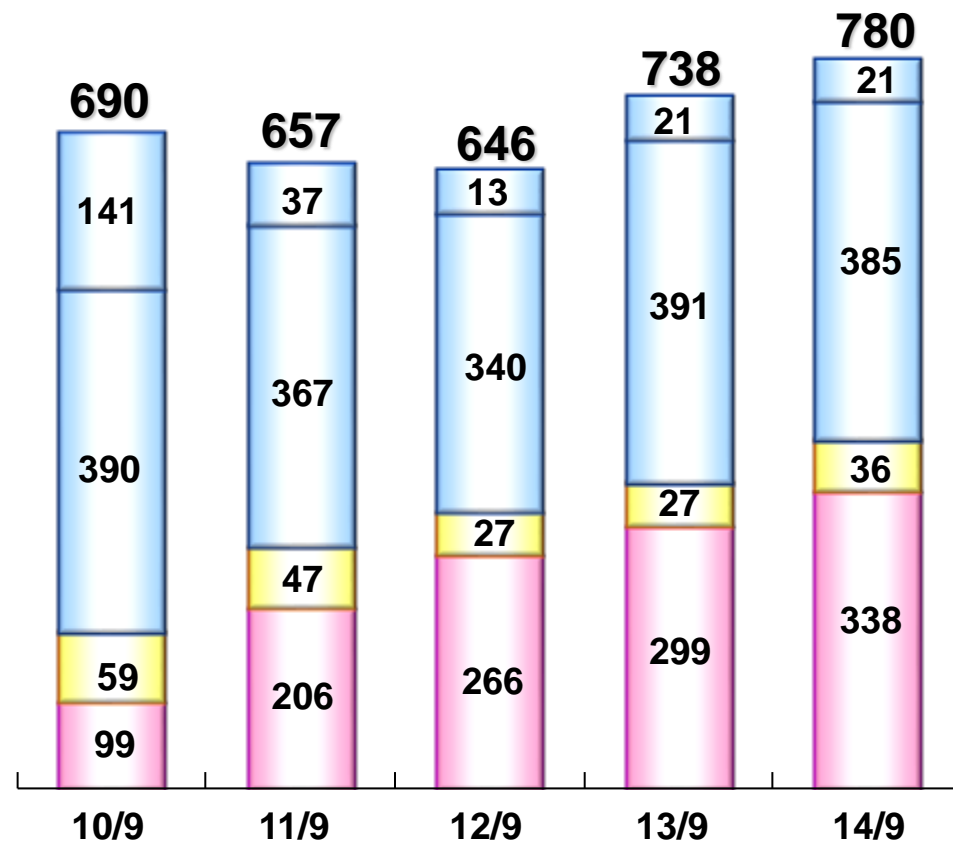
## Balance breakdown of investment products

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

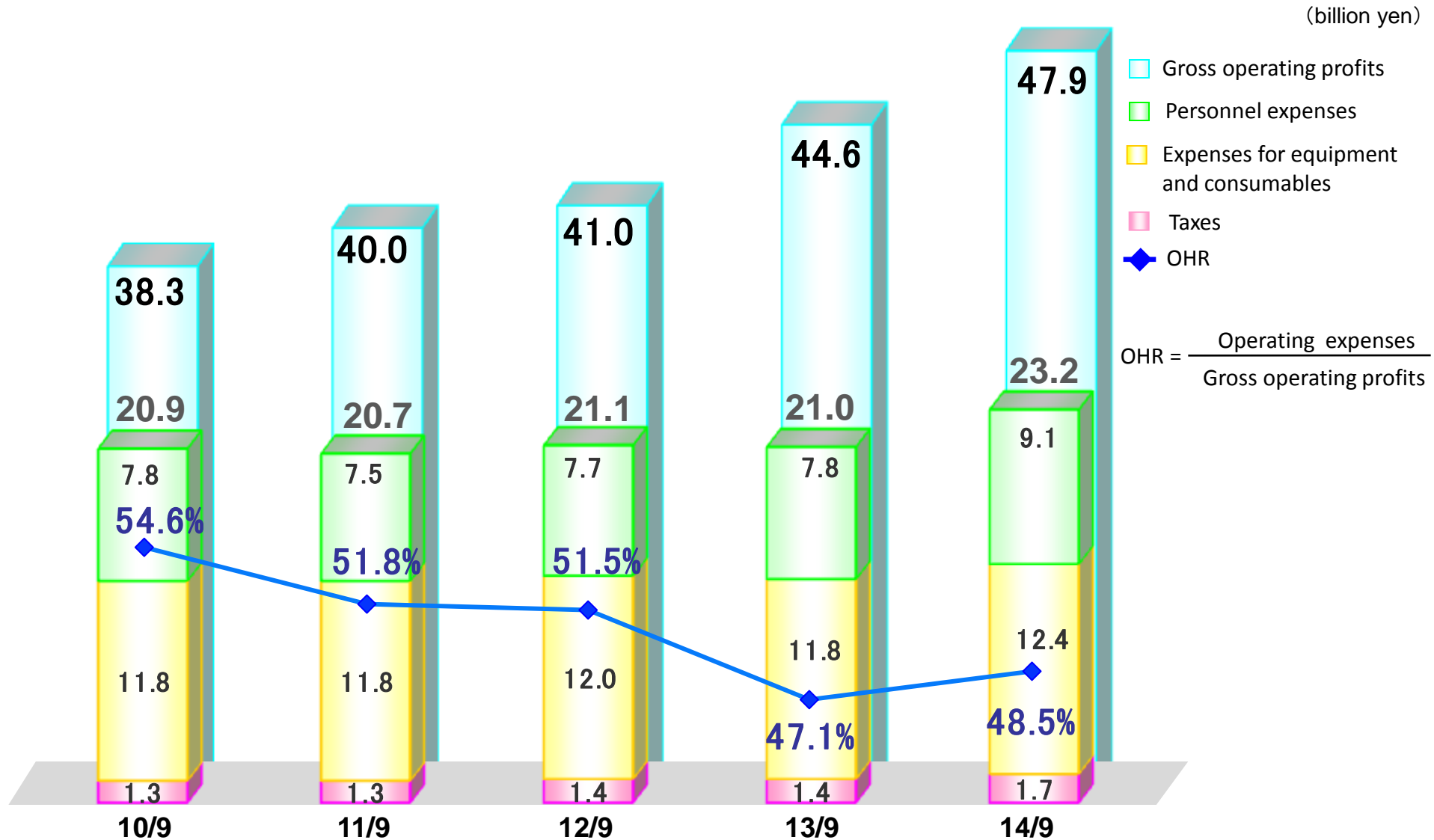


## Commission from mutual funds and insurance products

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



# Expenses and OHR



# Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

Debtor classification	Sep. 14 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	7.5	0.25%	Consumer	5.3	0.20%	3.2	2.6	0.6	61.48%	2.0	100%	100%											
			Corporate	2.2	0.54%	1.6	0.4	1.2	73.52%	0.6	100%	100%											
Claims with collection risk	19.9	0.66%	Consumer	5.0	0.19%	2.9	2.3	0.6	58.52%	1.0	49.15%	78.90%											
			Corporate	14.9	3.65%	13.0	5.1	7.9	87.10%	0.9	49.15%	93.44%											
Claims for special attention	20.6	0.69%	Consumer	10.1	0.39%	7.2	7.1	0.1	70.78%	0.8	28.05%	78.98%											
			Corporate	10.5	2.57%	3.8	3.8	0.0	36.67%	2.3	35.54%	59.18%											
Sub-total	48.0	1.61%	Consumer	20.4	0.79%	13.3	12.0	1.3	65.37%	3.8	54.91%	84.38%											
			Corporate	27.6	6.77%	18.4	9.3	9.1	66.84%	3.8	42.56%	80.95%											
Normal assets	2,926.1	98.38%	Consumer	2,546.6	99.20%	<table border="1"> <tr> <td colspan="11"><b>Total coverage ratio</b></td> <td><b>82.41%</b></td> </tr> </table>						<b>Total coverage ratio</b>											<b>82.41%</b>
			<b>Total coverage ratio</b>											<b>82.41%</b>									
Corporate	379.5	93.22%																					
Total	2,974.2	100%	Consumer	2,567.1	100%	<table border="1"> <tr> <td><b>Coverage ratio</b></td> <td>: Covered by collateral and guarantees</td> </tr> <tr> <td><b>Reserved ratio</b></td> <td>: Reserved for unsecured portion</td> </tr> <tr> <td><b>Total coverage ratio</b></td> <td>: Covered by collateral, guarantees and reserves</td> </tr> </table>						<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						
			<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	407.1	100%																					

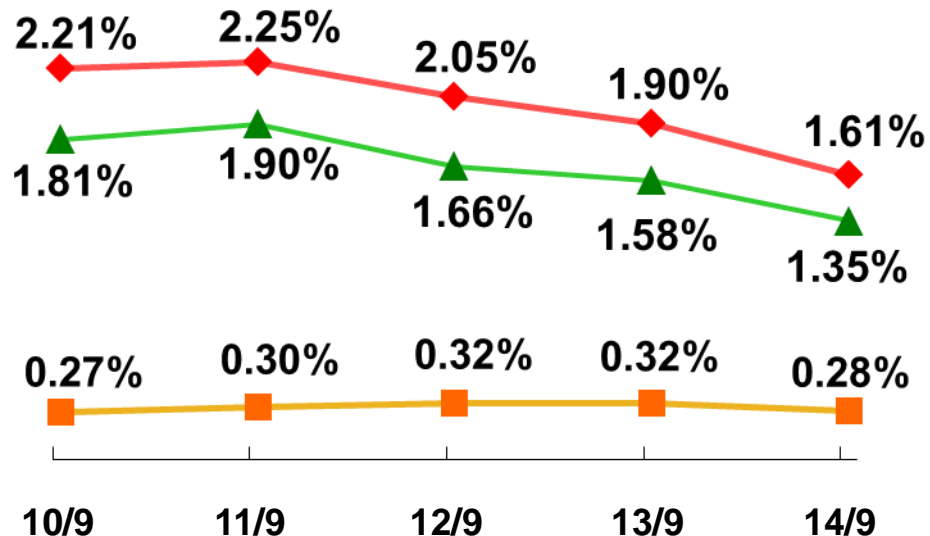
\* NOTE: The guarantee is not provided by us. We do not extend the guarantee by paying fee to external entity, but the third party, who serves as the joint guarantor to the borrower, extends the guarantee.



# Non-performing loans ratio / Credit costs status

## Non-performing loans ratio

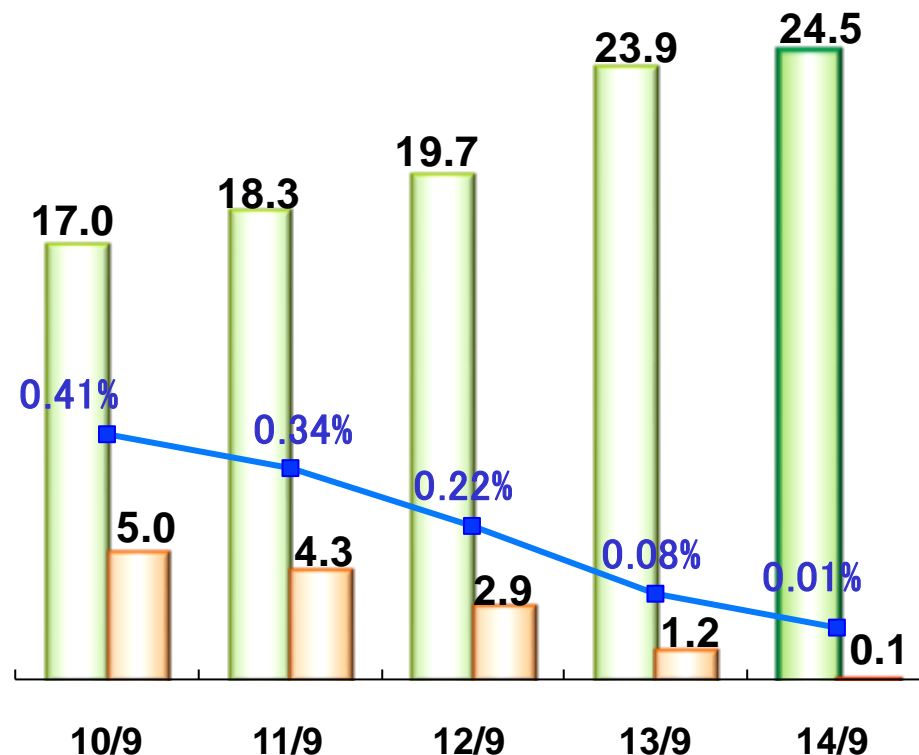
- ◆ Non-performing loans on the Financial Reconstruction Law
- ▲ Non-performing loans from reserves
- Non-performing loans after deduction from reserves, collateral and guarantees



## Credit costs status

(billion yen)

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



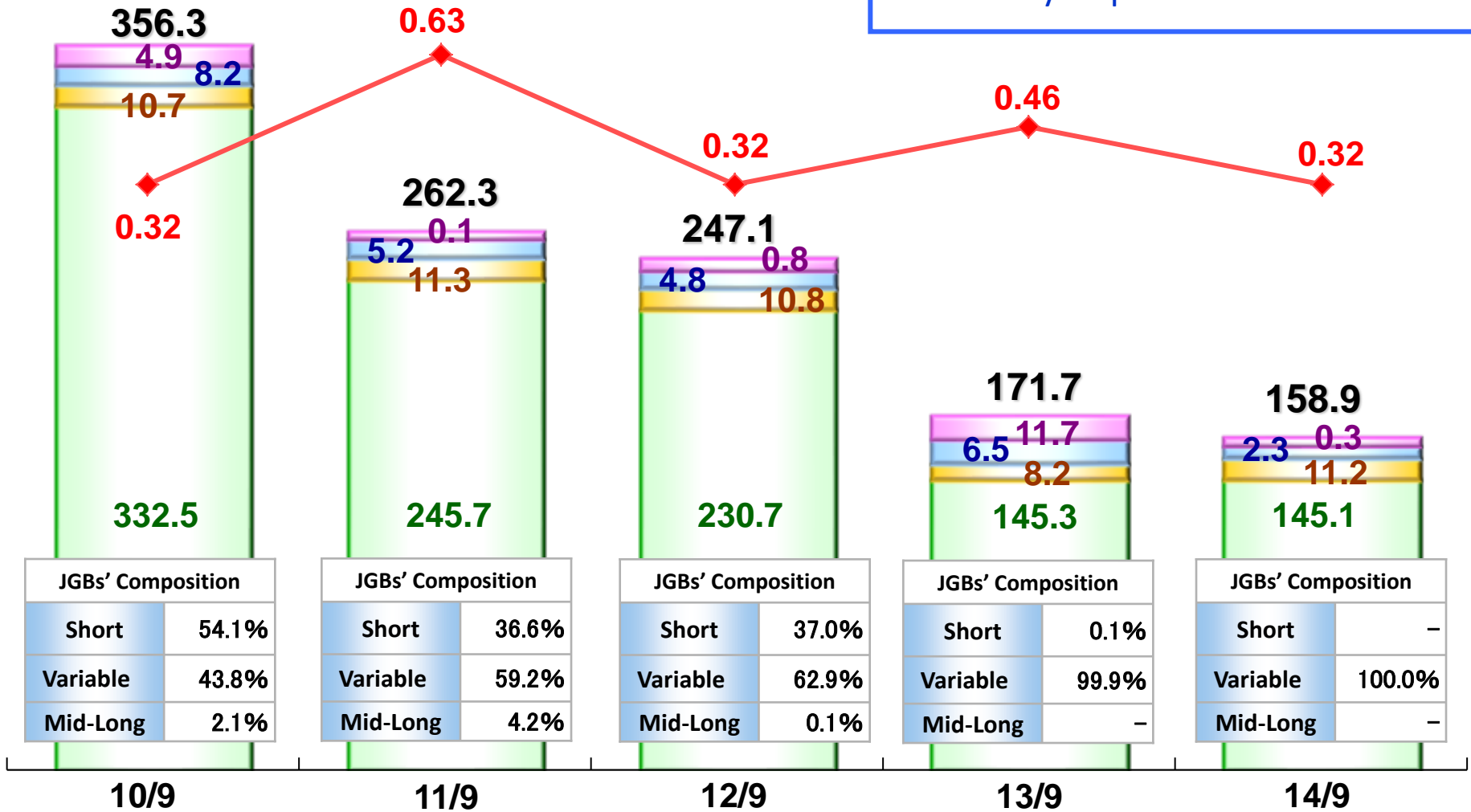
# Bond Portfolio

■ JGBs 
 ■ Foreign Bonds 
 ■ Corporate Bonds 
 ■ Regional Government Bonds

(billion yen)

◆ Average remaining maturity (Year)

Security Deposit Ratio 5.8%



JGBs' Composition	
Short	54.1%
Variable	43.8%
Mid-Long	2.1%

JGBs' Composition	
Short	36.6%
Variable	59.2%
Mid-Long	4.2%

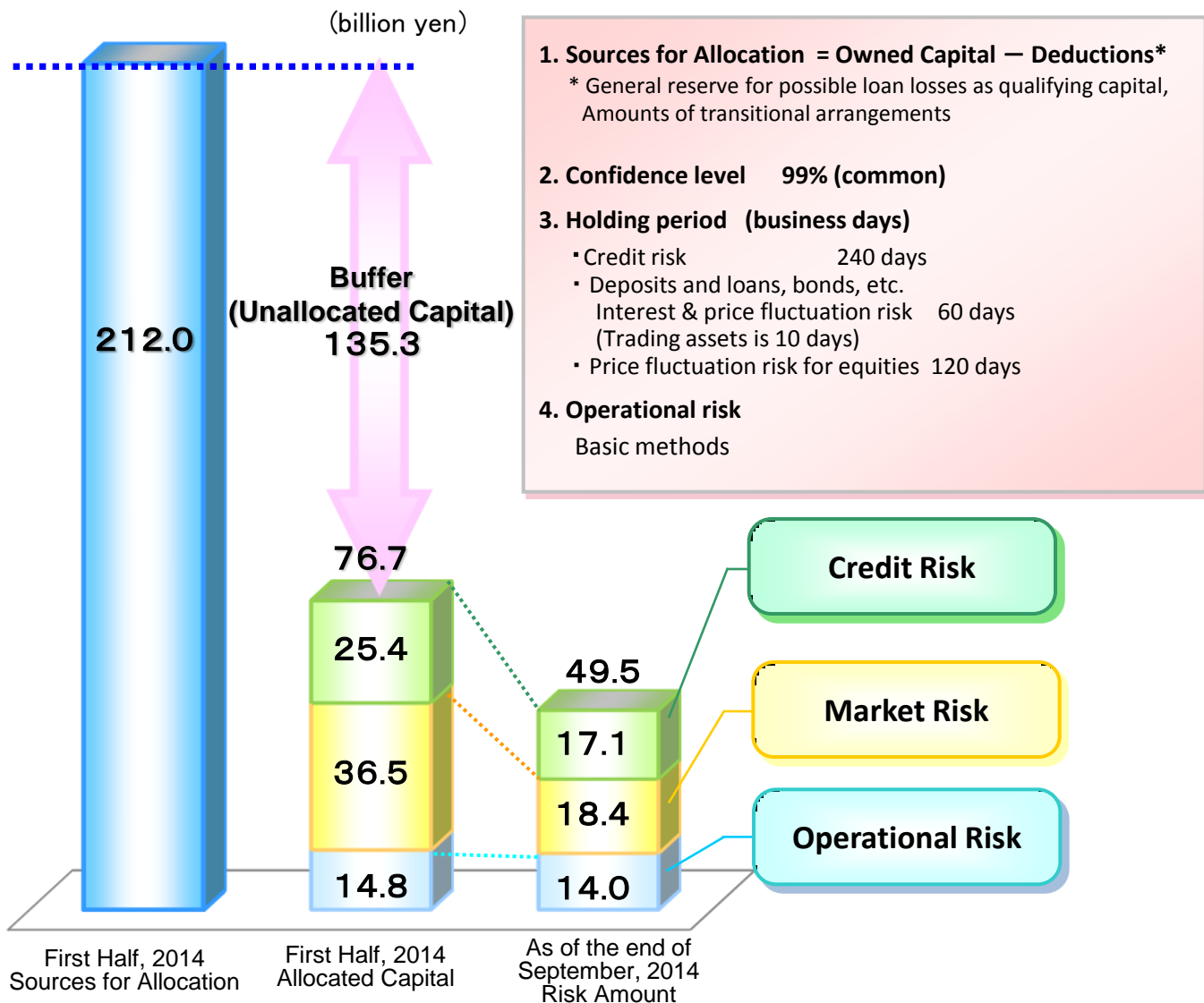
JGBs' Composition	
Short	37.0%
Variable	62.9%
Mid-Long	0.1%

JGBs' Composition	
Short	0.1%
Variable	99.9%
Mid-Long	-

JGBs' Composition	
Short	-
Variable	100.0%
Mid-Long	-

# Status of Risk Amount

## Integrated Risk Management



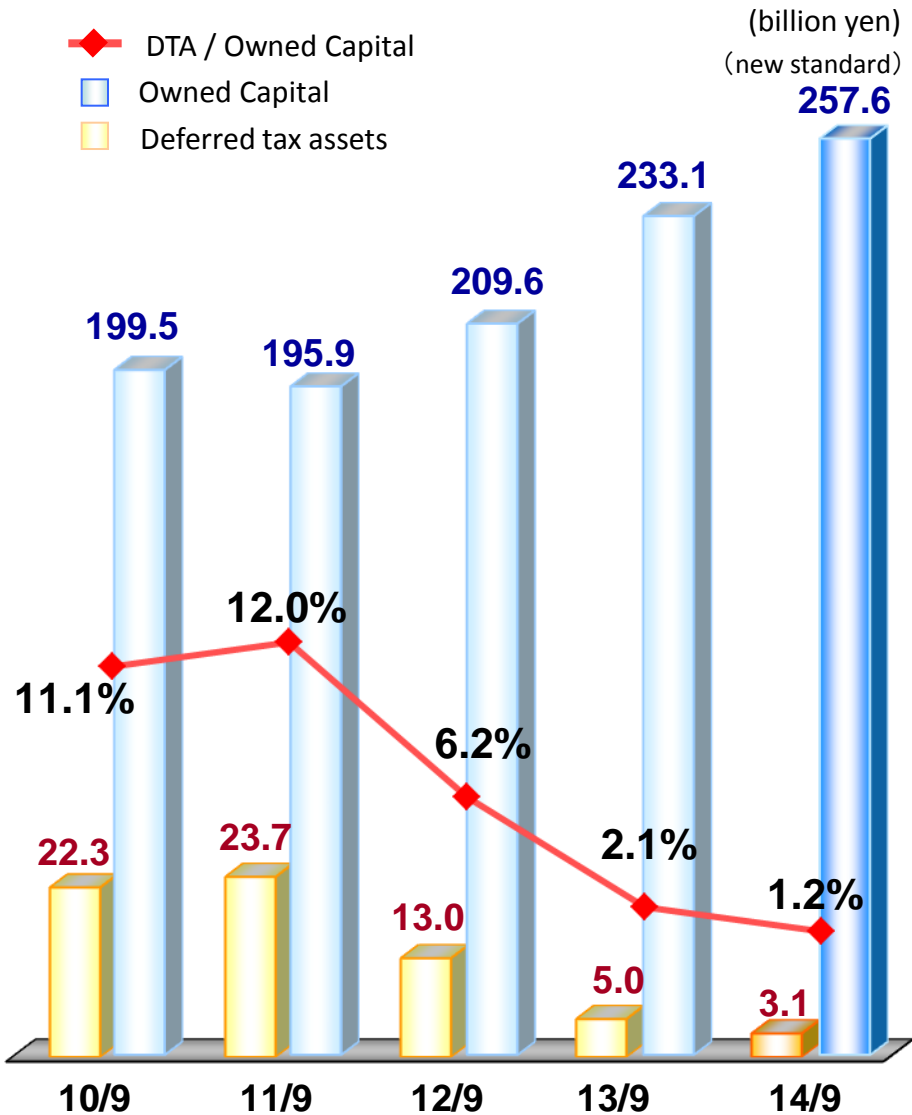
## Outlier Ratio

As of the end of Sep, 2014

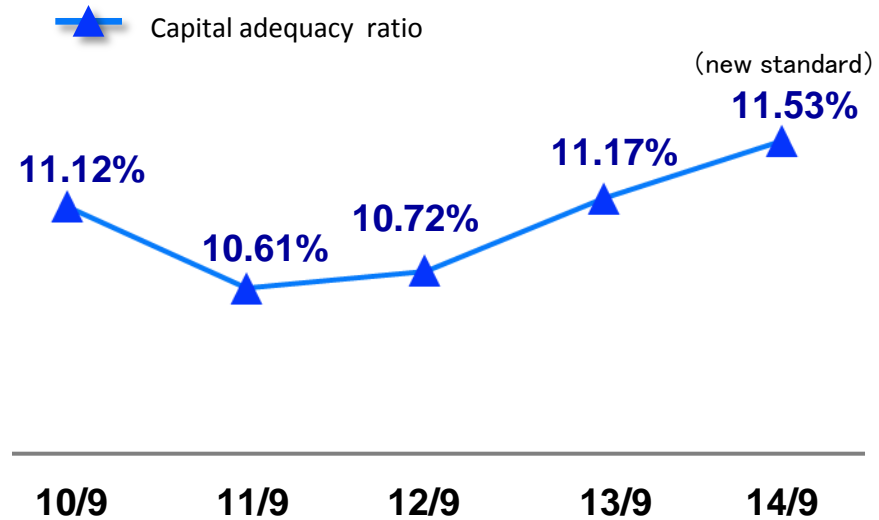
Interest Rate Shock range	<b>±200bp</b>
Interest Rate Risk Amount	<b>5.6 billion yen</b>
Outlier Ratio	<b>2.1%</b>

# Capital Levels

## Deferred tax assets-Owned Capital

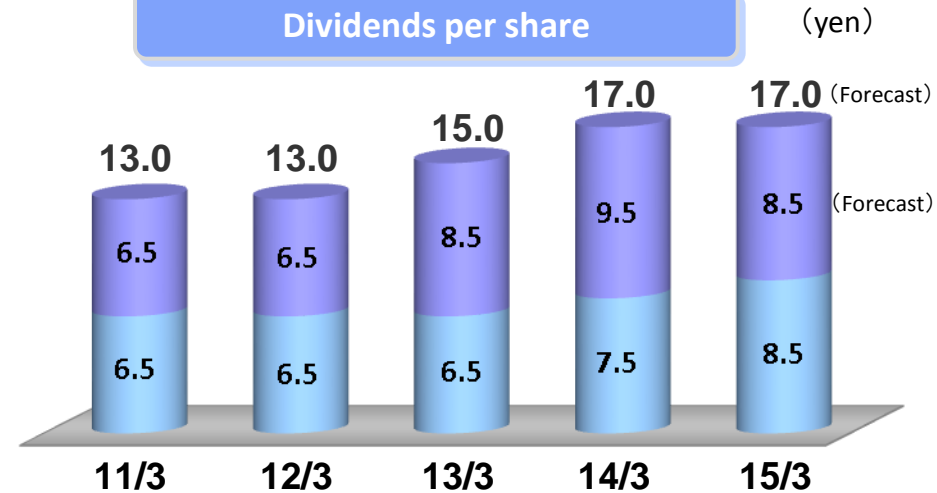


## Capital adequacy ratio



\* The capital adequacy ratio has been calculated based on the new domestic standard from the fiscal year ended March 31, 2014.

## Dividends per share



# FY2014 First half Results and FY2014 Forecast

(billion yen)

	Results Sep 2013 (A)	Results Sep 2014 (B)	Increase or Decrease (B-A)	FY2014 Forecast
Gross operating profits	44.6	47.9	+ 3.3	94.0
Operating expenses	21.0	23.2	+ 2.2	45.5
Net operating profits	23.6	24.6	+ 1.0	48.5
Core net operating profits	23.9	24.5	+ 0.6	48.5
Ordinary profits	22.0	23.8	+ 1.8	45.5
Net income	13.8	14.9	+1.1	28.5
Actual credit costs	1.2	0.1	▲1.1	1.0
ROE (%) ( net income basis )	13.18	12.91	▲0.27	12.30
EPS (yen)	58.49	63.27	+ 4.78	120.46

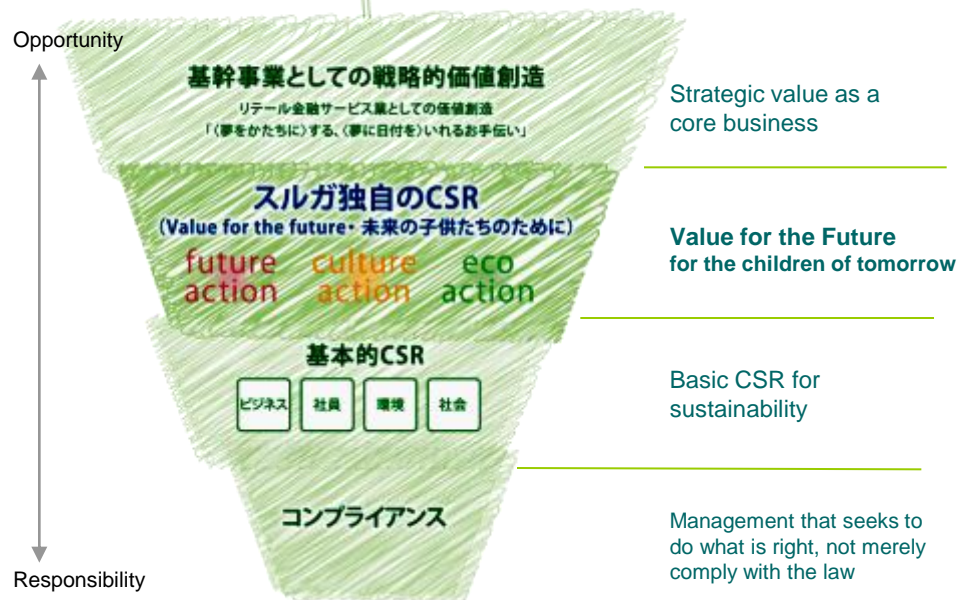
# CSR as Suruga Sees It Creating the Future

## 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 prosperous 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



Fuji no Kuni – Mizu no Junkan Workshop (about water circulation around Mt. Fuji)



Program supporting creating a future  
Aiming to realize an autonomous society



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



SURUGA's CUP  
Child Soccer



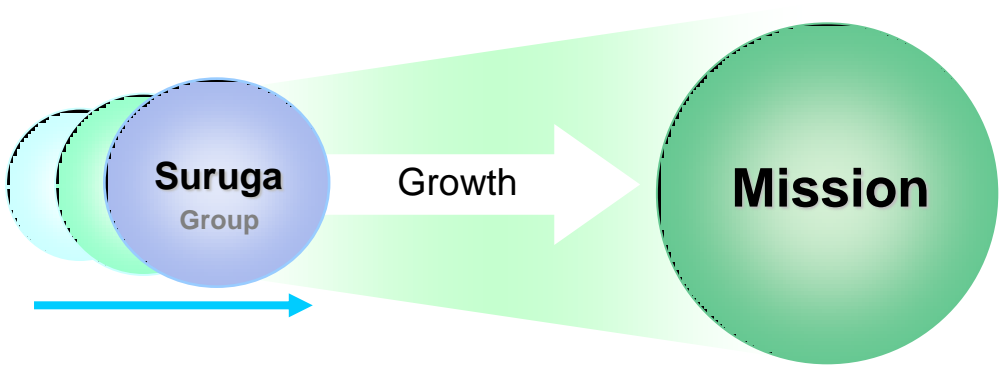
Tour of kids of the summer holidays

Next generation training support program  
For the children of tomorrow

# Growth Within Our Corporate Philosophy

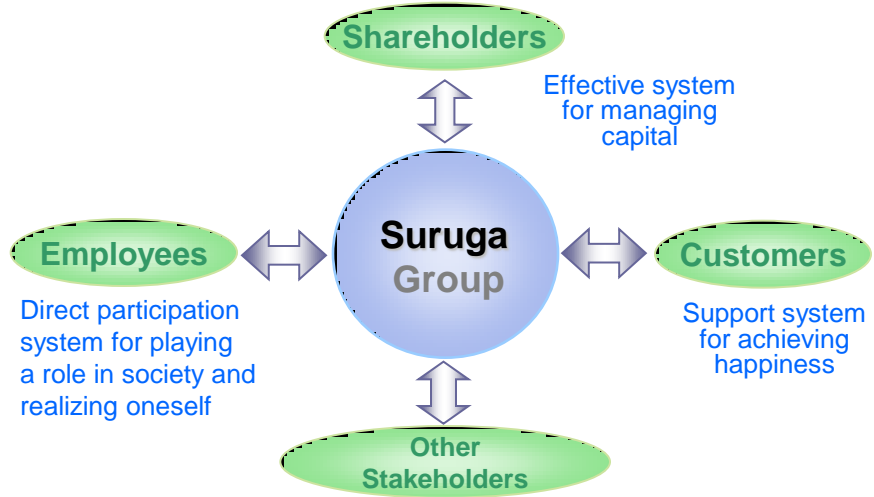
## Growth as a Mission-Based Company

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

Management		
<b>C</b>	<p><b><u>Culture-oriented</u></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><u>People-based</u></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><u>Social-perspective</u></b> Seeks improved sociality</p>	Always mindful of its role as a social institution. Achieves ends by means above the social code.

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