

SURUGA bank

Meeting the Challenge of New Banking

Presentation to investors on fiscal year ended September 30, 2015



Direction of the Japanese Economy

Enhancing “value-added” by promoting innovation at the corporate level is key

Current situation and issues

Need to tackle the “lack of demand” to overcome deflation

First Arrow Aggressive monetary policy

Second Arrow Flexible fiscal policy

Third Arrow New growth strategy (reform of “bedrock” regulations)

“Corporate profits at its highest level” and “tightening of the labor market”
↓
“wage hikes”
↓
“sign of recovering consumption”, however “investment on an upward trend but not sufficient”

Constraints on the workforce due to the society facing a population decline
→ Even if consumption expands, it is necessary to overcome supply constraints
→ Improvement of productivity is necessary to realize sustainable growth

Measures under the revised “Japan Revitalization Strategy 2015”

1. Revolution in productivity by investment in the future

- ① Encouraging corporate behavior to improve “earning power”
 - Further enhancement of “growth-oriented” corporate governance
 - Promotion of innovation and venture businesses
 - International expansion to growing markets including Asia
- ② Accelerating proactive actions to challenge a new era
 - Challenges for the upcoming change (“4th Industrial Revolution”)
 - Full utilization of ICT with reinforcement of cyber security measures
- ③ Developing personal capabilities and knowledge
 - Measures against the low birthrate, improvement of labor quality, further promotion of women, elderly persons etc.
 - Development of capabilities of human resources in the era of great transformation of the society: Integral reform of employment and education

2. Promotion of Local Abenomics

- ① Enhancing “earning power” of mid-ranking companies, SMEs and micro enterprises
- ② Vitalize services industry and enhance its productivity
- ③ Transform primary/health care industry/ tourism into key industries
- ④ New roles required of municipalities (creation of new business by opening government-controlled markets to the private sector, etc.)

3. Implementation of leading projects for 2020”

(Public-Private Projects to Accelerate Growth Strategy)

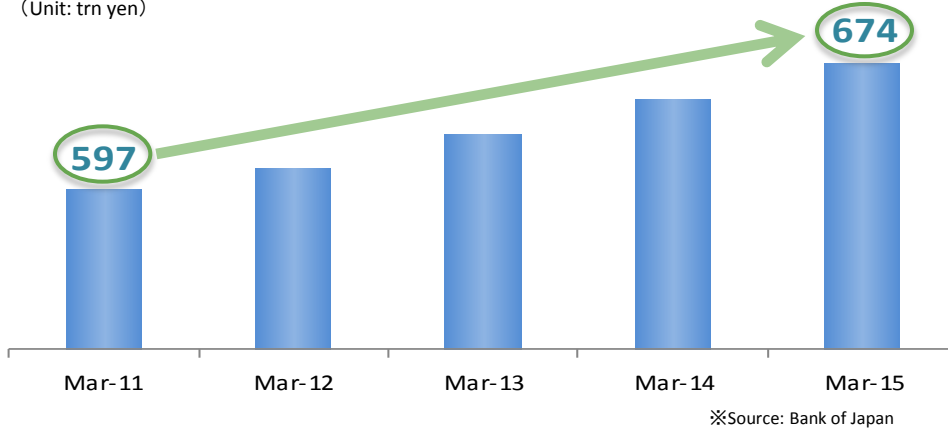
Automatic travelling vehicles, hydrogen society, advanced robots, tourism, FDI etc.

Source: “Japan Revitalization Strategy” revised 2015, Headquarters of Japan’s Economic Revitalization

Environment Surrounding the Japanese Banking Sector

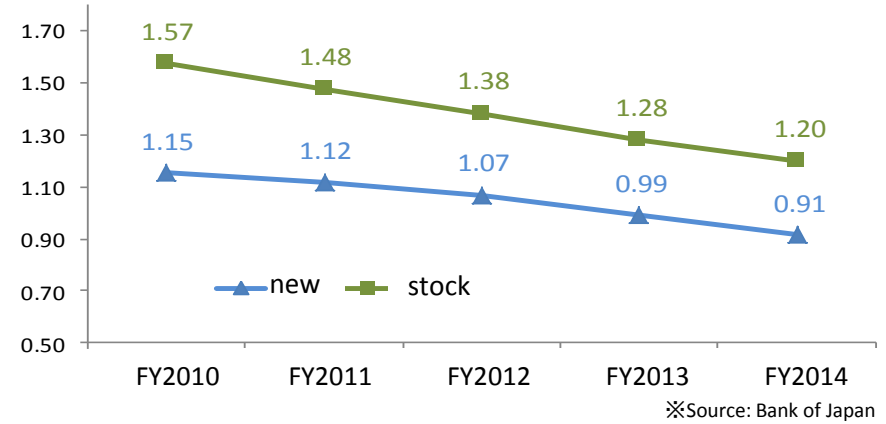
Deposits Outstanding (Domestic Banks)

(Unit: trn yen)



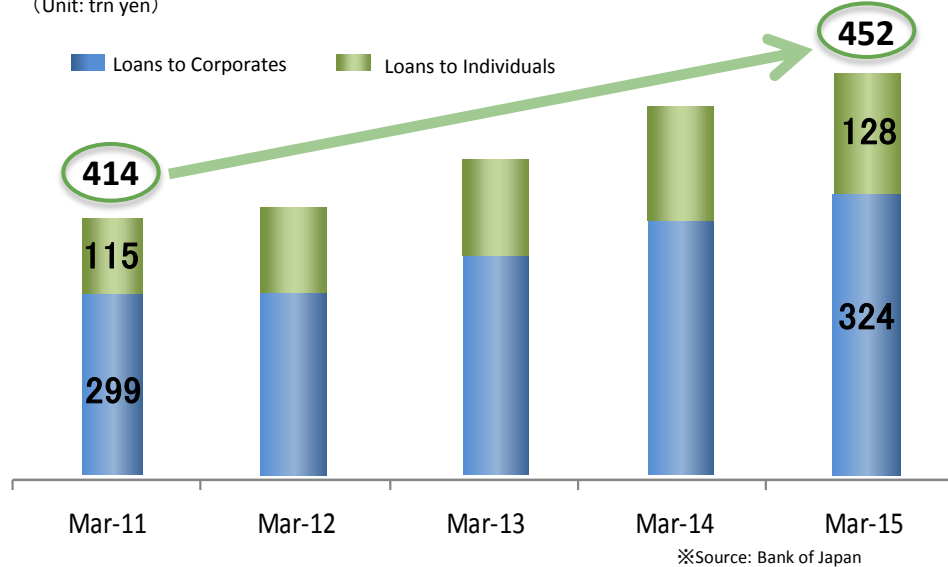
Average Contract Yields (Domestic Banks)

(Unit:%)



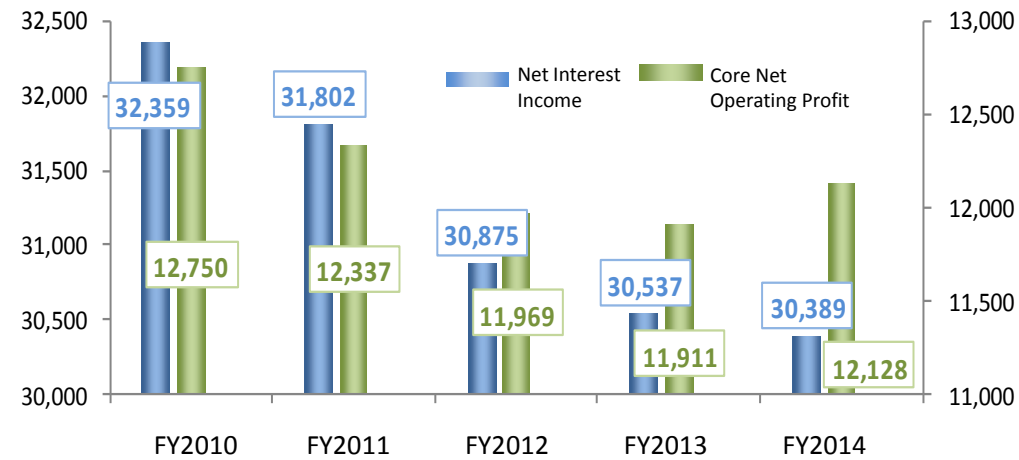
Loans Outstanding (Domestic Banks)

(Unit: trn yen)



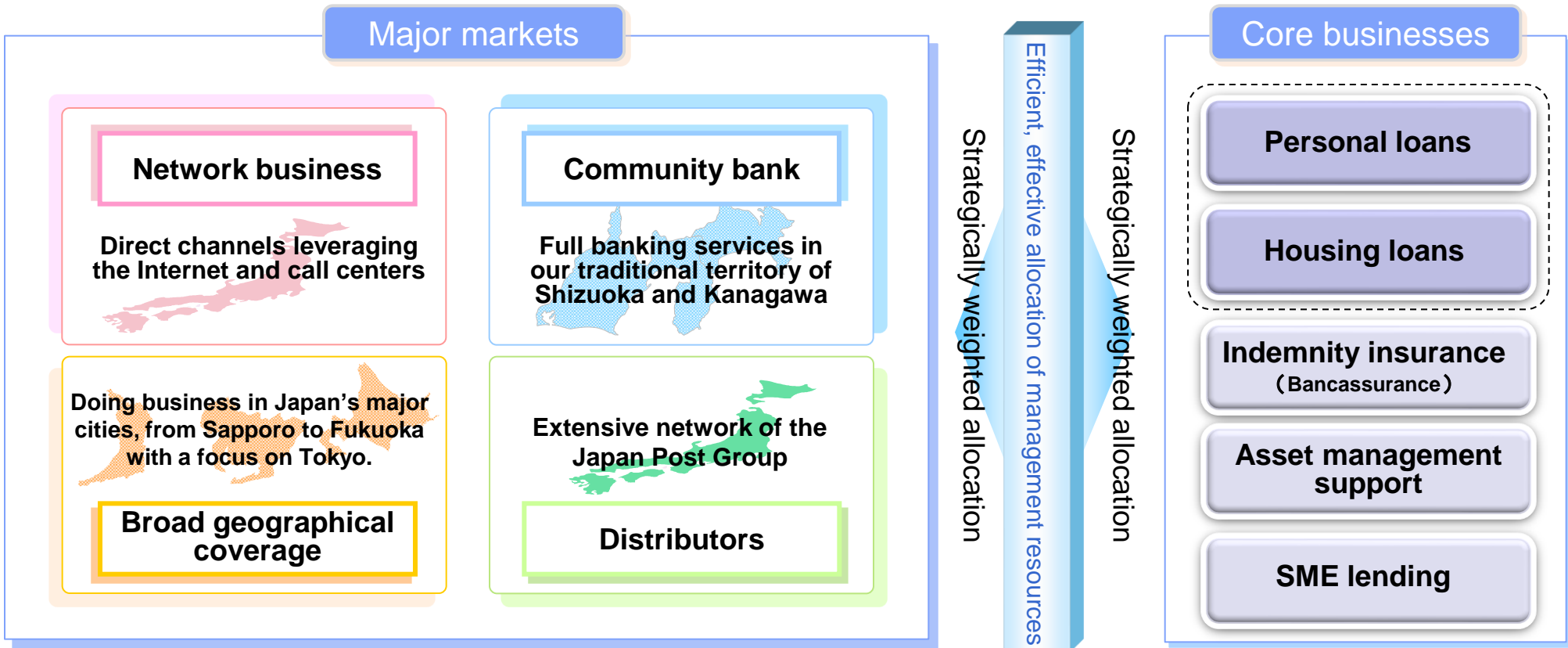
Net Interest Income and Core Net Operating Profit (64 Regional Banks)

(Unit: 100 mln yen)



Grand Design of the 5th 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

Marketing

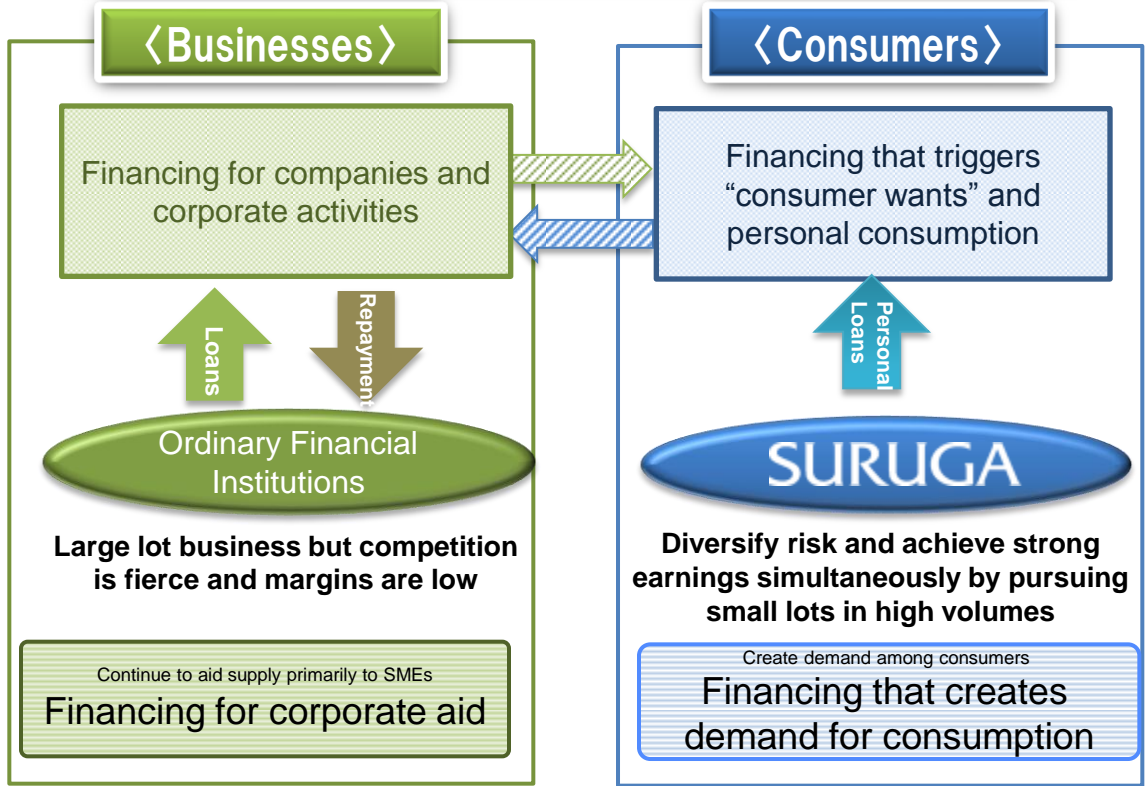
IT infrastructure

Customer base spread nationwide

Speed and flexibility that overwhelms the competition

Suruga's Business Model

Suruga's mission in the financial services business



Contribute to the growth of Japan's economy by providing finance to consumers with the aim of creating and stimulating healthy demand among a broad range of consumers.

Suruga's strategy

Generate strong earnings through 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

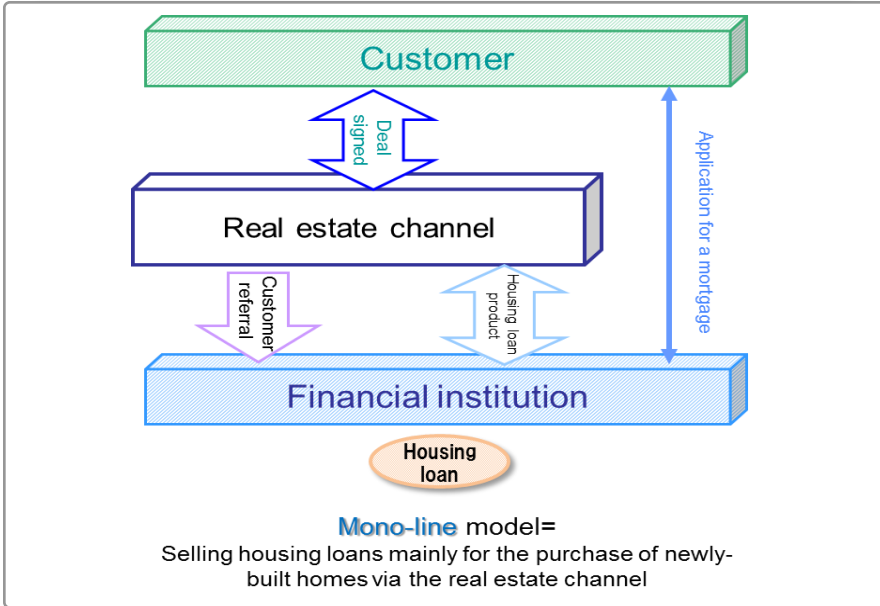
Corporate Culture

Corporate culture that is motivated by achieving unprecedented success
Organization culture that instills intimacy and a free unbridled spirit

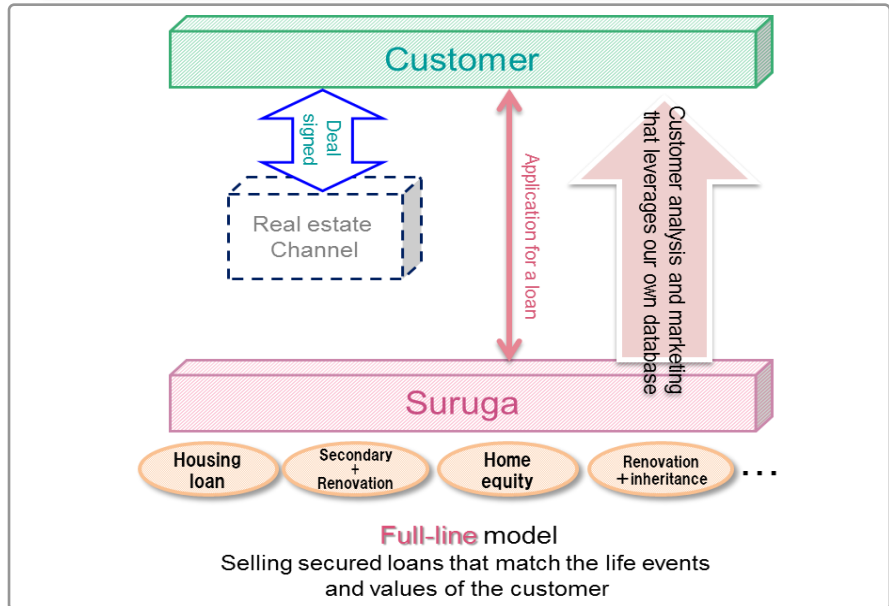
Suruga's Secured Loan Business

Suruga's secured loan business evolves with the changes in customers' lifestyles

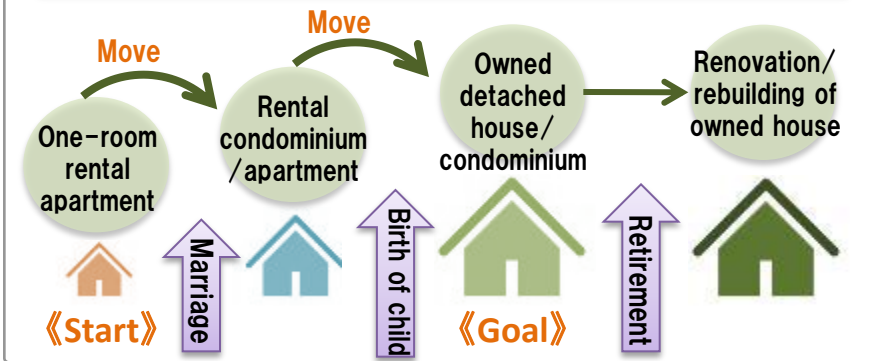
Ordinary secured loan business



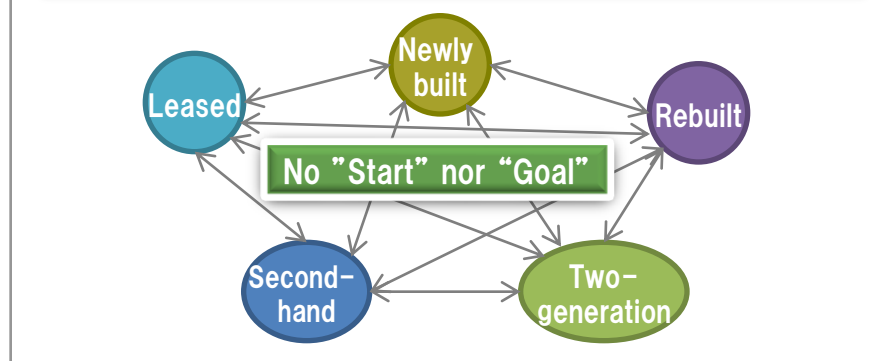
Suruga's secured loan business



"Conventional way of living" made possible by ordinary secured loans

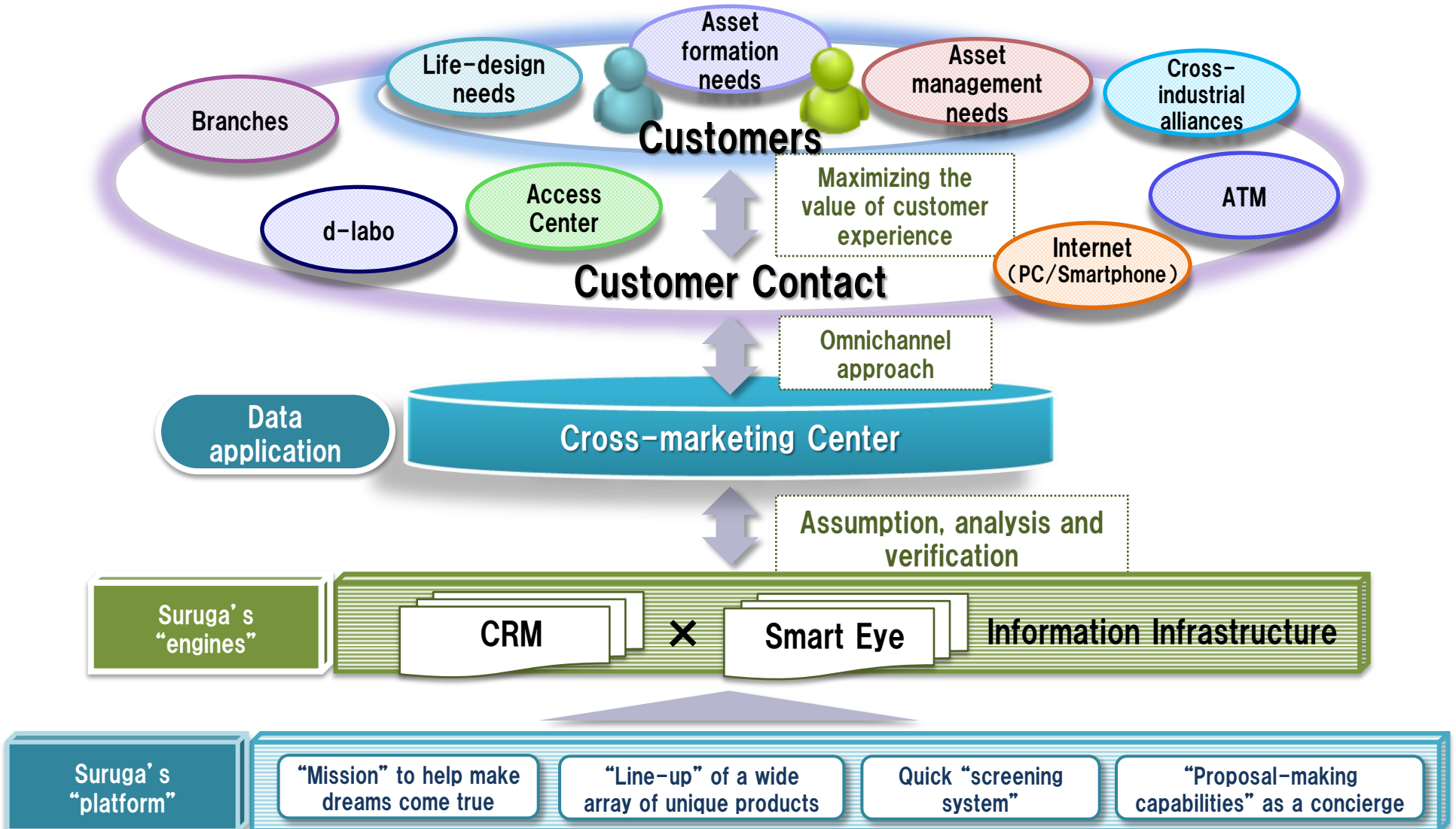


"Modern way of living" made possible by Suruga's secured loans

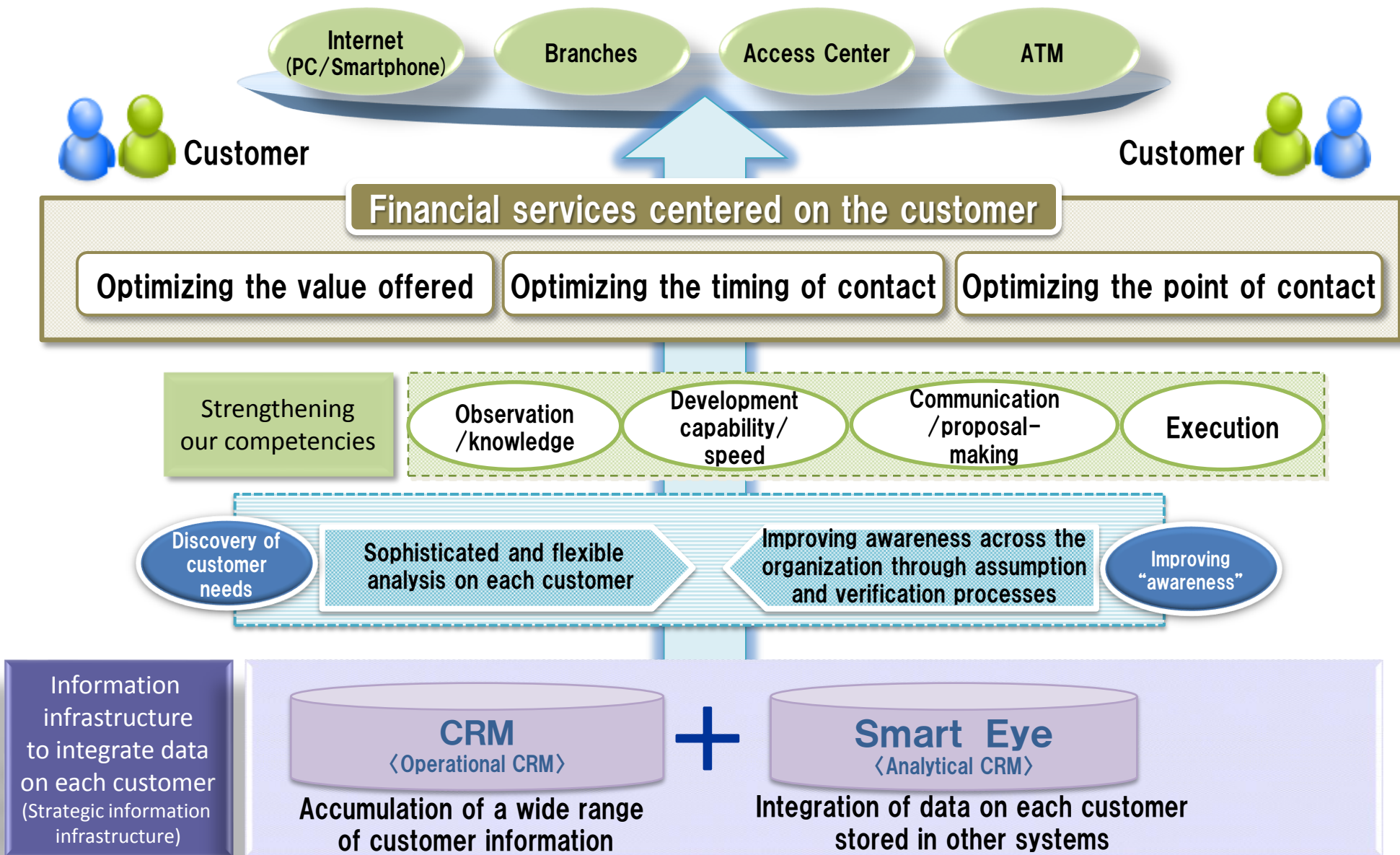


Suruga's Strategy for Personal Loans

Maximizing the value of our customers' experience through centralized management of marketing efforts



Two CRMs to Enhance the Value Offered to Customers



Expanding the Points of Customer Contact



“Access vehicle” – campaigns outside the branches



d-labo



Shizuoka/Kanagawa
Tokyo Metropolitan/ wide-area and instore branches

Face-to-face contact

Functional Value

Emotional Value

Convenience

Security

Speed

Communication that draws the customer's "interest"

Comfort

Reassurance

Happiness

Communication that evokes the customer's "empathy, satisfaction and excitement"

ATM



Smartphone application
Digital signage



Alliance and internet branches including ANA and T-Point branches



Access Center

Non face-to-face contact

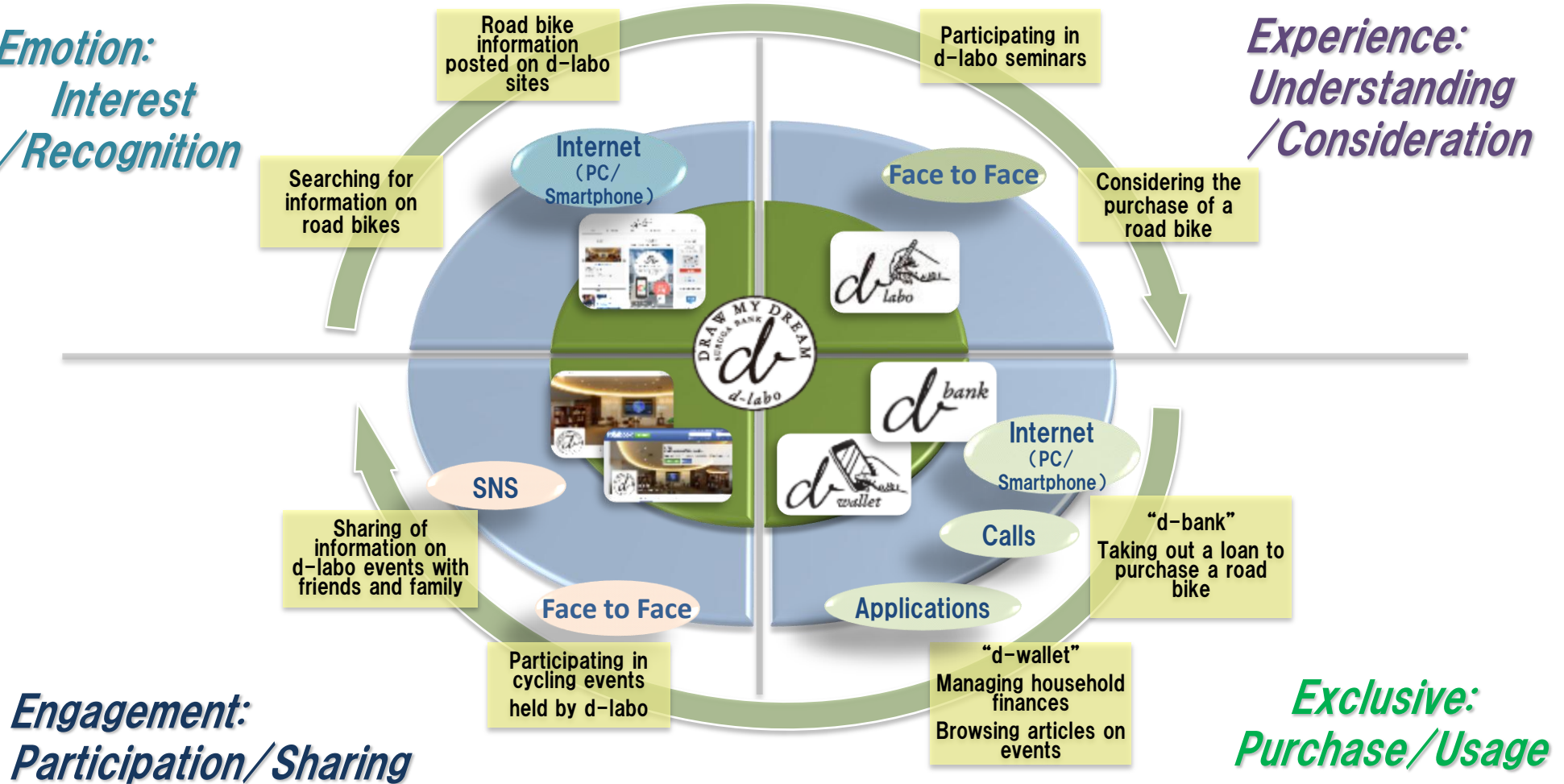
“Customer Journey” – the d-labo Way

Pursuing a new style of “banking” as a financial service

Implementing Suruga’s unique way of communication through the offering of financial services and a combination of appealing contents

Emotion:
Interest
/Recognition

Experience:
Understanding
/Consideration

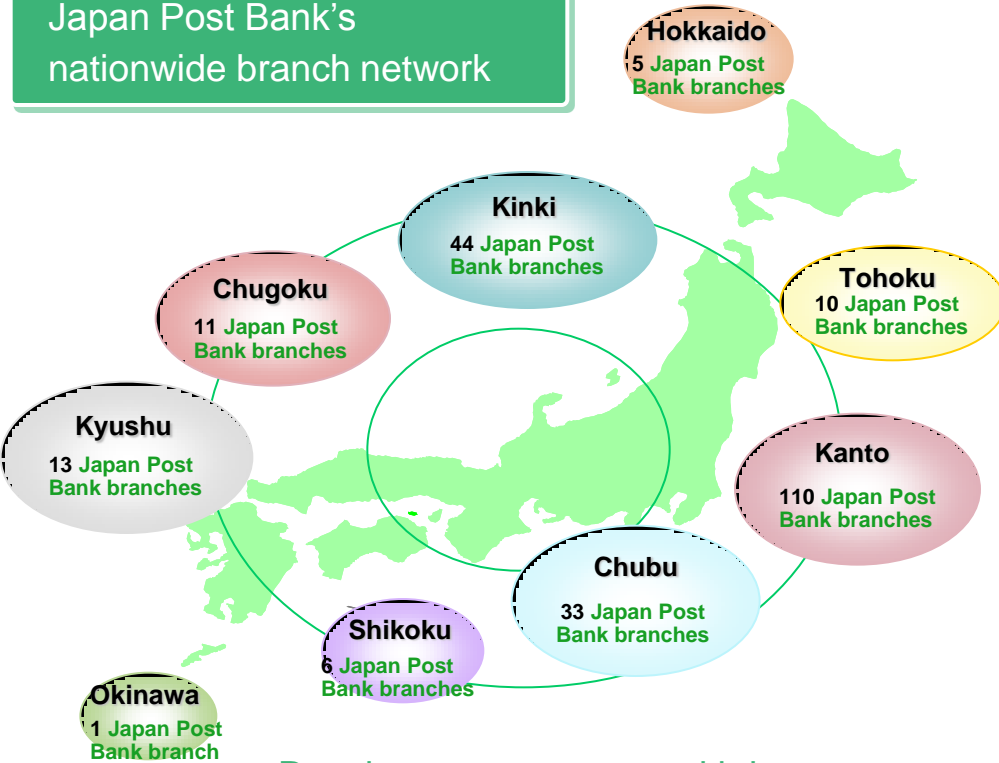


Business Alliance with Japan Post Bank

Leveraging Japan Post Bank's nationwide network

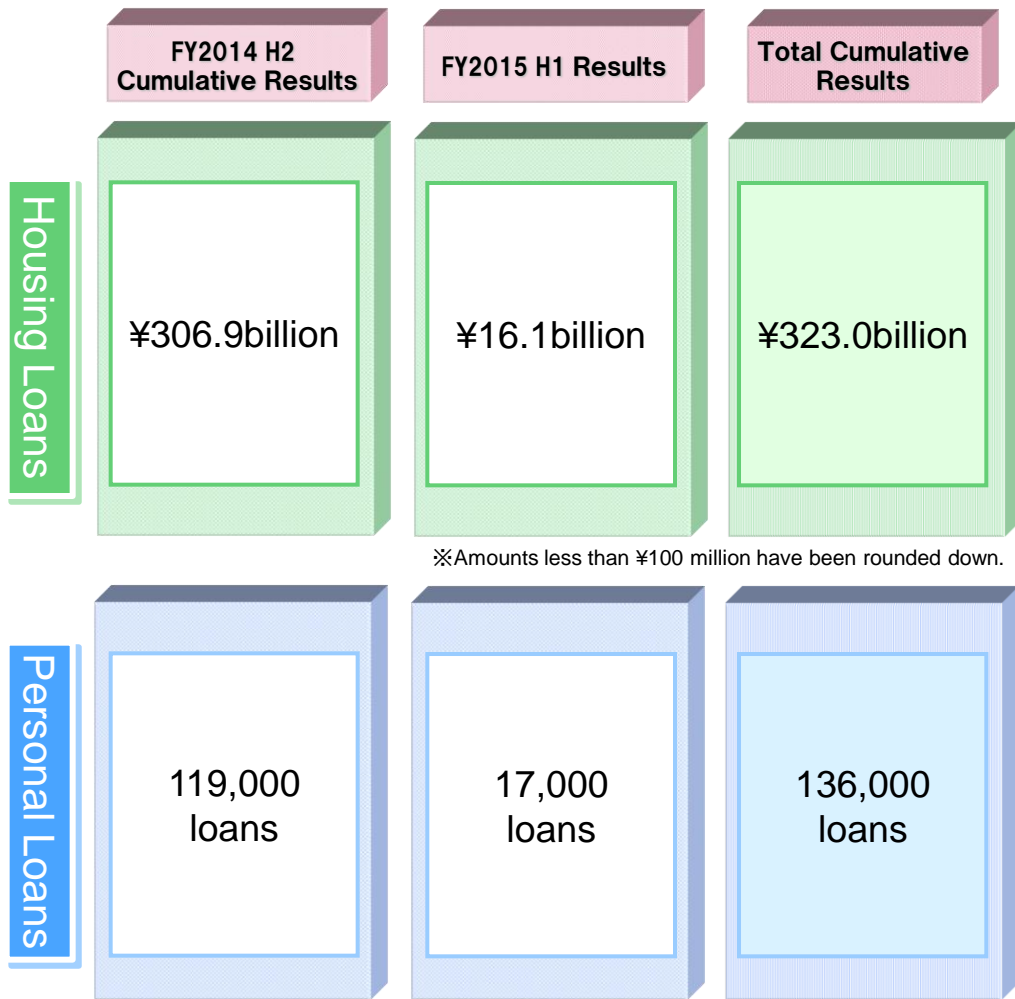
Customers can apply for our Personal loans at all 233 Japan Post Bank branches

Japan Post Bank's nationwide branch network



Reach more customers with loan products that meet customer needs

Cumulative results through the end of Sept. 2015

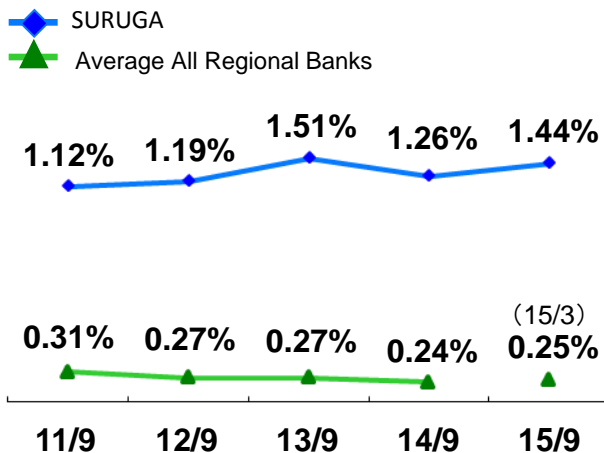


※Amounts less than ¥100 million have been rounded down.

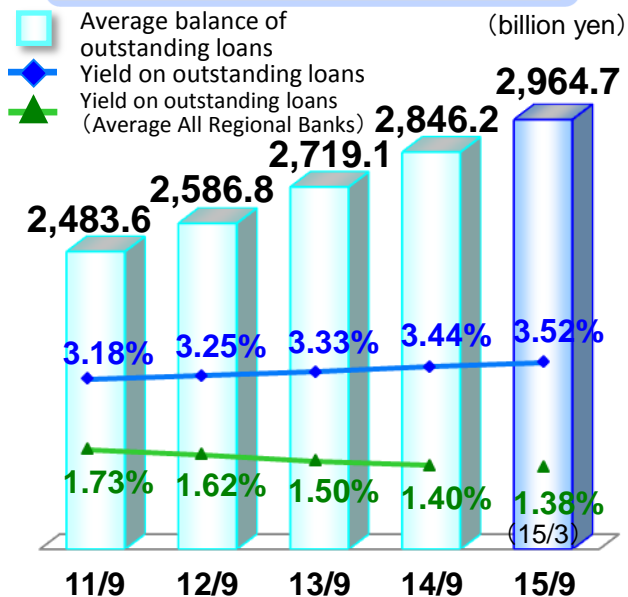
※Amounts less than 1,000 loans have been rounded down.

Yield / Margins (Overall)

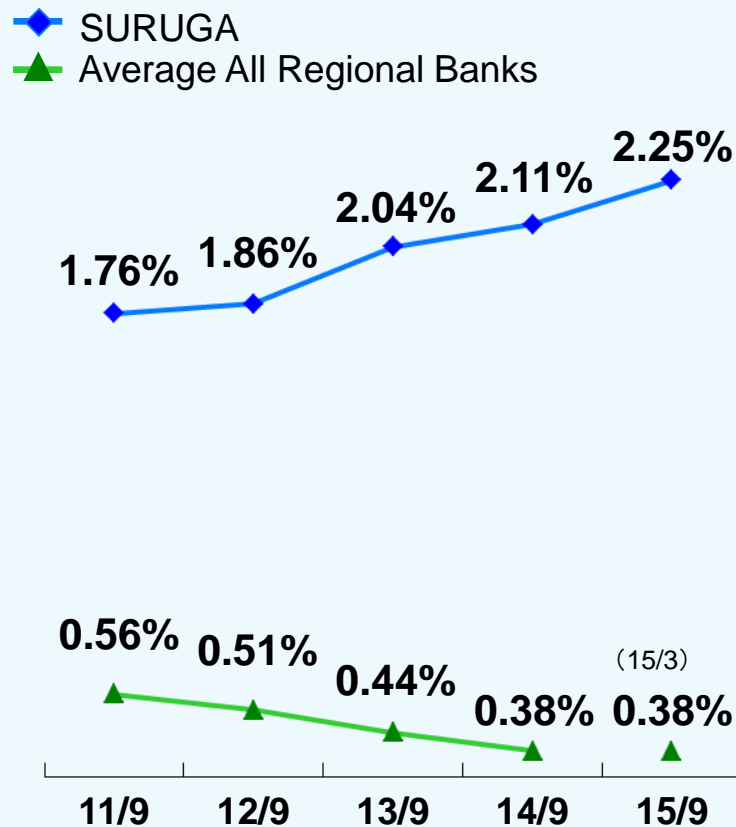
Net interest margin



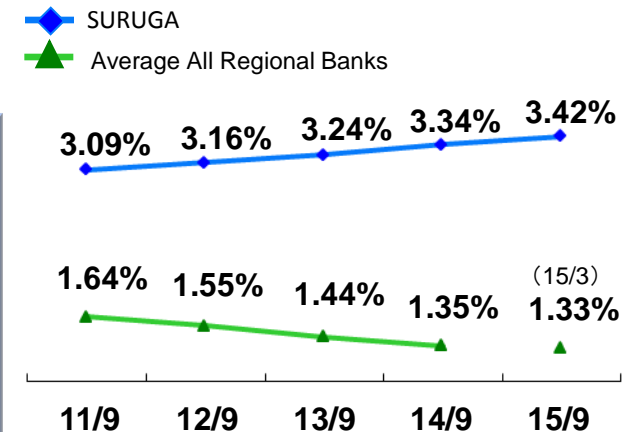
Average balance and yield on outstanding loans



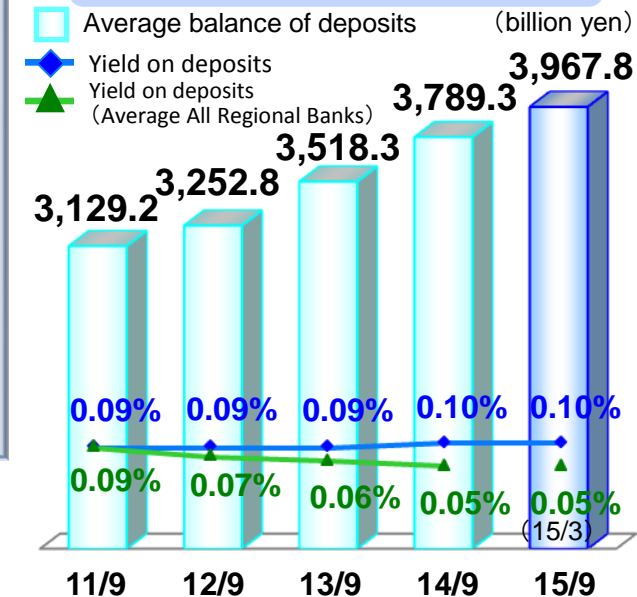
Loan-deposit margin (after deduction from expense ratio)



Loan-deposit margin



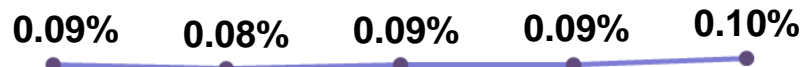
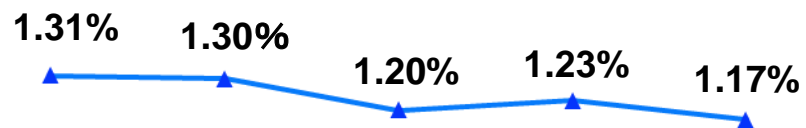
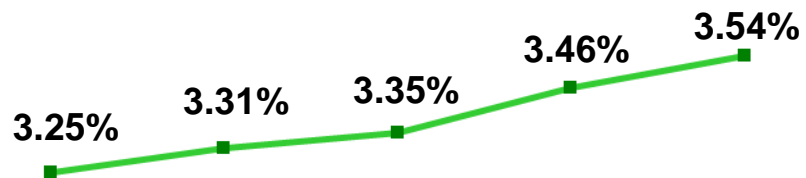
Average balance and yield on deposits



Yield / Margins (Domestic)

Yield-Expense ratio

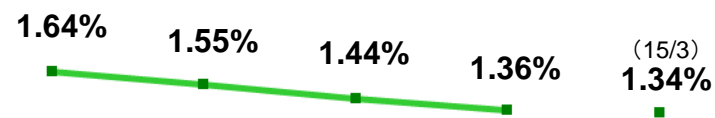
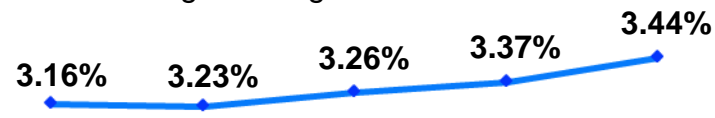
- Yield on outstanding loans
- Yield on deposits
- ▲ Expense ratio



11/9 12/9 13/9 14/9 15/9

Loan-deposit margin

- ◆ SURUGA
- Average All Regional Banks

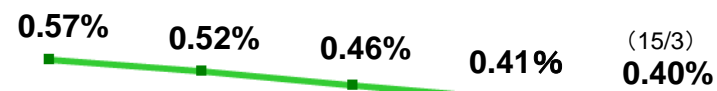
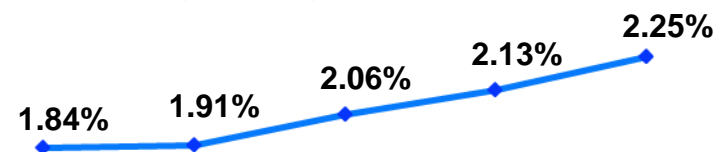


11/9 12/9 13/9 14/9 15/9

Loan-deposit margin

(after deduction from expense ratio)

- ◆ SURUGA
- Average All Regional Banks



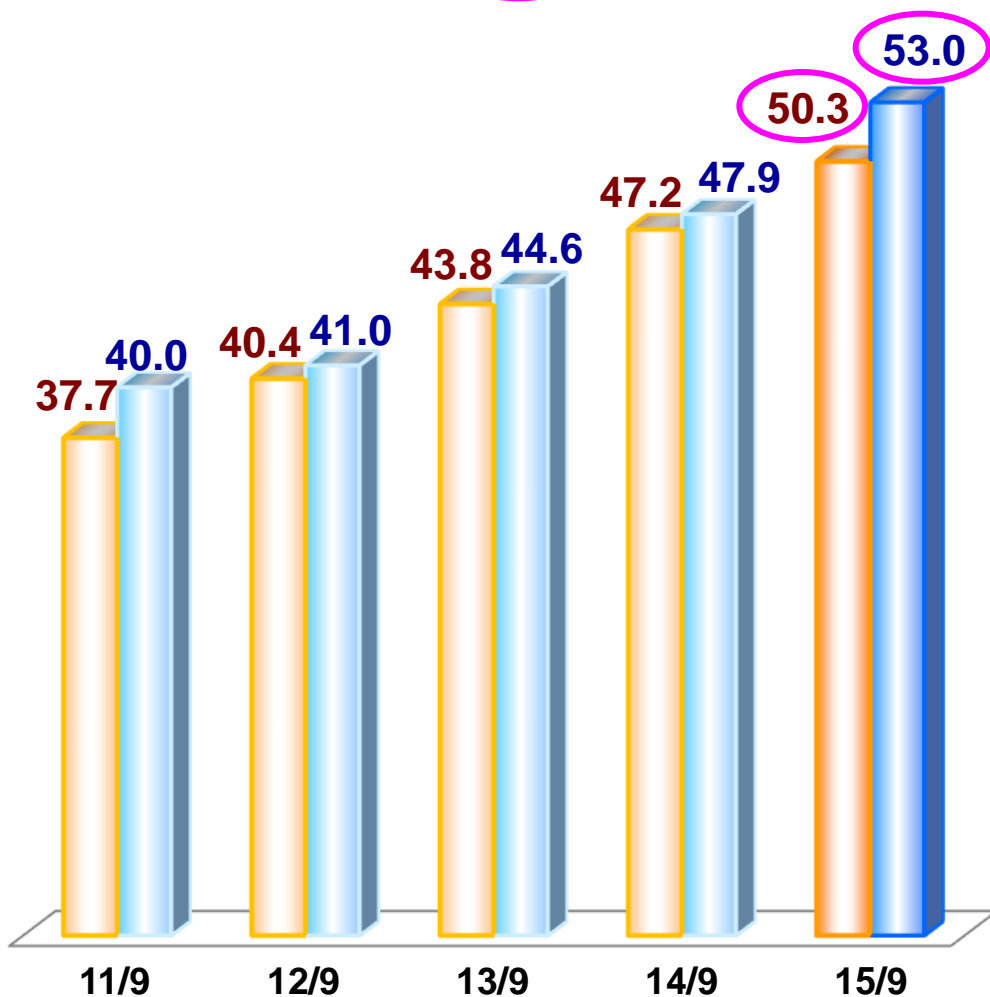
11/9 12/9 13/9 14/9 15/9

Income

Yen loan-deposit profits / Gross operating profits

(billion yen)

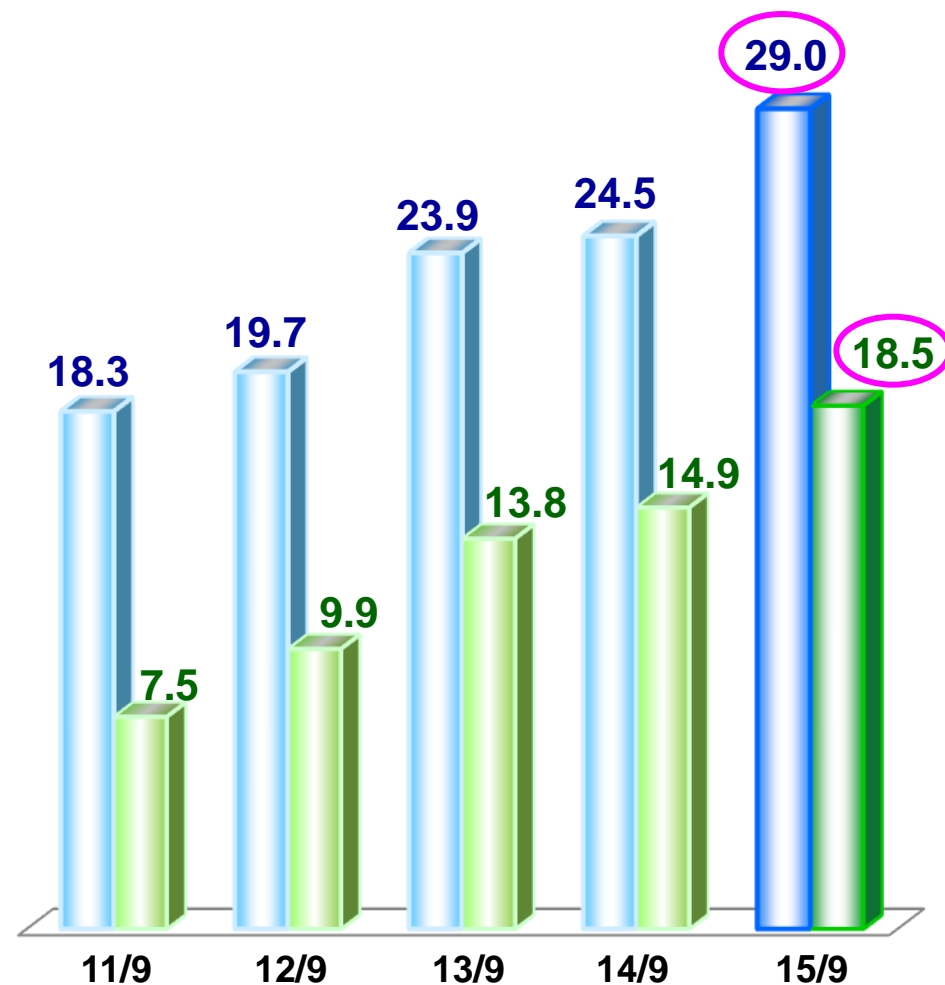
- Yen loan-deposit profits
- Gross operating profits
- Record High



Core net operating profits / Net income

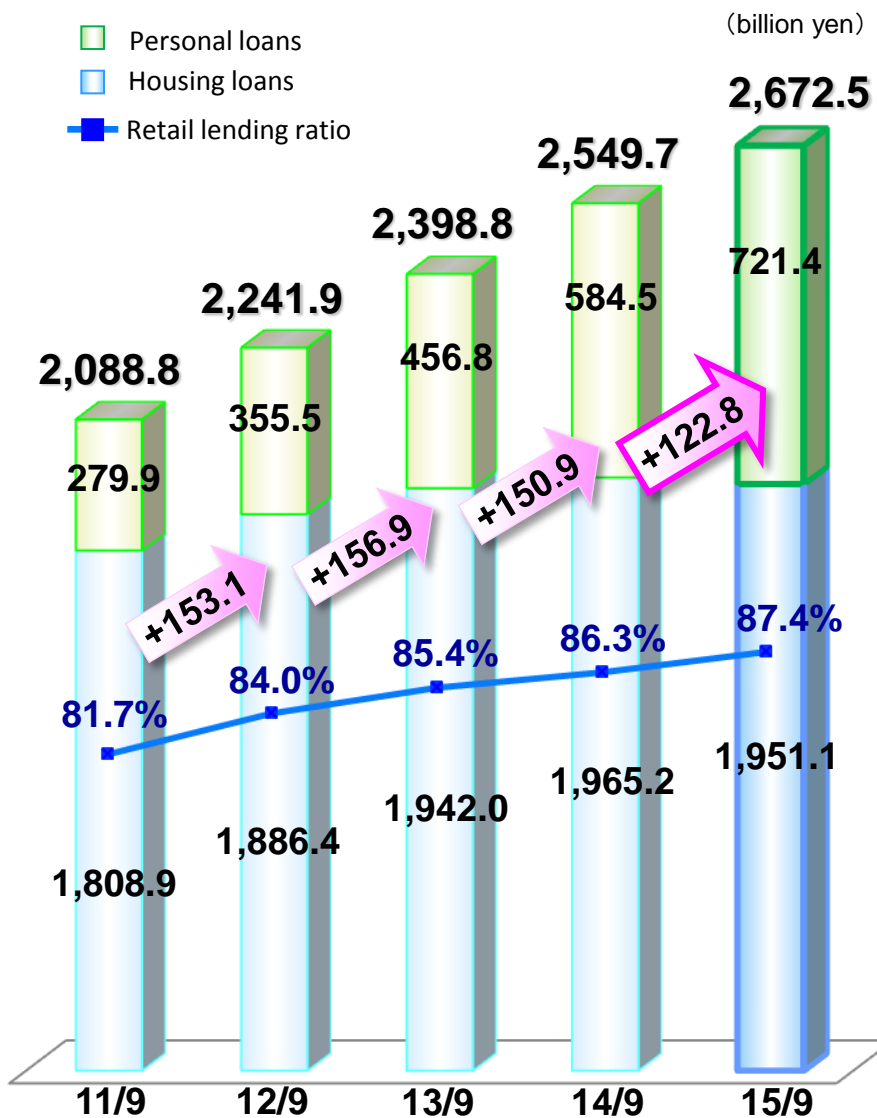
(billion yen)

- Core net operating profits
- Net income
- Record High

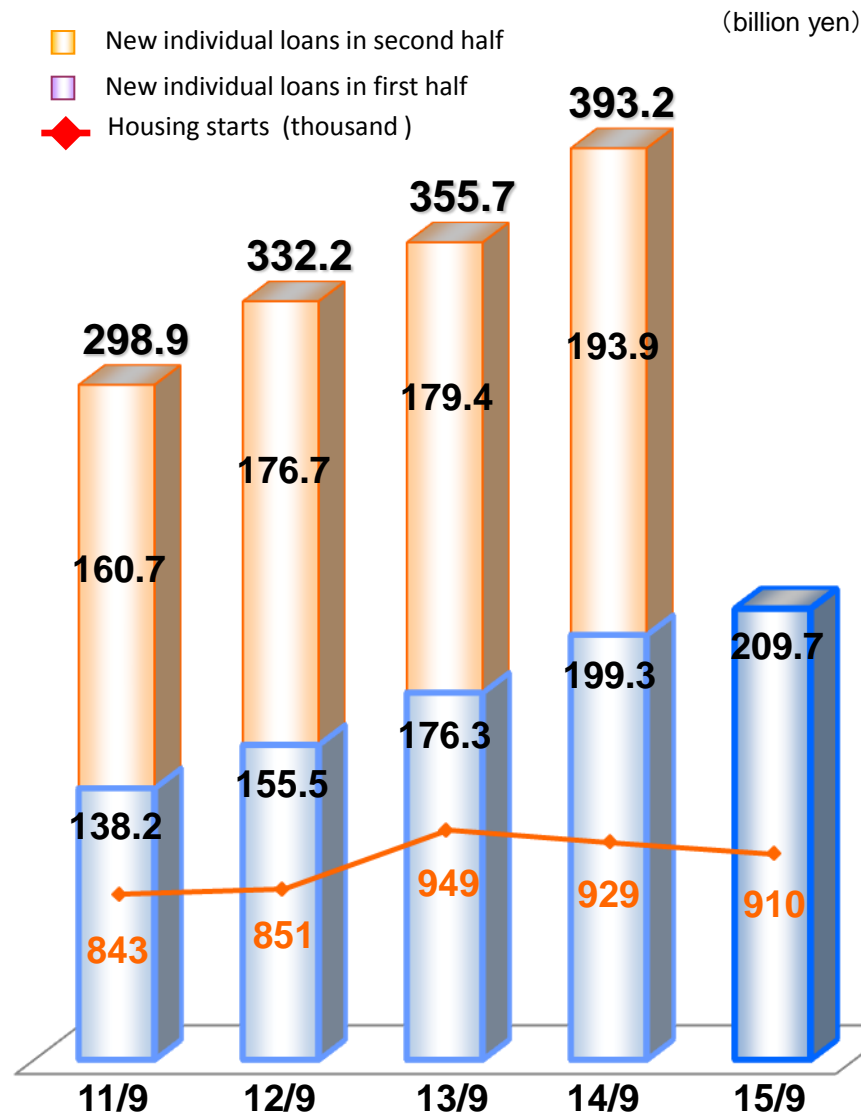


Strong Focus on Retail

Consumer loan balance and ratio

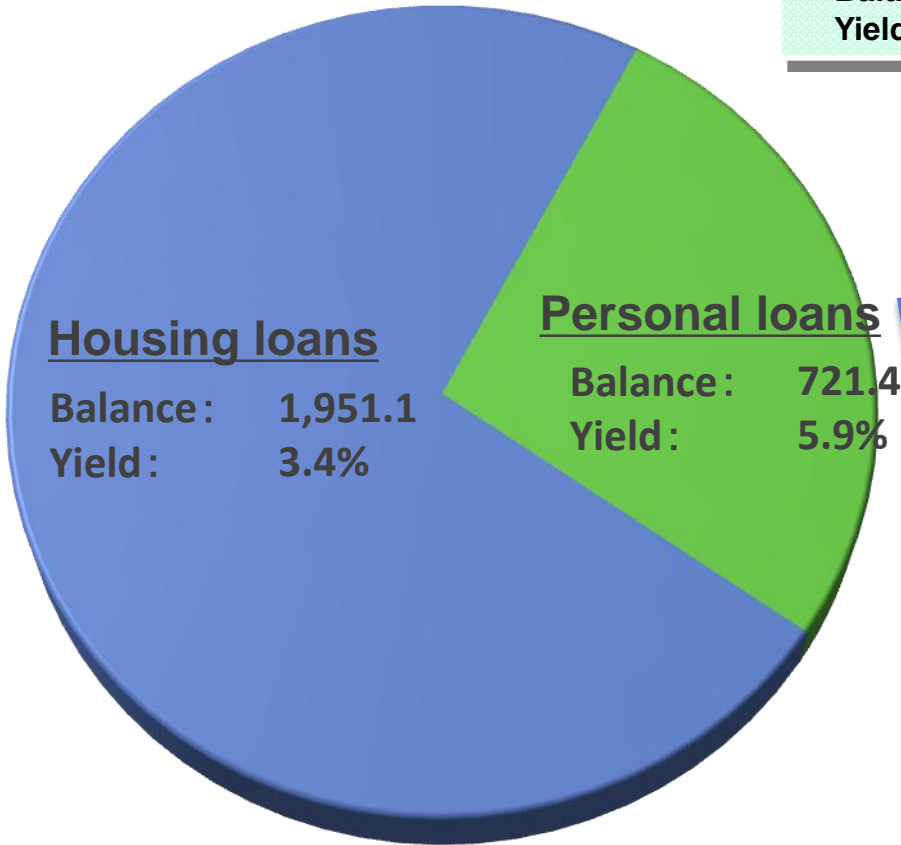


New loan contracts



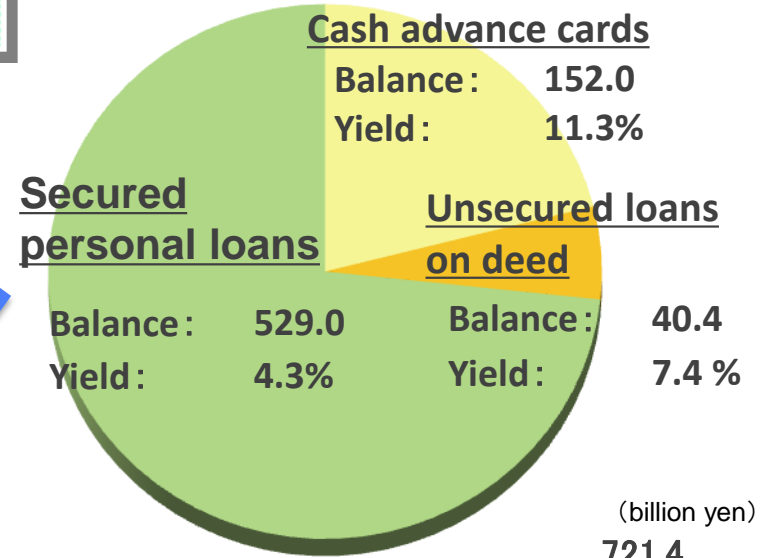
Focus on More Profitable Products

Consumer loans



As of Sep. 30, 2015
Balance: billion yen
Yield: average rate

Personal loans



Balance: 2,672.5

Yield: 4.1%

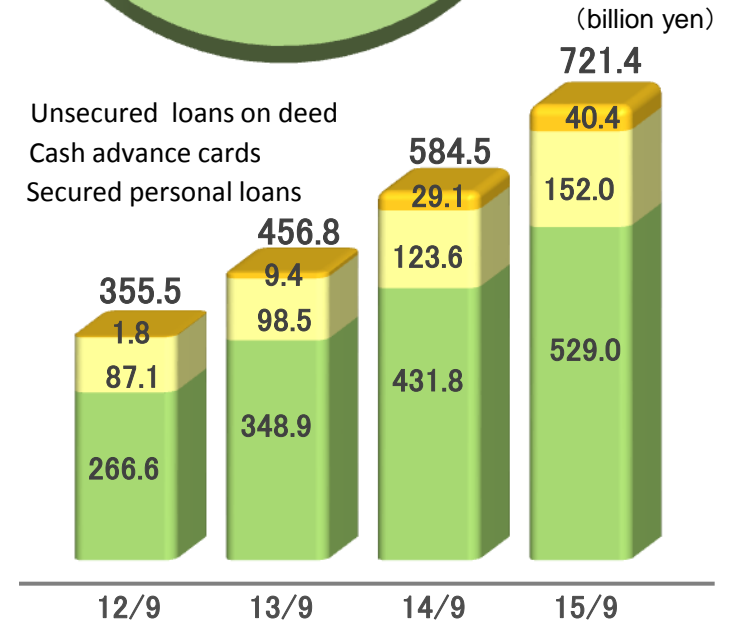
《The type of Housing loans' interest rate》

1.7%

98.3% variable interest rate

fixed interest rate

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

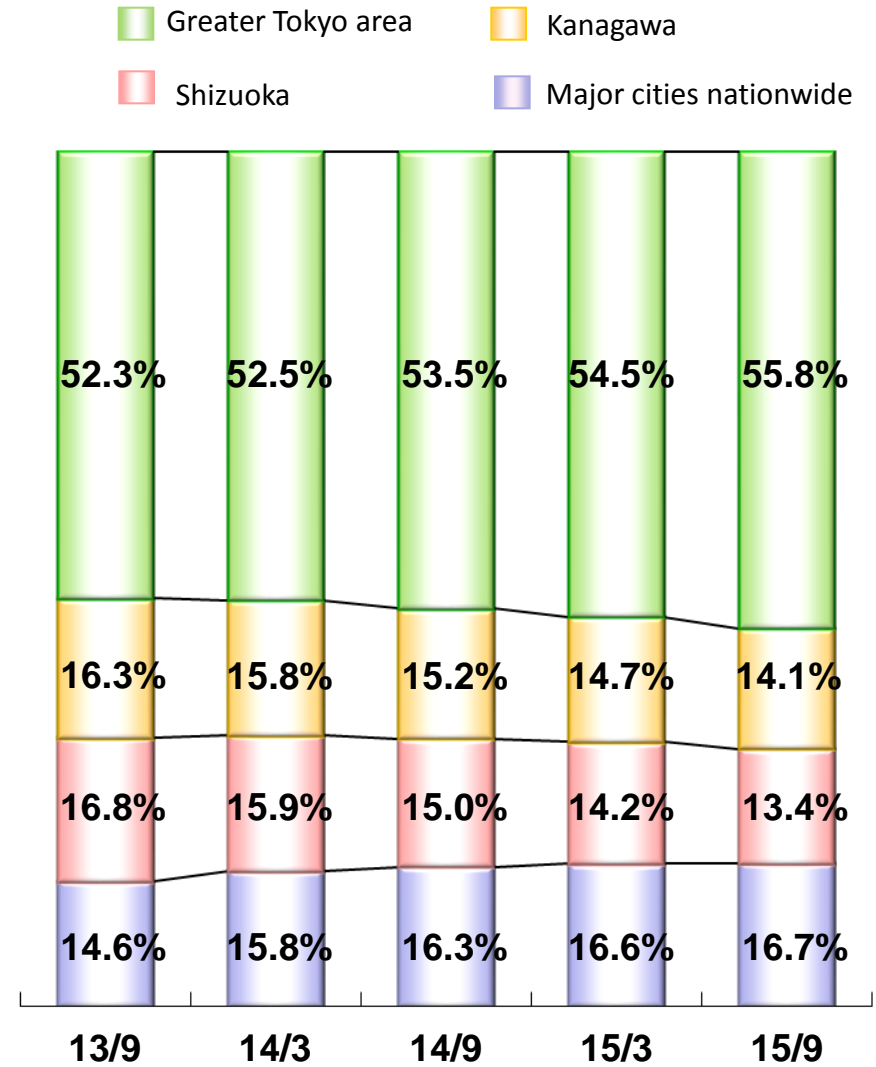


Housing Loans

Distribution of practical rates for Housing loans (cumulative)



Housing Loan balance by geographical area



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

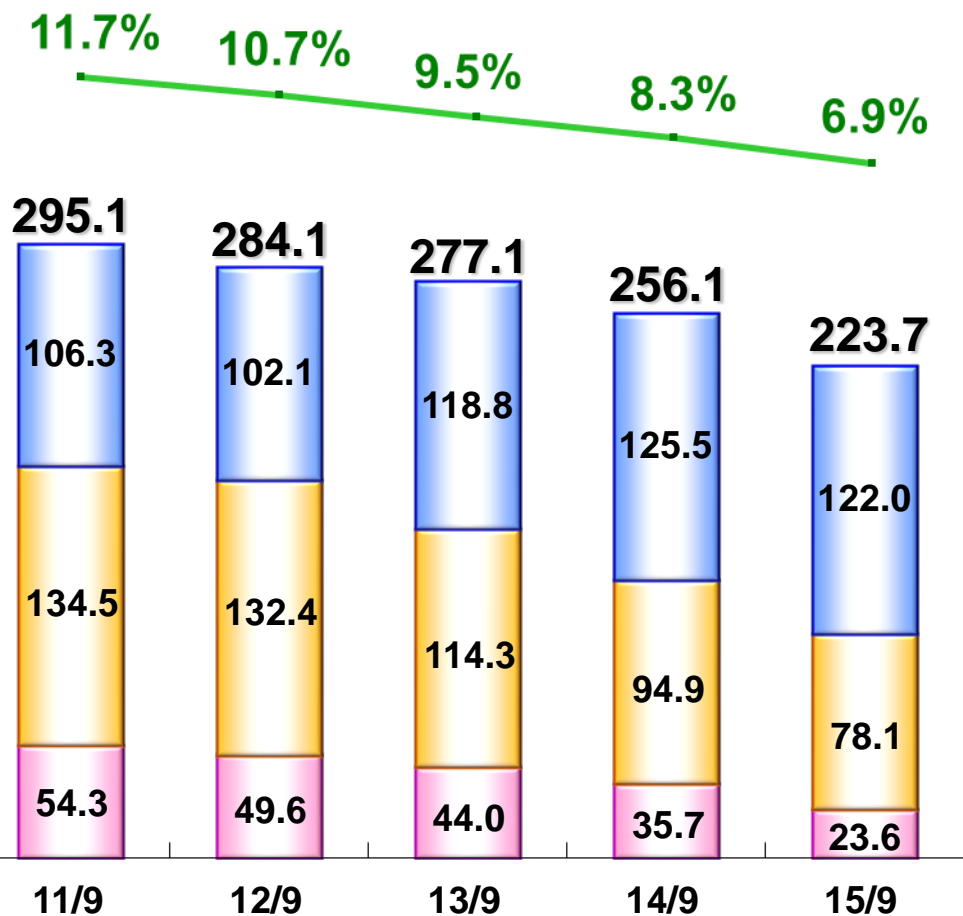


Loss rate = default ratio × (1 - recovery rate)

Fees and Commissions

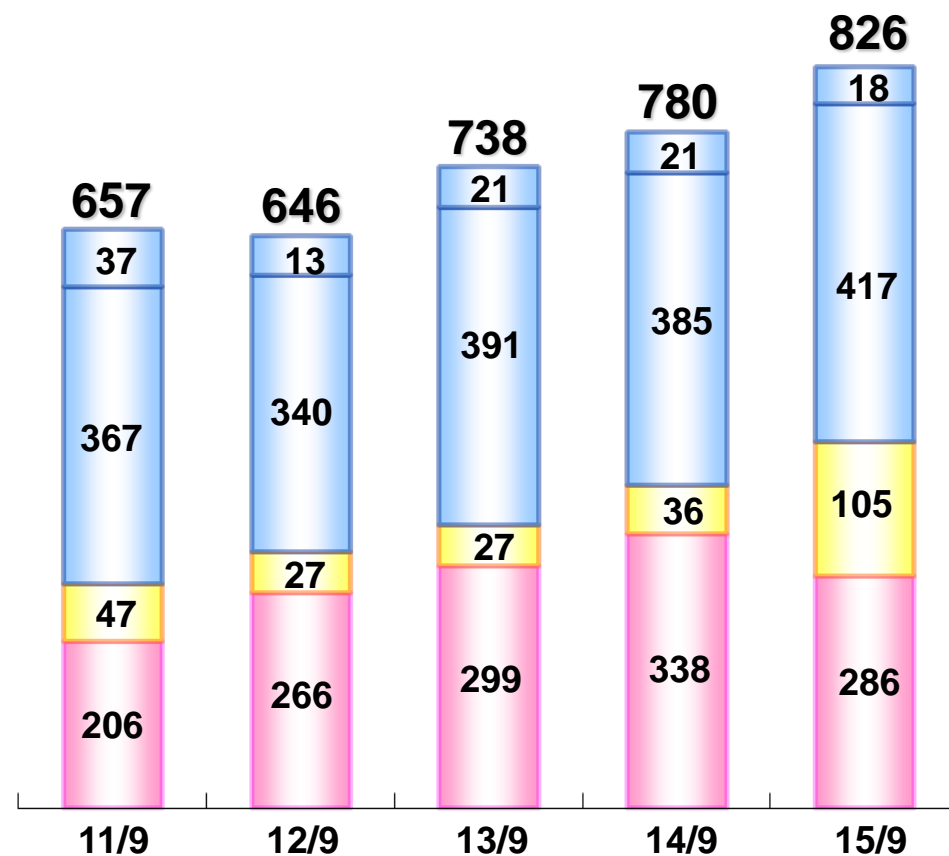
Balance breakdown of investment products

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



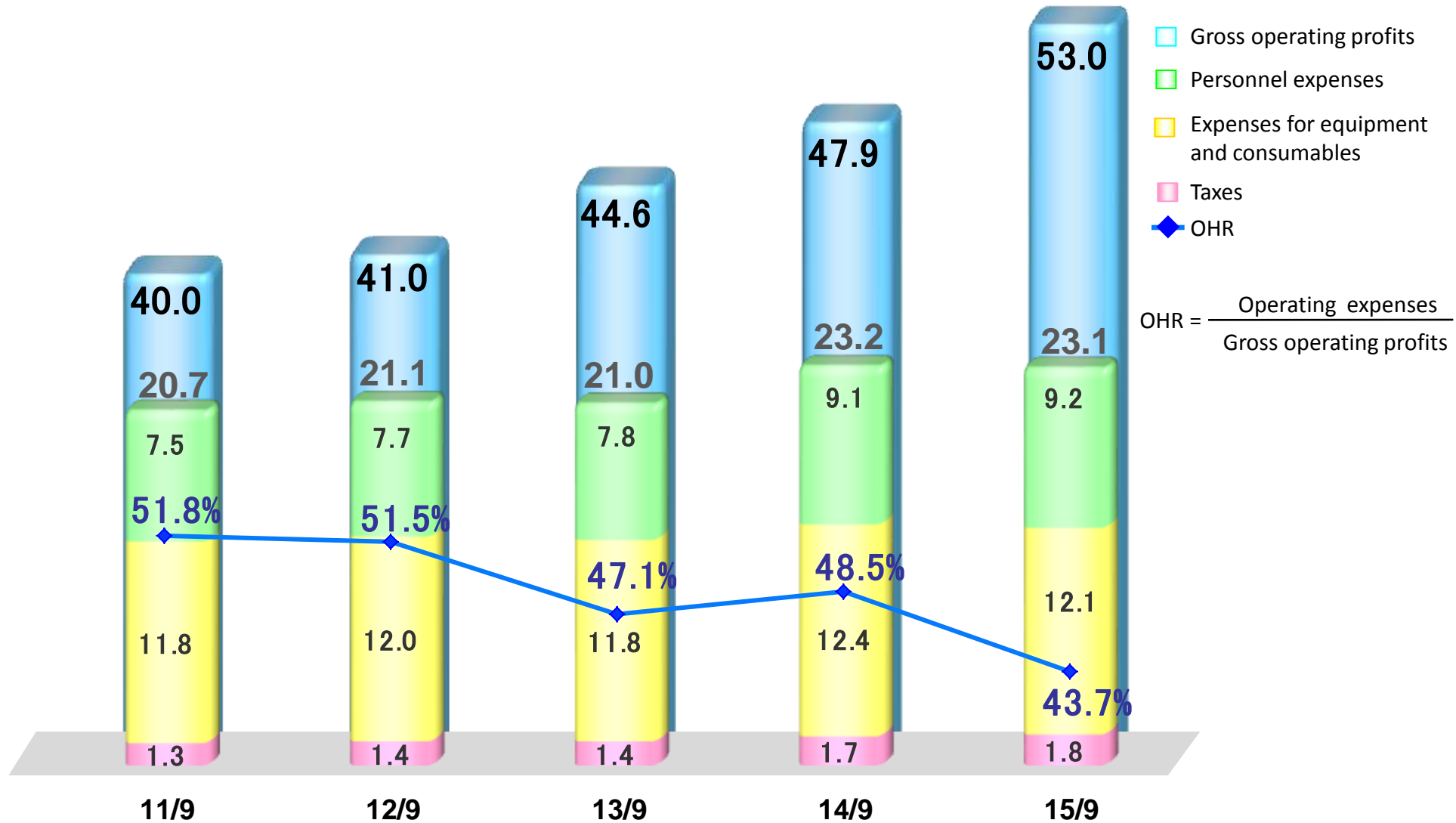
Commission from mutual funds and insurance products

- 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

(billion yen)



Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

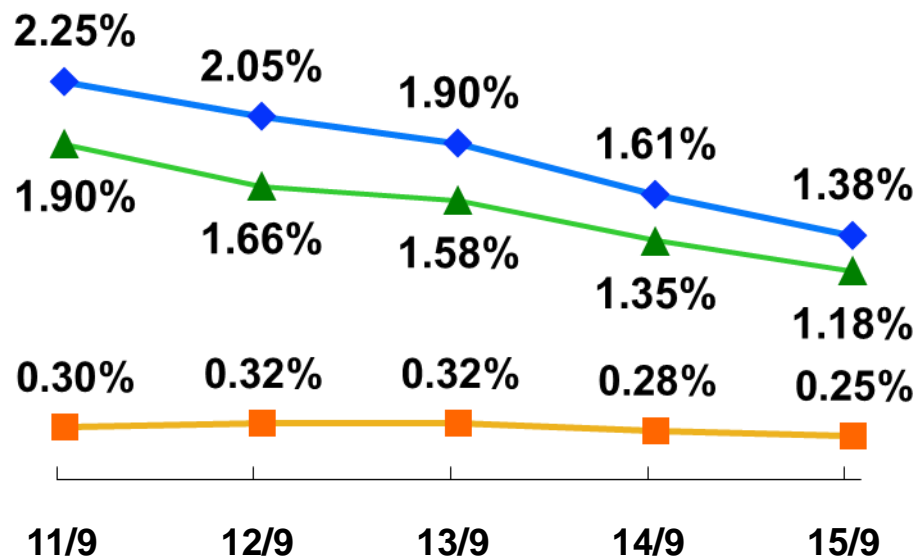
Debtor classification	Sep. 15 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees * NOTE	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio
Claims against bankrupt and substantially bankrupt obligors	7.2	0.23%	Consumer	5.0	0.18%	3.2	2.2	1.0	64.14%	1.8	100%	100%
			Corporate	2.2	0.57%	1.5	0.3	1.2	67.41%	0.7	100%	100%
Claims with collection risk	17.0	0.55%	Consumer	3.4	0.13%	2.1	1.7	0.4	60.67%	0.5	38.51%	75.82%
			Corporate	13.6	3.52%	12.2	4.4	7.8	89.26%	0.5	38.51%	93.39%
Claims for special attention	18.5	0.60%	Consumer	8.3	0.31%	5.5	5.4	0.1	66.51%	0.5	20.60%	73.41%
			Corporate	10.2	2.64%	3.9	3.8	0.1	38.94%	2.2	34.88%	60.23%
Subtotal	42.7	1.38%	Consumer	16.7	0.62%	10.8	9.3	1.5	64.63%	2.8	48.59%	81.82%
			Corporate	26.0	6.73%	17.6	8.5	9.1	67.75%	3.4	41.20%	81.04%
Normal assets	3,035.6	98.62%	Consumer	2,675.4	99.38%	Total coverage ratio 81.34%						
			Corporate	360.2	93.27%							
Total	3,078.3	100%	Consumer	2,692.1	100%	Coverage ratio : Covered by collateral and guarantees Reserved ratio : Reserved for unsecured portion Total coverage ratio : Covered by collateral, guarantees and reserves						
			Corporate	386.2	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.

Non-performing loans ratio / Credit costs status

Non-performing loans ratio

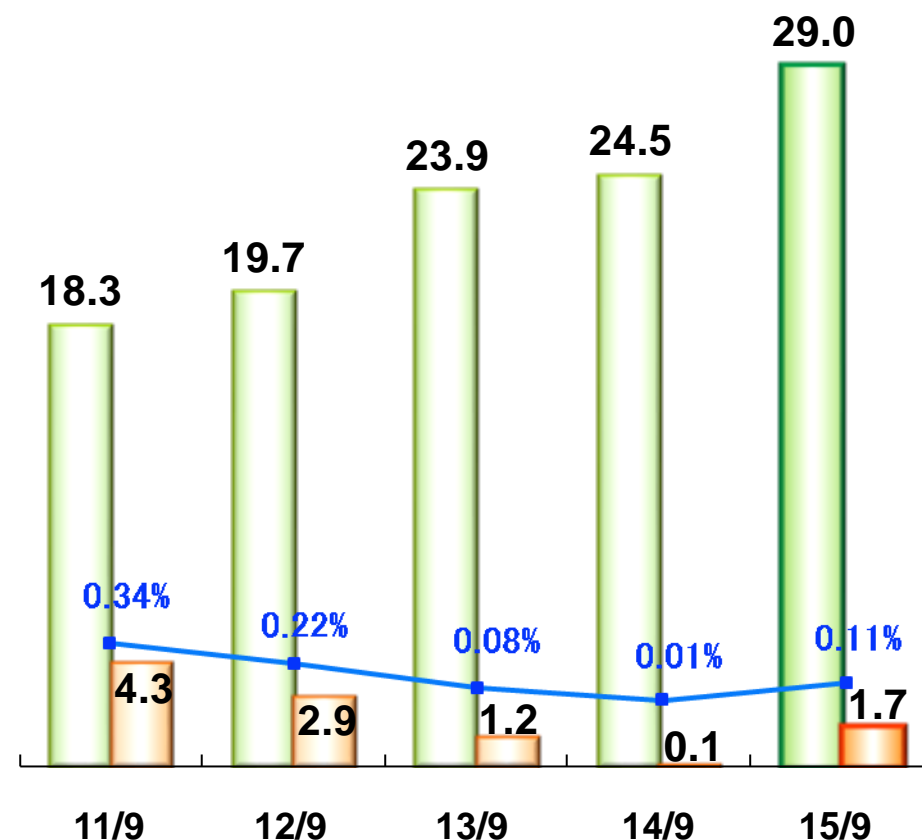
- ◆ Non-performing loans on the Financial Reconstruction Law
- ▲ Non-performing loans from reserves
- Non-performing loans after deduction from reserves, collateral and guarantees



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)

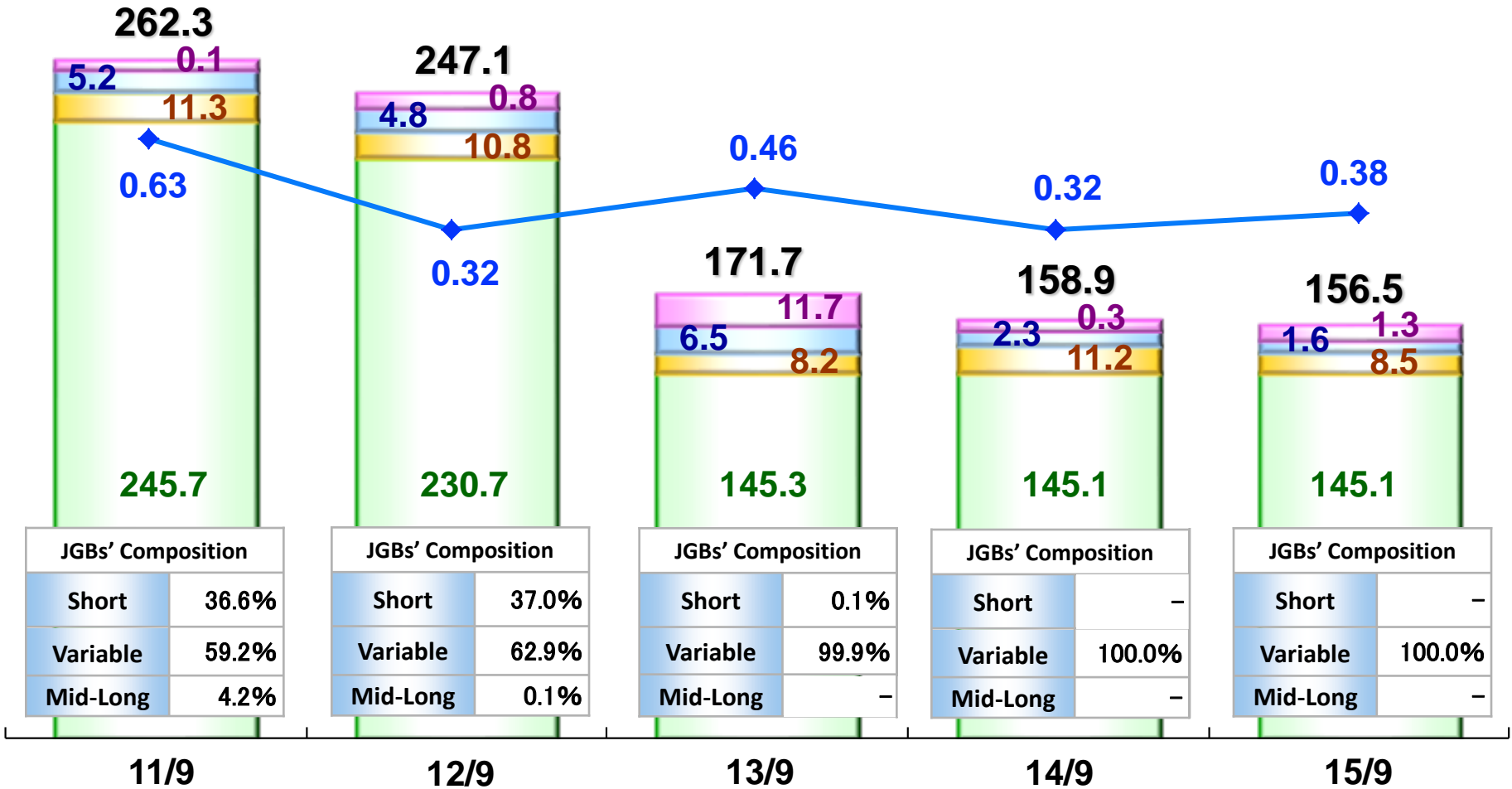


Bond Portfolio

■ JGBs
 ■ Foreign Bonds
 ■ Corporate Bonds
 ■ Regional Government Bonds
 (billion yen)

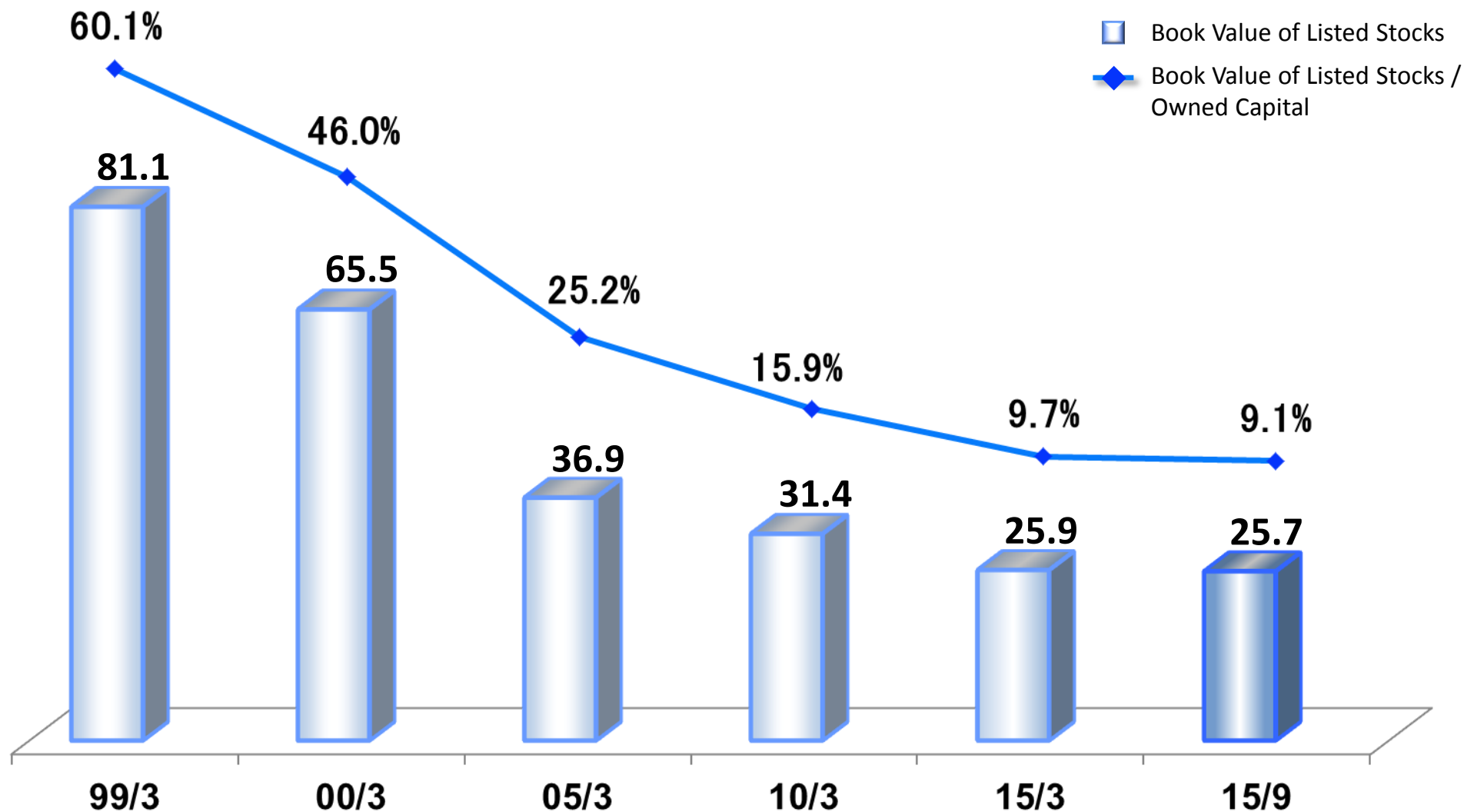
◆ Average remaining maturity (Year)

Security Deposit Ratio 5.6%



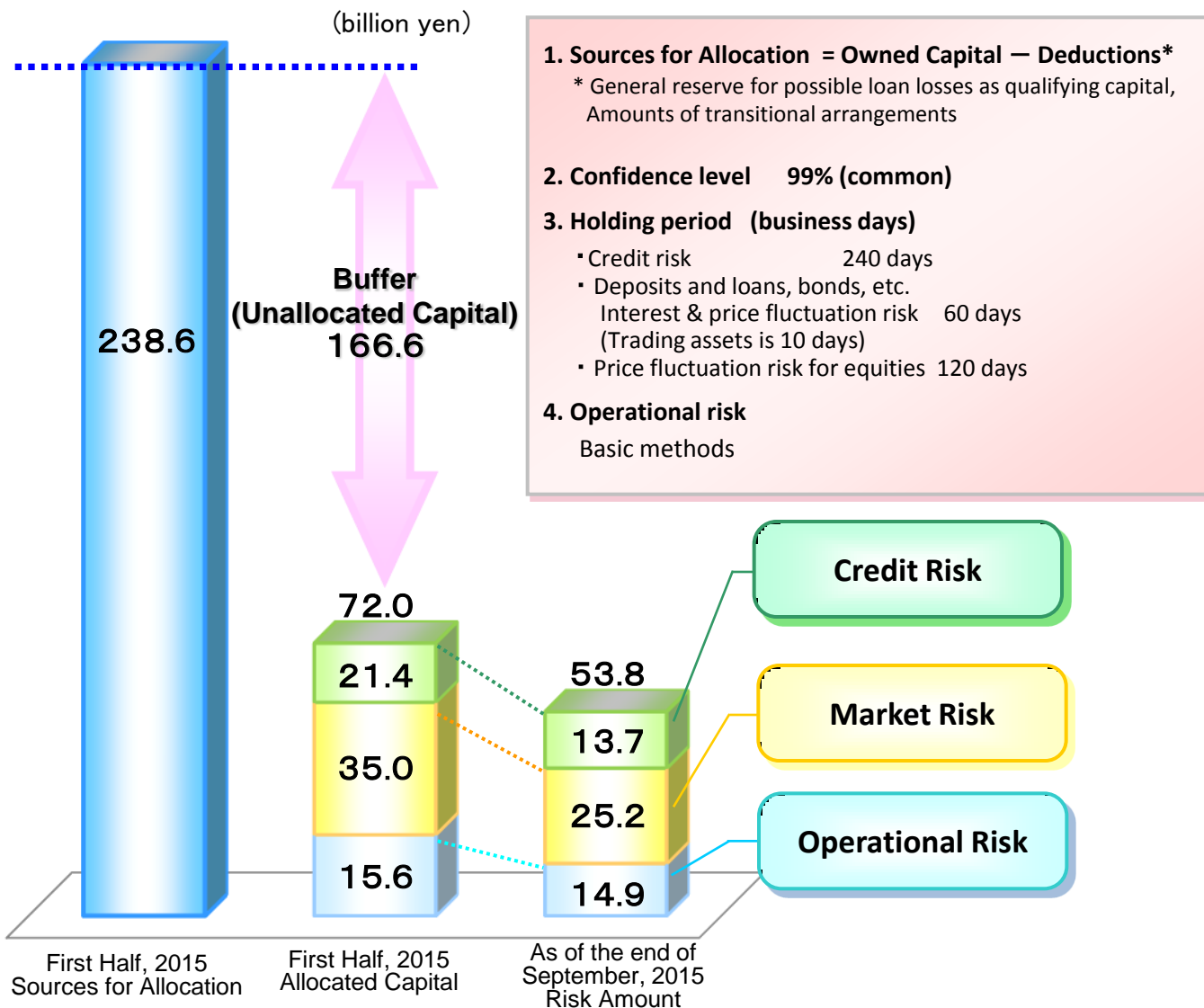
Status of Shareholdings

(billion yen)



Status of Risk Amount

Integrated Risk Management



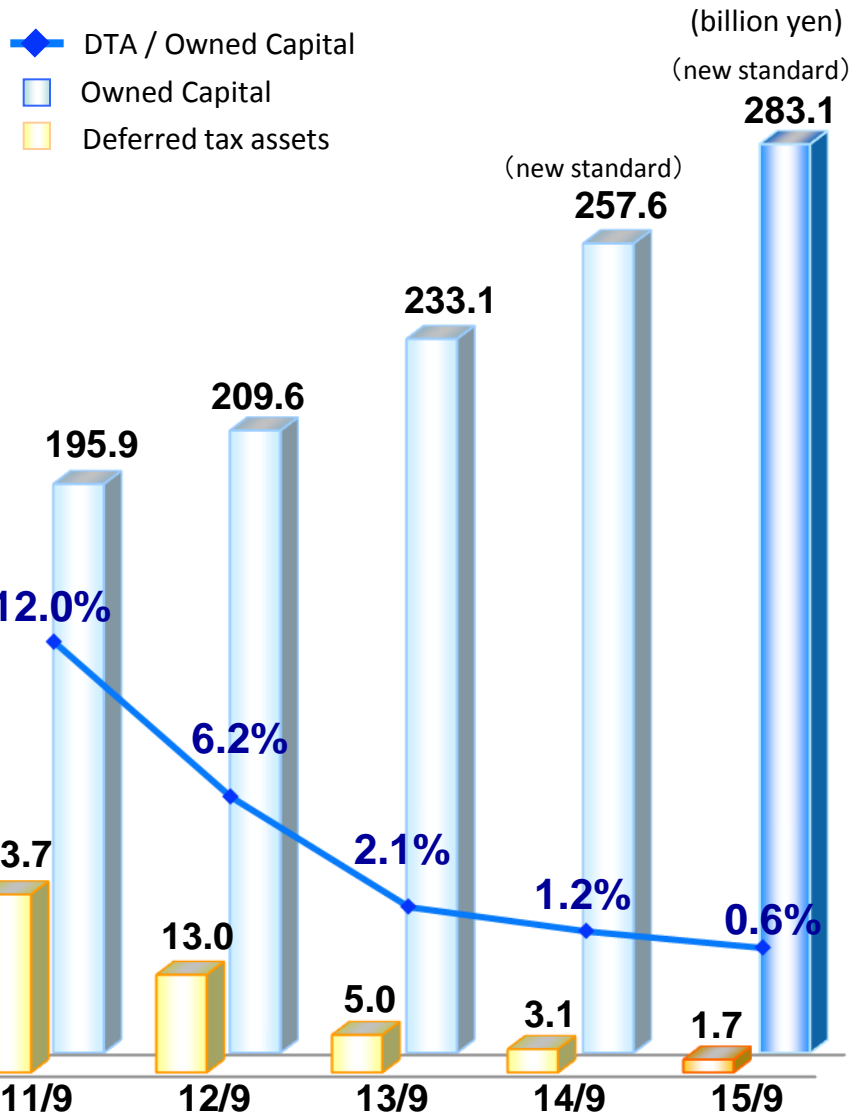
Outlier Ratio

As of the end of September, 2015

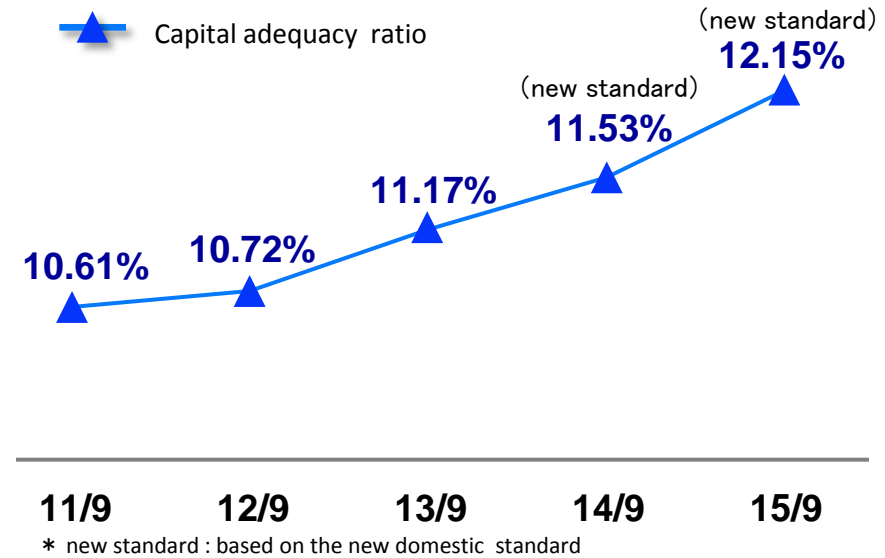
Interest Rate Shock range	± 200bp
Interest Rate Risk Amount	6. 1 billion yen
Outlier Ratio	2. 1%

Capital Levels

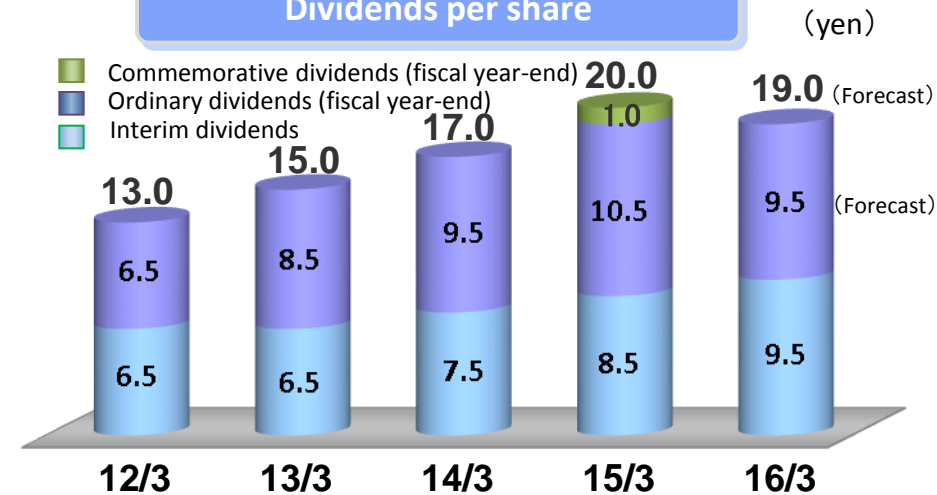
Deferred tax assets-Owned Capital



Capital adequacy ratio



Dividends per share



FY2015 First Half Results and FY2015 Forecast

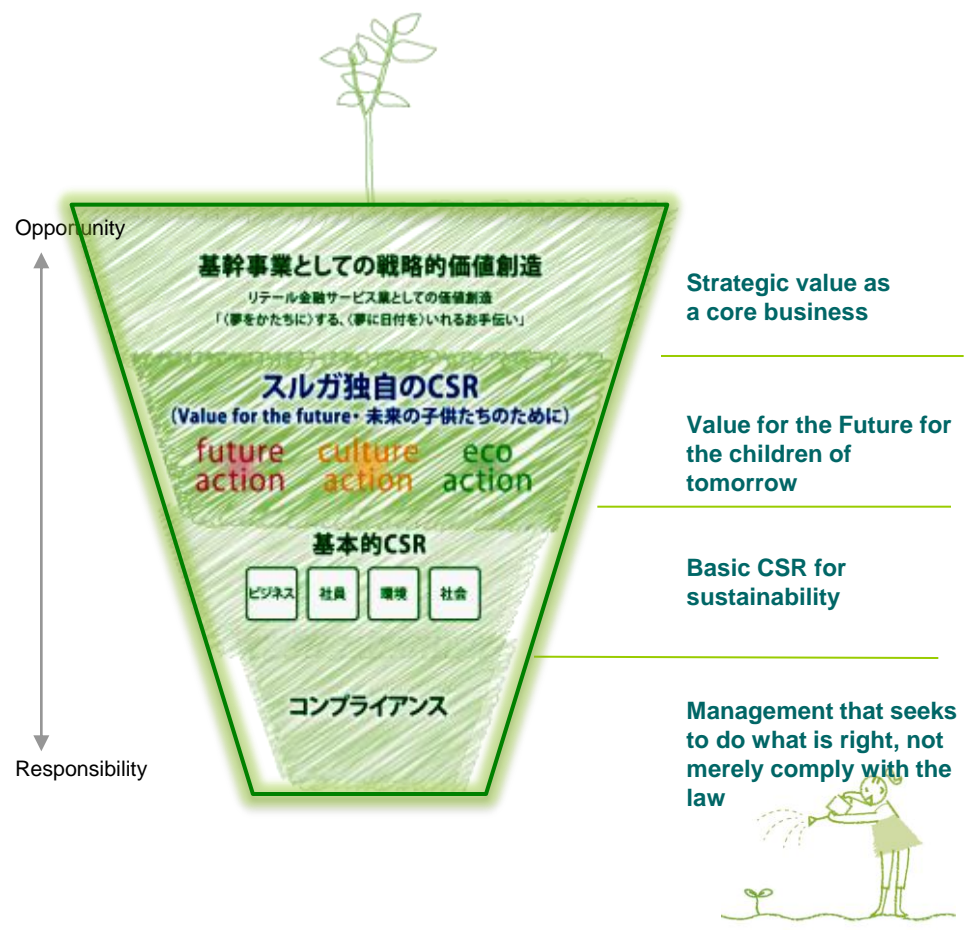
(billion yen)

	Results Sep 2014 (A)	Results Sep 2015 (B)	Increase or Decrease (B-A)	FY2015 Forecast
Gross operating profit	47.9	53.0	+ 5.1	102.0
Operating expenses	23.2	23.1	▲ 0.1	45.5
Net operating profit	24.6	29.8	+ 5.2	56.5
Core net operating profit	24.5	29.0	+ 4.5	56.5
Ordinary profit	23.8	27.8	+ 4.0	52.5
Net income	14.9	18.5	+ 3.6	35.0
Actual credit costs	0.1	1.7	+ 1.6	3.0
ROE (%) (net income basis)	12.91	14.23	+1.32	13.55
EPS (yen)	63.27	78.17	+14.90	147.50
Dividends (yen)	8.5	9.5	+ 1.0	19.0

CSR as Suruga Sees it Creating the Future

Suruga's CSR Framework Concept

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



Suruga's CSR Activity: Seedlings for the Future Project

Efforts to support the healthy growth of the children who represent the future

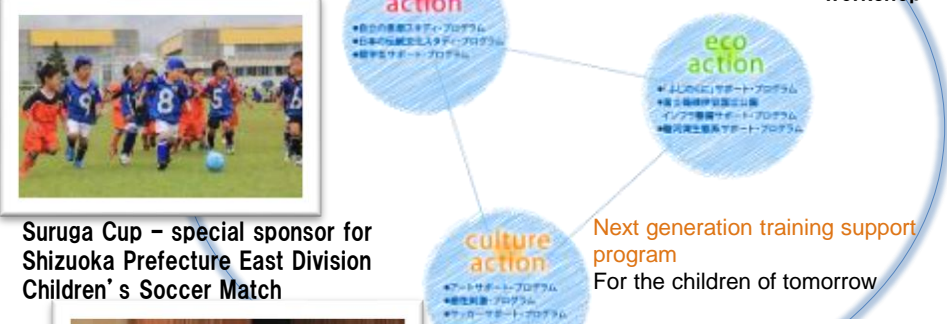
Program supporting creating a future
Aiming to realize an autonomous society



Tea ceremony for children - "Kiku no Chakai"



"Fujinokuni Water Circulation" workshop



Suruga Cup - special sponsor for Shizuoka Prefecture East Division Children's Soccer Match



"Seedling for the Future Concert" performance by Hiroshi Aoshima

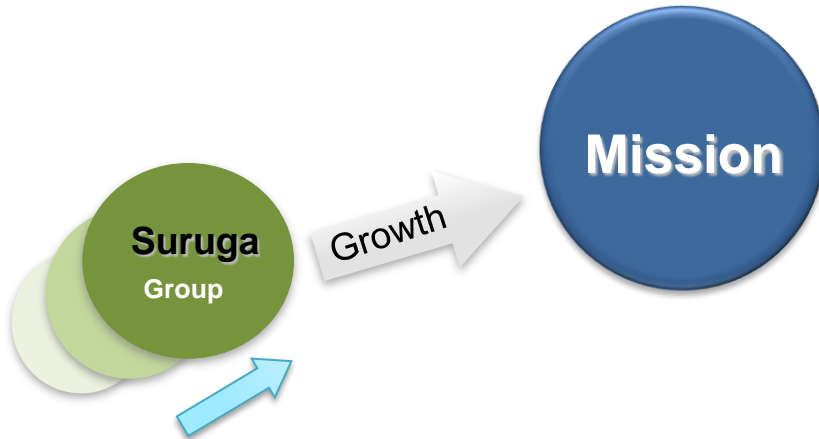


"Kid's Summer Tour"

Growth Within Our Corporate Philosophy

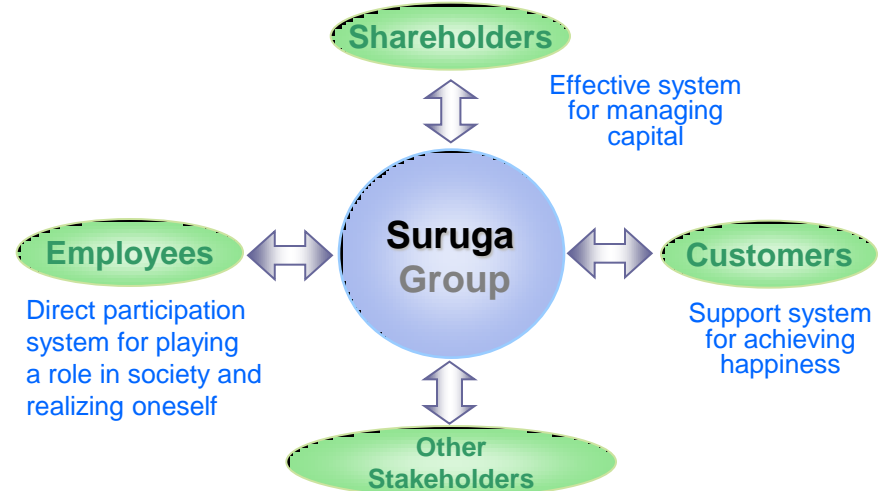
Growth as a Mission-Based Company

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.

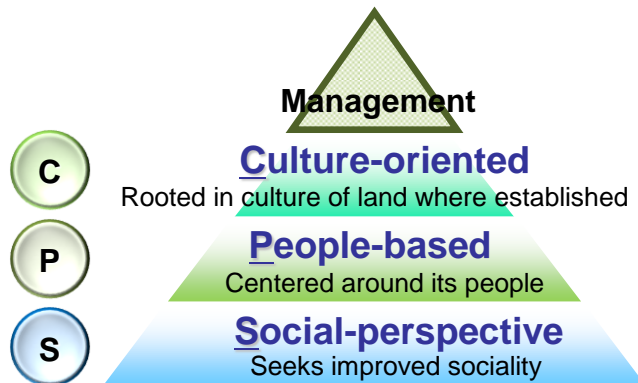


Growth as a Value Exchange System

Define growth as greater exchange of value with all stakeholders.



Growth Originating in C•P•S



Respect culture. Leverage the strengths of that culture to realize growth for Suruga.

Achieve growth through management centered not on corporate theory but on the logic of its people.

Always mindful of its role as a social institution. Achieves ends by means above the social code.

For further details, please contact

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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.