

SURUGA bank

# Meeting the Challenge of New Banking

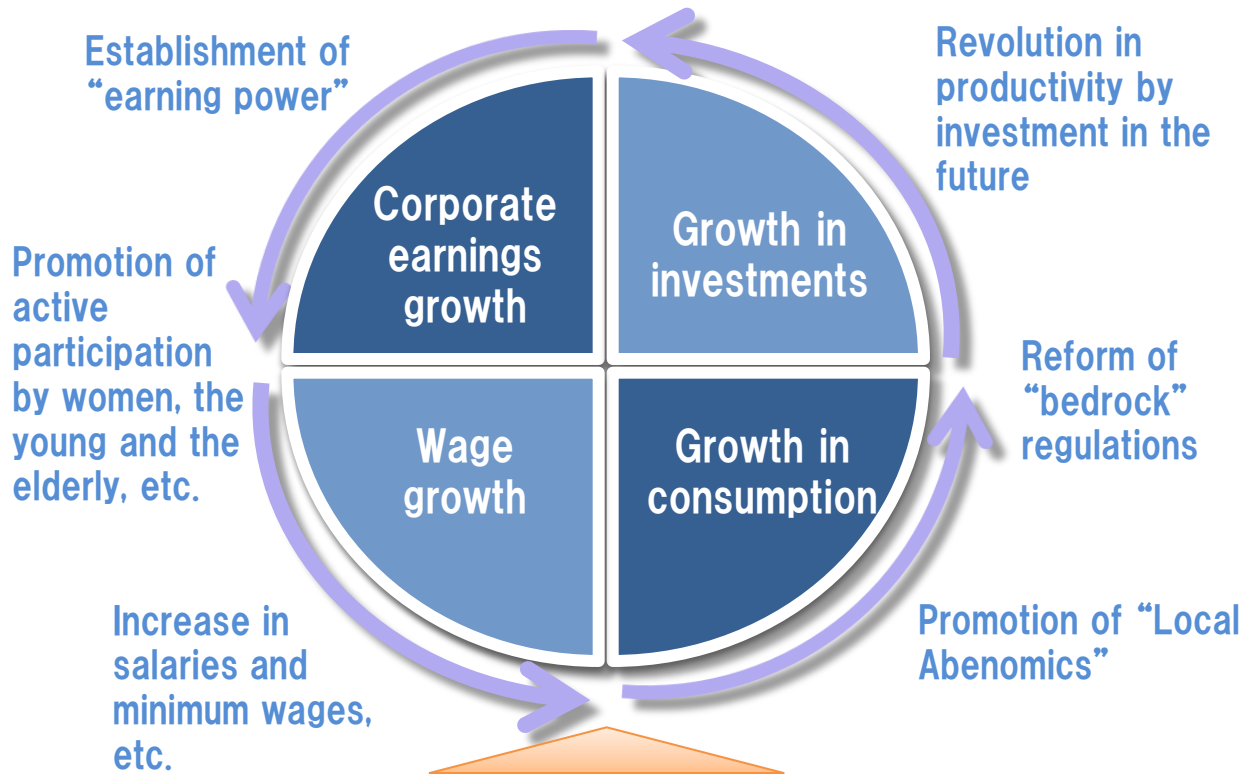
Presentation to investors on fiscal year ended March 31, 2016



# Direction of the Japanese Economy

The key is to leave past success stories behind and to create added value by taking on new challenges

**Abenomics in its second stage**  
 – A strong economy that will create hope: aiming for nominal GDP of 600 trillion yen –



## New challenges

- Create and expand new promising and growing markets to achieve nominal GDP of 600 trn yen
- improve productivity drastically to overcome the decline in population and the lack of workers
- Strengthen human resources to support changes in the industrial structure

## Measures to accelerate and enhance the growth strategy

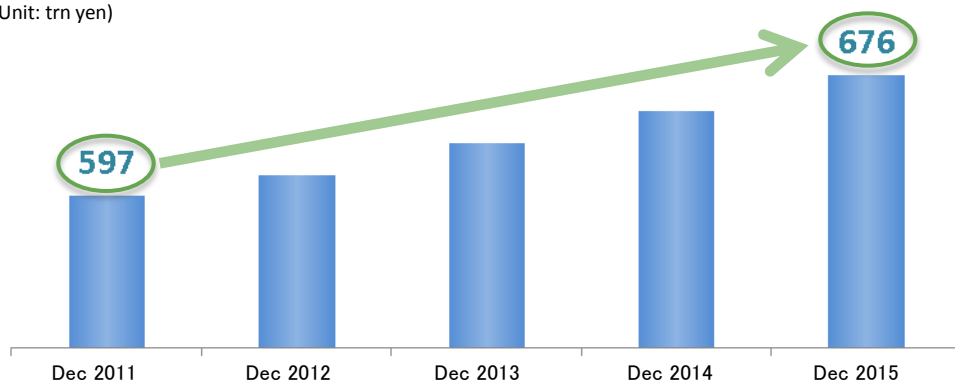
- Initiatives to achieve a revolution in productivity
- Develop human resources to drive growth
- Strategies to expand strategic growth markets
- Expand into growing overseas markets
- Raise the momentum for reform through the promotion of projects under "Reform 2020"

※Source: Council for Industrial Competitiveness materials, Headquarters of Japan's Economic Revitalization

# Environment Surrounding the Japanese Banking Sector

## Deposits Outstanding (Domestic Banks)

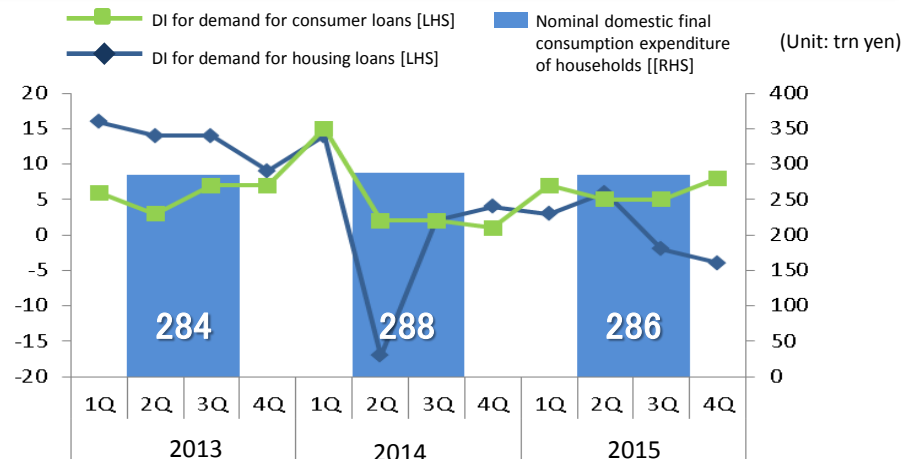
(Unit: trn yen)



※Source: Bank of Japan

## Household Consumption and Demand for Financing at Major Japanese Banks

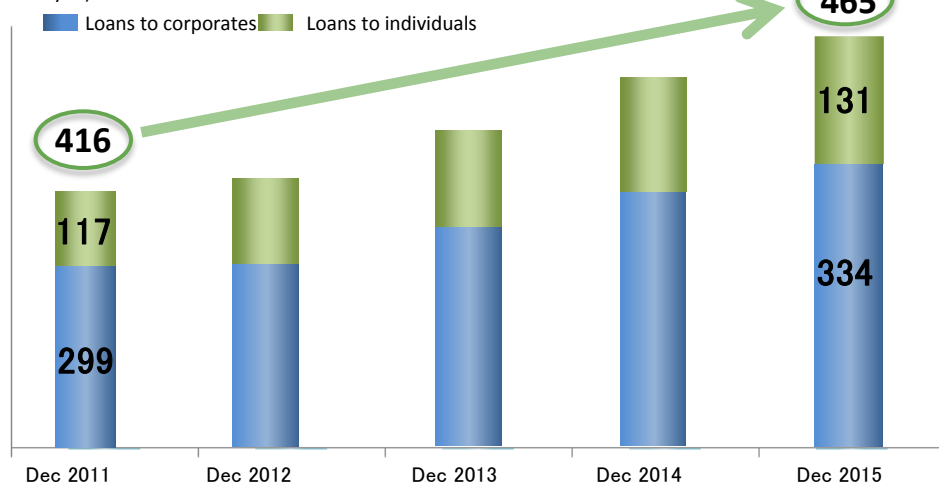
(Unit: %)



※Source: Bank of Japan, Japan Cabinet Office

## Loans Outstanding (Domestic Banks)

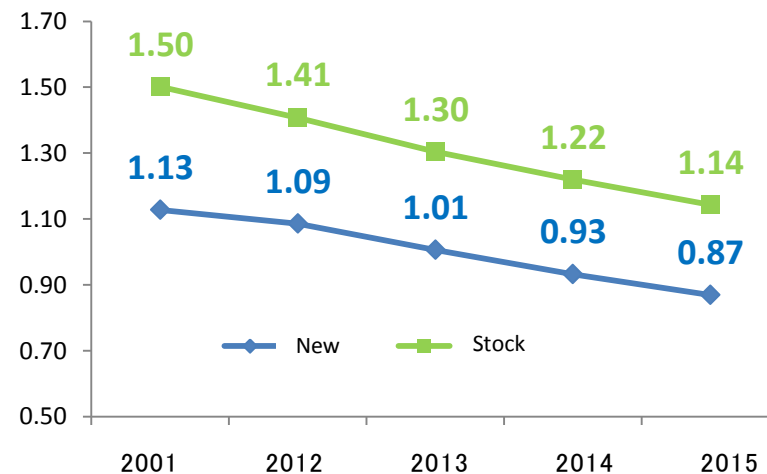
(Unit: trn yen)



※Source: Bank of Japan

## Average Contract Interest Rates (Domestic Banks)

(Unit: %)



※Source: Bank of Japan

# Launch of New Long-term Management Vision "Aim25"

Manage the business in an effort to deliver on our defined mission



Mission

Business theme

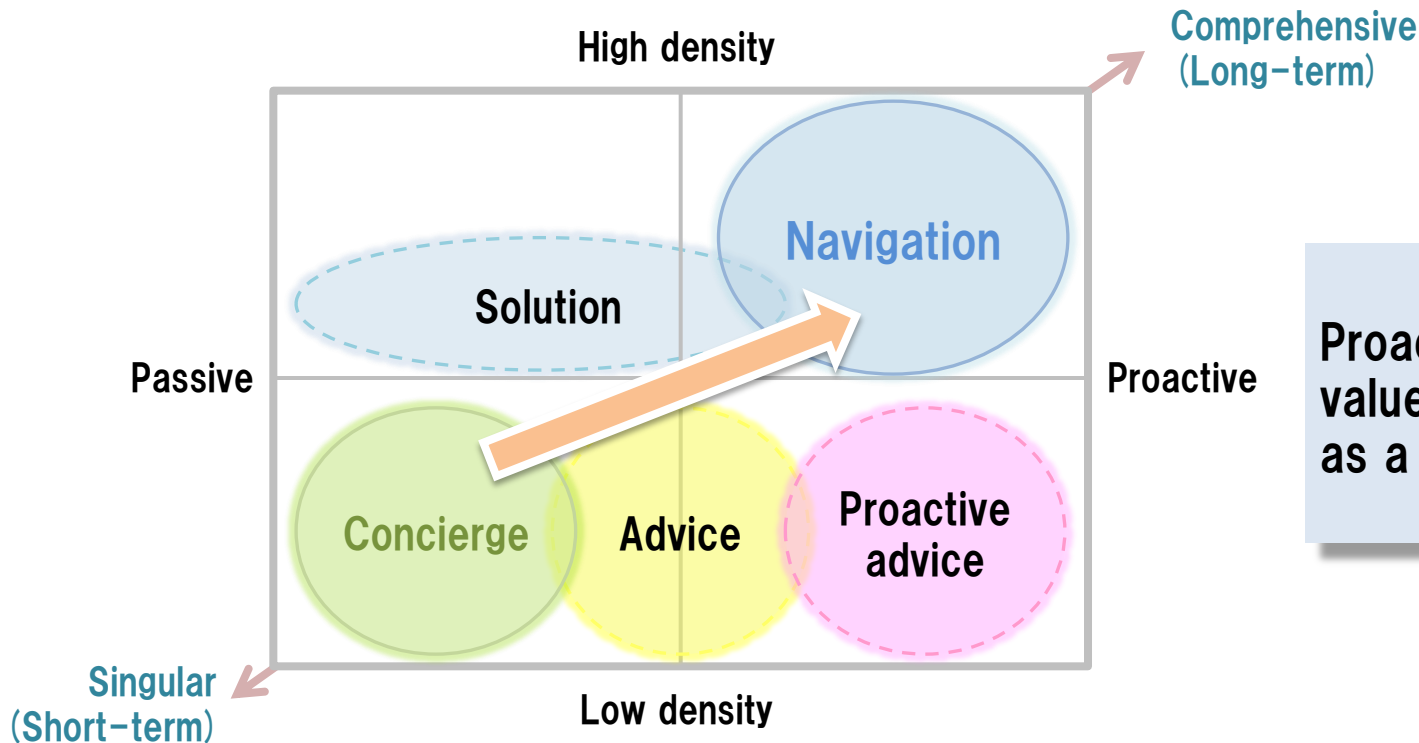
+

Mission

"Life and Business Navigator"

"Assist our customers' dreams come true on a timeline"

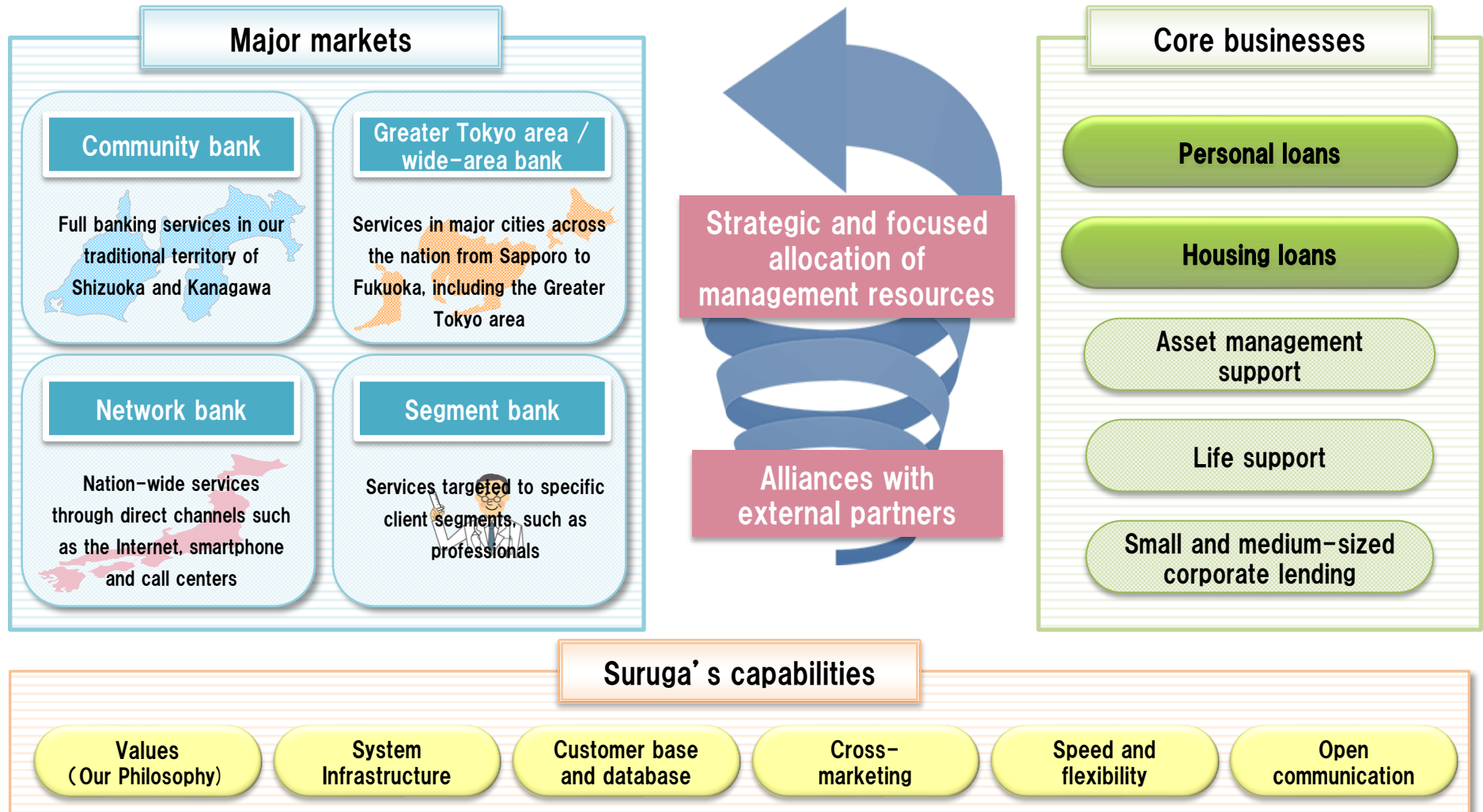
# Aim25: From “Concierge” to “DREAM NAVIGATOR”



Proactively offer high value-added services as a “DREAM NAVIGATOR”

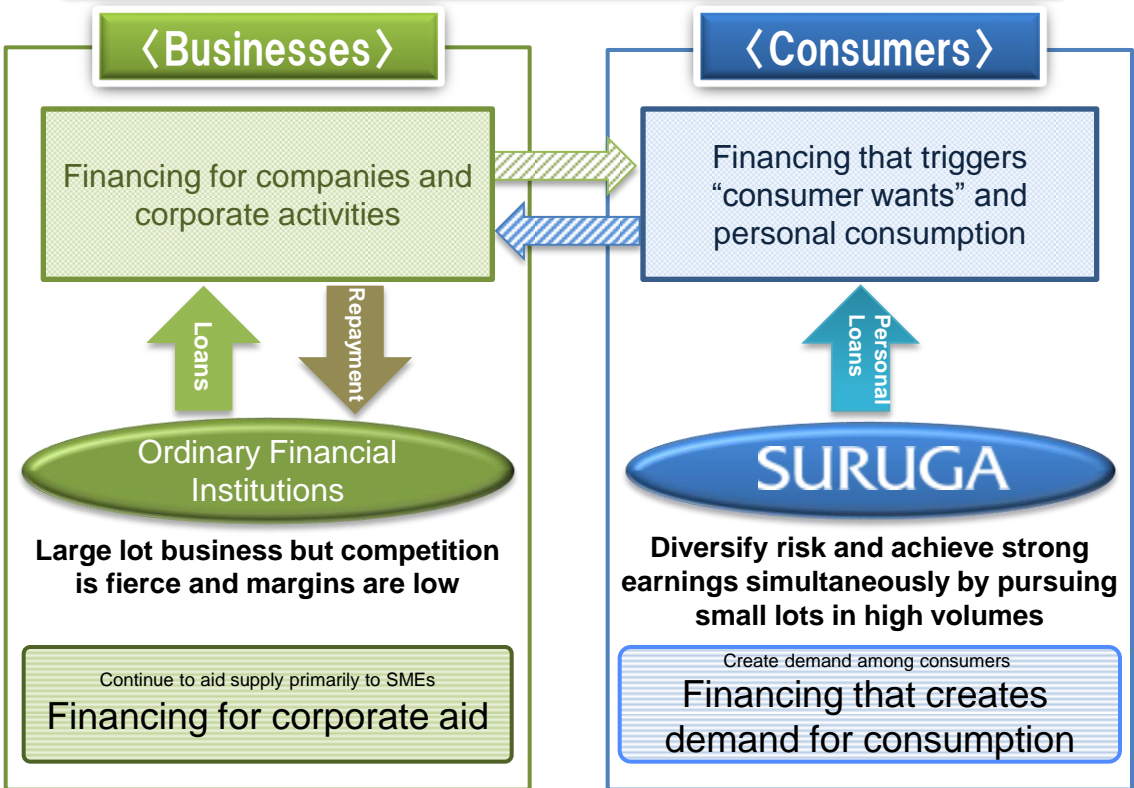
# Grand Design of the 1<sup>st</sup> Management Plan

Create value through the unique development of our core businesses adapted to market characteristics  
- Maximizing the know-how developed through Suruga Bank's retail-focused strategy -



# 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

ICT infrastructure dedicated to retail business  
Data analysis and cross-marketing

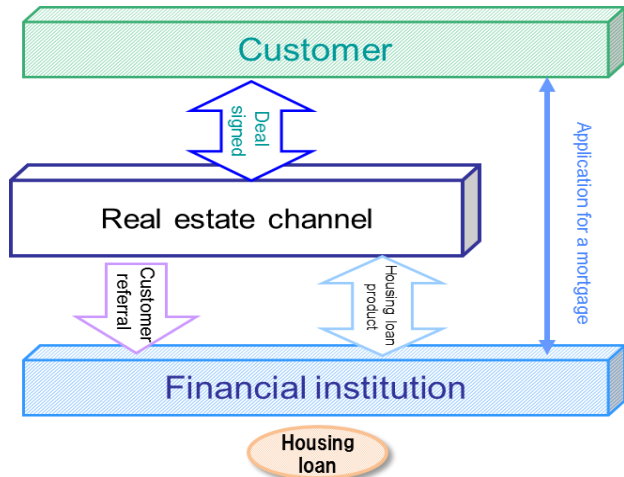
Corporate Culture

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

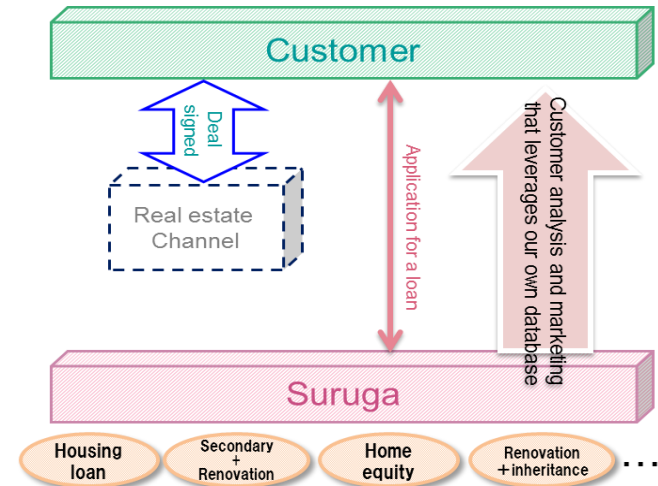
## Ordinary secured loan business



**Mono-line model**=

Selling housing loans mainly for the purchase of newly-built homes via the real estate channel

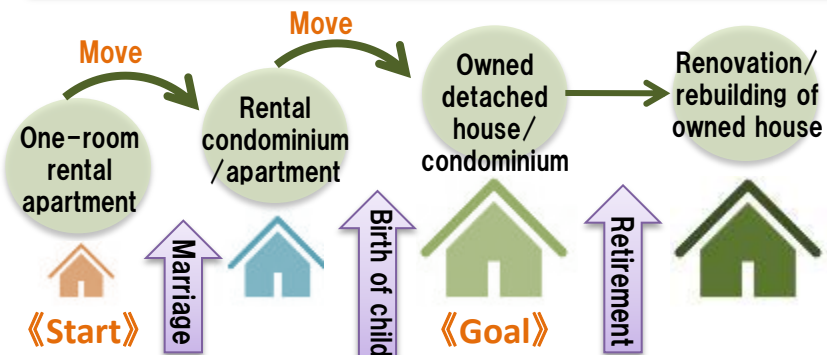
## Suruga's secured loan business



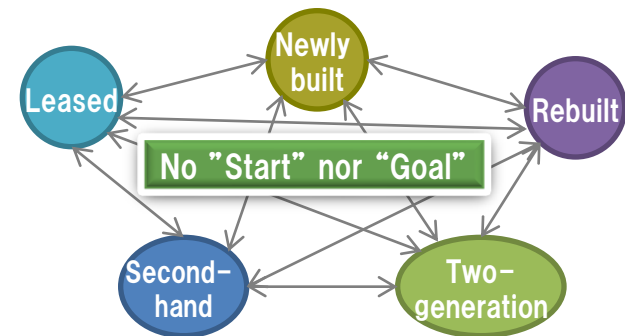
**Full-line model**

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

“Conventional way of living” made possible by ordinary secured loans

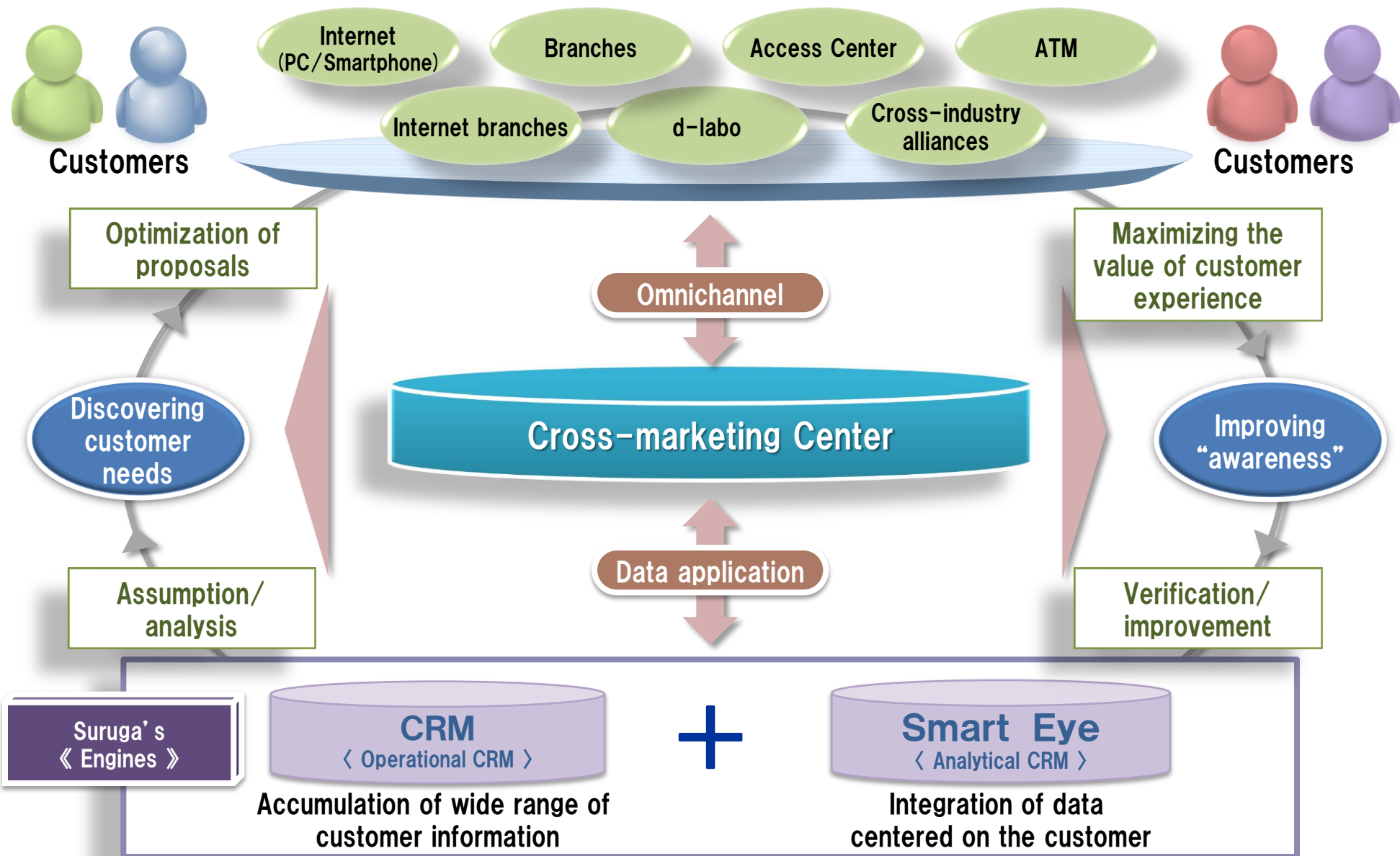


“Modern way of living” made possible by Suruga's secured loans





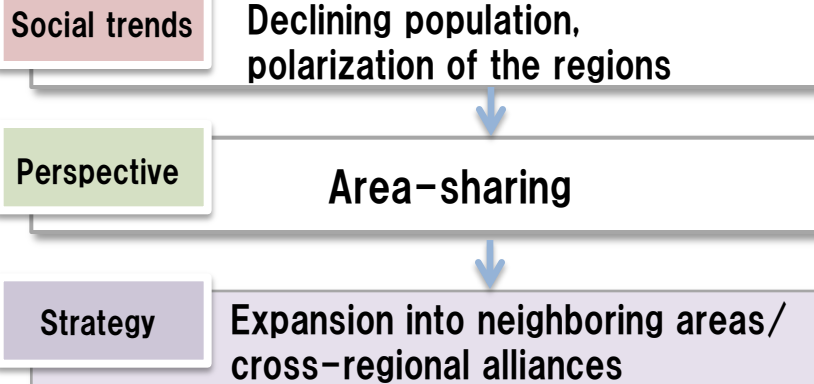
# Suruga's Strategy for Personal Loans



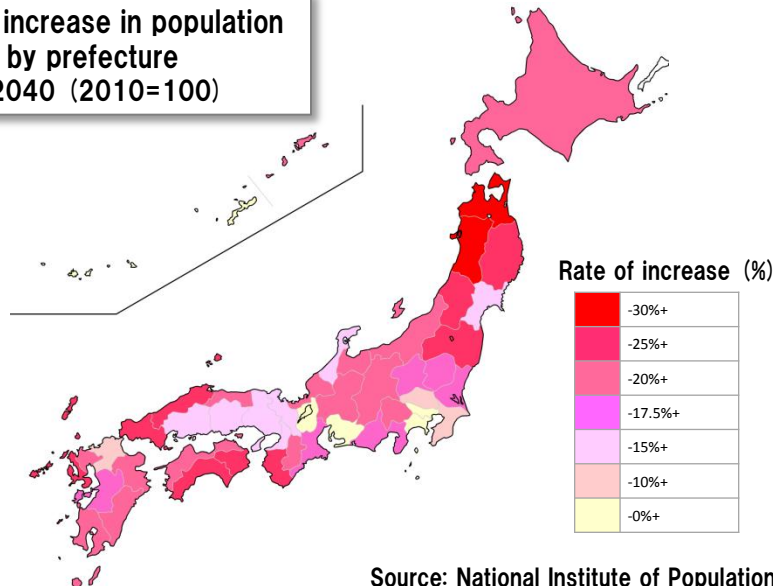
# Suruga's Marketing Strategy

## Generic approach

## Dominant strategy



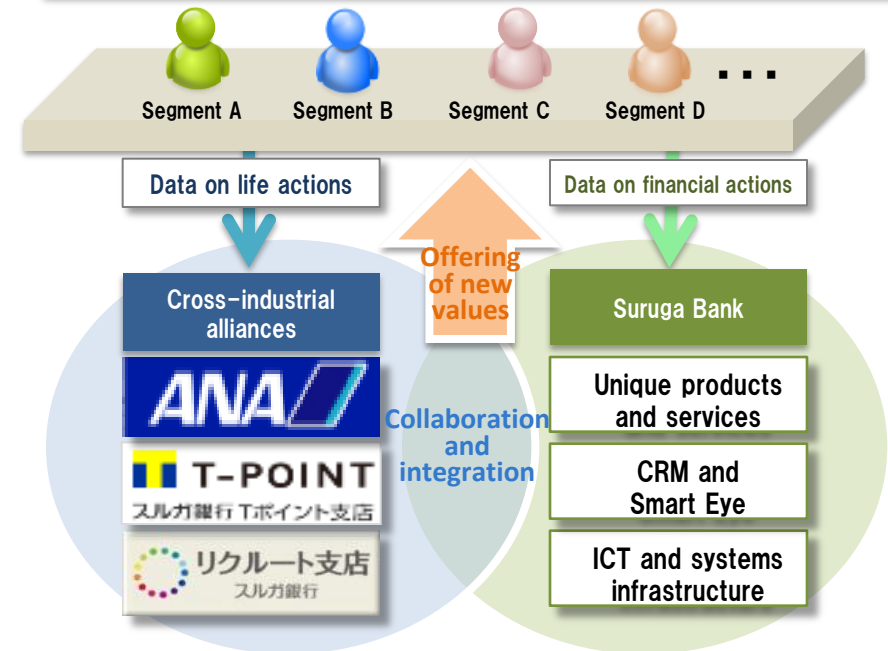
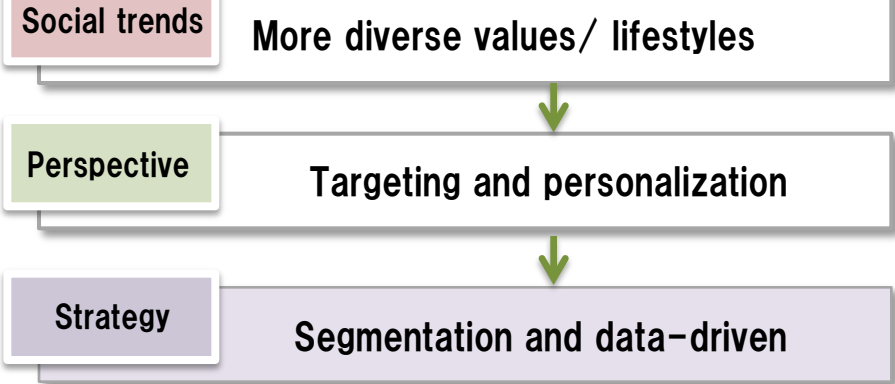
Rate of increase in population by prefecture in 2040 (2010=100)



Source: National Institute of Population and Social Security Research

## Suruga's approach

## Client-oriented strategy

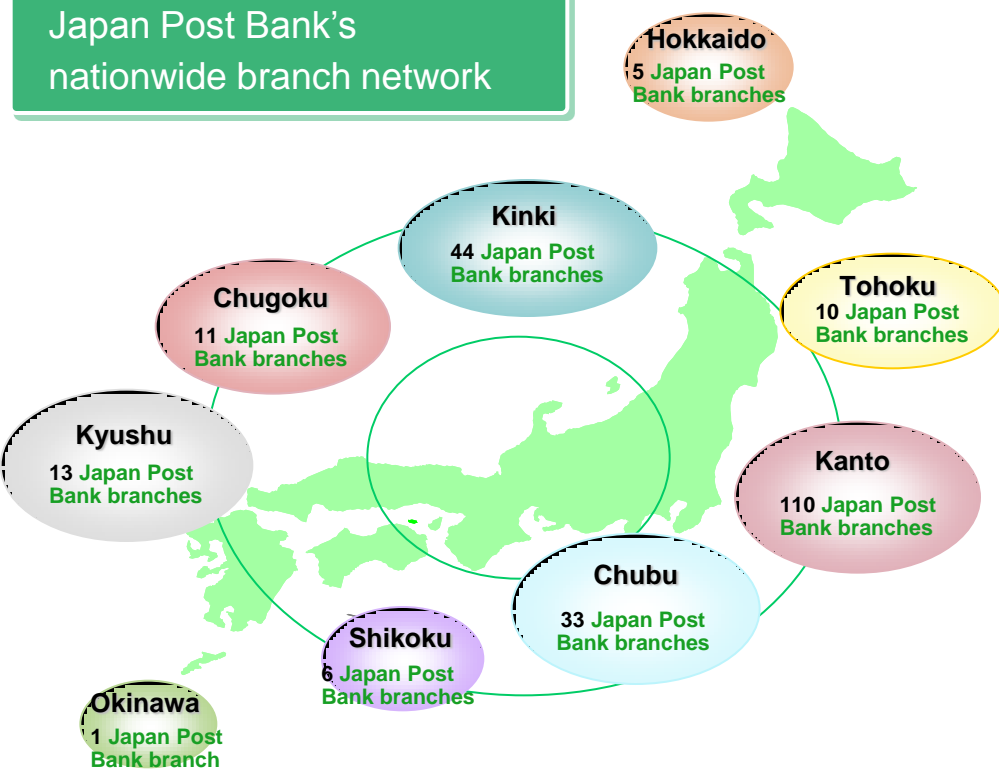


# Business Alliance with Japan Post Bank

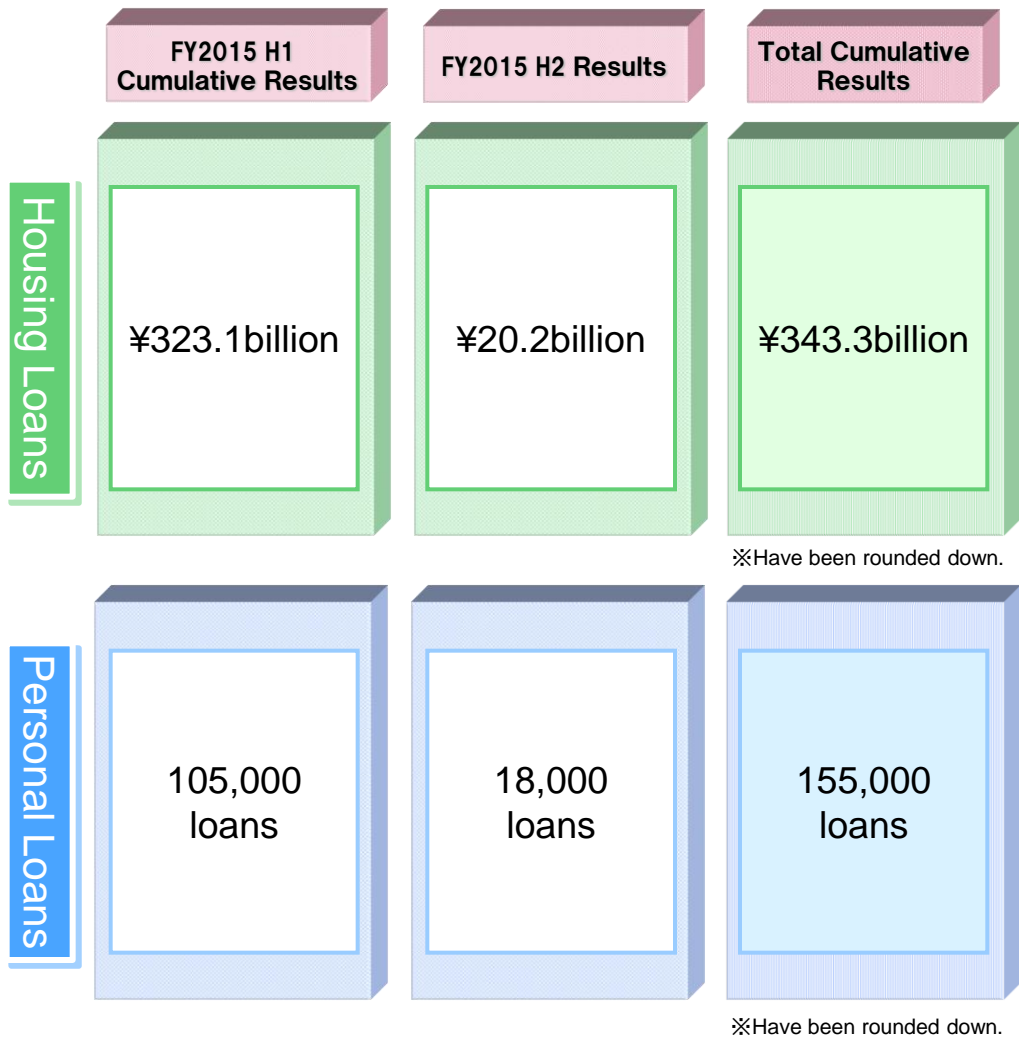
Leveraging Japan Post Bank's nationwide network

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

Japan Post Bank's nationwide branch network

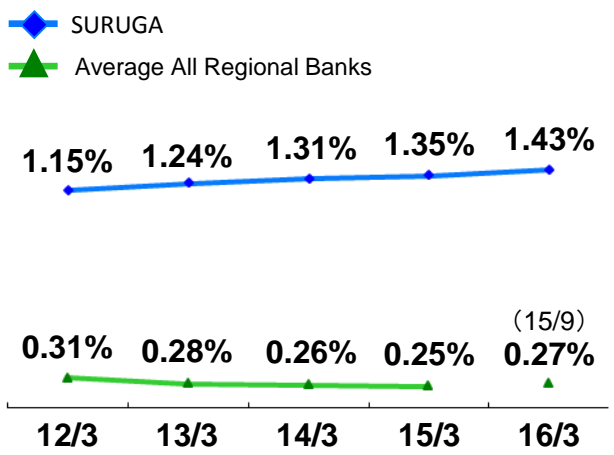


Cumulative results through the end of March 2016

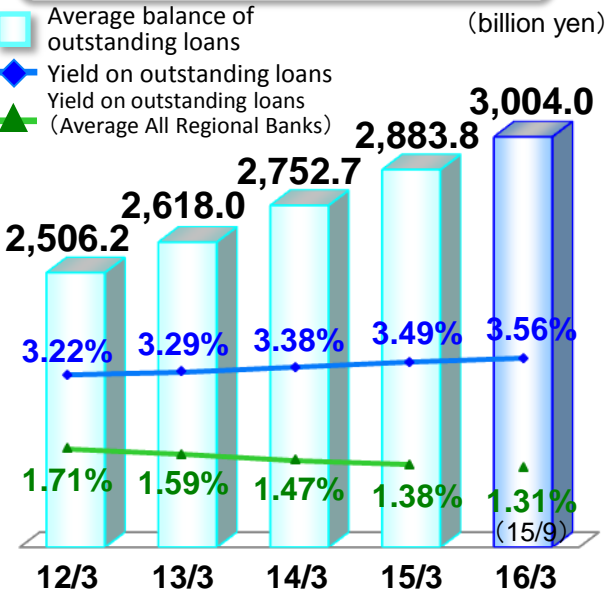


# Yield / Margins (Overall)

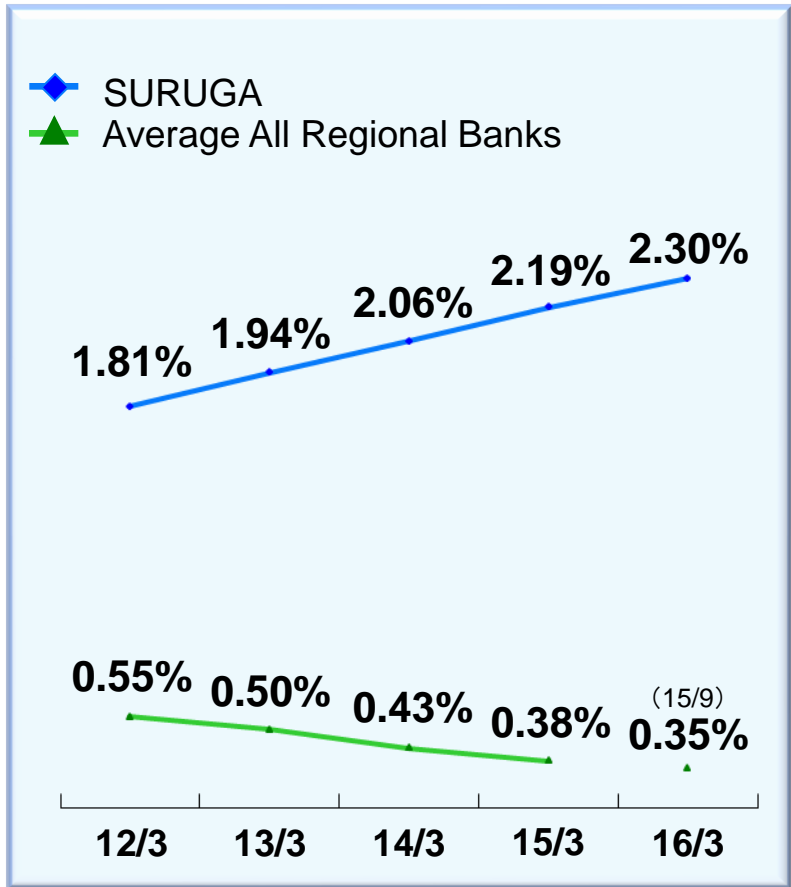
## Net interest margin



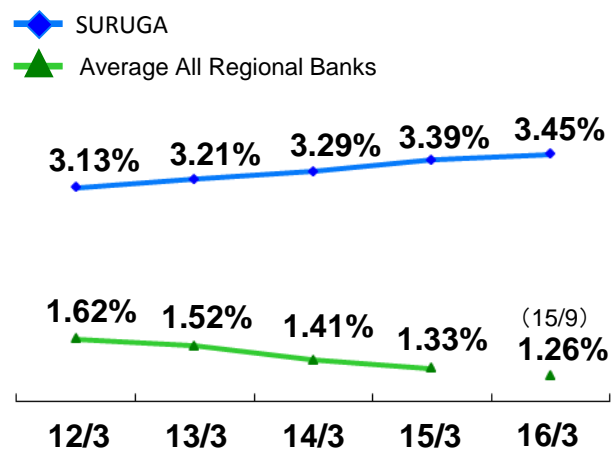
## Average balance and yield on outstanding loans



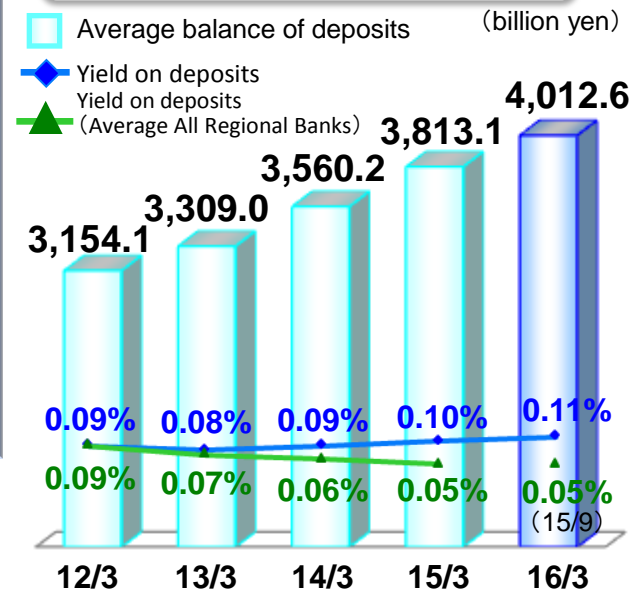
## Loan-deposit margin (after deduction from expense ratio)



## Loan-deposit margin



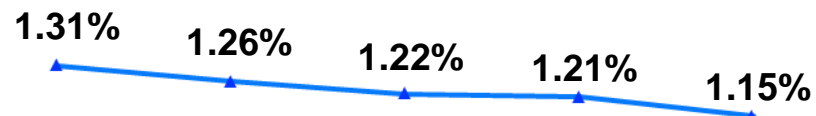
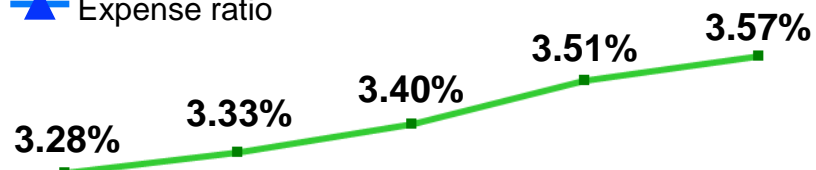
## Average balance and yield on deposits



# Yield / Margins (Domestic)

## Yield-Expense ratio

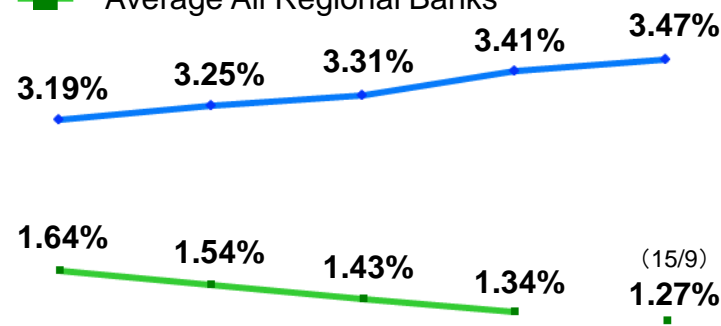
- Yield on outstanding loans
- Yield on deposits
- Expense ratio



12/3    13/3    14/3    15/3    16/3

## Loan-deposit margin

- SURUGA
- Average All Regional Banks

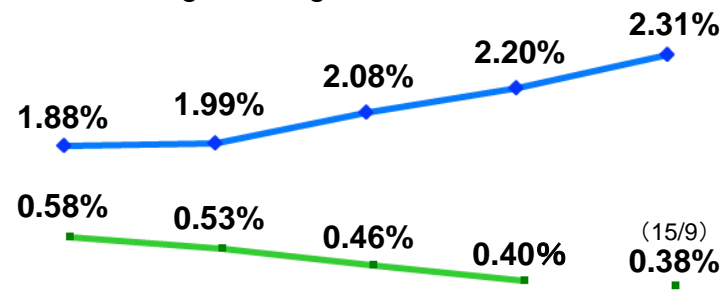


12/3    13/3    14/3    15/3    16/3

## Loan-deposit margin

(after deduction from expense ratio)

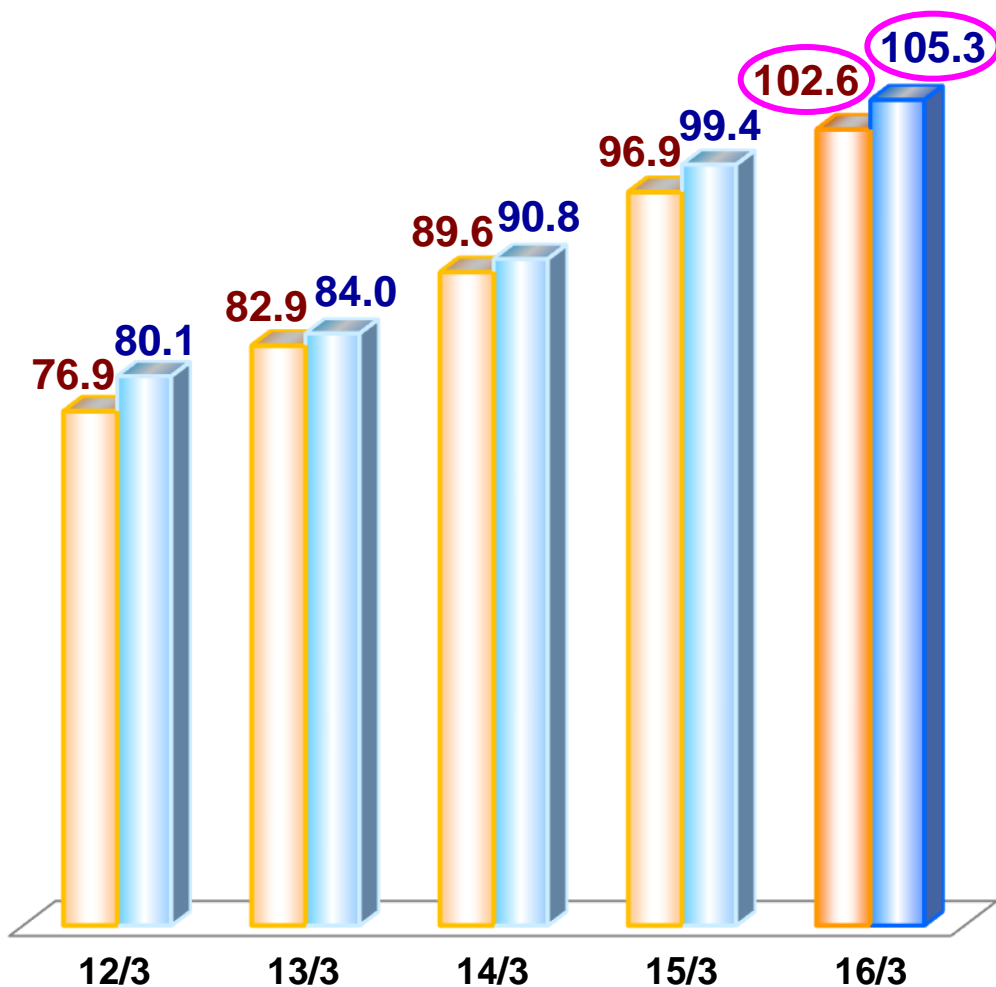
- SURUGA
- Average All Regional Banks



12/3    13/3    14/3    15/3    16/3

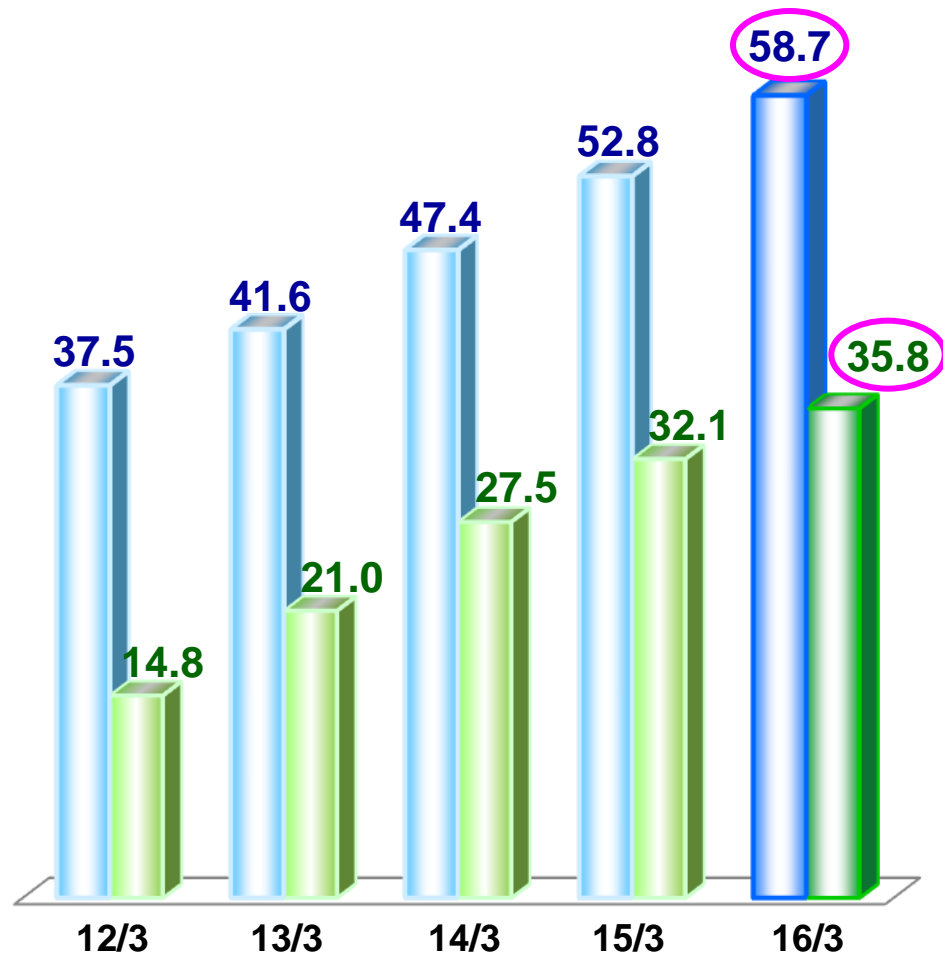
## Yen loan-deposit profit / Gross operating profit

■ Yen loan-deposit profits    ○ Record High    (billion yen)  
■ Gross operating profits



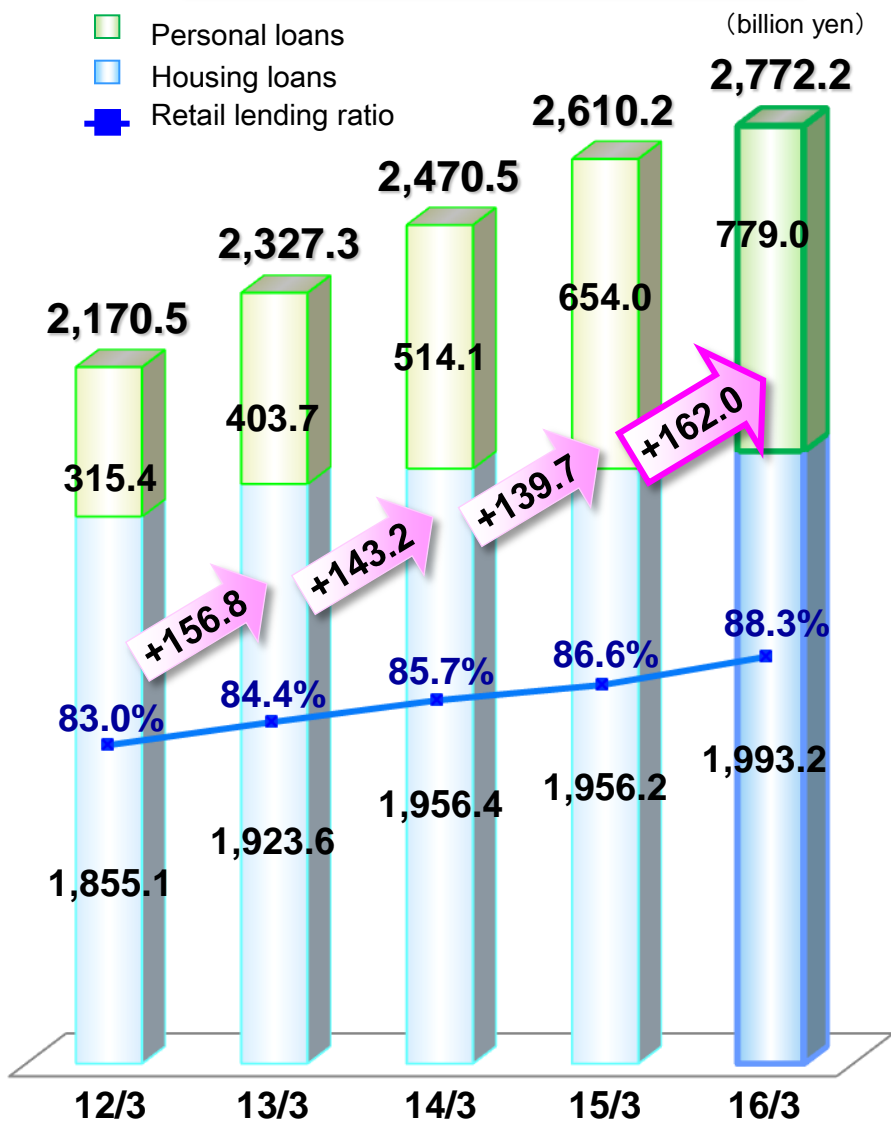
## Core net operating profit / Net income

■ Core net operating profits    ○ Record High    (billion yen)  
■ Net income

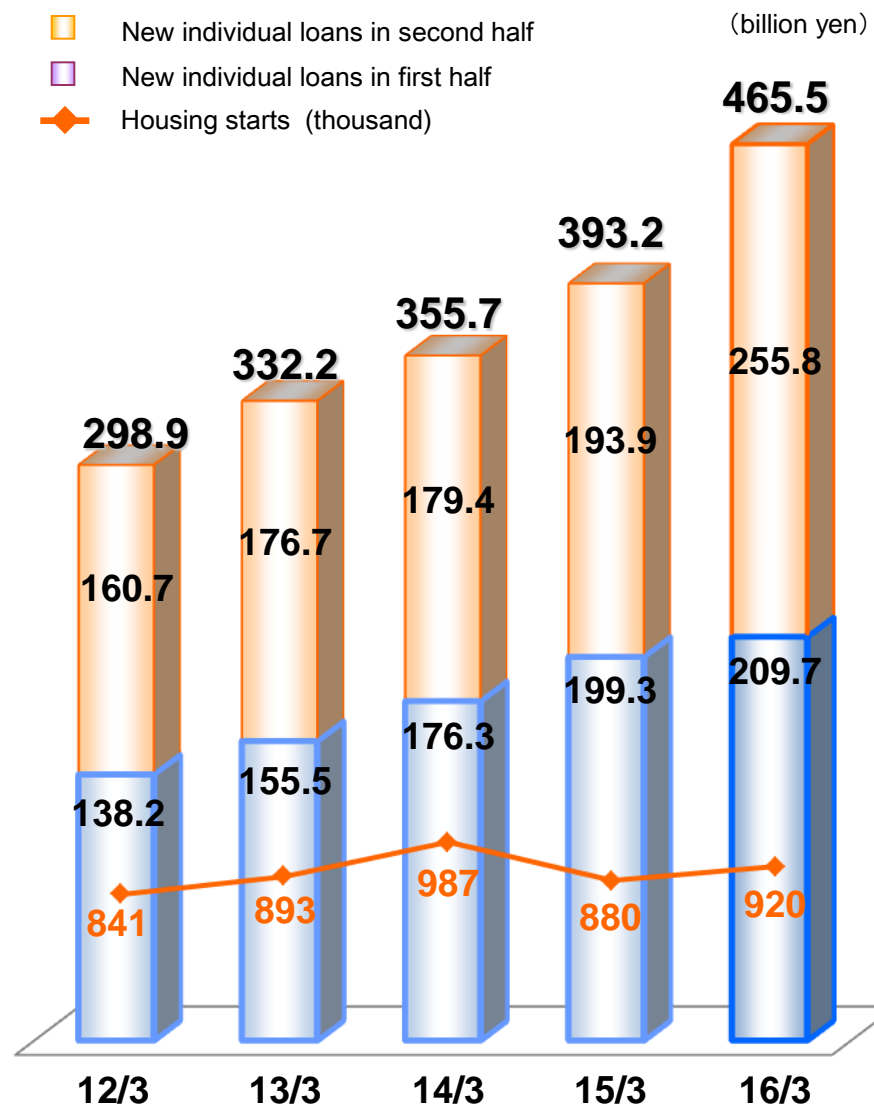


# Strong Focus on Retail

## Consumer loan balance and ratio

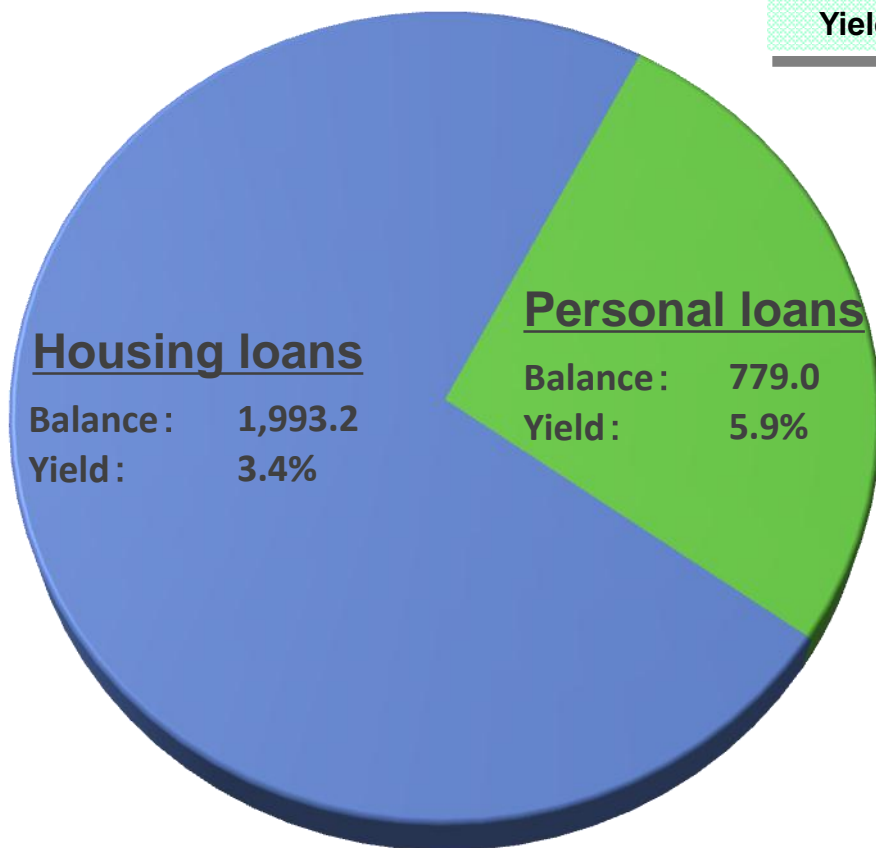


## New loan contracts



# Focus on More Profitable Products

## Consumer loans



**Balance: 2,772.2**

**Yield: 4.1%**

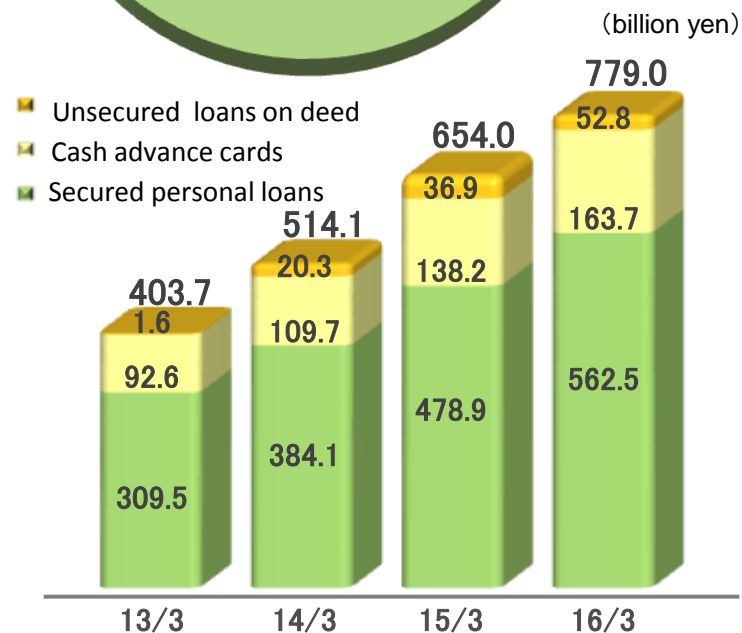
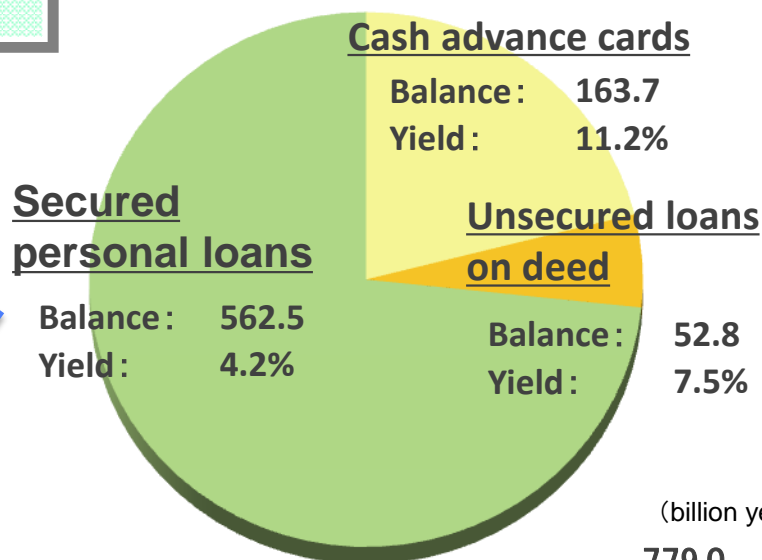
《The type of Housing loans' interest rate》

1.5%

98.5% variable interest rate

As of Mar 31, 2016  
Balance: billion yen  
Yield: average rate

## Personal loans

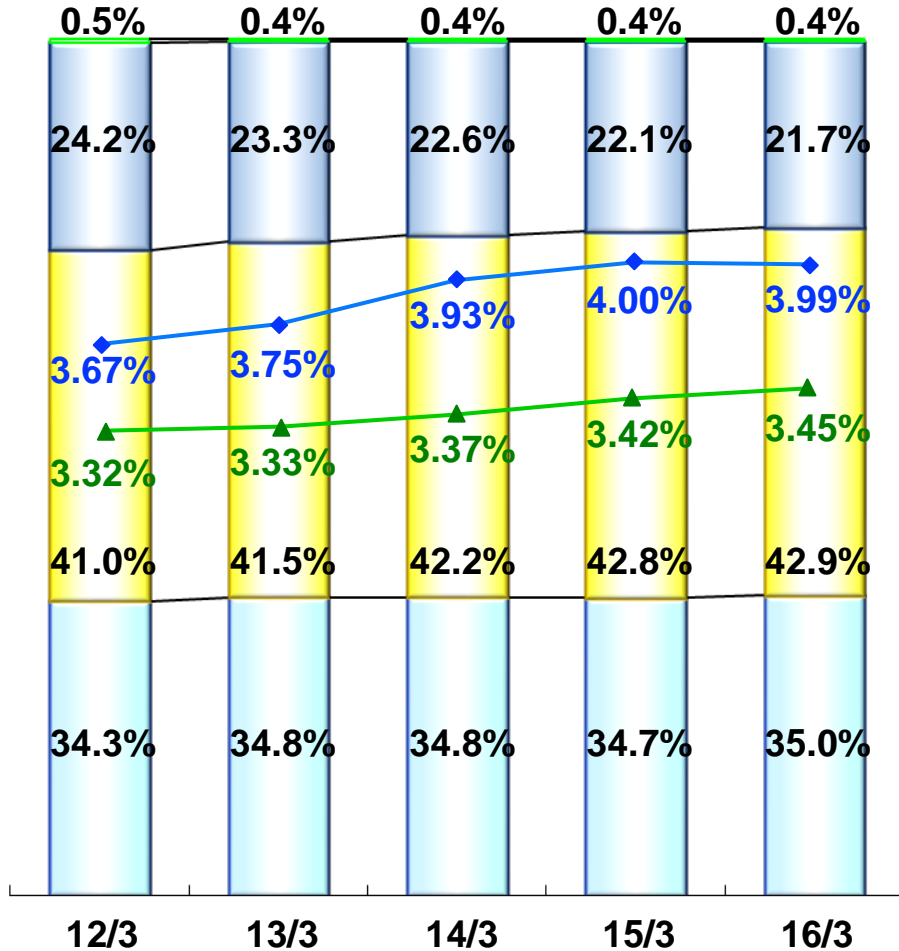




# Housing Loans

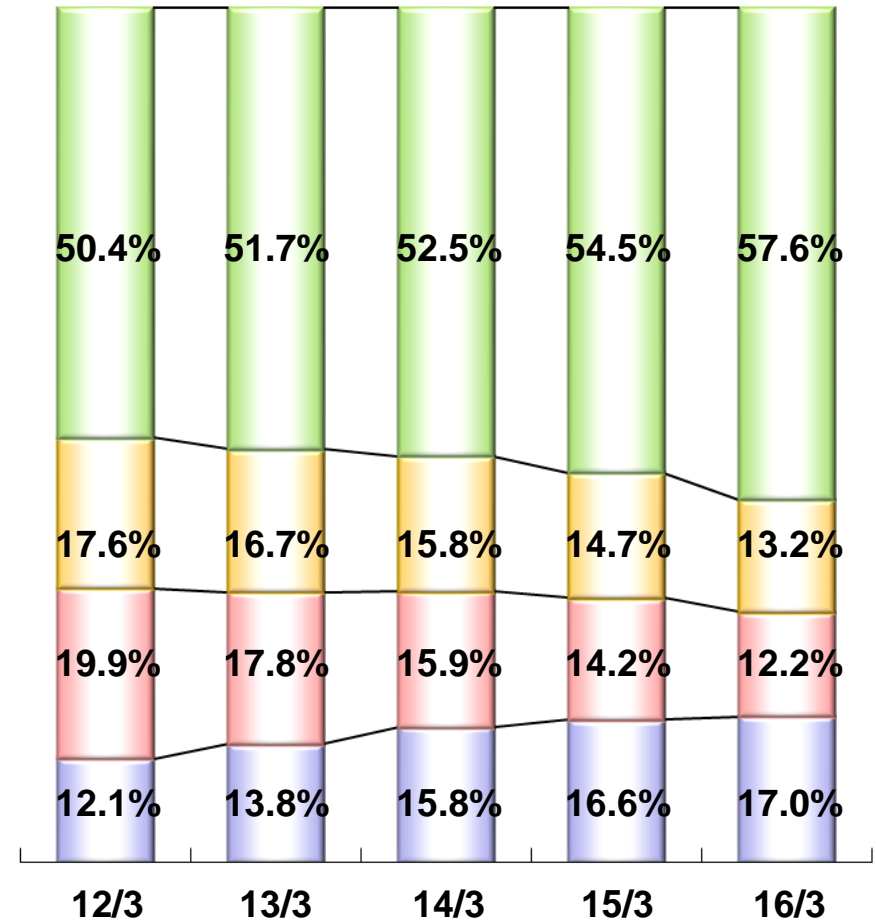
Distribution of practical rates for Housing loans (cumulative)

■ 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

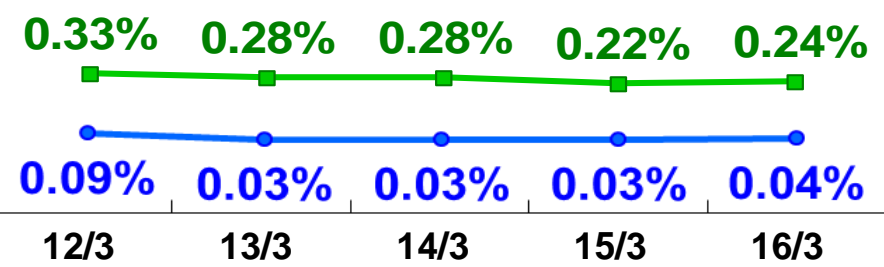
■ Greater Tokyo area   
 ■ Kanagawa  
■ Shizuoka   
 ■ Major cities nationwide



# Delinquency and Loss Rates on Consumer Loans

## Housing loans

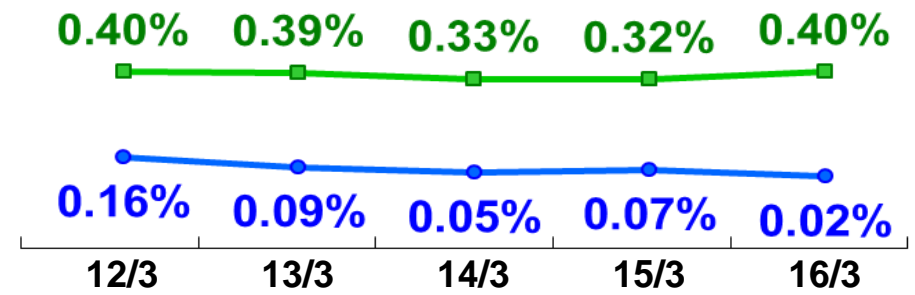
▲ Yield ● Delinquency rate ■ Loss rate



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

## Personal loans

▲ Yield ● Delinquency rate ■ Loss rate

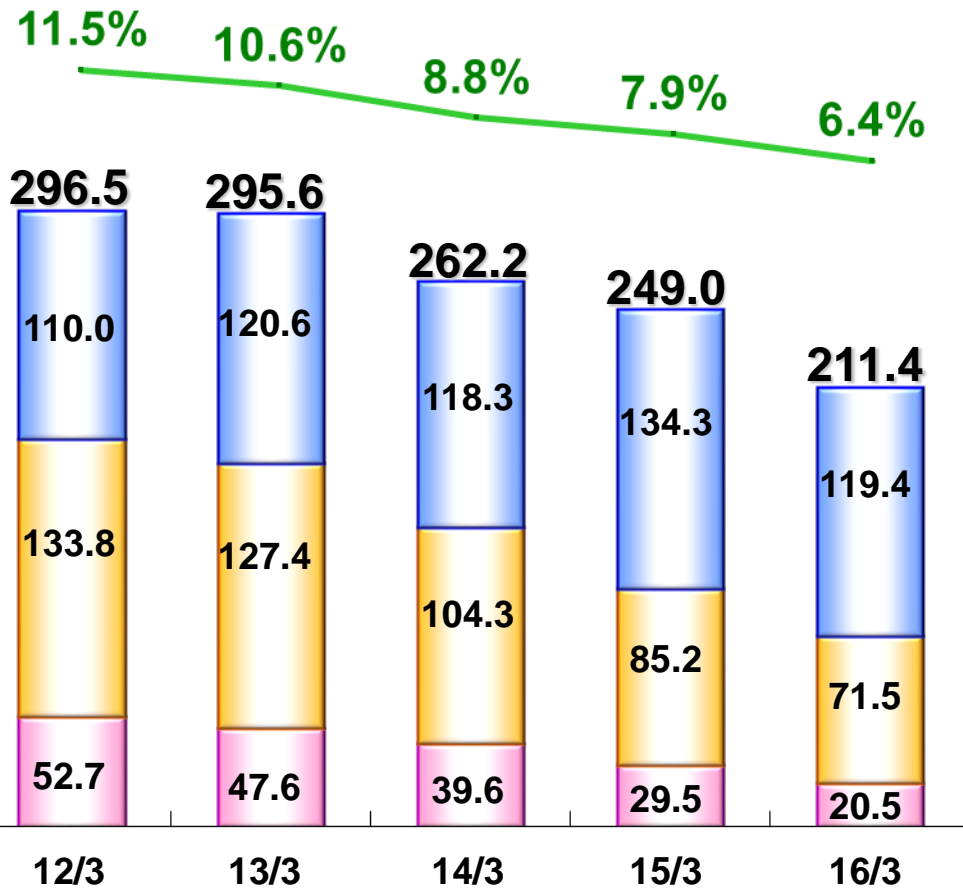


Loss rate = default ratio × (1 - recovery rate)

# Fees and Commissions

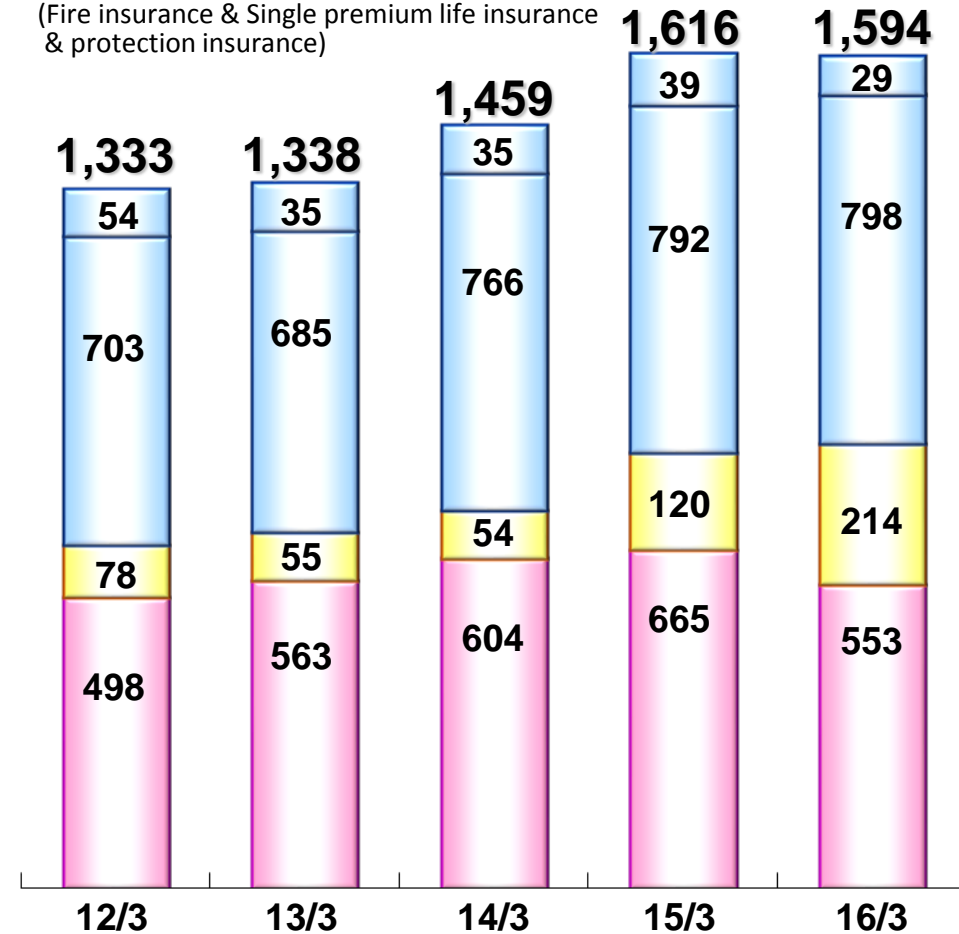
## Balance breakdown of investment products

- 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)



# Breakdown of Troubled Assets based on the Financial Reconstruction Law

(billion yen)

Debtor classification	Mar. 16 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	7.1	0.23%	Consumer	5.2	0.19%	3.4	2.5	0.9	65.93%	1.8	100%	100%
			Corporate	1.9	0.54%	1.3	0.3	1.0	67.20%	0.6	100%	100%
Claims with collection risk	15.9	0.50%	Consumer	3.3	0.12%	2.0	1.6	0.4	59.34%	0.4	33.87%	73.11%
			Corporate	12.6	3.44%	11.2	4.2	7.0	88.90%	0.5	33.87%	92.66%
Claims for special attention	15.0	0.47%	Consumer	7.9	0.28%	5.2	5.1	0.1	66.04%	0.4	14.89%	71.10%
			Corporate	7.1	1.94%	3.3	3.3	—	46.90%	2.1	54.84%	76.02%
Sub-total	38.0	1.20%	Consumer	16.4	0.59%	10.6	9.2	1.4	64.64%	2.6	45.21%	80.63%
			Corporate	21.6	5.92%	15.8	7.8	8.0	73.15%	3.2	54.82%	87.87%
Normal assets	3,120.6	98.80%	Consumer	2,776.6	99.41%							
			Corporate	344.0	94.08%							
Total	3,158.6	100%	Consumer	2,793.0	100%							
			Corporate	365.6	100%							

**Total coverage ratio 84.74%**

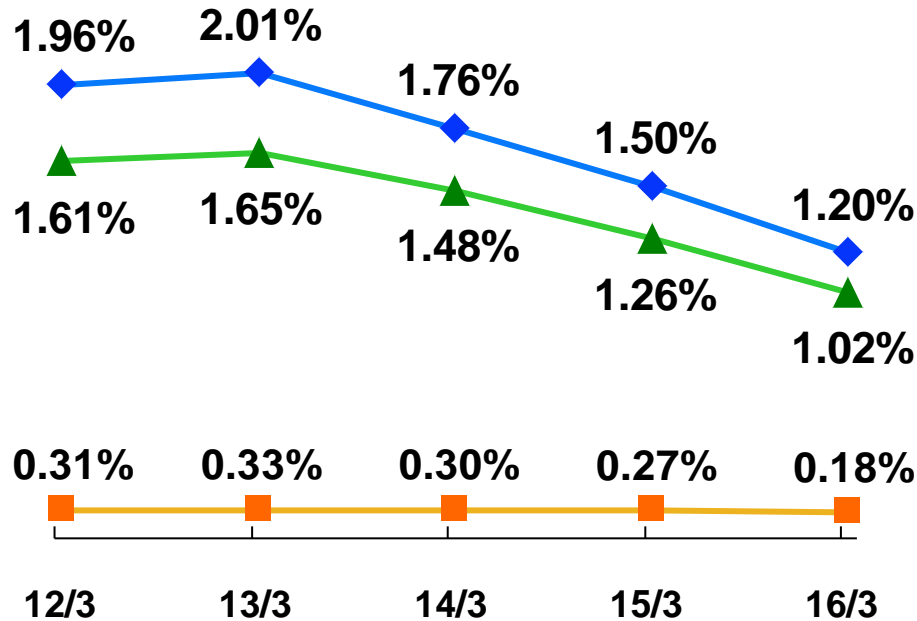
**Coverage ratio** : Covered by collateral and guarantees  
**Reserved ratio** : Reserved for unsecured portion  
**Total coverage ratio** : Covered by collateral, guarantees and reserves

\* 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.

# Non-performing loans ratio / Credit costs status

## Non-performing loans ratio

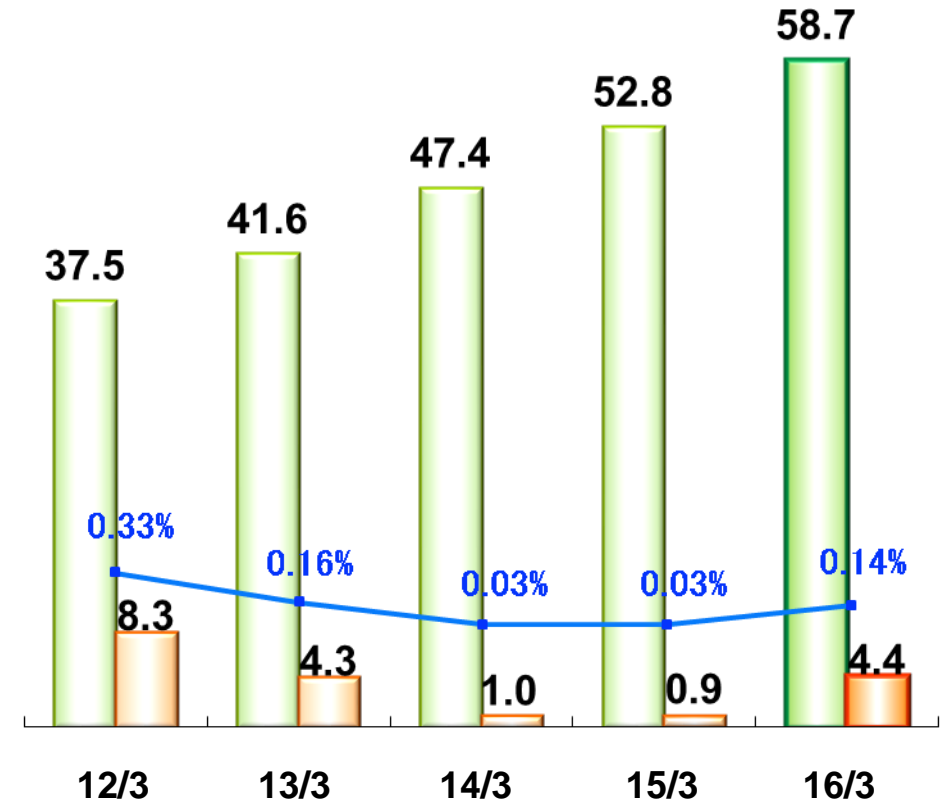
- ◆ Non-performing loans on the Financial Reconstruction Law
- ▲ Non-performing loans from reserves
- Non-performing loans after deduction from reserves, collateral and guarantees



## 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)



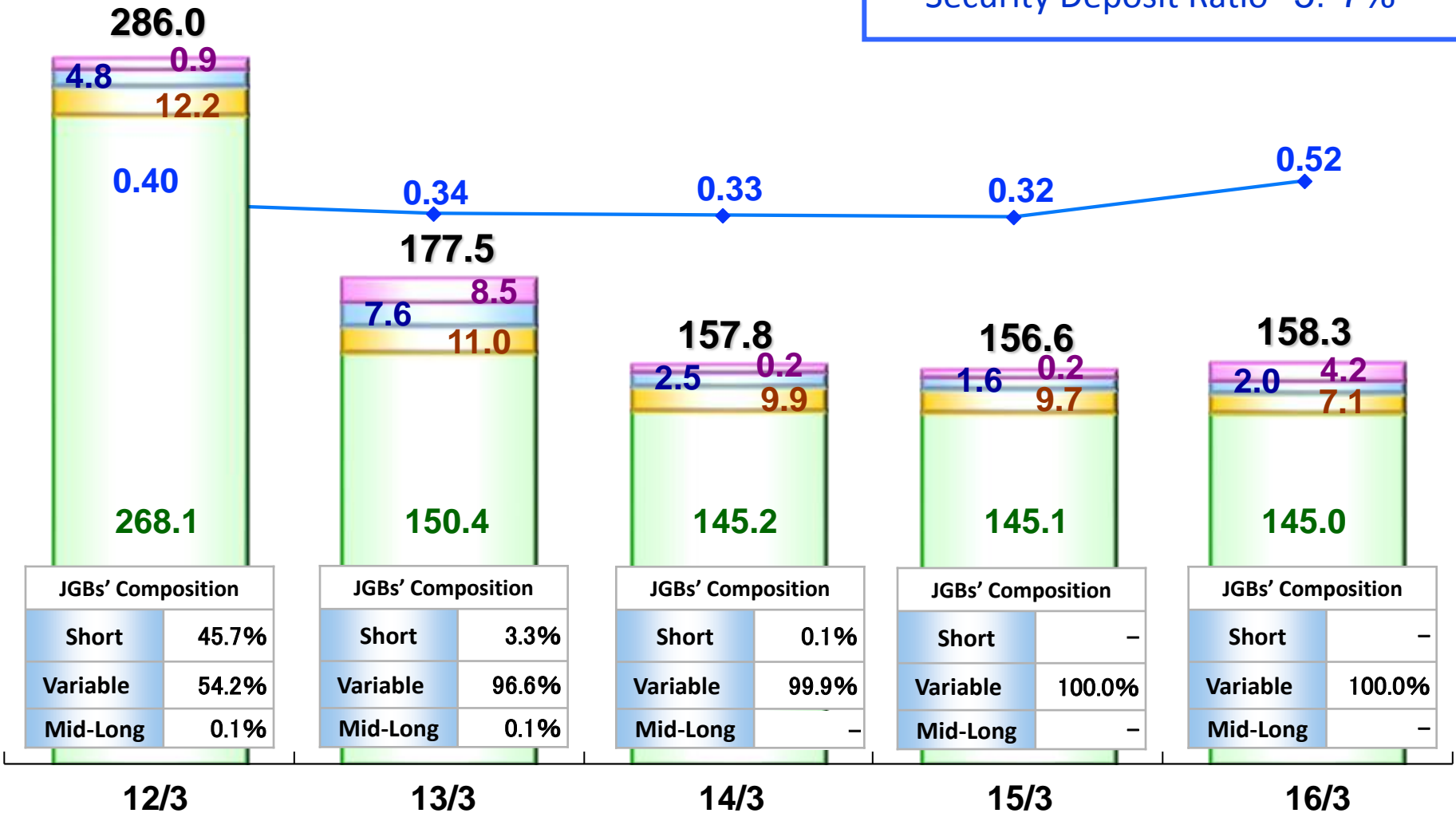
# Bond Portfolio

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

◆ Average remaining maturity (Year)

(billion yen)

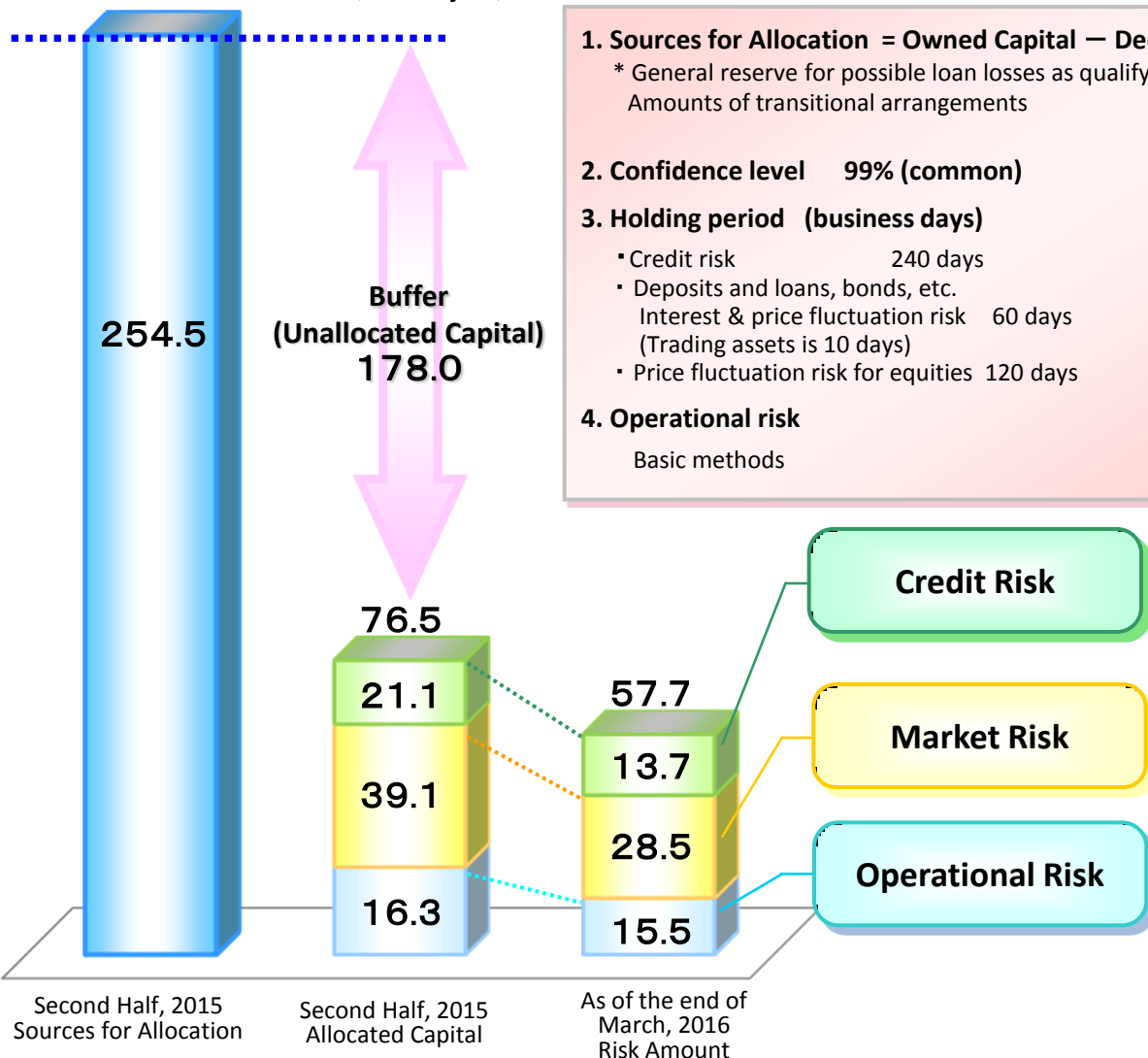
Security Deposit Ratio 5.7%



# Status of Risk Amount

## Integrated Risk Management

(billion yen)



### 1. Sources for Allocation = Owned Capital — Deductions\*

\* General reserve for possible loan losses as qualifying capital, Amounts of transitional arrangements

### 2. Confidence level 99% (common)

### 3. 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

### 4. Operational risk

Basic methods

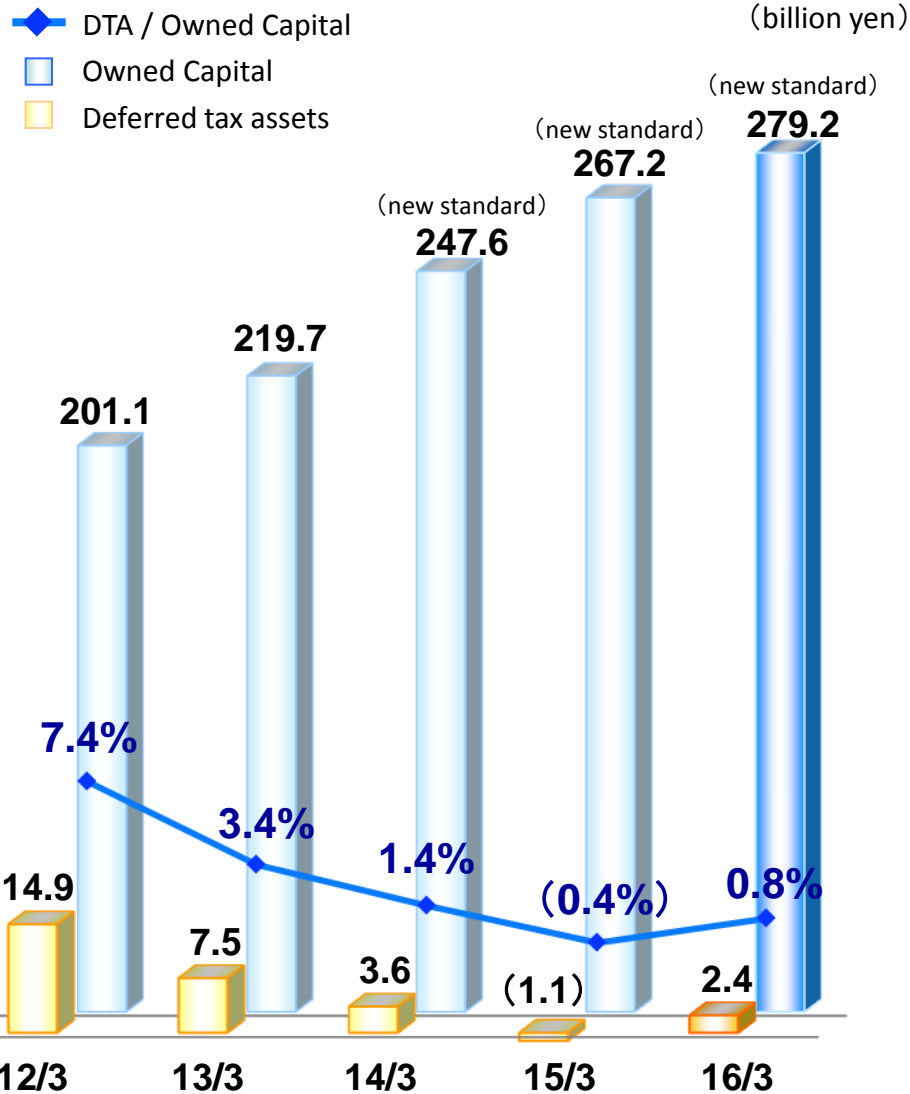
## Outlier Ratio

As of the end of March 2016

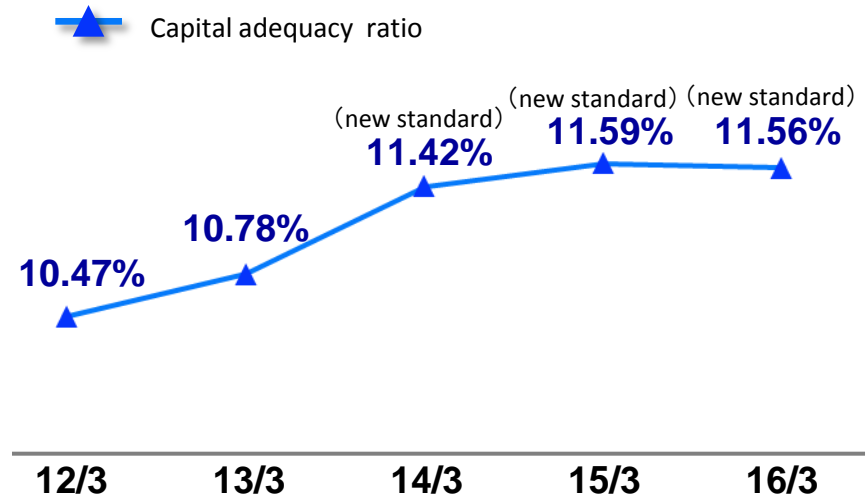
Interest Rate Shock Range	±200bp
Interest Rate Risk Amount	1.6 billion yen
Outlier Ratio	0.5%

# Capital Levels

## Deferred tax assets-Owned Capital

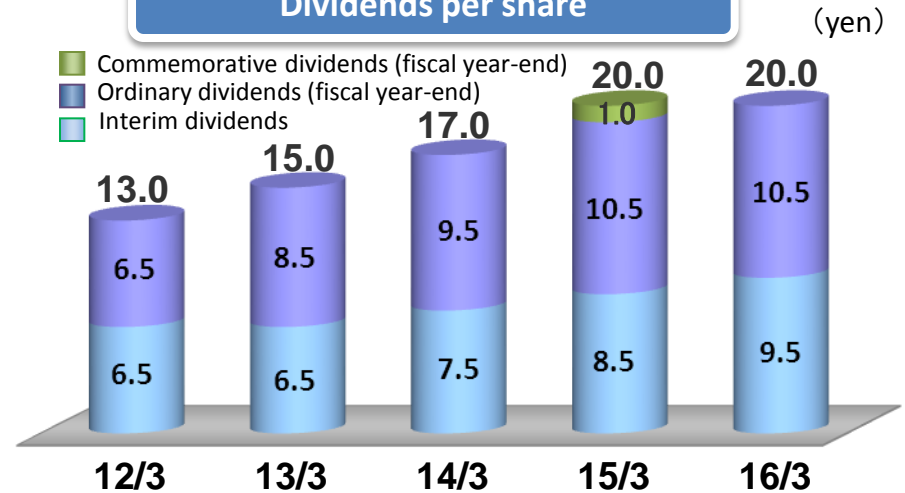


## Capital adequacy ratio



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

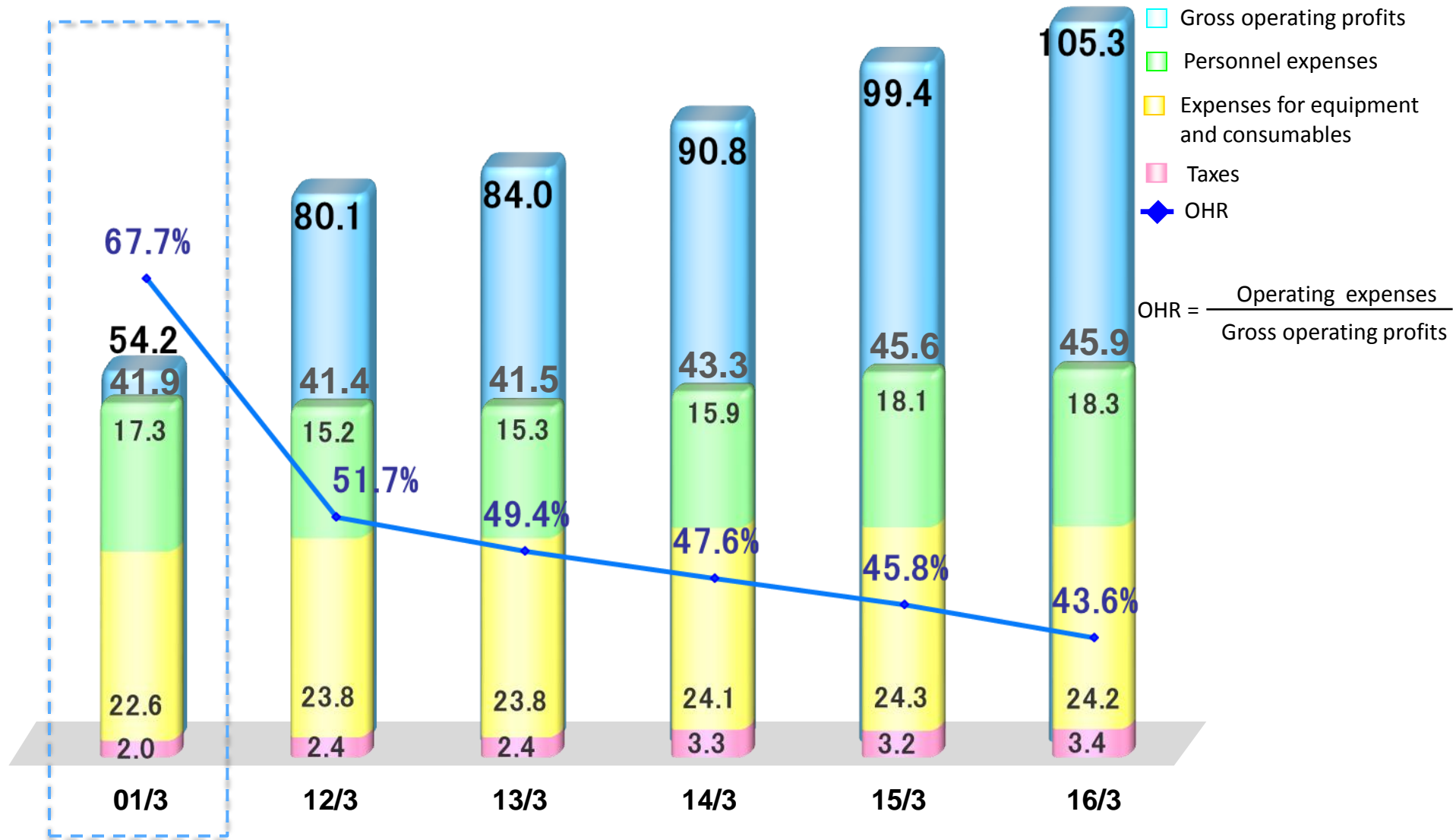
## Dividends per share





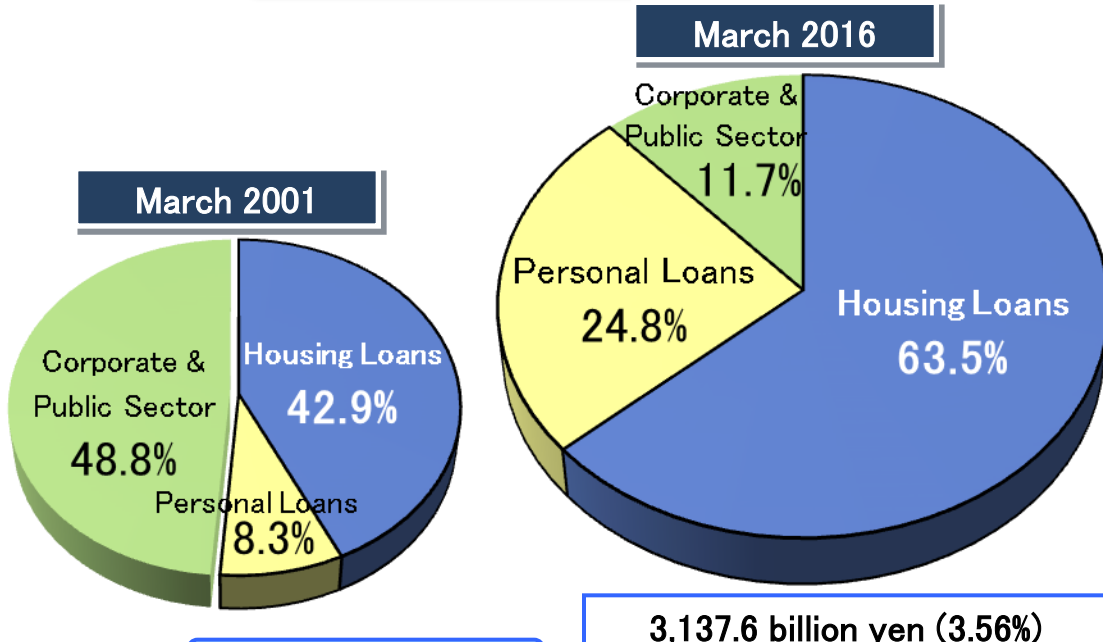
# Expenses and OHR

(billion yen)



# Growth of the Revenue Base over the Past 15 years

Loan Balance by Type



Growth rate: +3.2%

3,137.6 billion yen (3.56%)

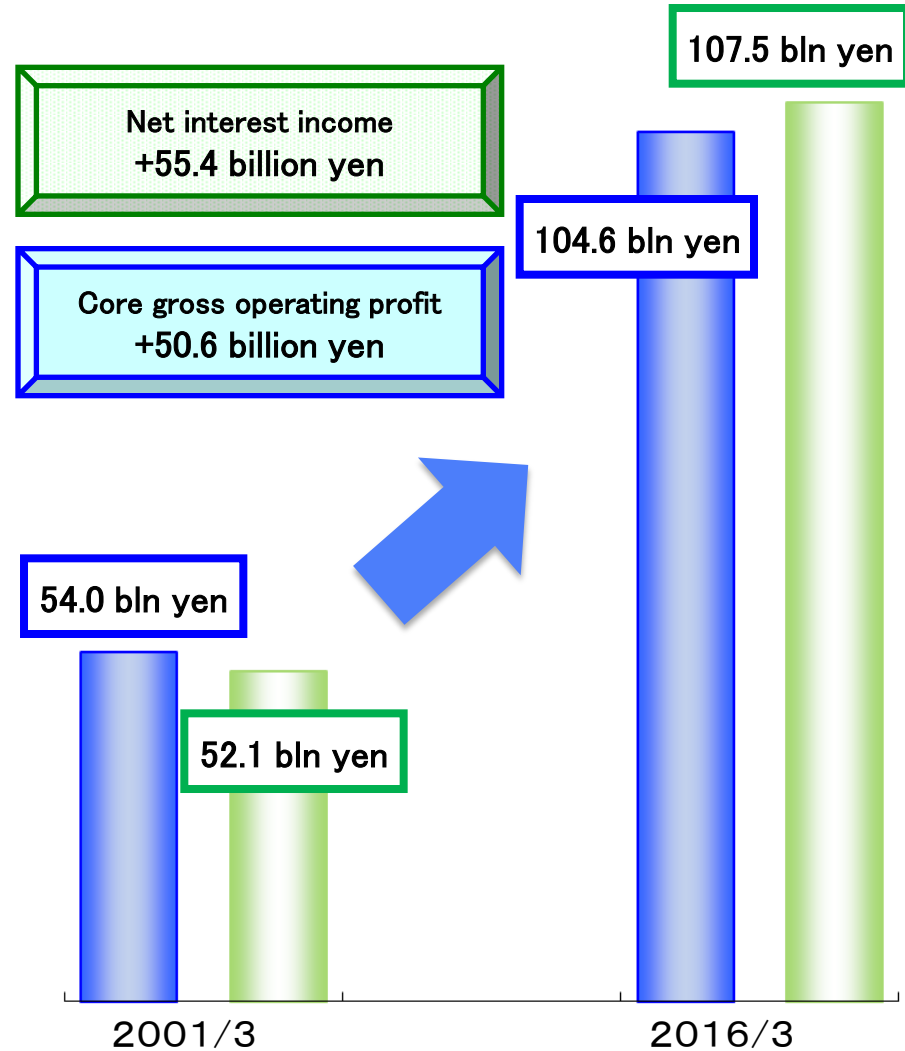
(%) Yield on outstanding Loan

1,955.5 billion yen (3.32%)

	2001/3	2016/3	Change
Consumer loans	51.2%	88.3%	+37.1%
Housing loans	42.9%	63.5%	+20.6%
Personal loans	8.3%	24.8%	+16.5%
Corporate and public sector loans	48.8%	11.7%	(37.1%)
Total	100.0%	100.0%	—

Core Gross Operating Profit Growth

■ Core Gross Operating Profit ■ Net Interest Income



# FY2015 Results and FY2016 Forecast

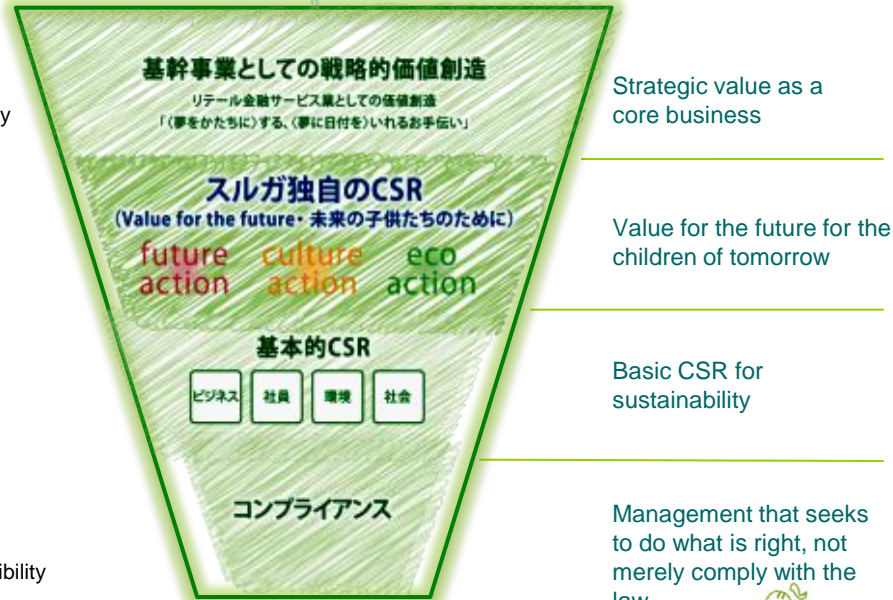
(billion yen)

	FY2014 Results (A)	FY2015 Results (B)	Increase or Decrease (B-A)	FY2016 Forecast
Gross operating profit	99.4	105.3	+ 5.9	108.5
Operating expenses	45.6	45.9	+ 0.3	48.0
Net operating profit	53.8	59.4	+ 5.6	60.5
Core net operating profit	52.8	58.7	+ 5.9	60.5
Ordinary profit	51.8	54.4	+ 2.6	55.0
Net income	32.1	35.8	+ 3.7	37.0
Actual credit costs	0.9	4.4	+ 3.5	4.5
ROE (%) ( net income basis )	13.92	14.12	+ 0.20	13.44
EPS (yen)	135.63	152.28	+ 16.65	159.84
Dividends (yen)	20.0	20.0	—	20.0
Ordinary dividends	19.0	20.0	+1.0	20.0
Commemorative dividends	1.0	—	(1.0)	—

# 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 the future  
Aiming to realize an autonomous society



Tea Ceremony for Children - "Sakura no Chakai"



"Children's Haiku in Autumn" workshop



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



Soccer school



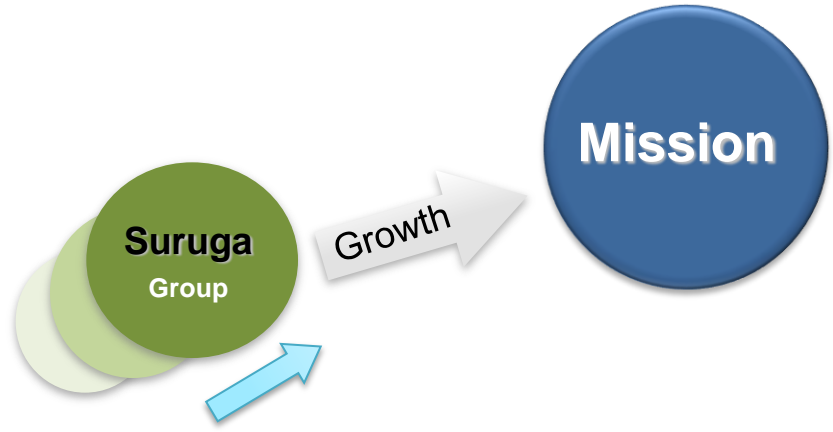
Next generation training support program  
For the children of tomorrow

Seedling for the Future Concert "Kaguya-hime" - performance by Hiroshi Aoshima



# Growth Within Our Corporate Philosophy

## Growth as a Mission-Based Company



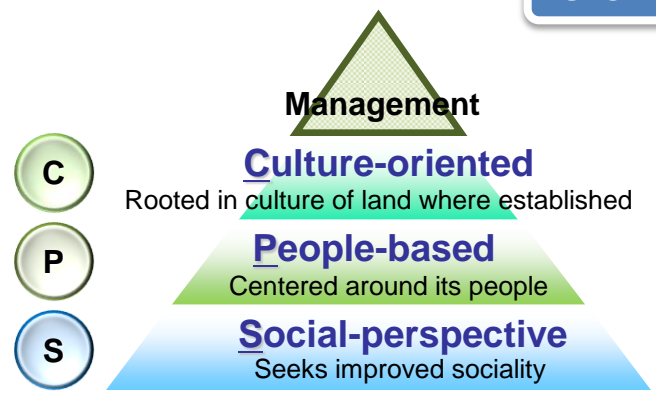
Define growth as making our mission more achievable. As a Life & Business navigator, help make our customers' dreams come true on a timeline that works for them.

## 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.

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