SURUGA bank, Ltd.
Financial Results for the three months ended June 30, 2020

August 14th, 2020

SURUGA bank

■ Actual Results for 1Q,FY3/21;Comparsion with Previous Forecast

・Actual results for the first quarter of the fiscal year ending March 2021 progressed generally in line with the full-year forecast.
・Ordinary income was ¥22.1 billion representing progress of 26.0% towards the full year forecast.
・Actual credit costs were ¥7.3 billion, 52.7% of the forecast of ¥14.0 billion for the first half of the fiscal year, reflecting factors generally in line with the forecast. This is 36.8% progress of the forecast of ¥20.0 billion for the full year, representing progress in line with the full-year forecast, because actual credit costs in the second half of the fiscal year are planned to be ¥6 billion, reflecting the reversal of provision of allowance for loan losses associated with the transfer of share house-related loans in the second half of the fiscal year.
・Although net income (non-consolidated) for the current fiscal year progressed by only 5.6% of the full-year forecast of ¥5 billion due to the progress in actual credit costs, it posted a surplus of ¥200 million contrary to the deficit forecast of ¥4 billion for the first half of the fiscal year.
・Although net income (consolidated) for the current fiscal year progressed by only 8.4% of the full-year forecast of ¥6 billion for the same reason of non-consolidated net income, it posted a surplus of ¥500 million contrary to the deficit forecast of ¥3.5 billion for the first half of the fiscal year.

【Non-consolidated】

	1st Quarter FY3/21 ①	Previous forecast First half	Previous forecast Second half	Previous forecast Full year ②	進捗 ①/②
Ordinary income	22.1	43.0	42.0	85.0	26.0%
Gross operating profit (A)	18.3	36.0	34.0	70.0	26.2%
Expenses (B)	10.4	22.0	21.0	43.0	24.3%
Core net operating profit	7.9	14.0	13.0	27.0	29.3%
Ordinary profit	0.5	0.0	7.0	7.0	8.2%
Net income	0.2	(4.0)	9.0	5.0	5.6%
Actual credit costs (C)	7.3	14.0	6.0	20.0	36.8%
RA gross operating profit (A−C)	11.0	22.0	28.0	50.0	22.0%
OHR (B÷A)	56.8%	61%	61%	61%	
Capital adequacy ratio	10.49%	10.3%		10.8%	

【Consolidated】 (Billions of yen)

	1st Quarter FY3/21 ③	Previous forecast Full year ④	進捗 ③/④
Ordinary income	25.0	96.0	26.0%
Ordinary profit	0.9	8.0	12.1%
Net income	0.5	6.0	8.4%

(Note1) RA (Risk Adjusted) gross operating profit = Gross operating profit - Actual credit costs
(Note2) The earnings forecast for the fiscal year ending March 31, 2021 was calculated with thought to impacts of the coronavirus (COVID-19)pandemic foreseeable at the present time. However, if the impacts continue for a long time, the earnings forecast may be revised, for instance, due to further increase in net credit costs.

Actual credit costs, share house loans <Non-consolidated>

・Actual credit costs of share house-related loans amounted to ¥1.1 billion due to an increase in delinquencies and downgrades of borrowers who suspended their repayment because they wish their loans to be transferred.
The coverage ratio improved by 1.07% from the previous fiscal year-end to 92.36% due to collateral coverage and provision of allowance.

・Actual credit costs for investment property loans were ¥5 billion.

・Actual credit costs and Allowance for loan losses

(Billions of yen)

Item	Actual credit costs 1Q	Allowance for loan losses
Share house-related loans	1.1	103.7
Investment property loans*	5.0	58.6
Housing loans	0.8	5.5
Unsecured loans	0.3	2.9
Business financing loans, etc	0.0	8.8
合計	7.3	179.7

(Note) Investment property loans: one-room apartment loans, single building apartment loans, other secured loans

・Share house loans (status of coverage)

	Total credit balance A		Collateral or guarantees, etc. B	Unsecured portion C	Allowance D	Coverage ratio (B+D)／A
		Share house claims				
Sep. 30, 2019	246.1	199.3	90.6	155.5	135.1	91.74%
Mar. 31, 2020	192.1	154.7	72.7	119.3	102.5	91.29%
Jun. 30, 2020	190.4	154.0	72.1	118.2	103.7	92.36%

(Note1) Based on obligors of share house loans
(Note2) Covered amount : Estimated amount, calculated by multiplying the covered amount including collateral, etc. with a certain ratio.
(Note3) Total credit balance, share house loan receivables : Loans and bills discounted, suspense payments equivalent to loans and bills discounted, and accrued interest on loans and bills discounted.

■ Outstanding balance, yield, delinquency rate by loan category <Non-consolidated>

・The rise in the delinquency rate of individual loans (0.54% increase from the end of March 2020) was mainly due to an increase in the delinquency amount of share house loans to share house-related borrowers and other loans, as well as the postponement of quarterly loan transfers in view of the impact of the novel coronavirus.
<Specific explanation>
・The rise in the delinquency rate of housing loans (0.20% increase from the end of March 2020) was mainly due to an increase in the number of obligors in repayment difficulty, such as company representatives and individual business owners, due to the impact of the novel coronavirus.
・The rise in the delinquency rate of share house loans (3.45% increase from the end of March 2020) was mainly due to the suspension of repayments by borrowers of share house-related loans who wish their loans to be transferred.
・Investment property loans for corporate customers and asset finance remained strong. (¥9.9 billion as of June 30, 2020)

(Billions of yen)

Loan category		Mar. 31, 2020			Jun. 30, 2020		
		Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans		2,099.0	3.12%	4.14%	2,065.5	3.09%	4.70%
	Housing loans	551.3	2.87%	0.59%	537.7	2.86%	0.79%
	One-room apartment loans	195.6	3.41%	1.65%	188.9	3.40%	1.92%
	Single building apartment loans	1,156.1	3.33%	3.34%	1,144.8	3.28%	3.68%
	Share house loans	154.6	1.47%	27.89%	153.9	1.46%	31.34%
	Other secured loans	41.2	4.89%	1.05%	39.9	4.85%	1.29%
Unsecured loans		207.9	10.23%	1.76%	195.7	10.23%	1.93%
	Card loans	138.4	11.52%	0.70%	129.2	11.56%	0.78%
	Unsecured certificate loans	69.4	7.66%	3.88%	66.4	7.65%	4.15%
Consumer loans		2,307.0	3.74%	3.93%	2,261.2	3.69%	4.47%
Corporate loans for property investment and asset finance		6.6	2.19%	–	9.9	2.23%	–

(Note1) Delinquency rate = Loans past due 3 months or more / Loans
(Note2) Yield: Yield for customers (excluding guarantee fee, accrued interest), period-end balance basis
(Note3) Yield of one-room apartment loans, secured loans and consumer loans are calculated based on original claims before securitization.
(Note4) As the balance is aggregated by loan type, if obligors of share house loans default on scheduled repayment, the delinquency rate of other types of loans will be affected.

■Yield / Margins <Non-consolidated>

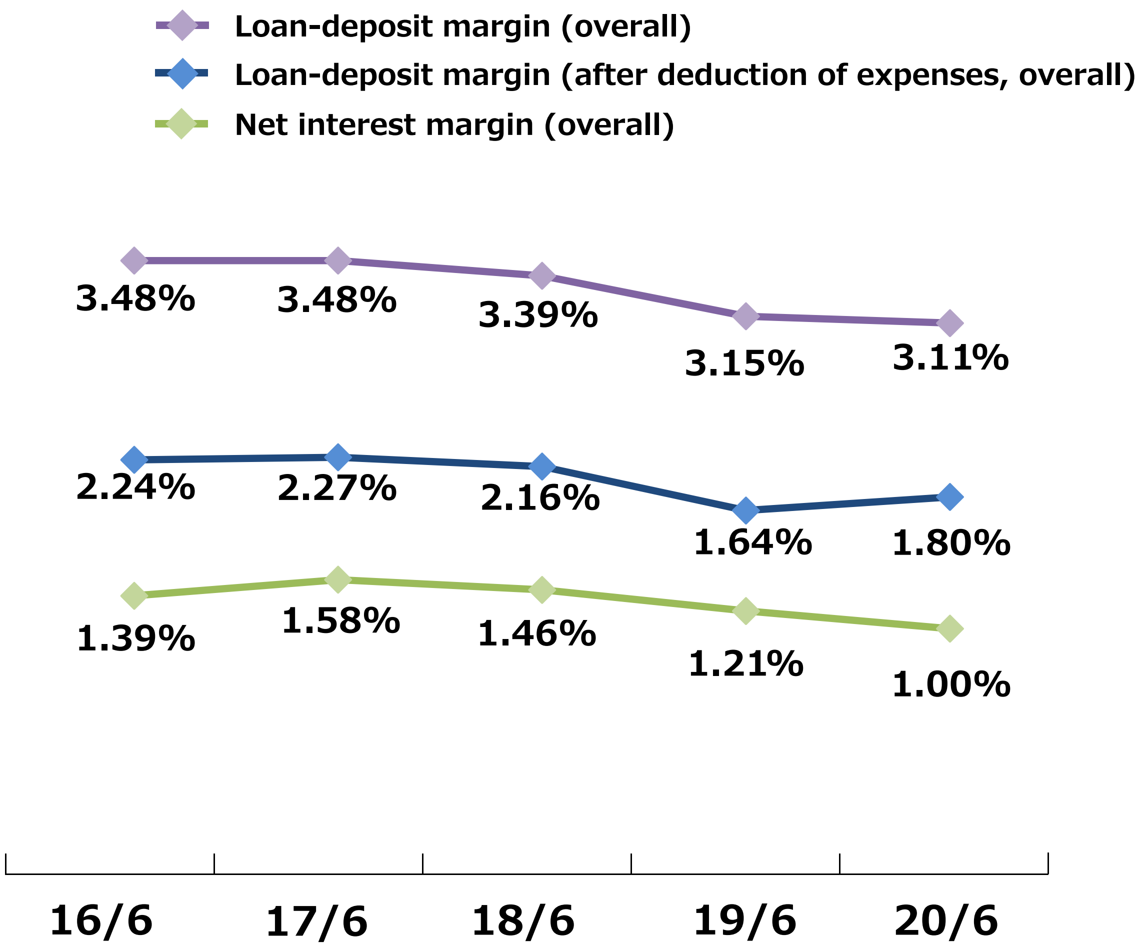
・The loan-deposit margin rose by 0.16% year-on-year to 1.80%, mainly due to a 0.20% decline in the expense ratio resulting from a decrease in expenses and an increase in the average balance of deposits.

・The net interest margin shrank by 0.21% year-on-year to 1.00%, mainly due to a fall in the return on investment stemming from an increase in deposits with the Bank of Japan.

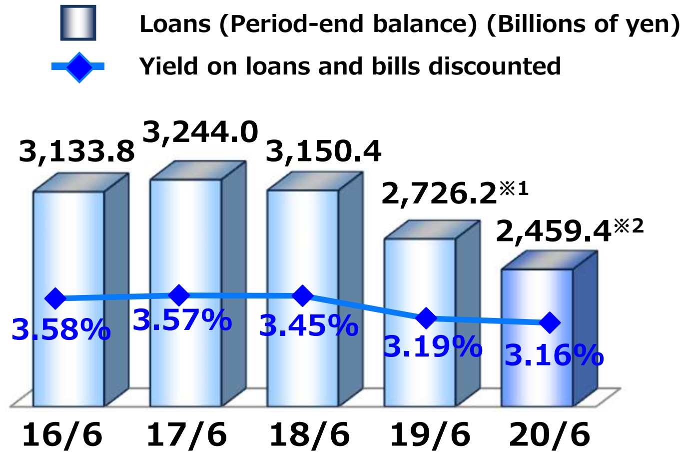
・The loan balance decreased by ¥266.8 billion year-on-year to ¥2,459.4 billion, including about ¥100.0 billion decrease due to special factors.

・The deposit balance increased by ¥129.3 billion year-on-year to ¥3,271.1 billion.

Interest margins (Non-consolidated)



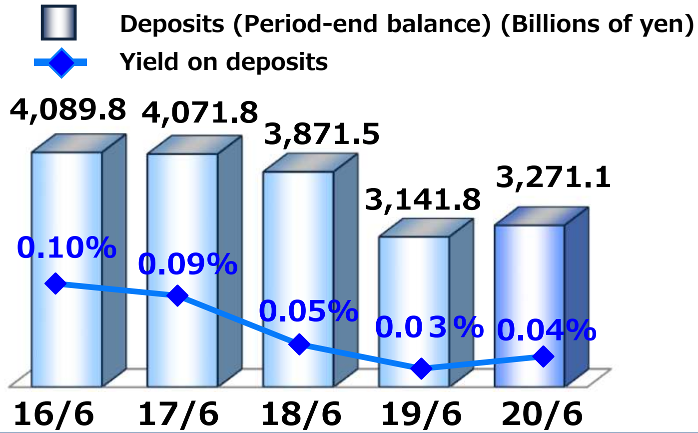
Loans (Period-end balance / Yield)



(Note1)Factors contributing to the decline in the fiscal year ended June 2019 included approximately ¥100.0 billion decrease resulting from the securitization of studio apartment loans.

(Note2)Factors contributing to the decrease in the fiscal year ended June 2020 included approximately ¥100.0 billion decrease associated with the collection of loans from the founder-affiliated companies and the transfer of share house-related loans.

Deposits (Period-end balance / Yield)

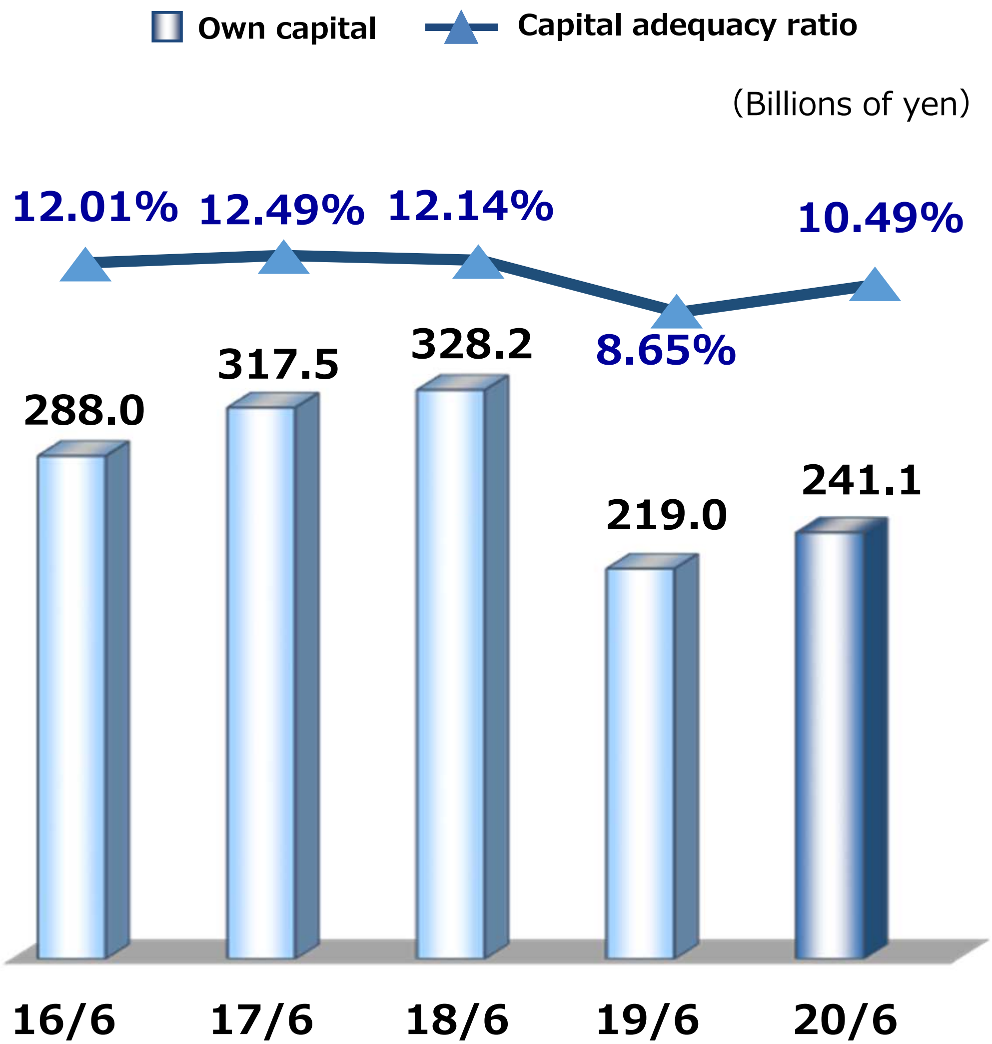


■Capital Levels, Expenses and OHR <Non-consolidated>

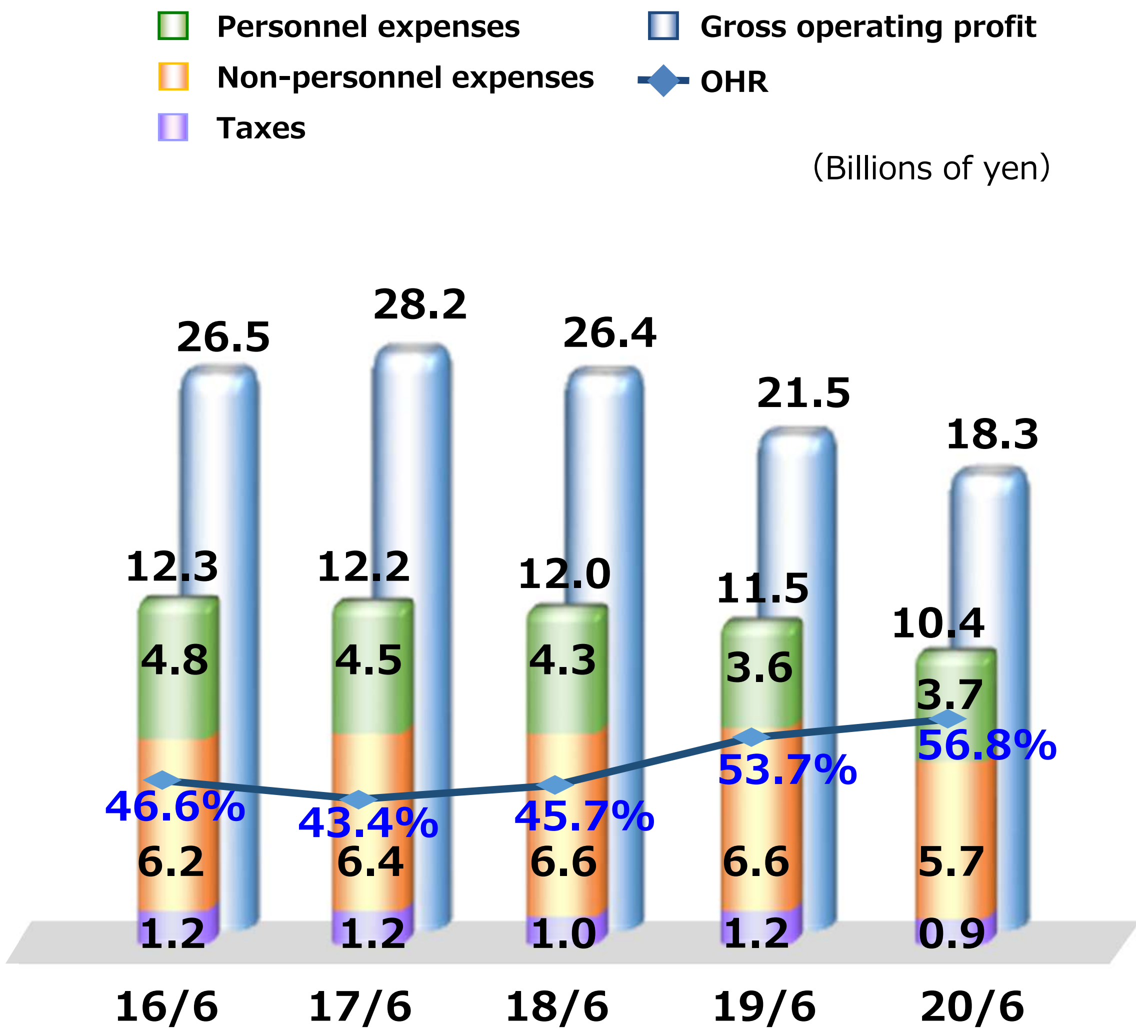
・Capital adequacy ratio (non-consolidated) rose by 184 basis points year-on-year to 10.49%, mainly due to an increase in own capital and a decrease in risk-weighted assets. (10.64% on a consolidated basis)

・The OHR rose by 3.1% year-on-year to 56.8% due to a decline in gross operating profit, despite efforts to reduce expenses based on structural reforms set forth in the medium-term management plan.

Trends of Capital & Capital Adequacy Ratio



Trends of Expenses & OHR



Reference Materials

■On the Business Alliance with Nojima Group

・In May 2020, the Bank concluded the "capital and business alliance agreement" with Nojima Corporation (hereinafter referred to as "Nojima"). The Bank established a new management system with President Nojima of Nojima Corporation as Vice Chairman of the Bank to strengthen the relationship between the two companies.
・It has been determined that mutual introduction of customers, using both Suruga and Nojima group functions and customer bases, will be launched sequentially after August 2020 from various touch points*.
*Stores or branches, websites, EDM, etc.
・Both companies will continue to promote win-win cooperation by leveraging the customer bases of both groups.

Details of the Business Alliance

(1) Joint RetailTech business
(2) Joint development of online services and FinTech business utilizing the customer bases of both companies
(3) Collaboration in sales strategies,such as sales of mutual products and sales promotion at stores and branch offices of two companies
(4) Discounted cross-selling of Nojima's products and services to Suruga Bank's customers
(5) Regional revitalization centered on the Greater Tokyo Area and Tokai region

Nojima

Nojima Group's broad business portfolio

- Digital appliance specialty store operation business
- Mobile carrier handset shop operation business
- Internet business
- Overseas business & others

Nojima Group's customer contact points

Kanagawa | Shizuoka | Tokyo | Online

SURUGA bank

Rebuild a sustainable business model on the unique retail infrastructure of Suruga Bank

- CRM* to support consulting sales
- New businesses
  - ✔Alliances with 3rd parties
  - ✔Use of API integration platforms
- Sophisticated digital marketing

*Customer Relationship Management

Business expansion using the Bank's infrastructure

Shizuoka & Kanagawa × Tokyo metropolitan area & other major cities area × Online

Aiming for synergies between "Nojima, which aims to build a new type of business for the IoT age and beyond" and "Suruga Bank, which aims to improve financial functionality to help solve customers' problems."

Actual Results for the three months ended June 30, 2020 year-on-year

- Gross operating profit decreased by ¥3.1 billion year-on-year to ¥18.3 billion, mainly due to a decrease in interest on loans and bills discounted.
- Expenses decreased by ¥1.1 billion year-on-year to ¥10.4 billion as a result of efforts to reduce expenses based on structural reforms set forth in the medium-term management plan.
- Net operating profit increased by ¥5.7 billion to ¥12.6 billion due mainly to the reversal of provision of general allowance for loan losses (transferred to specific allowance) caused by the suspension of repayment by borrowers of share house-related loans who wish their loans to be transferred.
- Net income (non-consolidated) decreased by ¥3.1 billion year-on-year to ¥200 million, mainly due to an increase in the disposal of non-performing loans and a decrease in net gain on stocks.
- Net income (consolidated) decreased by ¥3.3 billion year-on-year to ¥500 million for the same reason as non-consolidated.

<Non-consolidated>

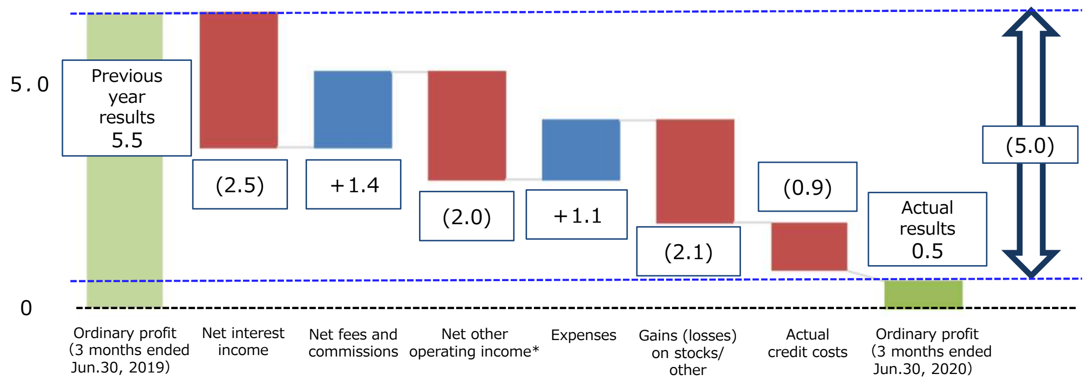
(Billions of yen)

	1st Quarter FY3/20	1st Quarter FY3/21	Year-on-year Change
Gross operating profit	21.5	18.3	(3.1)
Expenses	11.5	10.4	(1.1)
Core net operating profit	9.9	7.9	(2.0)
Net operating profit	6.9	12.6	+5.7
Ordinary profit	5.5	0.5	(5.0)
Net income	3.4	0.2	(3.1)
Actual credit costs	6.4	7.3	+0.9
ROE (%) (net income basis)	6.40%	0.47%	(5.92%)
Profit attributable to owners of parent	3.8	0.5	(3.3)
Earnings per share (yen) (consolidated)	16.6	2. 1	(14.4)

Factors causing variation in ordinary profit (year-on-year basis)

	Main factors
Net interest income	・Decline in interest on loans (average balance factors (-2.6 billion yen), yield factors (-200 million yen))
Net fees and commission	・Reduction in fees related to securitization
Net other operating income	・Reduction in profit on sales of securitization accounts receivable (-1.9 billion yen)
Expenses	・Decrease in non-personnel expenses (expense for investigation of all loans, etc., was recorded in the previous year)
Gains (losses) on stocks / other	・Reduction in gain on sales of cross-held stocks after elimination of such stocks (-1.8 billion yen)
Actual credit costs	・Increased delinquencies and downgrades of share house-related borrowers who suspended their repayment because they wish their loans to be transferred (+2.2 billion yen)

(Billions of yen)



(Note) excluding gains (losses) on bonds

SURUGA bank

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