

SURUGA bank, Ltd.
Financial Results for the nine months ended
December 31, 2019

February 14th, 2020
SURUGA bank

Financial results for the nine months ended December 31, 2019.

- Core net operating profit for the 3Q was 9.2 billion yen and cumulative 29.0 billion yen for the 1Q – 3Q, which was slightly higher than the forecast. (Previous forecast for the FY3/20 was 36.0 billion yen, and the achievement rate was 80%)
- With regard to actual credit costs, although the Bank reversed all 13.4 billion yen in provisions of allowance for loan losses in line with collection of loans from the founder-affiliated companies, the Bank increased provision of allowance for loan losses due to the specific factor (*) regarding single building apartment loans to 1.4 billion yen for the 3Q and cumulative 7.8 billion yen for the 1Q – 3Q.
- Non-consolidated net income was 2.9 billion yen for the 3Q and cumulative 18.5 billion yen for the 1Q – 3Q.
- Consolidated net income was 3.4 billion yen for the 3Q and cumulative 19.4 billion yen for the 1Q – 3Q.

(Note) Specific factor: Among obligors who requested exemption for repayment of part of the principal amount of loans, the Bank lowered the classification of obligors who requested moratorium on scheduled repayment under the policy of their attorneys-at-law after carefully examining the possibility of collection of loans.

(Billions of yen)

	1Q	2Q	3Q	FY3/20 1Q – 3Q	Factors of changes compared with the 2Q
Gross operating profit	21.5	20.9	19.8	62.2	• Decrease in net interest income (primarily decrease in interest on loans)
Expenses	11.5	10.9	10.5	32.9	
Core net operating profit	9.9	9.9	9.2	29.0	• There was reversal of provision for general allowance for loan losses for the 2Q resulting from reviewing the expected loss rate based on results.
Net operating profit	6.9	11.4	6.3	24.6	• There was reversal of provision of individual allowance for loan losses for the 2Q resulting from upgrading the obligor classification.
Ordinary profit	5.5	13.8	8.1	27.4	
Net income	3.4	12.2	2.9	18.5	• -0.1 billion yen was posted for the 2Q. ① Reviewing the expected loss rate based on results ② Upgrading the obligor classification (improvement in their earnings, relaxation of repayment conditions, etc.)
Actual credit costs	6.4	(0.1)	1.4	7.8	• 1.4 billion yen was posted for the 3Q. ① In line with collection of loans from the founder-affiliated companies, the Bank reversed provisions for loan losses (-13.4 billion yen). ② The Bank increased provision for loan losses due to the specific factor (*) mentioned above) regarding single building apartment loans.
Profit attributable to owners of parent	3.8	12.1	3.4	19.4	

Earnings Forecast for the FY3/20

- With a view of the financial results for the 3Q, the forecast for the FY3/20 **was revised upward**.
- The forecast for ordinary income was increased by 1.0 billion yen to 104.0 billion yen due primarily to an increase in interest on loans compared with the previous forecast for the FY3/20.
- The forecast for actual credit costs was decreased by 5.0 billion yen from 19.0 billion yen of the previous forecast to 14.0 billion yen with a view of the result of 7.8 billion yen for the 3Q. For the 4Q, 6.2 billion yen is expected in a conservative estimate in consideration of the result of 6.4 billion yen for the 1Q.
- The forecast for net income (non-consolidated) was increased by 5.0 billion yen from the forecast before the revision to 20.0 billion yen due primarily to the decrease in actual credit costs mentioned above.
- The forecast for net income (consolidated) was increased by 5.5 billion yen from the previous forecast to 21.0 billion yen.

(Billions of yen)

	FY3/20 1Q – 3Q	Previous forecast FY3/20 (A)	Current forecast FY3/20 (B)	Change (B) - (A)
Ordinary income	81.1	103.0	104.0	+1.0
Core net operating profit	29.0	36.0	37.0	+1.0
Net operating profit	24.6	33.0	34.0	+1.0
Ordinary profit	27.4	22.0	29.0	+7.0
Net income	18.5	15.0	20.0	+5.0
Actual credit costs	7.8	19.0	14.0	(5.0)
ROE (%) (Net income basis)	11.4	6.7	8.6	+1.9
Profit attributable to owners of parent	19.4	15.5	21.0	+5.5
Earnings per share (yen) (Consolidated)	83.9	66.9	90.6	+23.7

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

- Based on the repayment agreement concluded with the founder-affiliated companies (announced on October 25, 2019), the Bank proceeded with collecting loans from them, reducing the loan balance to 1.8 billion yen as of December 31, 2019 (-41.4 billion yen compared with September 30, 2019). As the balance is 100% secured with collateral, the Bank reversed all the provisions of 13.4 billion yen for their allowance for loan losses.
- For investment property loans, actual credit costs of 15.7 billion yen were posted for the 3Q due mainly to the specific factor (*).
- For share house loans, actual credit costs were reduced by 1.9 billion yen for the 3Q due mainly to elimination of delinquency resulting from continued relaxation of repayment conditions from the previous quarter as well as upgrading the obligor classification for improvement in their earnings.

(Note) Specific factor: Among obligors who requested exemption for repayment of part of the principal amount of loans, the Bank lowered the classification of obligors who requested moratorium on scheduled repayment under the policy of their attorneys-at-law after carefully examining the possibility of collection of loans.

Actual credit costs and Allowance for loan losses

(Billions of yen)

Item	Actual credit costs		allowance
	FY3/20 1Q – 3Q	3Q	
Share house-related loans	(4.8)	(1.9)	133.1
Investment property loans	23.9	15.7	61.2
Housing loans	1.0	0.6	2.5
Unsecured loans	0.4	0.2	1.0
Loans to founder-affiliated companies	(13.4)	(13.4)	–
Business financing other than loans to Founder-affiliated companies, etc.	0.7	0.2	3.9
Total	7.8	1.4	202.0

(Note) Investment property loans: Studio apartment loans, Single building apartment loans, Other secured loans

Share house loans (Status of coverage)

(Billions of yen)

	Total		Collateral or guarantees, etc. B	Unsecured portion C	Allowance D	Coverage ratio (B+D)/A
	A	Share house claims				
Mar. 31, 2019	250.3	201.9	91.4	158.8	139.3	92.20%
Sep. 30, 2019	246.1	199.3	90.6	155.5	135.1	91.74%
Dec. 31, 2019	244.4	198.4	91.1	153.2	133.1	91.79%

(Note) Based on obligors of share house loans

(Note) Covered amount: Estimated amount, calculated by multiplying the covered amount including collateral, etc. with a certain ratio.

(Note) 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 increase in the delinquency rate of consumer loans (up 0.83% compared with September 30, 2019) was due mainly to an increase in the delinquency rate of single building apartment loans which account for about 50% of all the consumer loans.
- The increase in the delinquency rate of single building apartment loans (up 1.08% compared with September 30, 2019) was mainly because, among loans to obligors who requested exemption for repayment of part of the principal amount of loans, loans to obligors who also requested moratorium on scheduled repayment became overdue. (Specific factor on P1)
- The delinquency rate was raised partly because delinquent obligors of share house loans were also delinquent on other loans.
- The Bank launched corporate loans for property investment and asset finance published in the mid-term management plan. (Balance of 4.2 billion yen as of December 31, 2019)

(Billions of yen)

Loan category	Dec. 31, 2019			Sep. 30, 2019		
	Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans	2,186.9	3.14%	5.91%	2,231.5	3.17%	5.03%
Housing loans	567.0	2.87%	0.66%	582.0	2.88%	0.46%
Studio apartment loans	203.7	3.41%	1.50%	213.0	3.42%	1.32%
Single building apartment loans	1,175.2	3.38%	3.46%	1,193.0	3.41%	2.38%
Share house loans	198.3	1.80%	42.57%	199.2	1.83%	40.66%
Other secured loans	42.5	4.89%	0.99%	44.3	4.89%	0.91%
Unsecured loans	214.9	10.18%	2.00%	223.8	10.16%	1.69%
Card loans	142.0	11.47%	0.73%	147.6	11.45%	0.69%
Unsecured certificate loans	72.9	7.67%	4.49%	76.2	7.66%	3.63%
Consumer loans	2,401.9	3.76%	5.57%	2,455.4	3.79%	4.74%
Corporate loans for property Investment and asset finance	4.2	2.06%	—	—	—	—

(Note) Delinquency rate = Loans past due 3 months or more / Loans

(Note) Yield: Yield for customers (excluding guarantee fee, accrued interest), period-end balance basis

(Note) Yield of studio apartment loans, secured loans and consumer loans are calculated based on original claims before securitization.

(Note) 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.

Reference materials

Actual Results for the nine months ended December 31, 2019 year-on-year

(Billions of yen)

<Non-consolidated>

	9 months ended Dec.31, 2018 (A)	9 months ended Dec.31, 2019 (B)	Year-on-year Change (B) - (A)
Gross operating profit	78.2	62.2	(16.0)
Expenses	35.4	32.9	(2.4)
Core net operating profit	42.3	29.0	(13.2)
Net operating profit	13.1	24.6	+11.4
Ordinary profit	(77.4)	27.4	+104.8
Net income	(94.0)	18.5	+112.6
Actual credit costs	128.1	7.8	(120.3)

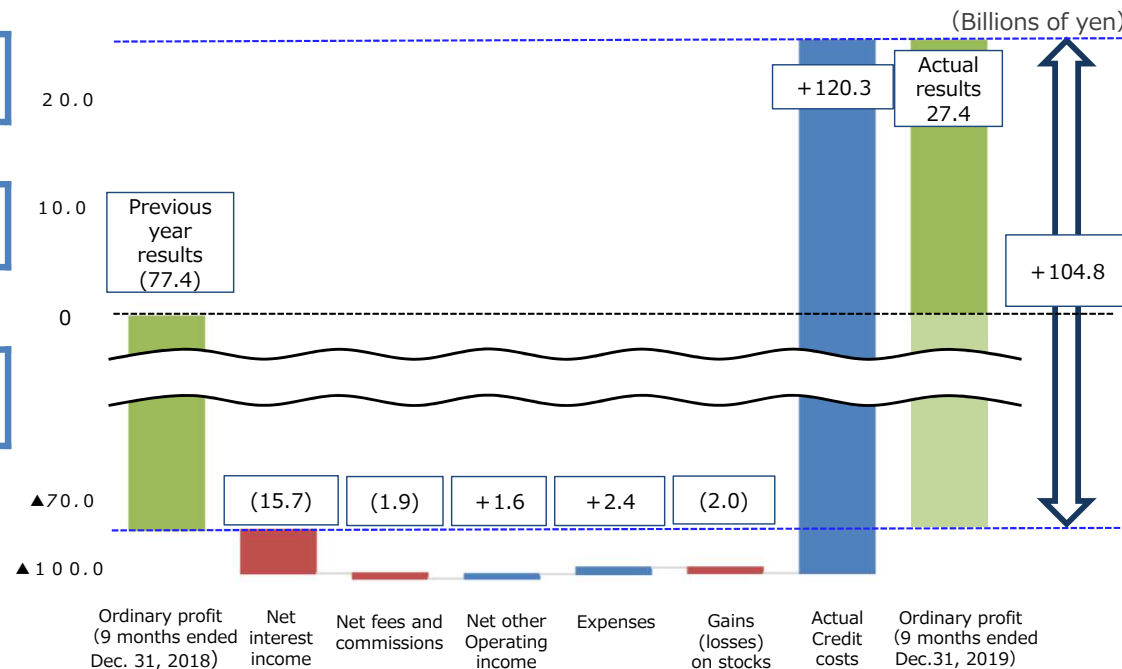
Factors that increase or decrease profit (year-on-year basis)

	Main factors
Net interest income	<ul style="list-style-type: none"> • Decrease in interest on loans (due to a decrease in the average loan balance: -9.9 billion yen, and due to a decrease in yield: -3.0 billion yen) • Decrease in interest and dividends on securities (-3.0 billion yen)
Net fees and commissions	• Fees related to securitization
Net other operating income	• Profit on sales of securitized accounts receivable
Expenses	<ul style="list-style-type: none"> • Decrease in personnel expenses (for overtime work, bonus etc.) • Decrease in non-personnel expenses (drop in costs of business improvement, including expenses for investigation of all cases)
Gains (losses) on stocks	• Decrease in gain on sales of cross-held stocks after elimination of such stocks (-2.0 billion yen)
Actual credit costs	• Decrease in provision of allowance for loan losses(Main factor for the increase in the previous term: share house loans)

ROE (%) (net income basis)	(39.2)	11.4	+50.6
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Profit attributable to owners of parent	(96.1)	19.4	+115.6
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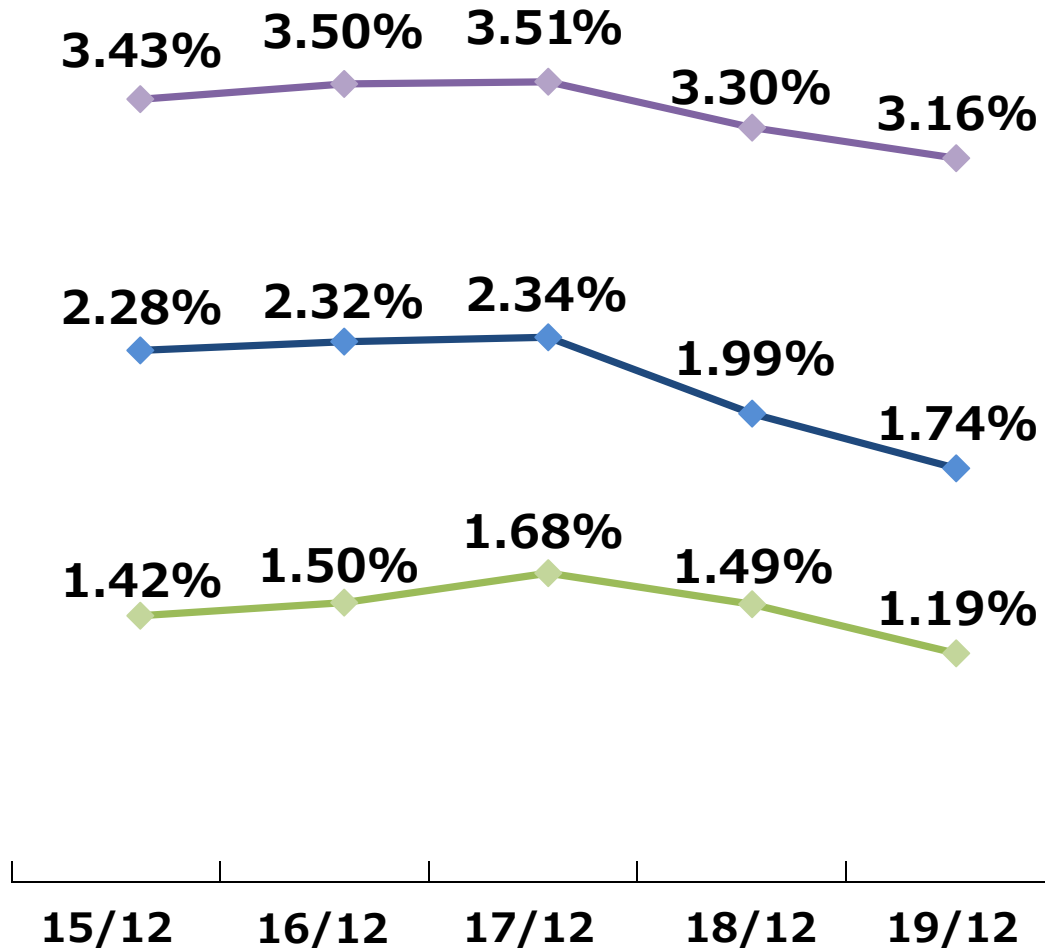
Earnings per share (yen) (consolidated)	(415)	83	+498
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Yield / Margins <Non-consolidated>

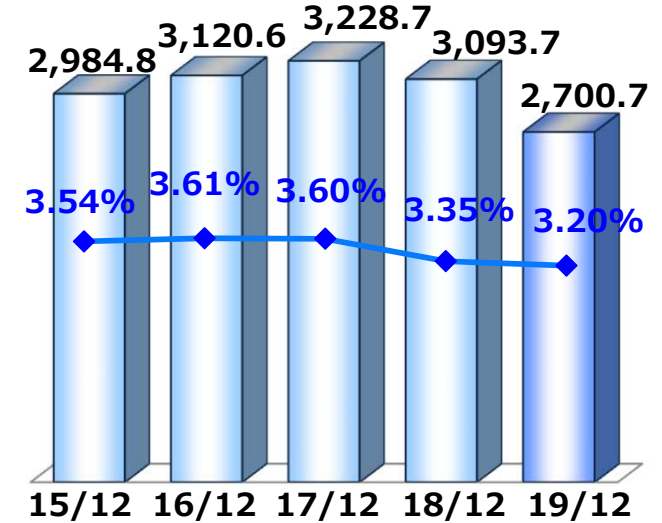
Interest margins (Non-consolidated)

- Loan-deposit margin (overall)
- Loan-deposit margin (after deduction of expenses, overall)
- Net interest margin (overall)



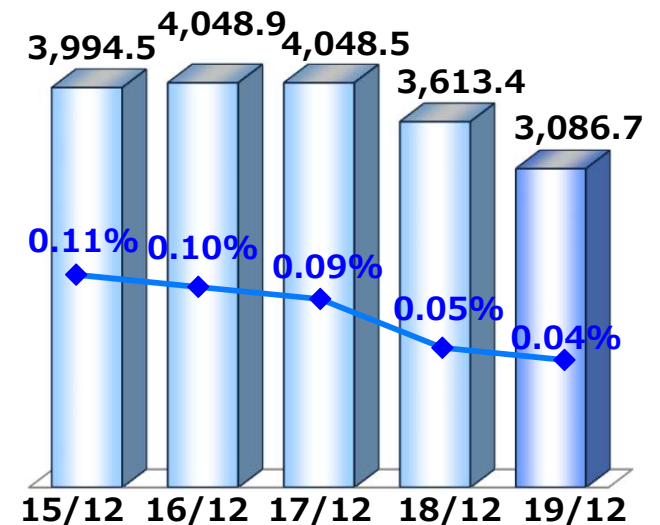
Loans (Average balance / Yield)

- Loans (Average balance) (Billions of yen)
- Yield on loans and bills discounted



Deposits (Average balance / Yield)

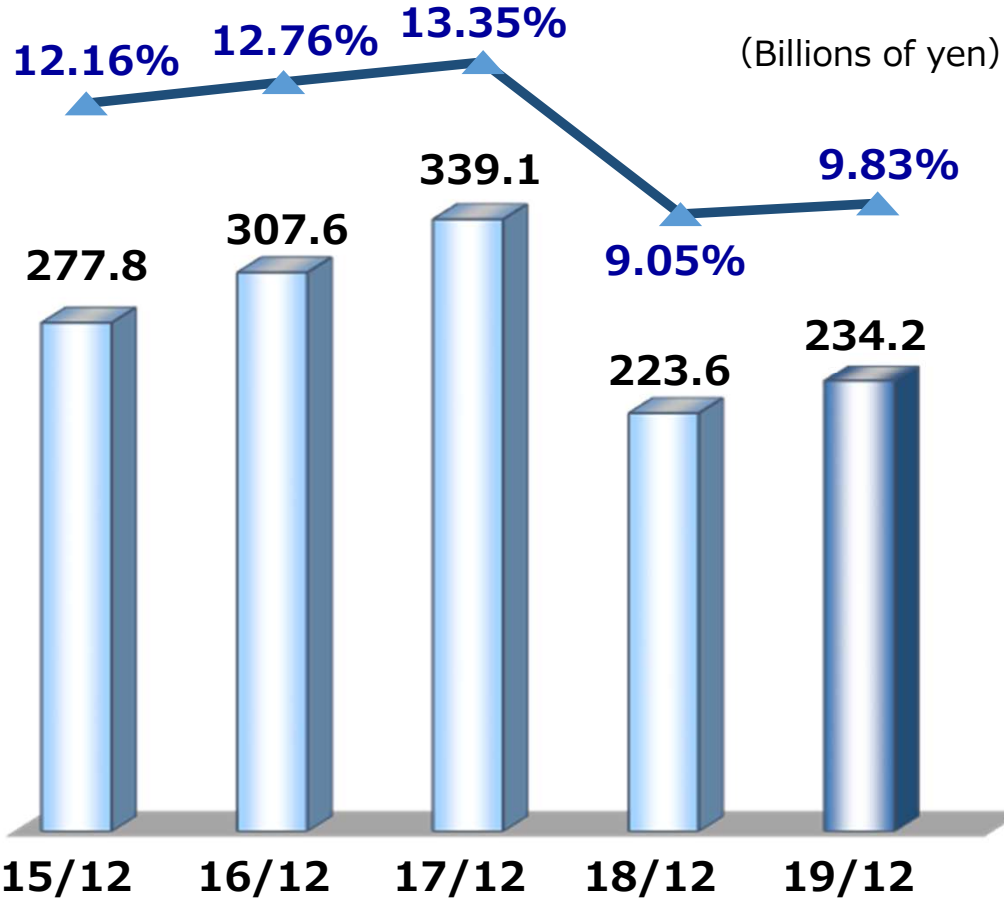
- Deposits (Average balance) (Billions of yen)
- Yield on deposits



Capital Levels Expenses and OHR

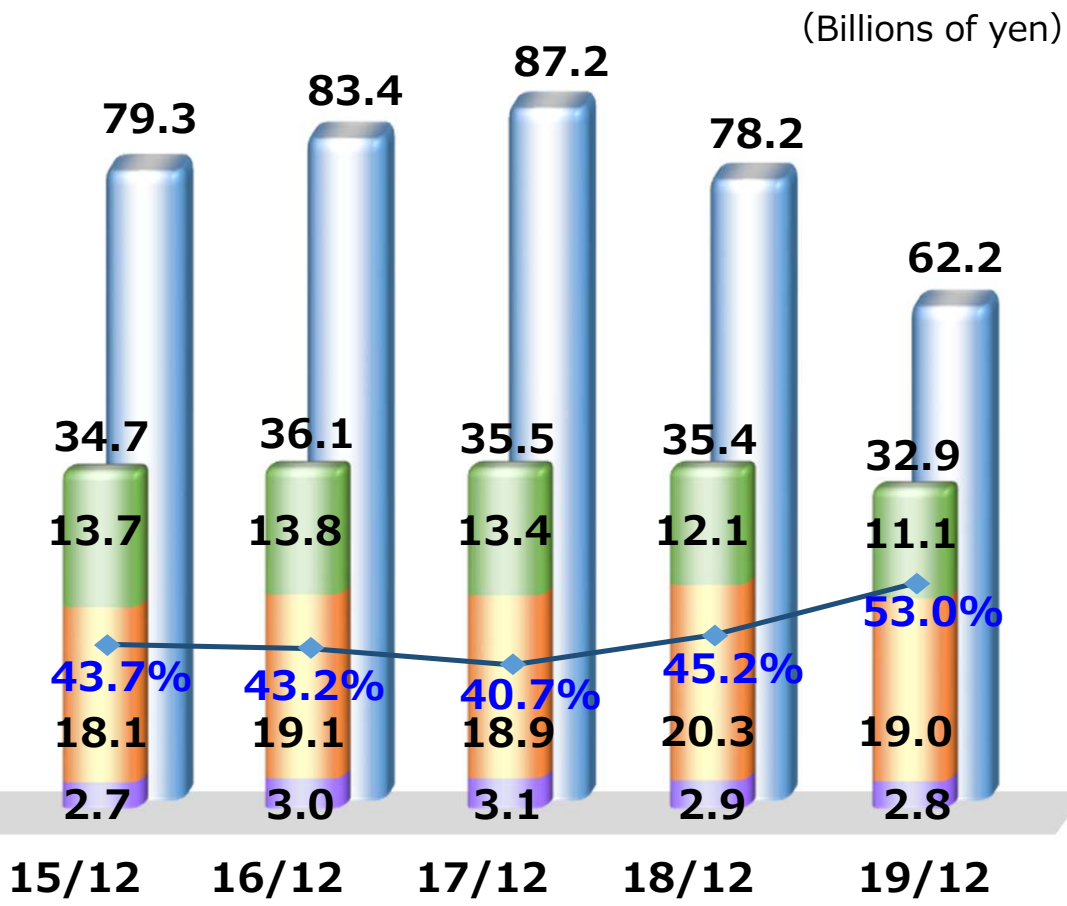
Own capital <Non-consolidated>

- ▲ Capital adequacy ratio
- Own capital



Expenses and OHR <Non-consolidated>

- Gross operating profit
- Personnel expenses
- Non-personnel expenses
- Taxes
- ◆ OHR



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