SURUGA bank, Ltd.

Financial Results for FY3/20

May 26th, 2020

SURUGA bank

■ Table of Contents

Ⅰ Financial Results for FY3/20

Ⅱ Mid-Term Management Plan “Re:Start 2025” Progress Status

Ⅲ COVID-19 Pandemic Response

Ⅳ Earnings Forecast

Ⅴ TOPICS

■ Actual Results for FY3/20

<Non-consolidated>

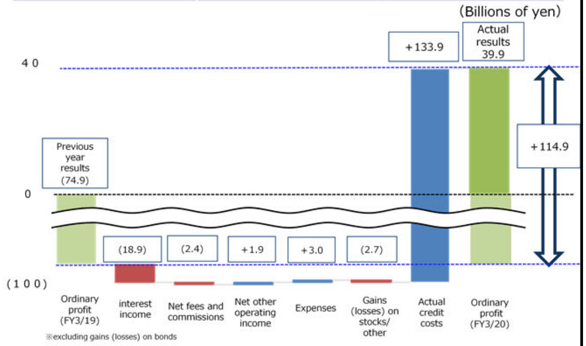
(Billions of yen)

	FY3/19	FY3/20	Year-on-year
Gross operating profit	99.9	80.3	(19.6)
Expenses	46.8	43.7	(3.0)
Core net operating profit	52.6	36.3	(16.2)
Net operating profit	26.4	36.5	+10.1
Ordinary profit	(74.9)	39.9	+114.9
Net income	(97.0)	24.4	+121.4
Actual credit costs	136.3	2.4	(133.9)
ROE (%) (Net income basis)	(30.6)	11.3	+41.9
Profit attributable to owners of parent	(97.1)	25.3	+122.4
Earnings per share (yen) (Consolidated)	(419.3)	109. 3	+528.6

Factors causing variation in ordinary profit (comparison with previous year)

	Main factors
Net interest income	・Decline in interest on loans (average balance factors (-12.4 billion yen), yield factors (-3.8 billion yen)) ・Decline in interest and dividends on securities (-3.1 billion yen)
Net fees and commission	・Fees related to securitization
Net other operating income	・Profit on sales of securitized accounts receivable (+1.9 billion yen)
Expenses	・Decrease in personnel expenses(overtime allowance, bonuses, etc.) ・Decrease in non-personnel expenses(expense for investigation of all loans, etc., was recorded the previous year)
Actual credit costs	・Decrease in provision for allowance for loan losses (primary cause for debt carried over from preceding period: share house-related loans) ・Provision of allowance for loan losses (i) Collection of loans from the founder-affiliated companies (-13.4 billion yen) (ii) Share house loan borrowers : transfer of loan receivables and improved debtor classification (-13.3 billion yen)

(Billions of yen)



・Core net operating profit, which reflects the Bank's core business, declined by ¥16.2 billion year-on-year to ¥36.3 billion, primarily due to a decline in interest on loans and bills discounted.

・Actual credit costs were ¥2.4 billion, a reduction of ¥133.9 billion year-on-year, due to significant provision of allowance for loan losses related to share house loans, etc., in FY3/19 and the reversal of provision of allowances for loan losses related to founder-affiliated companies and share house-related loan receivables in FY3/20.

・Net income increased ¥121.4 billion year-on-year to ¥24.4 billion due to a significant improvement in actual credit costs, even as extraordinary losses of ¥9.4 billion such as impairment loss on real estate holdings were recorded as part of structural reform initiatives set forth in the Mid-Term Management Plan to further strengthen the financial foundation.

・Profit attributable to the owners of the parent increased by ¥122.4 billion year-on-year to ¥25.3 billion on a consolidated basis.

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

・**Actual credit costs and Allowance for loan losses**

(Billions of yen)

Item	Actual credit costs FY3/20	Q4 (Jan. 2020 – Mar. 2020)	Allowance
Share house-related loans	(13.3)	(8.5)	102.5
Investment property loans	22.1	(1.8)	58.9
Housing loans	1.0	0.0	2.7
Unsecured loans	0.3	(0.1)	1.0
Loans to founder-affiliated companies	(13.4)	–	–
Business financing other than loans to founder-affiliated companies, etc.	5.7	5.0	8.8
Total	2.4	(5.4)	174.1

(Note) Investment property loans: studio apartment loans, single building apartment loans, other secured loans

・**Share house loans (non-performing loans based on the Financial Reconstruction Law)**

(Billions of yen)

	Total credit balance	Claims against bankrupt and substantially bankrupt obligors	Claims with collection risk	Claims for special attention	Subtotal (Non-performing loans)	Normal assets
Mar. 31, 2019	250.3	86.5	51.0	88.0	225.6	24.6
Sep. 30, 2019	246.1	89.9	41.1	97.7	228.8	17.3
Mar. 31, 2020	192.1	45.9	28.9	100.7	175.5	16.5

・**Share house loans (status of coverage)**

(Billions of yen)

	Total credit balance A	Share house claims	Collateral or guarantees, etc. B	Unsecured portion C	Allowance D	Coverage ratio (B+D)／A
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%
Mar. 31, 2020	192.1	154.7	72.7	119.3	102.5	91.29%

(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.

・Actual credit costs of borrowers of share house loans resulted in reversal of ¥13.3 billion due to reduction of the allowance for loan losses accompanying the transfer of loan receivables, reduced delinquency accompanying changes in terms and conditions, etc., and improvement of the debtor classifications due to improved earnings of customers.

・As for the status of coverage of share house loans, the ratio of coverage by collateral and allowance has been maintained at 91% even after the transfer of share house-related loan receivables in March.

・Actual credit costs of investment property loans was ¥22.1 billion for the full year.

The main reason was provision of more than ¥11 billion in allowance for credit losses in Q3 because 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 loan.

・Investment property loans resulted in reversal of ¥1.8 billion in Q4 due to the following factors:

① Reduced delinquency through continuous support of long-delinquent borrowers

② Restart of transfer of loan receivables.

・Actual credit costs for business financing other than for founder family-affiliated companies were ¥5.0 billion in Q4 due to additional provision of allowance for loan losses regarding major obligors subject to claims above a certain amount, in light of impacts of the COVID-19 pandemic and the business conditions, etc.

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

(Billions of yen)

Loan category		Mar. 31, 2019			Mar. 31, 2020		
		Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans		2,424.4	3.24%	4.31%	2,099.0	3.12%	4.14%
	Housing loans	618.6	2.89%	0.27%	551.3	2.87%	0.59%
	Studio apartment loans	329.4	3.44%	0.85%	195.6	3.41%	1.65%
	Single building apartment loans	1,226.9	3.51%	1.58%	1,156.1	3.33%	3.34%
	Share house loans	201.9	1.99%	39.76%	154.6	1.47%	27.89%
	Other secured loans	47.6	4.88%	0.62%	41.2	4.89%	1.05%
Unsecured loans		240.3	10.09%	1.50%	207.9	10.23%	1.76%
	Card loans	157.2	11.37%	0.59%	138.4	11.52%	0.70%
	Unsecured certificate loans	83.1	7.68%	3.21%	69.4	7.66%	3.88%
Consumer loans		2,664.8	3.86%	4.05%	2,307.0	3.74%	3.93%
Corporate loans for property investment and asset finance		–	–	–	6.6	2.19%	–

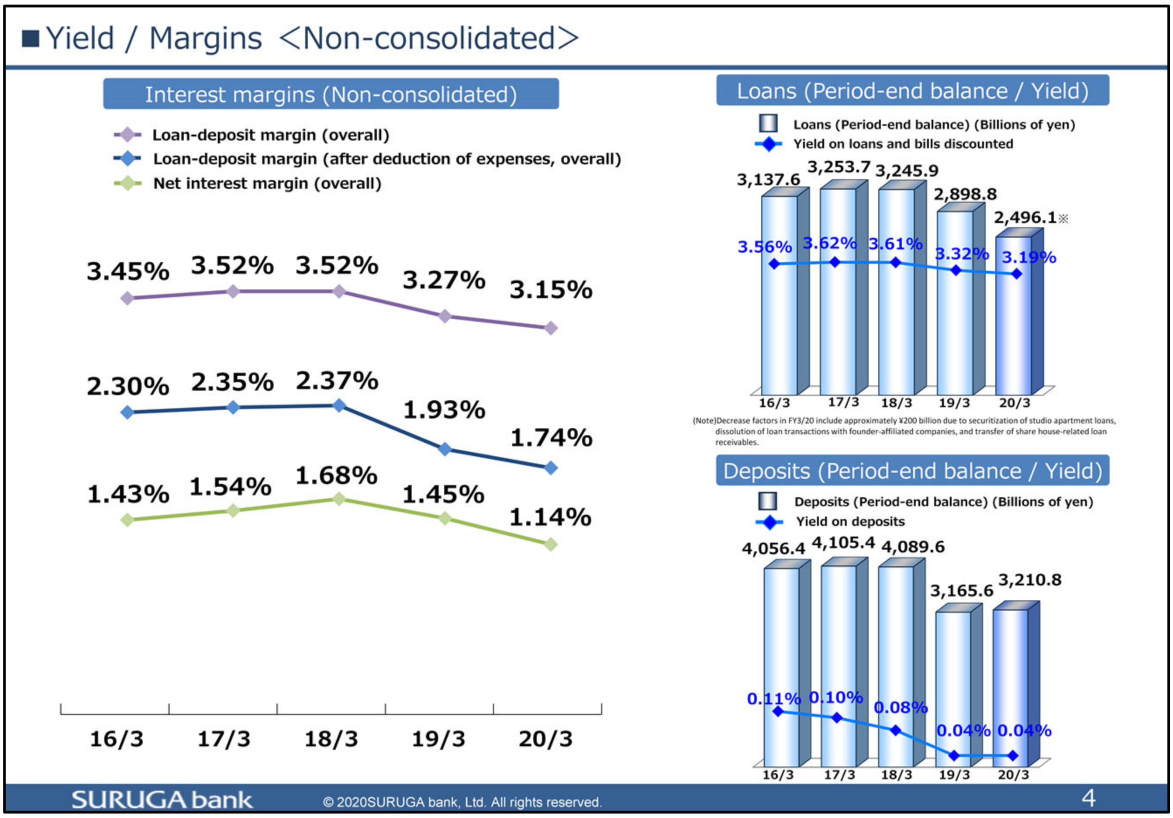
(Note) Delinquency rate = Loans past due 3 months or more / Loans
(Note) Yield: Yield for customers (excluding guarantee fee, accrued interest), period-end balance basis
(Note) Yield of studio apartment loans, secured loans and consumer loans are calculated based on original claims before securitization.
(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.

・The total outstanding balance of consumer loans declined ¥357.8 billion year-on-year to ¥2,307 billion, the yield declined 0.12% year-on-year to 3.74% and the delinquency rate declined 0.12% to 3.93%.

・Specific factors impacting the reduced balance and improved delinquency rate are: securitization of studio apartment loans (approximately ¥108 billion) and transfer of share house-related loan receivables (approximately ¥44 billion).

The period-end balance of share house loans decreased ¥47.3 billion compared to the end of FY3/19 and the delinquency rate declined 11.87% year-on-year.

・The balance of corporate loans for property investment and asset finance, mentioned in the Mid-Term Management Plan, was ¥6.6 billion at the end of FY3/20.



・The loan-deposit margin declined 0.19% year-on-year to 1.74% due to a 0.13% decline in yield on loans and bills discounted and a 0.07% increase in the expense ratio in the yield on interest bearing liabilities.

・The net interest margin declined 0.31% year-on-year to 1.14% primarily due to a decline in yield on loans and bills discounted as well as a 0.24% decline in yield on interest earning assets and a 0.07% increase in yield on interest bearing liabilities.

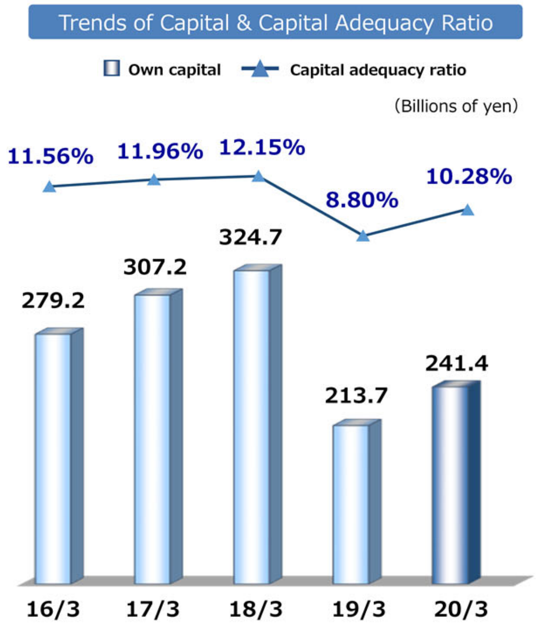
・The period-end balance of loans declined ¥402.7 billion year-on-year to ¥2,496.1 billion, primarily due to a decline in consumer loans.

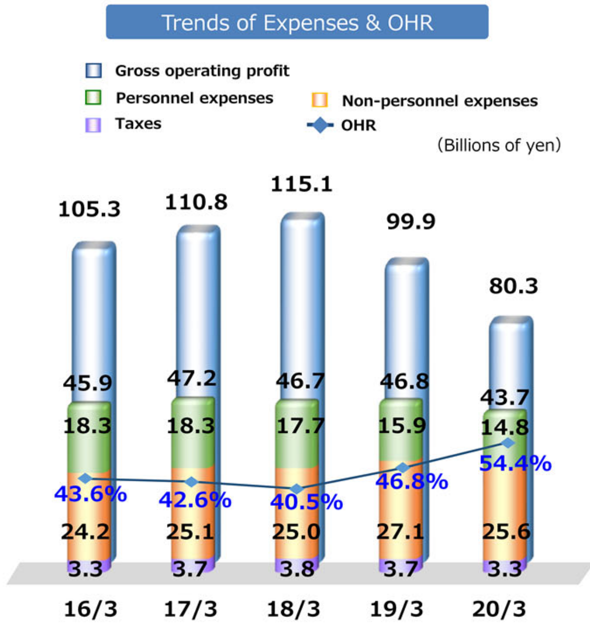
However, the decline in the balance at the end of FY3/20 included approximately ¥200 billion due to the following specific factors:

① securitization of studio apartment loans (approximately ¥108 billion)
② recovery of loans to founder family-affiliated companies (approximately ¥48 billion)
③ transfer of share house-related loan receivables (approximately ¥44 billion)

・Deposits increased ¥45.1 billion year-on-year to ¥3,210.8 billion.
Deposits by individuals also increased by ¥9.4 billion year-on-year.

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





・The capital adequacy ratio at the end of FY3/20 was 10.28% on a non-consolidated basis and 10.42% on a consolidated basis.

・Expenses declined ¥3.0 billion year-on-year as a result of structural reform according to the reduction policy set forth in the Mid-Term Management Plan.

・The OHR increased year-on-year to 54.4% due to the decline in gross operating profit despite the reduction in expenses.

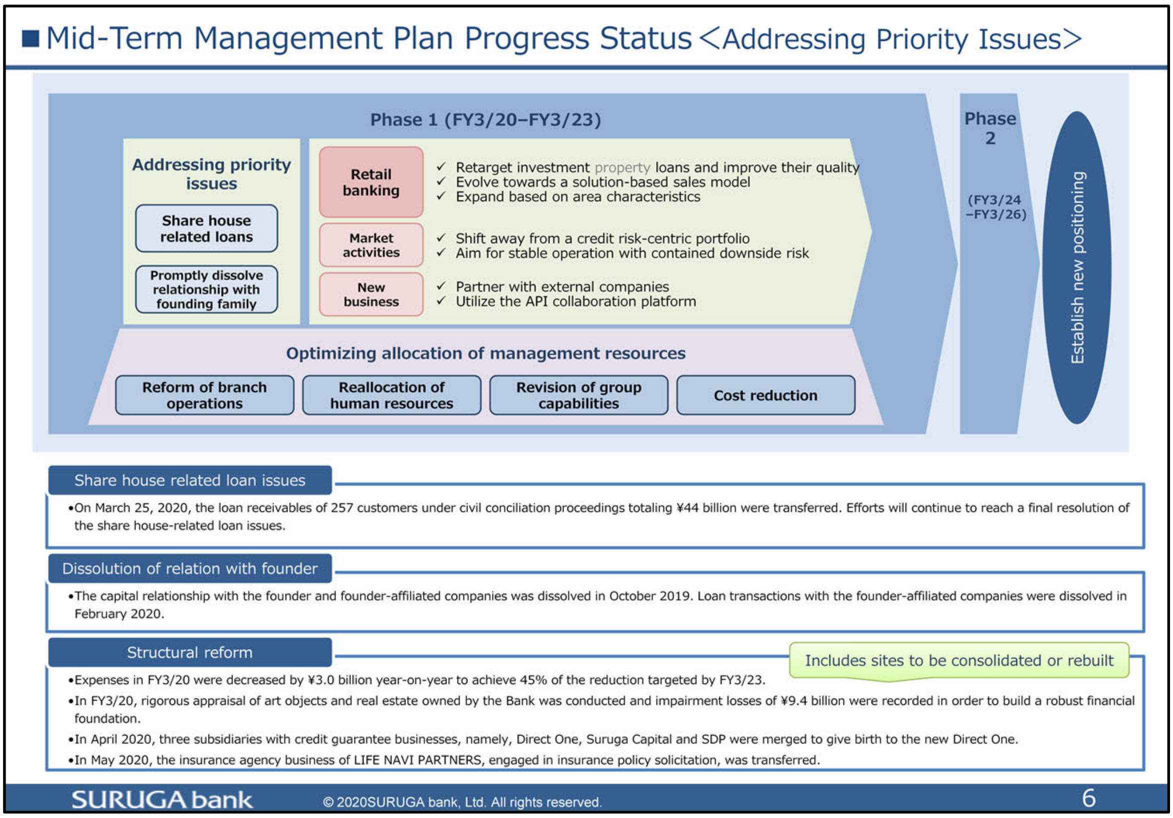
Ⅰ Financial Results for the FY3/20

Ⅱ Mid-Term Management Plan “Re:Start 2025” Progress Status

Ⅲ COVID-19 Pandemic Response

Ⅳ Earnings Forecast

Ⅴ TOPICS



・The Mid-Term Management Plan until FY3/26 positions roughly the next three years as Phase 1, in which the Bank aims to reestablish a sustainable business model.

・The prospects look good for solving the two issues raised as priority issues.

The transfer of share house-related loan receivables to a third party closed on March 25, 2020. The share house-related loan receivables totaling ¥44 billion of 257 customers under civil conciliation proceedings were transferred. Efforts will continue to reach a final resolution of the share house-related loan issues.

Dissolution of the capital relationship and loan transactions with the founder was completed in February 2020. The Bank will establish a new organizational culture and create the "image of the New Suruga Bank" that brings satisfaction to the hearts of customers and a sense of meaning to employees.

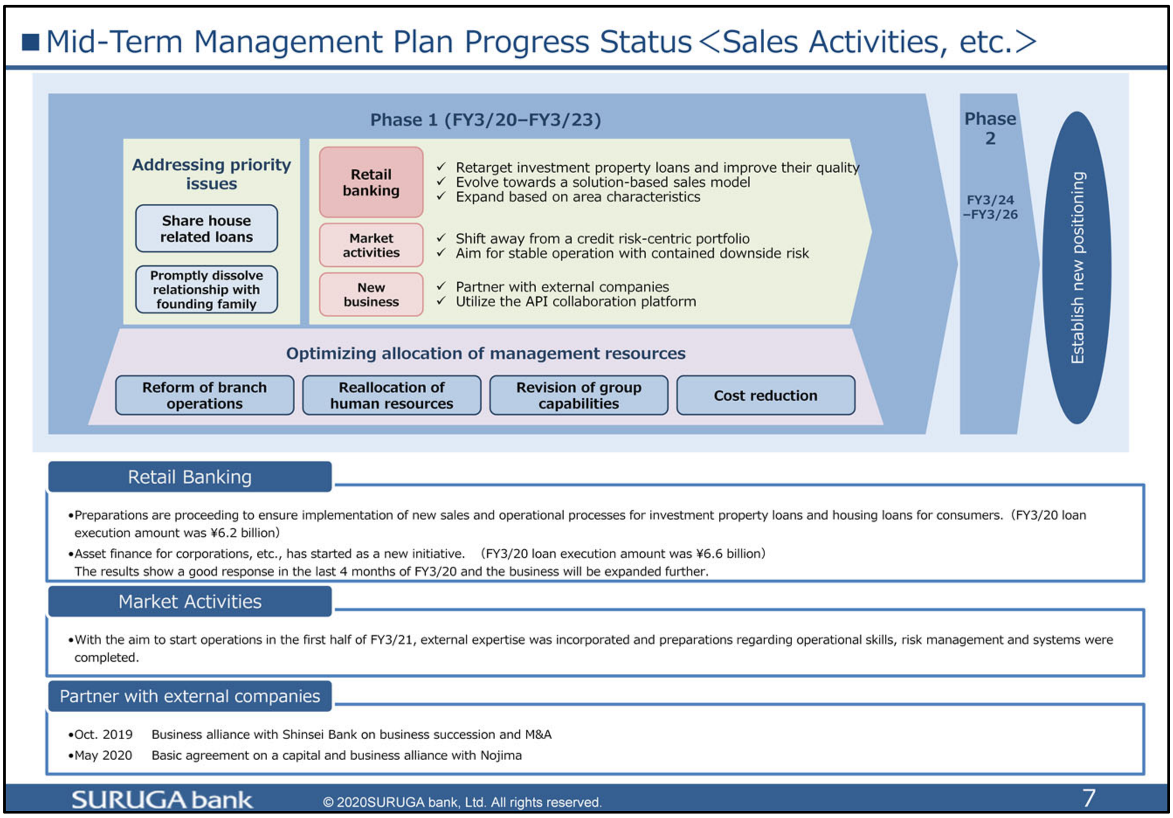
・We have begun to implement structural reform and establish a business foundation to promote new business strategies.

Expenses in FY3/20 were decreased ¥3.0 billion year-on-year to achieve 45% of the reduction targeted in Phase 1.

In order to build a robust financial foundation for establishment of a sustainable business model, rigorous appraisal of art objects and real estate owned by the Bank was conducted and impairment losses of ¥9.4 billion were recorded. (Impairment losses were recorded for branches and headquarter facilities due to be consolidated or rebuilt)

Upon review of functions in line with strategy to boost profitability across the entire group, the Bank's three subsidiaries with credit guarantee businesses, namely, DIRECTONE, Suruga Capital and SDP were merged to give birth to the new DIRECTONE on April 1, 2020. (Reference materials available)

Furthermore, the insurance agency business of Life NAVI PARTNERS, engaged in insurance policy solicitation, was transferred in May 2020.



・Regarding investment property loans, the Bank will aim for transition to a middle risk-middle return business model with reduced risk compared to conventional businesses, also newly targeting the affluent customer segment, while re-building sales channels for each segment, introducing screening models using DSCR and other quantitative indices, and promoting new sales and operational processes.

・Housing loans have been restarted on the Bank’s proprietary platform utilizing loan screening knowhow based on a database built up over the years to deliver custom products tailored to each customer in this core competency market.

・Corporate asset finance is off to a good start and the business will be expanded further as the Bank's presence increases.

・Regarding market activities, a foundation is being put in place to enable investment in securities with characteristics that are complementary to credit risks. Preparations are complete for start of activities in the first half of FY3/21.

Going forward, the Bank will start controlling the portfolio, including loans, with the aim of diversifying risk and stabilizing earnings.

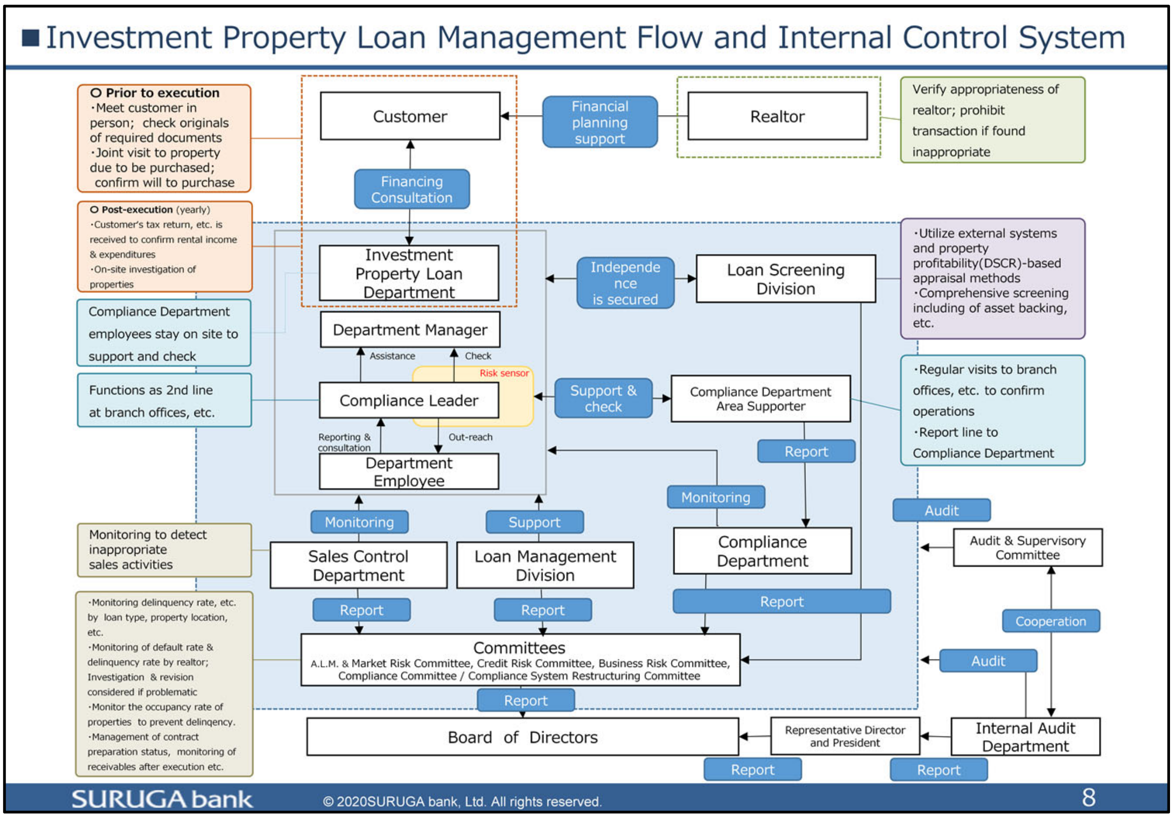
・As for collaboration with external companies, in October 2019, the Bank entered into a business alliance with Shinsei Bank, Limited, regarding business succession and M&A.

The aim is to strengthen support for business succession and M&A needs of corporate customers mainly in Shizuoka and Kanagawa Prefectures, the Bank's home ground.

・In May 2020, the Bank entered into a basic agreement on a capital and business alliance with Nojima Corporation.

Going forward, collaboration will be promoted to achieve a win-win relationship between the two companies.

・Amid a difficult environment, the Bank will continue to make retail banking its core business and aim to develop businesses that are different from those in the past while leveraging its existing infrastructure and knowhow.



・Investment property loans will be promoted on the basis of a system of rigorous screening, management flows and internal controls.

Report lines have been established for swift reporting to management on alarms detected by each section.

○ Explanations to customers

- After receipt of loan applications, direct meetings are held with the customers and the originals of required documents are checked thoroughly.
  Prior to execution of the loan contracts, the Bank's employees accompany the customers to the properties due to be purchased and confirm their will to purchase them.

- After loan execution, efforts are made to obtain tax returns from the customer every year to keep track of their earning and expense situation.
  Furthermore, every year, field surveys are conducted at all investment properties and the occupancy status, management status and market rental fees in the vicinity, etc., are investigated to prevent delinquency.

○ Loan screening

- Due to an emphasis on the income and expenditure of properties subject to loans for rental businesses, property appraisal is being carried out based on property profitability (DSCR) throughout the loan period using external systems.

○ Sales Field

- The Compliance Leaders are stationed at each sales base and Area Supporters belonging to the Compliance Department regularly visit sales bases to support the establishment of business operations to prevent fraud, etc., and ensure compliance.

○ Monitoring

- The Sales Control Department and the risk committees, etc., that perform second-line functions carry out multi-faceted monitoring to identify potential risks in the investment property loan business at an early stage, and respond with reviews of action policies, etc.

Ⅰ Financial Results for the FY3/20

Ⅱ Mid-Term Management Plan “Re:Start 2025” Progress Status

Ⅲ COVID-19 Pandemic Response

Ⅳ Earnings Forecast

Ⅴ T O P I C S

■ COVID-19 Pandemic Response

Prioritizing protection of life and health of customers, employees and their families, while continuing to provide the financial services required as essential financial infrastructure for functioning of society, with thought to safety and security.

Business Continuity Management

Branches : ensure safety & security of customers

- Partitions are installed at counters
- Distancing of seats in the lobby
- Refrain from non-critical visits
- Daytime closure of some branches

Branches & Head Office : ensure safety & security of employees

- Split Team System introduced
- Refrain from holding seminars,events, etc.
- Teleworking & staggered working hours
- Use of teleconferencing for training & meetings

Acrylic screens installed at counters to prevent droplet infection

Financial service function delivery

Frictionless funding and support

Shizuoka & Kanagawa prefecture institutional loans

Started handling institutional loans of Shizuoka & Kanagawa Prefectures to which interest subsidies and credit guarantee fee subsidies are applicable

Flexible revision of terms and conditions according to circumstances

Consultation on flexible revision of terms and conditions according to the circumstances of companies and individuals

Establishment of consultation counters, etc.

Consultation counters set up

Consultation counters are open not only on weekdays but also holidays and during Golden Week

Loan consulation via teleconferencing

To prevent contagion, loan consultation is also provided via teleconference without a branch visit.

【COVID-19-related consultations and loan transactions】

Loan-related consultations	Newly executed loans	Revisions of terms & conditions
1,398 cases	74 transactions	743 transactions

※Total of business loans and consumer loans as of May 22nd.

・In its response to the COVID-19 pandemic, the Bank will prioritize protection of life and health of customers, employees and their families, while continuing to provide the financial services required as essential financial infrastructure for functioning of society, with thought to safety and security.

・As a response to secure customers' safety and security while maintaining business continuity, a number of measures have been introduced such as installation of partitions at counters and closure of some branches in the daytime.

・Introduction of a split team system, use of teleconferencing for trainings and meetings, and other measures are being taken to ensure the safety and security of employees.

・As for the provision of financial service functions, the Bank handles institutional loans for small and medium-sized enterprises, has set up consultation counters, flexibly revises terms and conditions according to circumstances, and provides remote loan consultation utilizing video conferencing, etc.

・As for consultations for loans related to the COVID-19 pandemic and response measures, the Bank has held 1,398 consultations, provided 74 new loans and changed the terms and conditions of 743 loans as of May 22.

・A flexible response is made according to the specific circumstances of each customer.

■ COVID-19 Pandemic Impacts

- ✓ As a self-restraint measure to prevent spread of COVID-19, the Bank will refrain from new sales of consumer loans in the first half of the fiscal year and focus on supporting customers who are affected.
- ✓ In FY3/20 the provision for loan losses was increased in preparation for worsening business conditions of business partners. The situation will continue to be monitored.

Main Businesses	Anticipated Impacts
Investment Property Loans	• Growth of new loan execution may be sluggish due to investors holding off investments in real estate. • Growth of new loan execution may be sluggish due to difficulty of on-site inspection of properties, etc., hindering screening. • As the income of tenants of housing, the primary asset type, decreases, a decline in customers' rent income may lead to increased delinquency, resulting in increased credit costs. • Credit costs may increase due to a decline in real estate prices. • Credit costs may increase due to changes of repayment terms and conditions and other support given to borrowers.
Corporate Investment Property Loans (Asset Finance)	• Credit costs may increase due to a decline in real estate prices and rent income. • Investors' wait-and-see attitude, postponement of site visits, transition to remote work, etc., may lead to a reduction in deals and prolongation of clerical handling of deals, such that new loan execution may decline more than expected.
Housing Loans	• Growth of new loan execution may be sluggish due to consumers holding off housing purchases. • Credit costs may increase due to increased delinquency due to reduction in income of customers. • Credit costs may increase due to a decline in real estate prices. • Credit costs may increase due to changes of repayment terms and conditions and other support given to borrowers.
Unsecured loans	• Growth of new loan execution for revolving credit and specific-purpose loans may be sluggish and outstanding balances may decrease due to self-restraint or restrictions on consumption activities. • Credit costs may increase due to increased delinquency due to reduction in income of customers. • Credit costs may increase due to new loans and changes of loan terms and conditions and other support measures.
Corporate Business	• Credit costs may increase due to worsening business performance of Japanese inns, restaurants and retail stores in particular. • Credit costs may increase due to new loans and changes of loan terms and conditions and other support measures.

・The earnings forecast was calculated with thought to certain impacts of the COVID-19 pandemic. However, if the impacts continue for a long time, the earnings may be driven down in the respective business segments.

・The Bank is currently adopting a business stance focused on supporting existing customers affected by the COVID-19 pandemic, especially in Shizuoka and Kanagawa prefectures, paying close attention to delinquency and other circumstances.

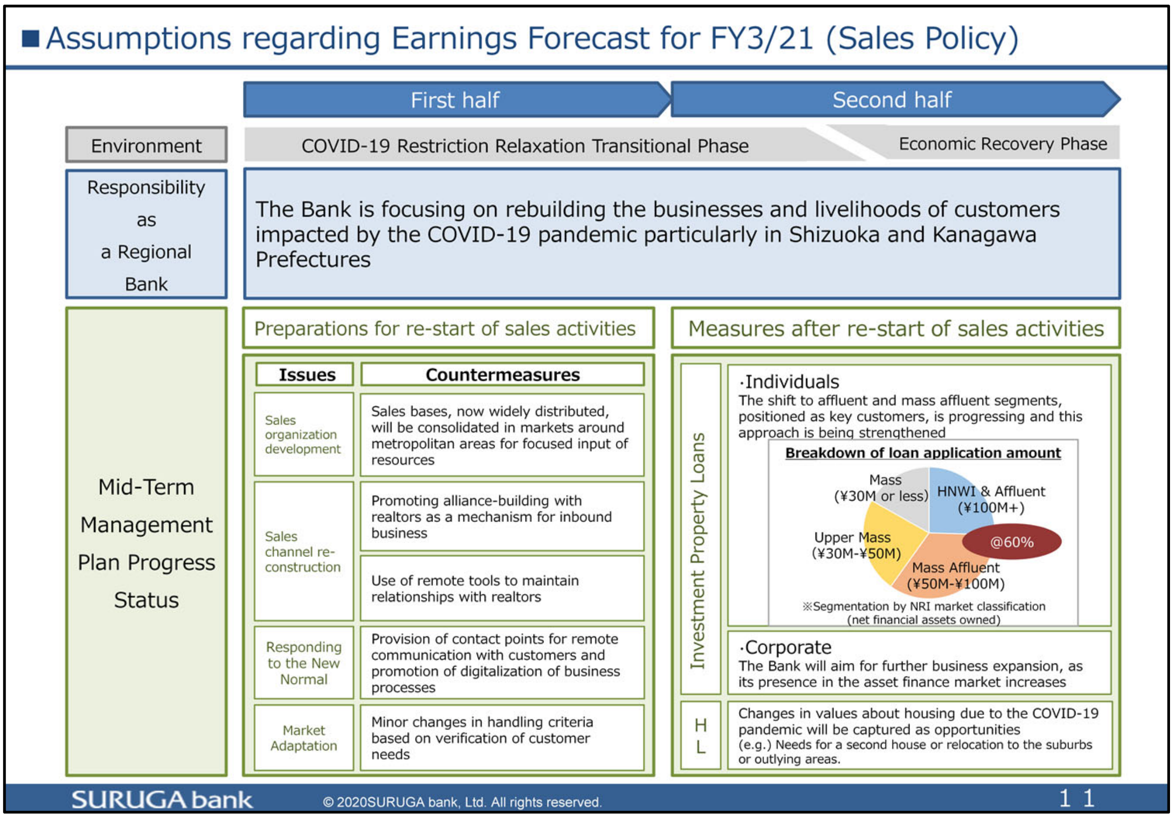
Ⅰ Financial Results for the FY3/20

Ⅱ Mid-Term Management Plan“Re:Start 2025” Progress Status

Ⅲ COVID-19 Pandemic Response

Ⅳ Earnings Forecast

Ⅴ TOPICS



・For the time being, the Bank is focusing on supporting existing customers who are affected by the COVID-19 pandemic, especially in Shizuoka and Kanagawa prefectures; the full-fledged restart of business activities will be from the latter half of the year or later.

・In preparation for restart of full-fledged business activities, the Bank is promoting consolidation of sales bases, deepening of relationships with realtors, construction of business flows supporting the New Normal through digitalization, and responses to new values and needs emerging in society, etc.

・After the subsidence of the COVID-19 pandemic, the Bank will continue to support existing customers particularly in Shizuoka and Kanagawa prefectures while expanding new investment property loan businesses such as asset finance, approaching new segments such as the affluent class, as stated in the Mid-Term Management Plan.

・After subsidence of the COVID-19 pandemic, the Bank will also promote new housing loan business in response to newly emergent values and changing needs for housing.

・In FY3/21 the total loan execution amount for investment property loans, housing loans, asset finance, etc., is forecast to be approximately ¥70 billion at an average placement rate in the lower 2% range.

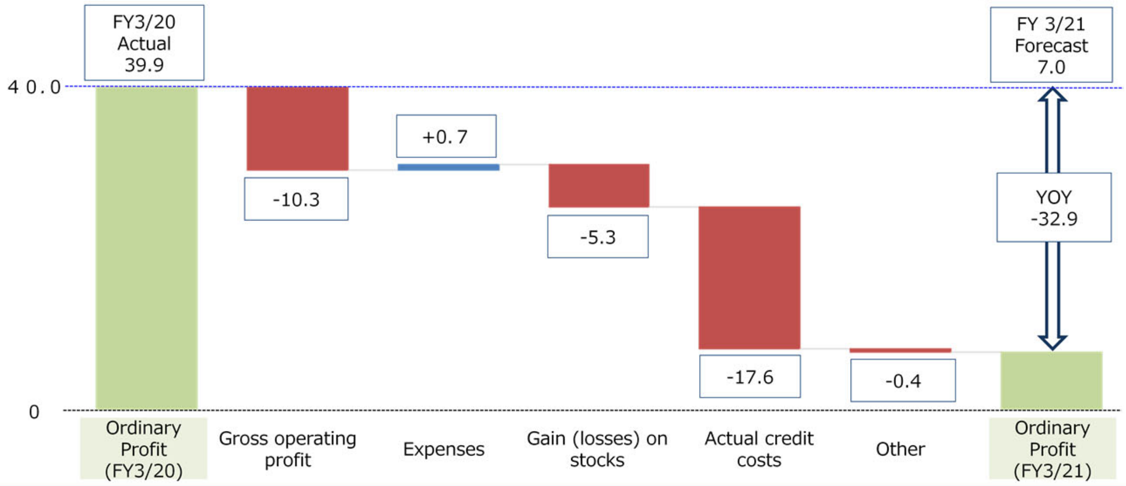
The forecast assumes that the majority of new loan execution will be in the latter half of the year.

■Assumptions regarding Earnings Forecast for FY3/21 (Comparison with FY3/20)

【Forecast of Ordinary Profit is ¥7.0 Billion】

・Gross operating profit is expected to decline by ¥10.3 billion year-on-year, primarily due to a decline in interest on loans and bills discounted, as impacts of the COVID-19 pandemic continue and it is assumed that new loan sales activities will restart from the second half. Expenses are expected to be reduced by ¥700 million. Core net operating profit is expected to be ¥27 billion, a decline of ¥9.3 billion year-on-year.
・In FY3/20, ¥5.3 billion profit on sales of cross-holding stocks was recorded, but no gain or loss on stocks is expected in the present fiscal year, partly because the market environment is unstable.
・Actual credit costs are expected to increase ¥17.6 billion year-on-year to ¥20 billion, due to the impacts of the COVID-19 pandemic, provision of additional allowance for loan losses related to share house loans and transfer of the loan receivables planned in the latter half of the year.

【Earnings Forecast for FY3/21 and Factors for Differences with FY3/20 Results】 (billions of yen)



The assumptions regarding the earnings forecast are as follows:

<Gross Operating Profit> - ¥10.3 billion YOY

Full-fledged sales activities for investment property loans, housing loans, asset finance and other loans are expected to restart in the latter half of the year, due to impacts of the COVID-19 pandemic.

Market activities are expected to start in the first half of the year, but their material contribution to profits is expected next year or thereafter. Gains (losses) on bonds are not expected to be recorded.

<Expenses> -¥700 million YOY

Expenses are expected to be reduced ¥700 million year-on-year due to branch operations reform and other structural reforms.

<Gains (losses) on stocks> -¥5.3 billion YOY

Gains (losses) on stocks are not expected to be recorded due to instability of the market environment and other factors.

<Actual credit costs> +¥17.6 billion YOY

Actual credit costs for the full year are expected to be ¥20.0 billion.

The following two specific factors have been accounted for:

・Worsening business conditions of three industry types (lodging, restaurants and retail) particularly severely impacted by the COVID-19 pandemic and increased credit costs for consumer loans in general have been considered.

・Regarding share house-related loan receivables, additional provision of allowance for loan losses and transfer of the loan receivables at the same scale as before in the latter half of the year have been taken into account.

■ Earnings Forecast for the FY3/21 <Non-consolidated･Consolidated>

(Billions of yen)

【Non-consolidated】

	FY3/20 ①	FY3/21(Forecast) First half	FY3/21(Forecast) Second half	FY3/21(Forecast) Full year ②	Y on Y ②－①
Ordinary income	104.4	43.0	42.0	85.0	(19.4)
Gross operating profit (A)	80.3	36.0	34.0	70.0	(10.3)
Expenses (B)	43.7	22.0	21.0	43.0	(0.7)
Core net operating profit	36.3	14.0	13.0	27.0	(9.3)
Ordinary profit	39.9	0.0	7.0	7.0	(32.9)
Net income	24.4	(4.0)	9.0	5.0	(19.4)
Actual credit costs (C)	2.4	14.0	6.0	20.0	+17.6
RA Gross Operating Profit (A－C)	77.8	22.0	28.0	50.0	(27.8)
OHR (B÷A)	54%	61%	61%	61%	+7%
Capital adequacy ratio	10.28%	10.3%		10.8%	+0.52%

【Consolidated】

	FY3/21(Forecast) First half	FY3/21(Forecast) Full year ③	Cons-parent differential (③－②)
Ordinary income	48.5	96.0	+11.0
Ordinary profit	0.5	8.0	+1.0
Net income	(3.5)	6.0	+1.0

(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.

・Core net operating profit is expected to decline by ¥9.3 billion year-on-year to ¥27.0 billion, due to a reduction in interest on loans and bills discounted due to scheduled repayments and advance repayments of consumer loans, etc., even though a reduction in expenses is expected due to branch operation reform and other structural reforms.

・Actual credit costs are expected to be ¥20 billion, due to the impacts of the COVID-19 pandemic, provision of additional allowance for loan losses related to share house loan receivables and transfer of the loan receivables planned in the latter half of the year.

・Net income is expected to decline ¥19.4 billion year-on-year to ¥5.0 billion due to an increase in actual credit costs, etc.

・Profit attributable to owners of the parent on a consolidated basis is expected to be ¥6.0 billion, which is ¥1.0 billion more than on a non-consolidated basis.

■ Earnings Forecast for the FY3/21 <vs. Mid-Term Management Plan Phase 1 Management Indices>

(Billions of yen)

		FY3/21 (Forecast)	FY3/23 (Plan)
Non-consolidated	RA gross operating profit*1	**50.0**	**49.0**
	OHR*2	**61%**	**Less than 60%**
	Net income	**5.0**	**6.0**
	Capital adequacy ratio	**10.8%**	**More than 10%**
Consol-idated	Profit attributable to owners of parent	**6.0**	**7.0**

*1 RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit - Actual Credit Costs
*2 OHR (Over Head Ratio) = Expenses / Gross Operating Profit

・The earnings forecast for FY3/21 predicts achievement of management indices at roughly the same level as targeted for FY3/23 in the Mid-Term Management Plan.

・OHR is expected to be slightly above the FY3/23 target of 60%, but expenses have been reduced by ¥3.0 billion year-on-year in FY3/20 and efforts will continue to bring OHR down to the target of below 60% by FY3/23 through continuation of branch operation reform and other structural reforms.

・The capital adequacy ratio already exceeds the target but own capital will be increased further through continued accumulation of profits.

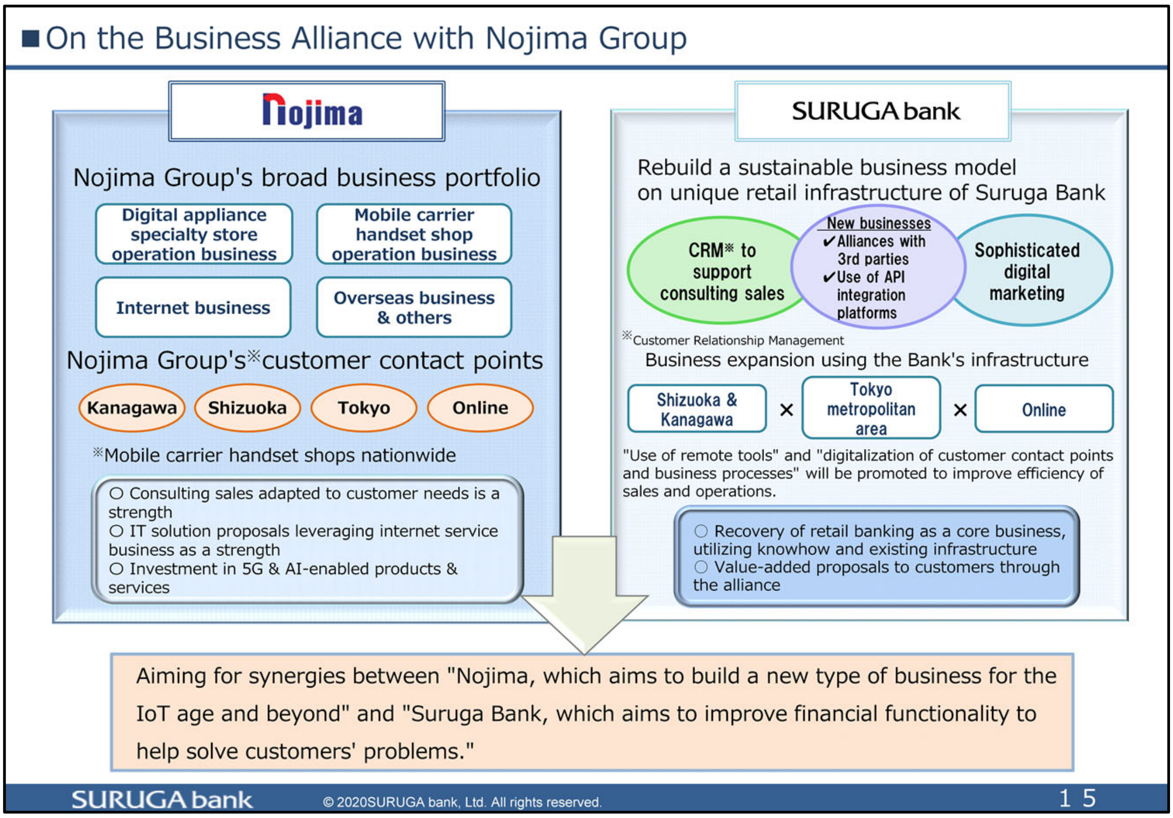
Ⅰ Financial Results for the FY3/20

Ⅱ Mid-Term Management Plan“Re:Start 2025” Progress Status

Ⅲ COVID-19 Pandemic Response

Ⅳ Earnings Forecast

Ⅴ TOPICS



・On May 19, 2020, the Bank entered into a "Basic Agreement on a Capital and Business Alliance" with Nojima Corporation (hereinafter, "Nojima"). The Bank has announced a management structure that welcomes Mr. Nojima, President of Nojima Corporation, as a candidate for Director, and has reinforced the relationship between the two companies.

・Discussions on the business alliance have proceeded on the basis of the "Basic Agreement on Business Alliance" entered into May of last year.

Recently, a Basic Agreement on a Capital and Business Alliance was entered into. An alliance committee under the responsibility of the top leadership of both companies and a number of thematic alliance promotion meetings have been established to hold discussions to promote win-win collaboration with a sense of speed.

For reference: contents of the business alliance

① Joint development of 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 the two companies

④ Discounted cross-selling of Nojima's products and services at Nojima's stores to Suruga Bank's customers

⑤ Regional revitalization centered on Tokyo metropolitan area and the Tokai region.

・The aim is to deliver new value by combining the Bank's proprietary retail infrastructure with the broad business portfolio of Nojima Group with a vision for the future beyond the IoT age.

Reference Materials

■ Non-performing loans based on the Financial Reconstruction Law <Non-consolidated>

(Billions of yen)

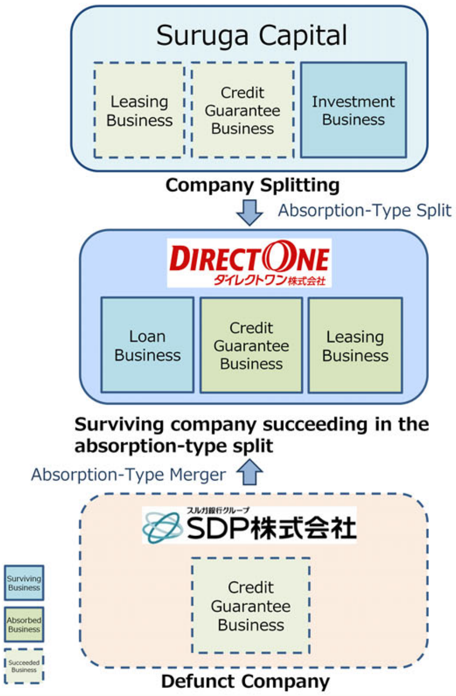
Debtor classification	Mar. 31 Credit balance	Proportion	Consumer / Corporate		Proportion	Total collateral and guarantees	Collateral	Guarantees	Coverage ratio	Reserve	Reserved ratio	Total coverage ratio
Claims against bankrupt and substantially bankrupt obligors	92.6	3.69%	Consumer	90.0	3.87%	34.5	32.9	1.5	38.33%	55.5	100%	100%
			Corporate	2.5	1.40%	1.1	0.6	0.5	45.32%	1.4	100%	100%
Claims with collection risk	80.6	3.21%	Consumer	66.8	2.87%	24.3	23.4	0.9	36.47%	25.4	59.97%	74.57%
			Corporate	13.8	7.51%	6.8	3.5	3.2	49.67%	3.6	52.67%	76.18%
Claims for special attention	175.9	7.00%	Consumer	173.5	7.46%	50.1	49.6	0.4	28.90%	59.9	48.60%	63.45%
			Corporate	2.3	1.29%	1.5	1.5	–	63.53%	0.5	61.87%	86.09%
Sub-total	349.2	13.90%	Consumer	330.4	14.20%	109.0	106.1	2.9	33.00%	140.9	63.67%	75.66%
			Corporate	18.7	10.20%	9.5	5.7	3.7	50.82%	5.5	60.75%	80.70%
Normal assets	2,162.8	86.10%	Consumer	1,997.7	85.80%							
			Corporate	165.0	89.80%							
Total	2,512.0	100%	Consumer	2,328.2	100%							
			Corporate	183.8	100%							

The non-performing loan ratio excluding share house loans is **7.48%** (173.6 ／2,319.9)

Total coverage ratio	75.93%
Except share house-related loans	59.07%

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

■Group Function Review - "Direct One" is Reborn



◆<u>Affiliated companies conducting credit guarantee business have been merged.</u>

- DIRECT ONE CO. LTD., as the surviving company, merged and absorbed SDP Co. Ltd., which became a defunct company.
- Suruga Capital Co., Ltd. underwent an absorption-type company split and its credit guarantee and leasing businesses were succeeded by Direct One Co. Ltd.

◆<u>Post-Merger Company Overview</u>
Date of Merger: April 1, 2020

① DIRECT ONE CO. LTD.

Businesses : loan business, credit guarantee business and leasing business

② Suruga Capital Co., Ltd.

Business : investment business

〈 Inquiries 〉

IR Office, SURUGA bank, Ltd.

Tel : +81-3-3279-5536
e-mail : ir.koho@surugabank.co.jp

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 change in The external business environment.