

SURUGA bank, Ltd.

Financial Results for the 1st Half of FY3/21

November 27, 2020

SURUGA bank

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Actual Results for 1H, FY3/21; Comparison with 1H, FY3/20

- Actual results for the 1st Half of FY3/21 have changed deficit forecast to surplus, as expenses and actual credit costs decreased more than the previous forecast. ^(Note)
- Gross operating profit decreased by 5.5 billion yen year on year to 36.8 billion yen mainly due to the decrease of net interest income.
- Actual credit costs rose by 1.3 billion yen year on year to 7.7 billion yen due to downgrades of the classification of borrowers related to share house loans.
- Net income for the 1st Half of FY3/21 (non-consolidated) decreased by 11.4 billion yen year on year to 4.1 billion yen due to the decrease of gains on sales of stocks in addition to the factors above.
- Net income for the 1st Half of FY3/21 (consolidated) decreased by 10.4 billion yen year on year to 5.4 billion yen due to the minus factors of non-consolidated.

(Note) SURUGA bank, Ltd. revised the earnings forecast for the 1st half of FY3/21 in its "Announcement Regarding the Revision to the Earnings Forecast" on October 29, 2020.

<Non-consolidated>

(Billions of yen)

	1st half FY 3/20	1st half FY 3/21	Year-on-year change
Gross operating profit	42.4	36.8	(5.5)
Expenses	22.4	20.5	(1.9)
Core net operating profit	19.8	15.9	(3.8)
Net operating profit	18.3	37.9	+19.6
Ordinary profit	19.3	8.7	(10.6)
Net income	15.6	4.1	(11.4)

Actual credit costs	6.3	7.7	+1.3
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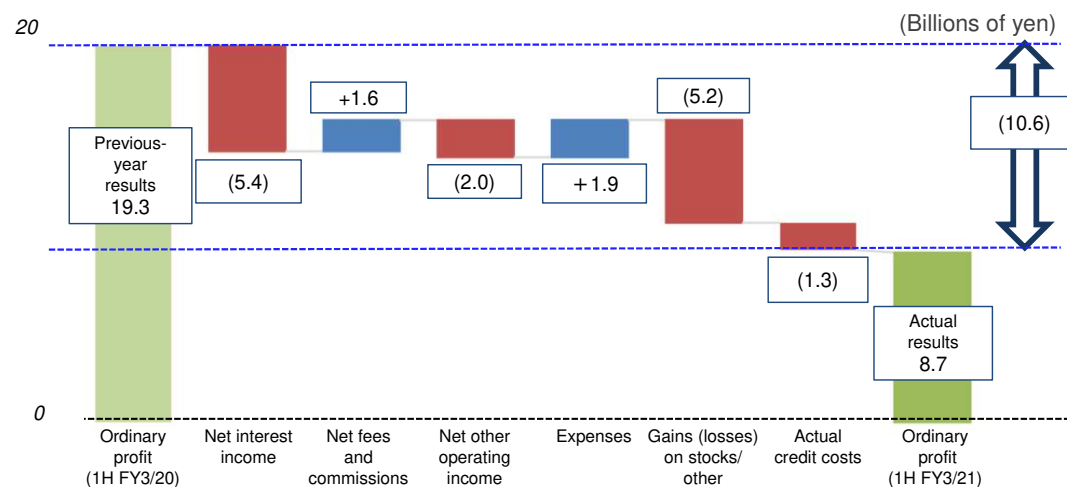
ROE (%) (Net income basis)	14.4	3.4	(10.9)
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Profit attributable to owners of parent	15.9	5.4	(10.4)
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Earnings per share (yen) (Consolidated)	68.9	23.6	(45.2)
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Factors contributing to changes in ordinary profit (Comparison with previous year)

	Main factors
Net interest income	• Decline in interest on loans (average balance factors (−4.4 billion yen), yield factors (−1.2 billion yen))
Net fees and commissions	• Reduction in fees related to securitization
Net other operating income	• Reduction in profit on sales of debt securitized accounts receivable (−1.9 billion yen)
Expenses	• Decrease in non-personnel expenses
Actual credit costs	• Downgrades of borrowers of share house-related loans





(Note) Net other operating income excluding gains (losses) on bonds

■ Actual Results for 1H, FY3/21; Comparison with Forecast

- The ordinary income represented progress of 53.1%, the gross operating income represented progress of 52.6%, and expenses represented progress of 47.7%, toward the full-year forecasts.
- Actual credit costs represented progress of 38.9% toward the full-year forecast.
The full-year forecast of 20.0 billion yen remains unchanged on the assumption of the occurrence of downgrades of borrowers of share house loans, who would suspend their repayment because they wish their loans to be transferred.
- The net income (non-consolidated) represented progress of 83.9% toward the full-year forecast.
- The net income (consolidated) represented progress of 91.3% toward the full-year forecast.

<Non-consolidated>

	FY3/21 (Forecast)		1st half FY 3/21 (2)	Progress (2)/(1)
	(1)	1st half		
Ordinary income	85.0	43.0	45.1	53.1%
Gross operating profit (A)	70.0	36.0	36.8	52.6%
Expenses (B)	43.0	22.0	20.5	47.7%
Core net operating profit	27.0	14.0	15.9	59.0%
Ordinary profit	7.0	0.0	8.7	124.6%
Net income	5.0	(4.0)	4.1	83.9%
Actual credit costs (C)	20.0	14.0	7.7	38.9%
RA gross operating profit (A – C)	50.0	22.0	29.0	58.1%
OHR(B ÷ A)	61%	61%	55.6%	
Capital adequacy ratio	10.8%	10.3%	11.0%	

<Consolidated>

(Billions of yen)

FY3/21 (Forecast) (3)	1st half FY 3/21 (4)	Progress (3)/(4)
96.0	50.9	53.0%
8.0	10.4	130.7%
6.0	5.4	91.3%

(Note 1) RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit – Actual Credit Costs

(Note 2) Figures of the full-year forecasts on the table are those announced on May 14, 2020. The interim earnings forecast was revised, which was announced in "Announcement Regarding the Revision to the Earnings Forecast" on October 29, 2020.

■ Actual Credit Costs, Share House-related Loans <Non-consolidated>

- Actual credit costs of share house-related loans amounted to 4.1 billion yen 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 3.02% from the previous fiscal year-end to 94.31% due to increase in collateral coverage and provision of allowance.
- As a result of our continuous repayment support in consideration of each borrower's individual circumstances focusing on consumer loans, actual credit costs for borrowers other than borrowers of share house-related loans reduced by 5.5 billion yen year on year due to the resolution of long-term delinquency and upgrades of the classification of borrowers resulting from relaxation of repayment conditions.

• Actual credit costs and Allowance for loan losses

(Billions of yen)

Item	Actual credit costs 1st half FY3/21			Allowance
	1Q	2Q		
Share house-related loans	1.1	2.9	4.1	106.5
Investment property loans ^(Note)	5.0	(2.0)	2.9	55.8
Housing loans	0.8	(0.7)	0.0	4.5
Unsecured loans	0.3	(0.1)	0.1	2.6
Business financing loans, etc.	0.0	0.4	0.4	9.3
Total	7.3	0.4	7.7	178.9

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

• Share house-related loans (Status of coverage)

	Total credit balance		Covered amount B	Unsecured portion C	Allowance D	Coverage ratio (B + D) / A
	A	Share house loan receivables				
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%
Sep. 30, 2020	189.1	153.5	71.8	117.3	106.5	94.31%

(Note 1) Based on obligors of share house-related loans.

(Note 2) Covered amount: Estimated amount, calculated by multiplying the covered amount including collateral, etc. by a certain ratio.

(Note 3) 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 Type of Loan<Non-consolidated>

- Loan yield^(Note1) of both consumer loans and corporate loans for property investment,^(Note2) which were set forth for promotion in the mid-term business plan, was 3.63%.
- The rise in the delinquency rate of consumer loans (1.04% increase from the end of June 2020) was mainly due to an increase in the number of delinquent borrowers of share house-related loans, who suspended their repayment because they wish their loans to be transferred.
(The delinquency rate of whole consumer loans was pushed up in part by the fact that delinquent borrowers of share house loans were also delinquent on other loans)
- The delinquency rate of whole consumer loans except for share house-related loans was 2.32% as of September 30, 2020.

(Note1) Yield: Yield for customers (excluding guarantee fee, accrued interest), period-end balance basis

(Note2) Corporate loans for property investment: Asset management company loans for property investment and asset finance, defined as new business fields in the mid-term business plan.

(Billions of yen)

Type of Loan	Jun. 30, 2020			Sep. 30, 2020		
	Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans	2,065.5	3.09%	4.70%	2,025.4	3.07%	5.81%
Housing loans	537.7	2.86%	0.79%	522.7	2.85%	0.51%
Studio apartment loans	188.9	3.40%	1.92%	180.8	3.40%	1.79%
Single building apartment loans	1,144.8	3.28%	3.68%	1,129.8	3.26%	3.80%
Share house loans	153.9	1.46%	31.34%	153.4	1.46%	45.87%
Other secured loans	39.9	4.85%	1.29%	38.5	4.81%	1.15%
Unsecured loans	195.7	10.23%	1.93%	185.4	10.26%	2.13%
Card loans	129.2	11.56%	0.78%	122.4	11.61%	0.83%
Unsecured certificate loans	66.4	7.65%	4.15%	63.0	7.64%	4.66%
Consumer loans (A)	2,261.2	3.69%	4.47%	2,210.8	3.66%	5.51%
Consumer loans (Except for share house-related loans)	2,070.9		2.34%	2,021.8		2.32%
Corporate loans for property investment (B)	9.9	2.23%	—	17.8	2.25%	—
Total<(A) + (B)>	2,271.1	3.67%	4.45%	2,228.7	3.63%	5.46%

(Note 1) Delinquency rate = Loans past due 3 months or more / Loans

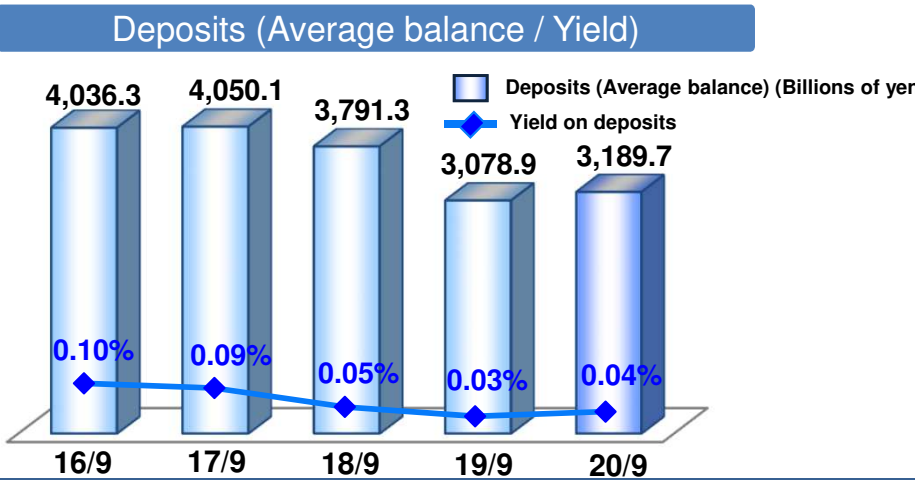
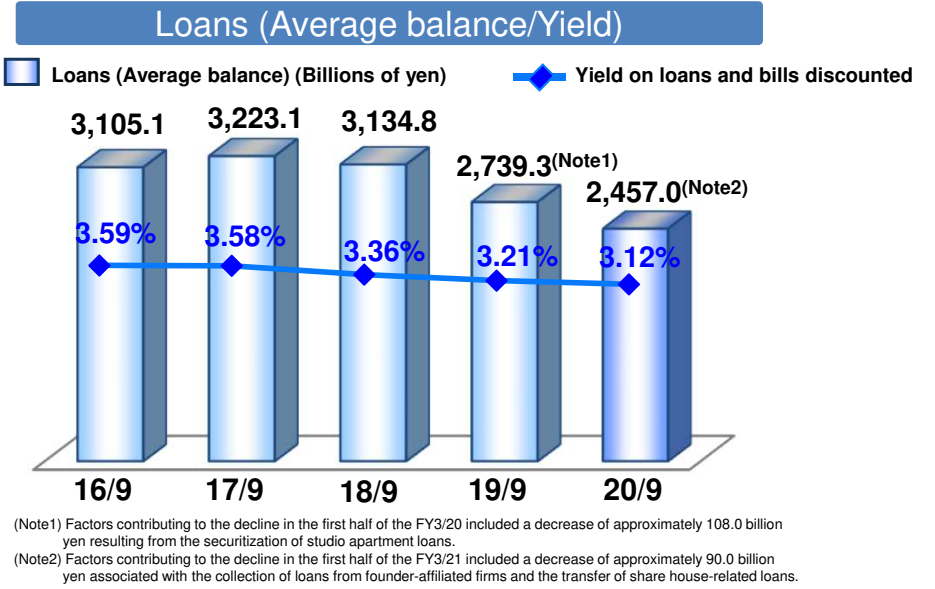
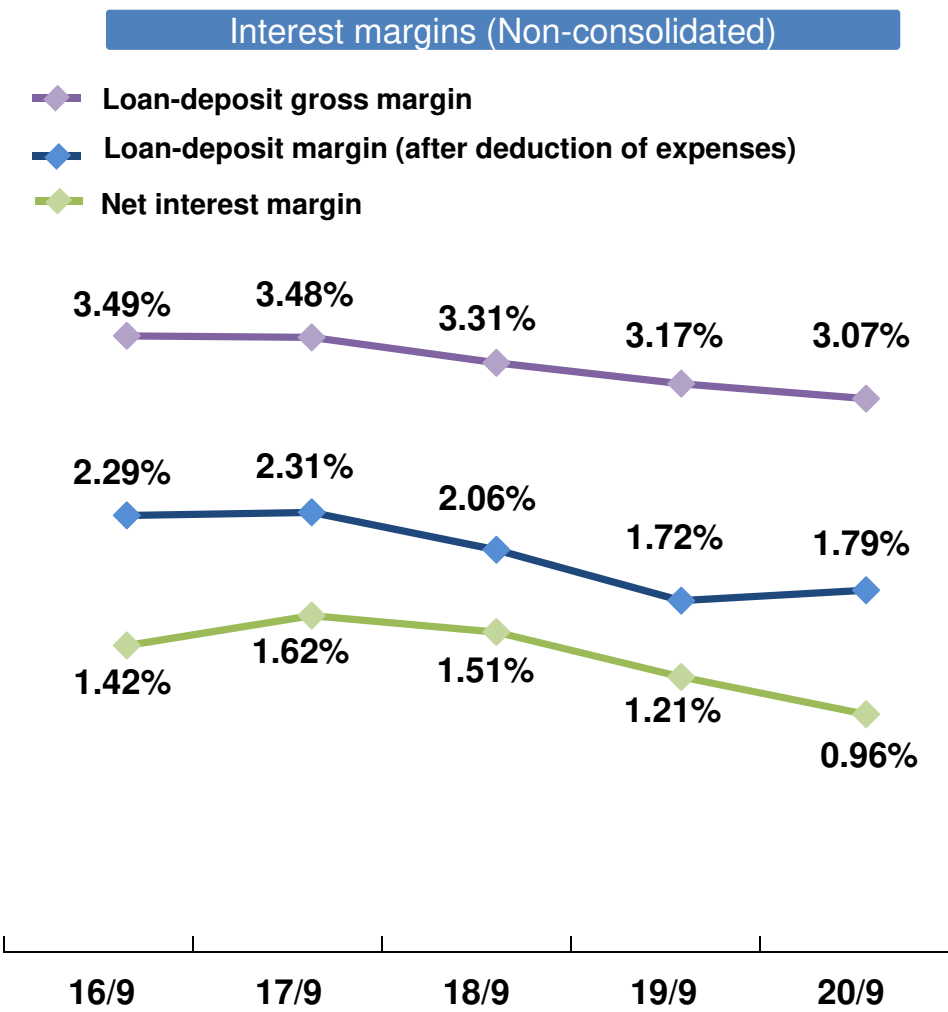
(Note 2) Yield: Yield for customers (excluding guarantee fee, accrued interest), period-end balance basis

(Note 3) Yield and the delinquency rate of studio apartment loans, secured loans and consumer loans are calculated based on original claims before securitization.

(Note 4) As the balance is aggregated by loan type, if obligors of share house loans default on scheduled repayment, the delinquency rate of other loan types will be affected.

Yield/Margins <Non-consolidated>

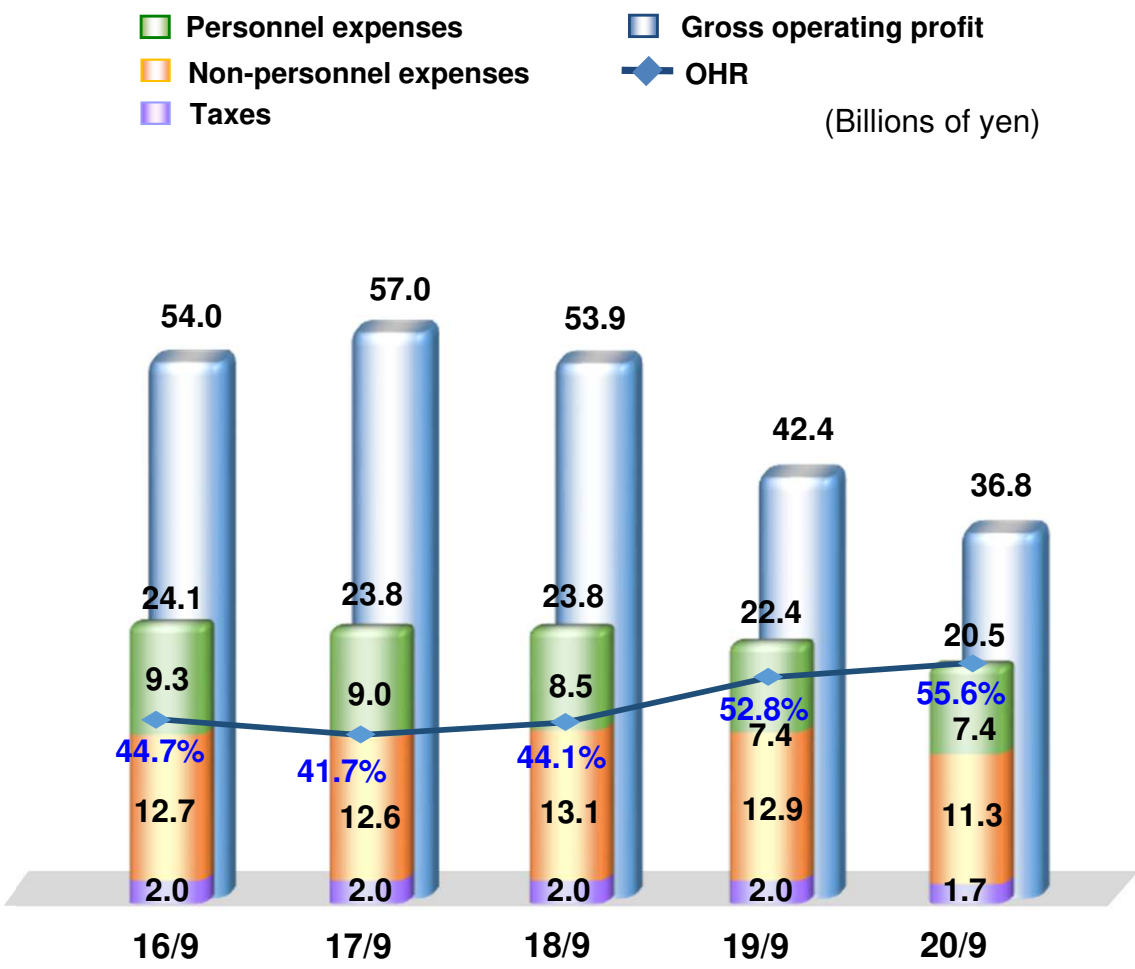
- The loan-deposit margin rose slightly by 7 basis points year on year to 1.79% due to the fact that the decrease in the expense ratio of 16 basis points year on year as a result of promoting the structural reform set forth in the mid-term business plan exceeded the decrease in the loan yield of 8 basis points year on year as a result of continued relaxation of loan repayment conditions such as lowered interest rates.
- The net interest margin shrank by 25 basis points year on year to 0.96% due to the fact that a fall in the return on investment stemming from an increase in deposits with the Bank of Japan exceeded a decrease in funding costs resulting from a decrease in the expense ratio, etc.
- The average loan balance decreased by 282.3 billion yen year on year to 2,457.0 billion yen due partly to the special factors (see Note2 of the graph below).
- Deposits (average balance) increased by 110.8 billion yen year on year to 3,189.7 billion yen.



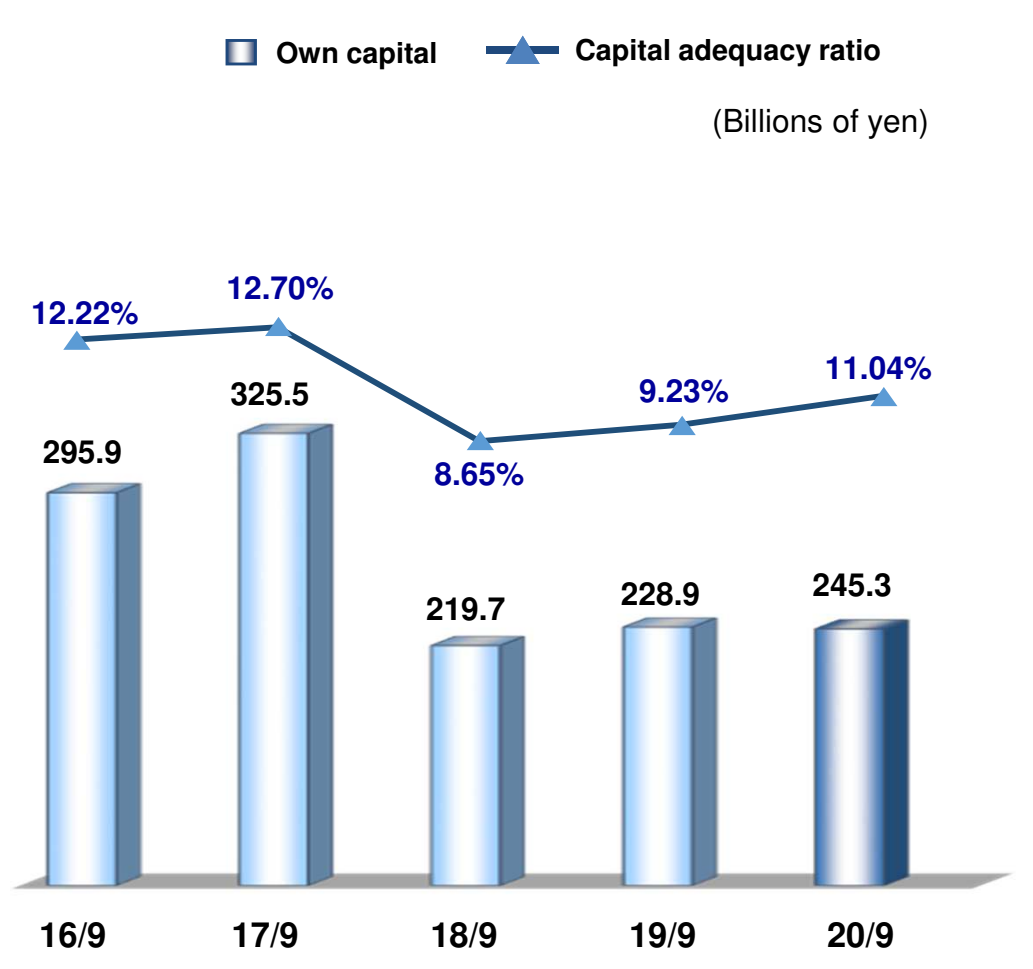
■ Expenses and OHR, Capital levels <Non-consolidated>

- OHR increased by 280 basis points year on year to 55.6% due to a decrease in gross operating profit despite efforts to reduce expenses based on the structural reform set forth in the mid-term business plan.
- Capital adequacy ratio (non-consolidated) rose by 181 basis points year on year to 11.04%, mainly due to an increase in own capital and a decrease in risk-weighted assets (11.25% on a consolidated basis).

Trends of Expenses & OHR



Trends of Capital & Capital Adequacy Ratio



■ Forecast for FY3/21 <Non-consolidated & Consolidated>

- The full-year forecast of operating profit for FY3/21 was revised upward by 15.0 billion yen to 42.0 billion yen, reflecting the reversal of general allowance for possible loan losses.
- The operating profit for the second half year of FY3/21 is expected to be approximately 4.0 billion yen. The factor behind this is that it is expected to transfer from general allowance for possible loan losses to specific allowance for possible loans losses due to the suspension of repayment of share house loans by borrowers who wish their loans to be transferred, while reversal of allowance is expected to be decreased from the first half year resulting from the purpose use of general allowance for possible loan losses in line with comprehensive transfer of share house loans (the same level of loan transfer in March 2020).
- Other items remained the same as the initial forecast.

(Billions of yen)

<Non-consolidated>

	Previous Forecast announced on May 14 ^(Note1) (A)	Current Forecast announced on Nov. 13 ^(Note2) (B)	1st half	2nd-half Forecast
Ordinary income	85.0	85.0	45.1	39.9
Gross operating profit	70.0	70.0	36.8	33.2
Expenses	43.0	43.0	20.5	22.5
Core net operating profit	27.0	27.0	15.9	11.1
Operating profit	27.0	42.0	37.9	4.1
Ordinary profit	7.0	7.0	8.7	(1.7)
Net income	5.0	5.0	4.1	0.9

Actual credit costs	20.0	20.0	7.7	12.3
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Risk-Adjusted Gross operating profit ^(Note3)	50.0	50.0	29.1	20.9
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<Consolidated>

Change (B) – (A)	Previous Forecast announced on Nov. 13 (Unchanged)
±0.0	96.0

±0.0	8.0
±0.0	6.0

(Note1) Disclosed on May 14, 2020: "Consolidated Financial Results for the Fiscal Year Ended March 31, 2020"

(Note2) Disclosed on November 13, 2020: "Consolidated Financial Results for the Six Months Ended September 30, 2020"

(Note3) RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit – Actual Credit Costs

I Financial Results for the 1st Half of FY3/21

II COVID-19 Pandemic Response

III Bonds management, Sales, Securities, Structural reform

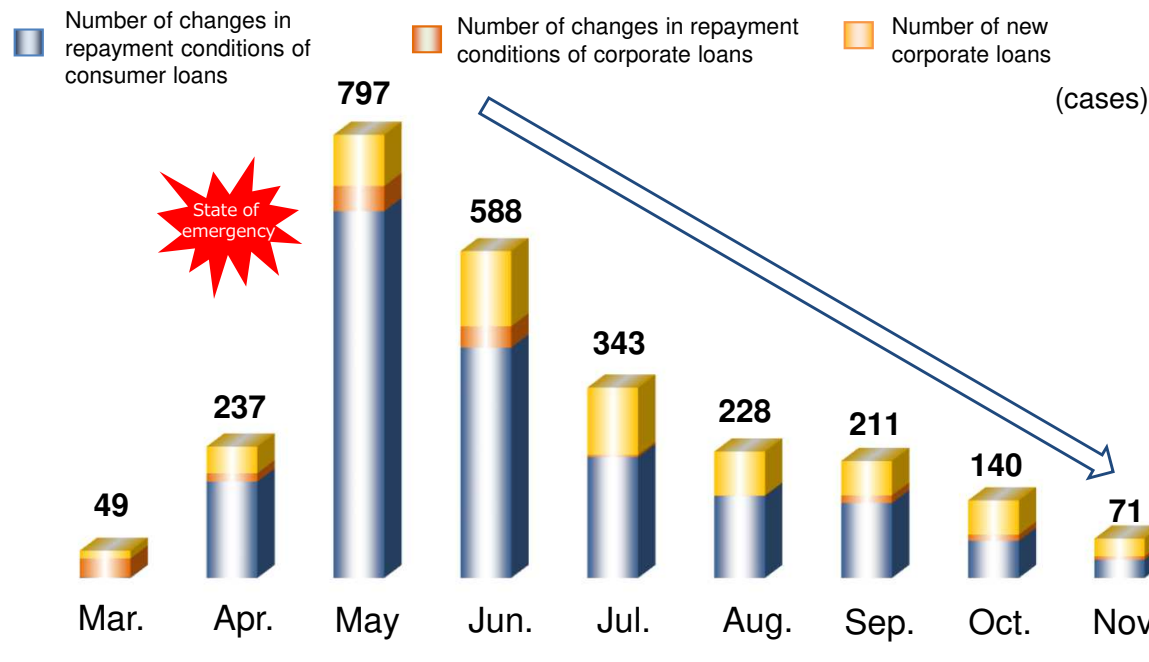
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COVID-19 Pandemic Response

Placing the highest priority on the lives and health of customers, employees and their family members, we will provide necessary financial services as financial infrastructures essential for maintaining social functions.

【Number of consultations related to COVID-19 and loan responses】



- Number of consultations and responses (until November 20, 2020)
Number of changes in repayment conditions of consumer loans: 1,851
Number of changes in repayment conditions of corporate loans: 168
Number of new corporate loans: 645
- The number of consultations for both consumer and corporate loans regarding COVID-19, which peaked in May 2020, has been gradually decreasing.

Expected impact of a protracted pandemic and the third wave of COVID-19

Main business	Expected impact
Impact on new loans	<ul style="list-style-type: none">• Associated with economic stagnation or contraction, new loans may be stagnant.• As it becomes difficult to examine the property for loan execution, which also makes it difficult to screen the loan, new loans may be stagnant.
Impact on existing loans	<ul style="list-style-type: none">• Declines in the price of land and properties may increase actual credit costs.• As borrowers' repayment sources such as rent income and other income may decrease, actual credit costs may increase because of our support for borrowers with relaxation of repayment conditions.• Associated with economic stagnation or contraction, actual credit costs may increase due to worsening corporate earnings.

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■ Progress of Response to Borrowers of Share House-related Loans

- A final solution for share house-related loans is one of the priorities in the first phase of the mid-term business plan.
- Exemption for repayment of part of the principal amount of loans is an unprecedented measure. The overall adjustment of various atypical events has been generally completed. We are currently making a primary response to borrowers.
- Following the comprehensive transfer of share house loans in March 2020, we expected most of the remaining borrowers would wish a comprehensive transfer of their loans and many repayment would suspend. However, the number of such cases during the first half of this fiscal year was smaller than expected.
- For requests from borrowers of investment property loans other than share house loans, we will respond in good faith based on their individual circumstances.

Response to customers since FY2018

- ✓ We established “Office to Support Customer Owners of Share Houses and Others” whereby we have carefully responded based on each customer’s circumstances, including lowering the loan interest rate and deferred repayment of the principal amount for a certain period. At the same time, we have considered taking all possible options as a bank, including exemption for repayment of part of the principal amount of the loan using ADR.
- ✓ At present, we have not taken legal action even if the share house-related loan become delinquent.
- ✓ We adopt the DCF method for calculation of allowance for possible losses of share house-related loans. If the loan is delinquent for more than a month, we provide 100% allowance for the unsecured amount.

Exemption for repayment of part of the principal amount of the loan
<Repayment support scheme>

Details: “Exemption for repayment of part of the principal amount of loans for share houses and other investment real estate loans” issued on May 15, 2019

Applicable: Share house loans and other investment property loans

Content: If the borrower has a rental loss on the property, including loan repayment, when they individually requested exemption for repayment of part of the principal amount of the loan, from the perspective of fair share of loss and in view of the difficulty in their loan repayment, we calculate the loan repayment amount corresponding to the settlement amount we are responsible for, which will be offset with their repayment amount upon mutual consent.

Status: The acceptance of applications was closed on November 30, 2019. We are now making a primary response regarding the exemption amount for loans of borrowers who requested such exemption. For borrowers who request the next step, we will take a civil conciliation or authorized ADR procedure.

Comprehensive transfer of loans
<Subrogation scheme>

Ref.: “Announcement Regarding Transfer of Share House-related Loan Receivables” issued on March 25, 2020

Applicable: Share house loans

Content: Before we executed share house loans, we did not sufficiently analyze share house-specific risks not associated with general investment property loans, including inappropriate action like ignoring the impracticability of business plans. Given that the conciliation committee of the court recognized that we have an obligation to compensate for damages, based on typical unlawful behaviors, we agreed to carry the obligation to pay to the petitioners the settlement amount based on the conciliation recommendation. After offsetting our claims with our obligation to pay the settlement amount, we will make a comprehensive transfer of share house loans.

Status: The first transfer was implemented in March 2020. (257 borrowers for 44.0 billion yen)

Reflection in and progress of the business forecast

- ✓ After the first comprehensive transfer of share house loans in March 2020, as most of the remaining borrowers wished a comprehensive transfer of their loans, we expected a temporary increase in credit costs on the assumption of the occurrence of repayment suspension associated with the transfer. (Allowance is prorated on a quarterly basis on the assumption of the provision of allowance of 15.0 billion yen, approximately 90% of 16.8 billion yen for unsecured share house loans as of the end of March 2020.)
 - ・・・Although the number of borrowers who would suspend repayment was lower than expected at the beginning of the fiscal year, we maintained the 20.0 billion yen in initially expected full-year credit costs on the assumption of the occurrence of repayment suspension associated with another comprehensive transfer of loans.
- ✓ The second comprehensive transfer of share house loans is expected to be implemented on the same scale as the first one within this fiscal year toward closing.
 - ・・・The number of borrowers in the second group who have filed a petition for conciliation is roughly the same as the first one.

■ Status of Single Building Apartment Loans (Except for Share House-related loans)

- Partly due to changes in self-assessment standards at the end of September 2018, non-delinquent loans of approx. 730 billion yen are classified as loans requiring special attention.
- At the end of September 2020, most loans were not delinquent.
- We made regular examination of about 9,000 properties out of those for single building apartment loans and confirmed the occupancy status.
We will aim to remain or upgrade the classification of borrowers by providing them with in-depth support for property management, including reporting management status to them.

Loan balance of single building apartment loans by classification of borrower and delinquency status (as of Sep. 30, 2020)

(Billions of yen)

Debtor classification	Credit claims such as loans	Portion of single building apartment loans (excluding share house cases)	
			Portion not delinquent
Normal client	1,114.5	190.5	190.5
Clients requiring special attention ^(Note)	909.2	736.0	731.1
Clients requiring corrective action	190.2	103.4	96.5
Clients at high risk of bankruptcy	118.5	39.6	34.8
Virtual bankruptcy client/Bankruptcy	100.7	33.7	1.9
Total	2,433.3	1,103.3	1,055.0

(Note) Loans are classified as requiring special attention if tax return documents are not received or the loan property has negative cash flow even if not delinquent.

Occupancy rate of single building apartments (periodic survey)

Occupancy rate as of September 30, 2020: 87.5% (Survey result for occupancy rate in 2019: 86.7%)

Survey: In principle, the person in charge of bank loans visits the location of property to check not only the occupancy status but also the physical condition of the property and management status.

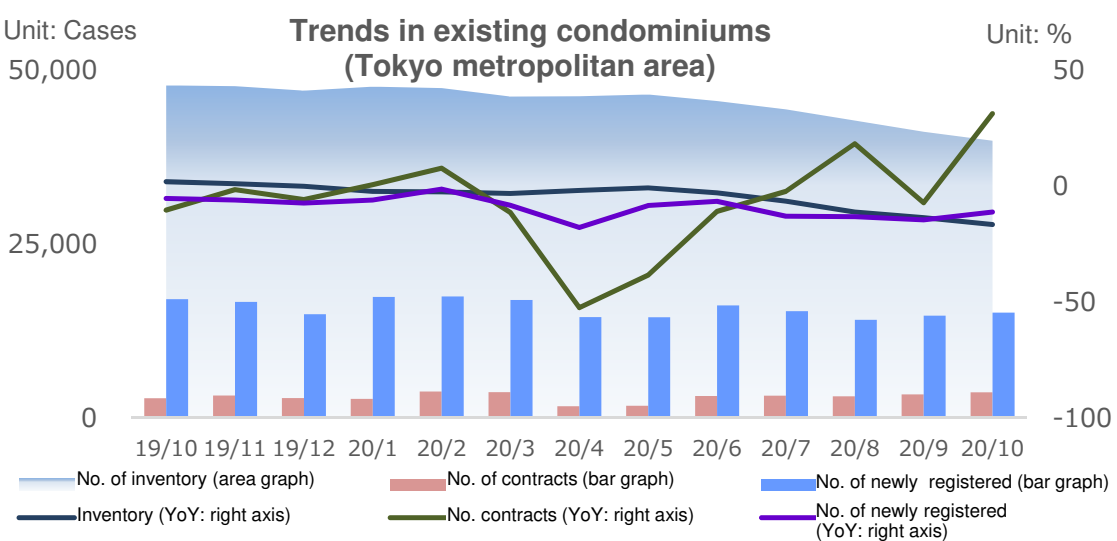
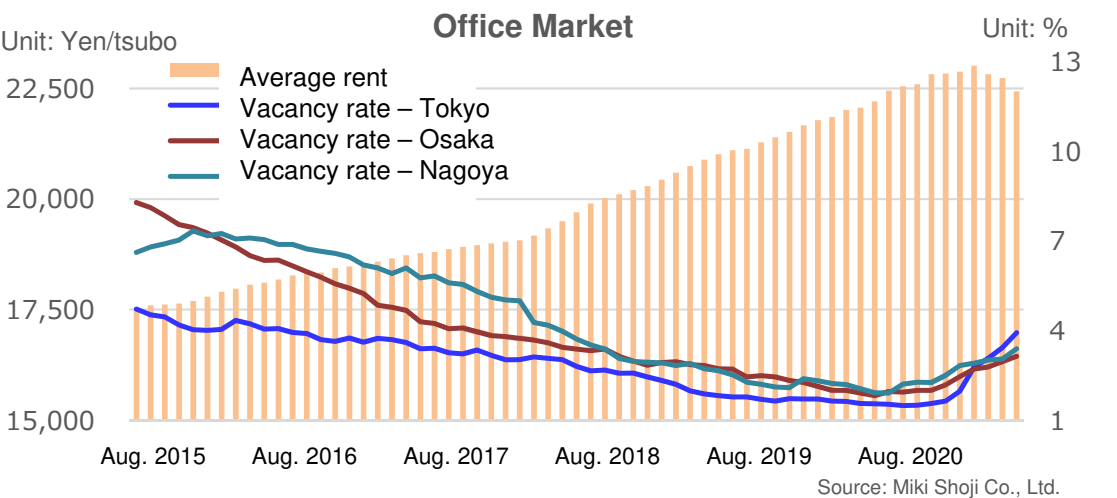
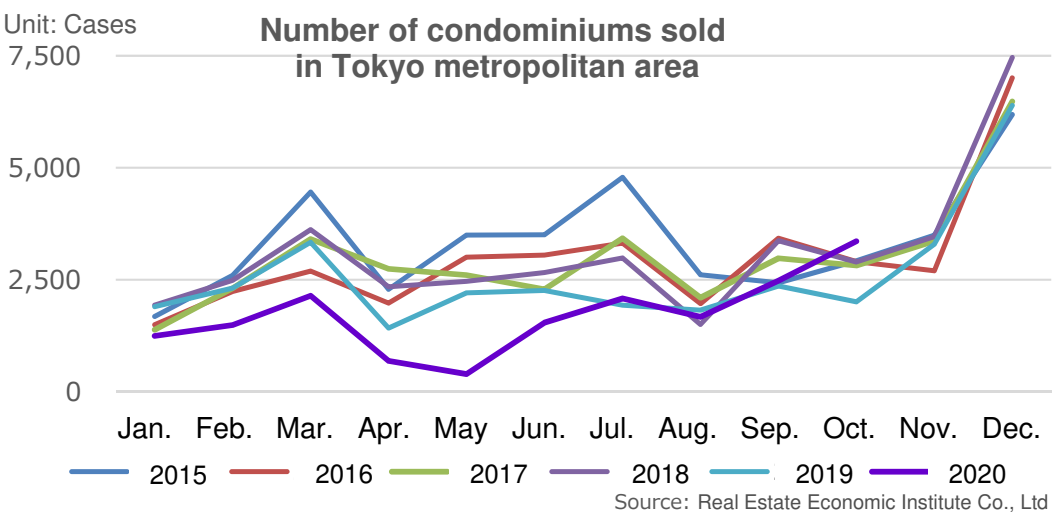
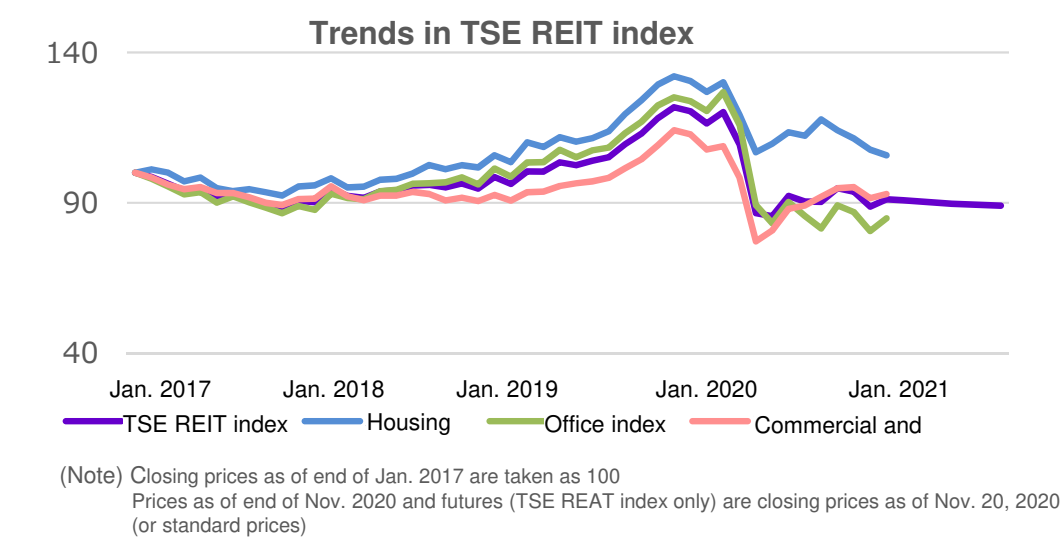
If any damage on the property or abnormal management is found, it will be reported to the borrower.

The survey is to be conducted on investment properties owned by borrowers where each borrower's loan balance is 50 million yen or more (the number of targeted single building apartments: about 9,000, accounting for more than 90% of the loan balance)

In FY 2020, taking measures to prevent the spread of COVID-19, we have carefully conducted a survey, completing it on about 30% of the targeted properties as of September 30, 2020.

Situation of Real Estate Market

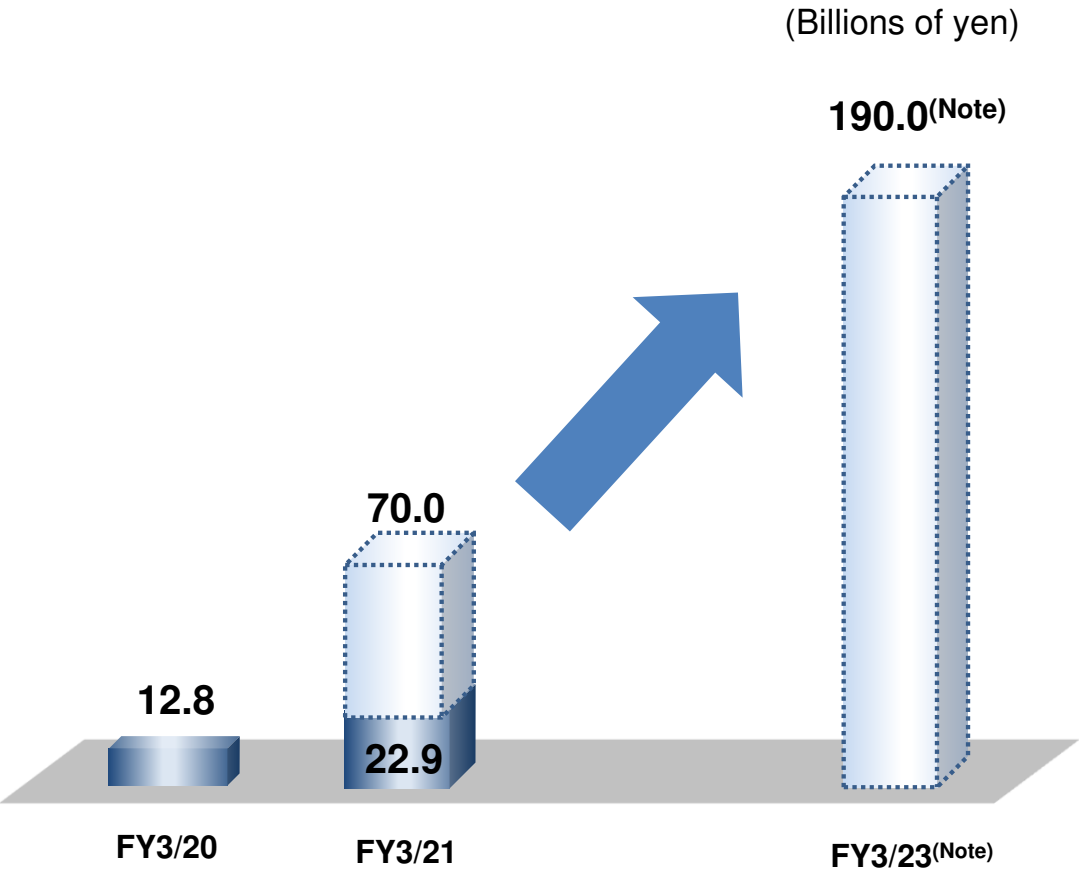
- The TSE REIT index, which decreased due to concerns over the spread of COVID-19, slowly recovered in line with the resumption of economic activity.
 - In the office market, there were indications of downward rent rate and upward vacancy rates due to the spread of remote work. However, their impact has been limited at this time.
 - In the housing market for living, there were signs of recovery of demand after the lifting of the state of emergency and there is an increasing trend in the number of new condominiums sold and number of sales contracts of existing condominiums.
 - Under these circumstances, on the back of global monetary easing, the Japanese real estate market, which has relatively high stability, has encouraged inflows of new investment funds.
 - On the other hand, preference of asset-type properties is polarized, and winners and losers have become clear even among the same asset type.
- Amid signs of a third wave of COVID-19, we need to carefully monitor the future outlook.
- While carefully monitoring market trends and risks of individual transaction, we will promote each of investment property loans, housing loans and asset finance.



Forecast of Mid-Term Business Plan “Re:Start 2025” New Loan Disbursements

- In FY22, the final year of the first phase of the mid-term business plan, we plan to execute new loans of 190.0 billion yen for the year. We are currently restructuring the retail banking system toward the execution of the plan.
- In FY20, we conservatively planned to execute new loans of 70.0 billion yen for the full year, considering the impact of COVID-19. In the first quarter, our top priority was to support customers who were affected by COVID-19. Since economic activity resumed after the lifting of the state of emergency, new loans have gradually increased to 22.9 billion yen for the first half of FY20.

Forecast of New Loan Disbursements



(Note) Final year of first phase of medium-term business plan “Re:Start 2025”

Trends in New Loan Disbursements

- Trends in the amount of loans executed by business category emphasized on the mid-term business plan

(Billions of yen)

	FY3/20 Full year	FY3/21		
		1st half	1Q	2Q
Consumer loans	6.2	8.7	3.8	4.9
Asset management company loans for property investment	0.2	4.5	1.1	3.4
Subtotal	6.4	13.2	4.9	8.3
Asset finance	6.4	9.7	2.1	7.5
Total	12.8	22.9	7.0	15.9

Sales Promotion System

- With 101 branches in our hometown, Shizuoka and Kanagawa prefectures, we have strengthened the solutions sales system for local customers.
- We have developed sales of secured loans focusing on investment property loans in the Tokyo metropolitan area and other major urban areas.
- We develop nationwide sales through direct channels such as internet branches and call centers.
- Customer information obtained through each channel, which is stored in the retail system infrastructure, is utilized for proposal activities at various customer contact points.

Our market

65 branches

■ Shizuoka area

- 4 sub-areas (Mishima/Izu, Numazu, Shizuoka, Hamamatsu)
- 11 branches provide housing loans
- Developing solution sales to meet local customers' needs

36 branches

■ Kanagawa area

- 4 sub-areas (Yokohama/Yokosuka, Shonan, Central area, Odawara)
- 9 branches provide housing loans
- Developing solution sales to meet local customers' needs

**10 branches
+4 departments**

■ Tokyo metropolitan area and other major urban areas

- Tokyo metropolitan area (6 branches), other major urban areas (4 branches)
- Investment property loans are centered on Tokyo Head Office
- Developing sales focusing on secured loans

11 branches

■ Direct

- 4 alliance branches (ANA, Recruit, T Point, So-net)
- 3 call centers (Shizuoka, Kanagawa, Tokyo)
- Mainly non-face-to-face contacts through alliance

Solution sales promoted in Shizuoka and Kanagawa areas

Proposals are made at various customer contact points based on the database

Customer Contact Points: SNS, DM, ATM, Smartphone, e-mail, Phone, Contact, PC, Call center, Branch

Information storage and analysis: DWH (Note), Automatic screening, CRM (Note), Smart Eye (Note) (analytical CRM)

Information sharing and utilization: Marketing, Asset consulting, Support for business succession and M&A

Support:

- Data analysis and feedback of a list of target customers
- Promotion of digital marketing
- Consulting by experts
- Collaboration with Shinsei Bank and local accounting offices in the business succession area

Timely proposals by digital marketing

Customer Scenario: The balance of the a/c is insufficient before salary is transferred to the a/c. The amount of use of other credit cards increased. Utility bills cannot be debited due to an insufficient balance of the a/c.

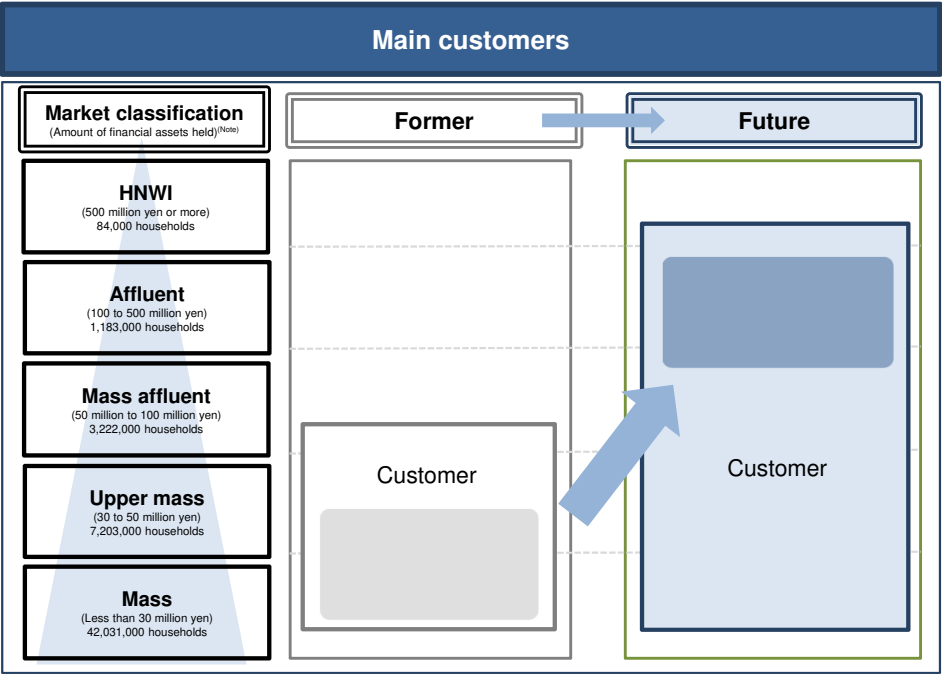
Proposal: We send a proposal for a credit-card loan to those customers on a timely basis based on the scenario

(Note)DWH...Data Warehouse CRM...Customer Relationship Management Smart Eye...our BI tool

Investment Property Loans

- Investment property loans include studio apartment loans, single building apartment loans, and secured loans.
- The amount of loans executed for the first half of FY20 was 13.2 billion yen. (Aggregated amount of loans for individuals and asset management companies)
- Approximately 60% of the above amount was for the affluent and mass affluent, showing a sign of shift to the target segments set forth in the mid-term business plan.
- Both the number of consultations and loan executions increased due to strengthening approach to new real estate agents.
- While refining the risk management system, including loan screening and operational flows, we promoted sales aiming to expand opportunities to approach the affluent.

Customer segments stated in the mid-term business plan



(Note)Reference: NRI estimated value

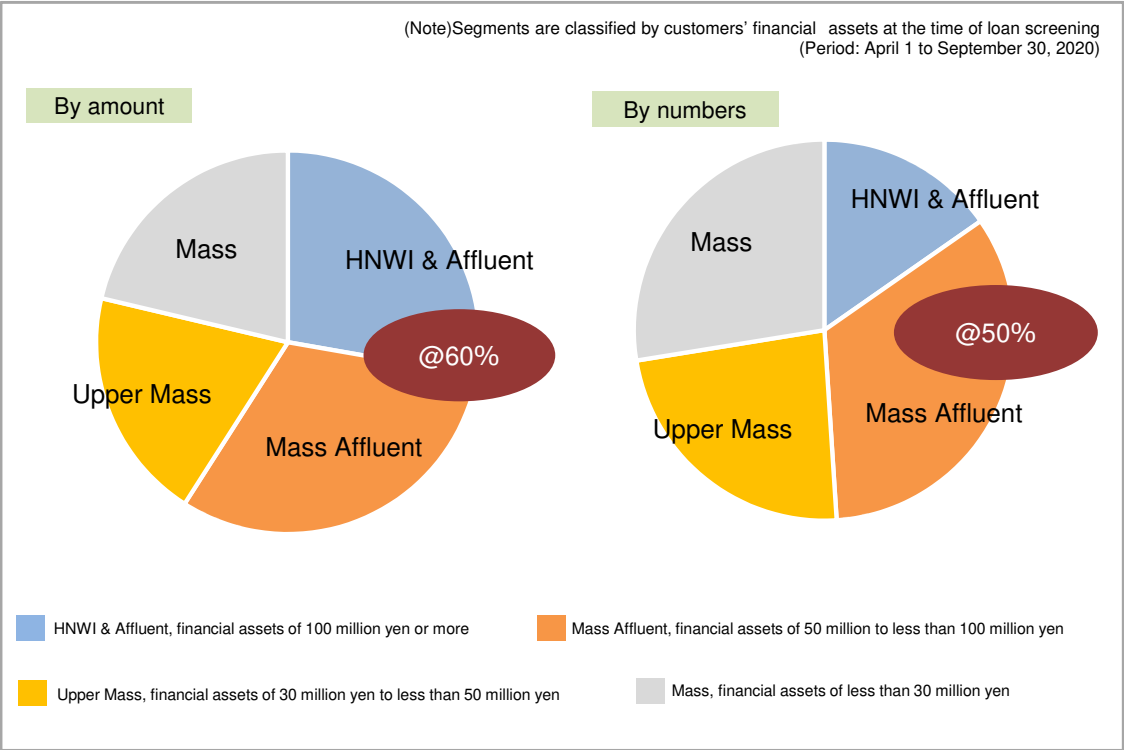
Promotion of investment property loans

- Promotion activities**
- Build relationship with major real estate companies to approach the affluent.
 - Create innovative measures for inbound demand by collaborating with major real estate companies.
 - Focus on BtoC strategy by leveraging the affluent network to expand opportunities.
 - Place the consultation form on the real estate portal site.

Etc.

Investment property loan amount executed by customer segment

The shift to affluent and mass affluent segments, positioned as key customers, is progressing and this approach is being strengthened

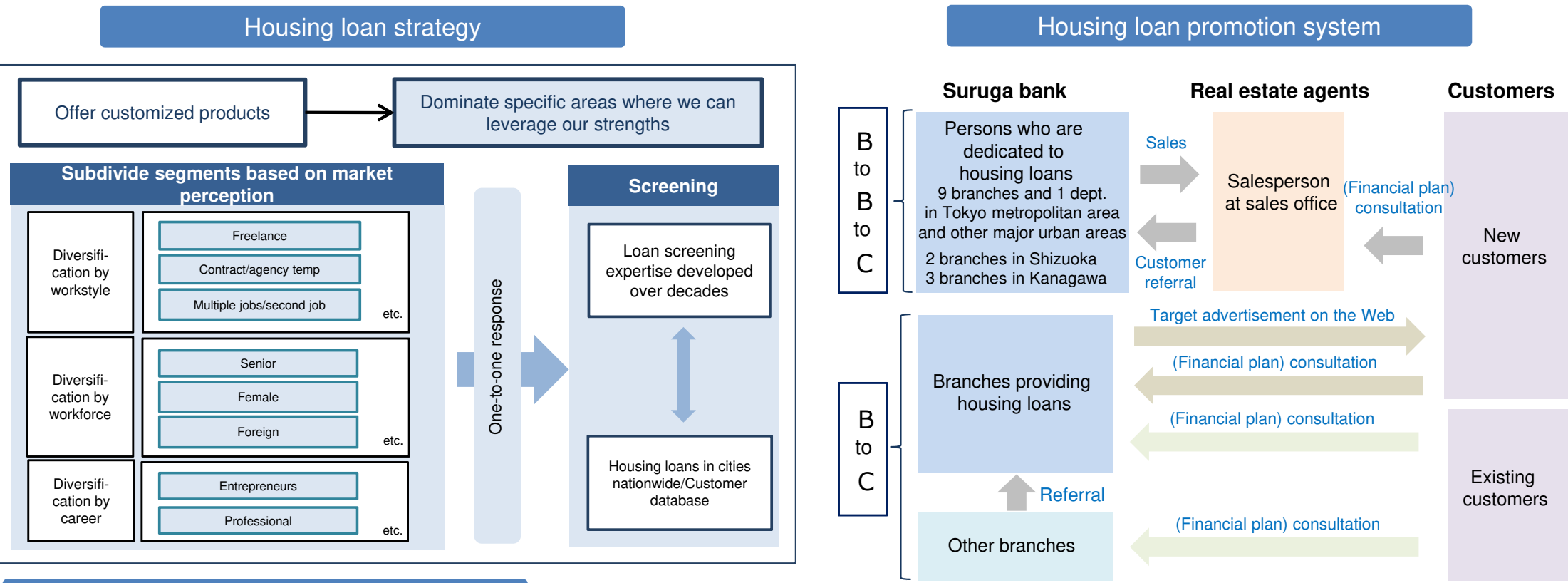


- Sophistication of risk management**
- Introduce an index like DSCR based on objective data from a third party.
 - Add processes to check operational flows (interview, direct receipt of documents for confirmation etc.).
 - Limit branches that can handle loans in order to maintain internal control and strengthen cooperation.
 - Visit and confirm the property with the customer.

Etc.

Housing Loans

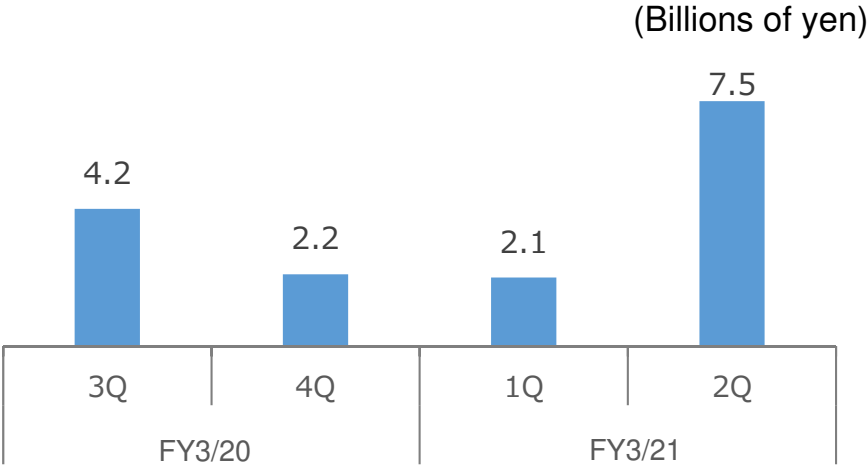
- We developed Suruga’s own housing loan strategy through our long-standing strength of customized services and loan screening know-how based on a long-term accumulated database.
- Focusing on the introduction of customers from real estate agents (B to B to C), we also promoted working with Alliance of the Nojima Group and Recruit as B to C business models.
- We implemented the development of new financial instruments and revised existing ones to meet new lifestyles and senses of value, and customers’ needs.



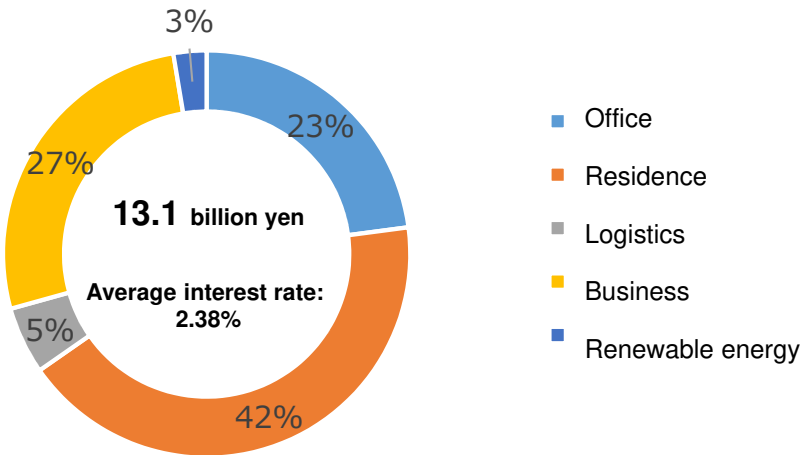
■ Asset finance

- The sales of the product started in the second half of FY2019, and we have gradually expanded resources since April 2020 when the Structured Finance Department was established.
- The business has steadily progressed, establishing a medium-risk/medium-return portfolio while diversifying target properties.
- The average loan interest rate moved in a range of 2.0% to 2.5%.

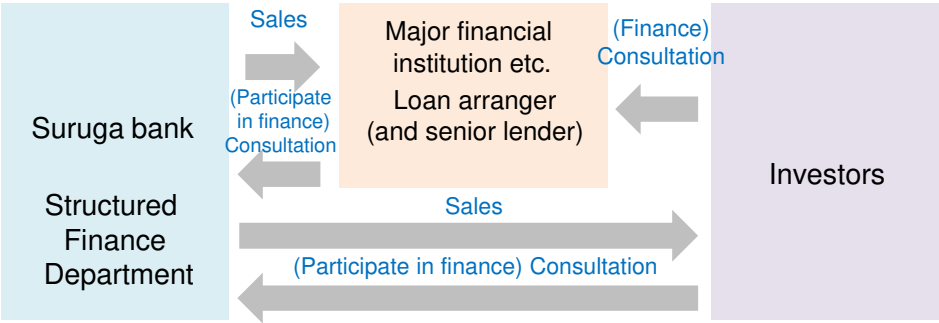
Trends in executed asset finance



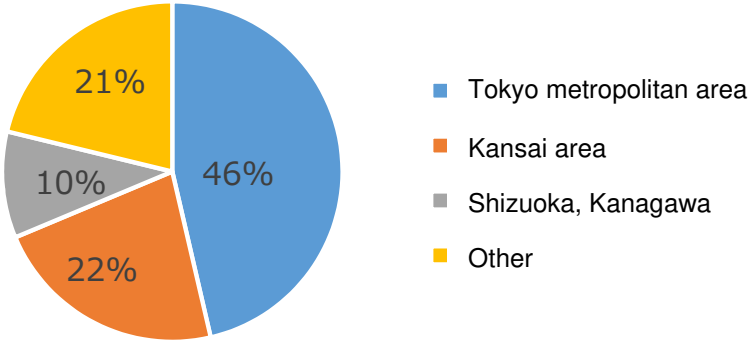
Asset finance balance by category (as of Sep. 30, 2020)



Asset finance sales system



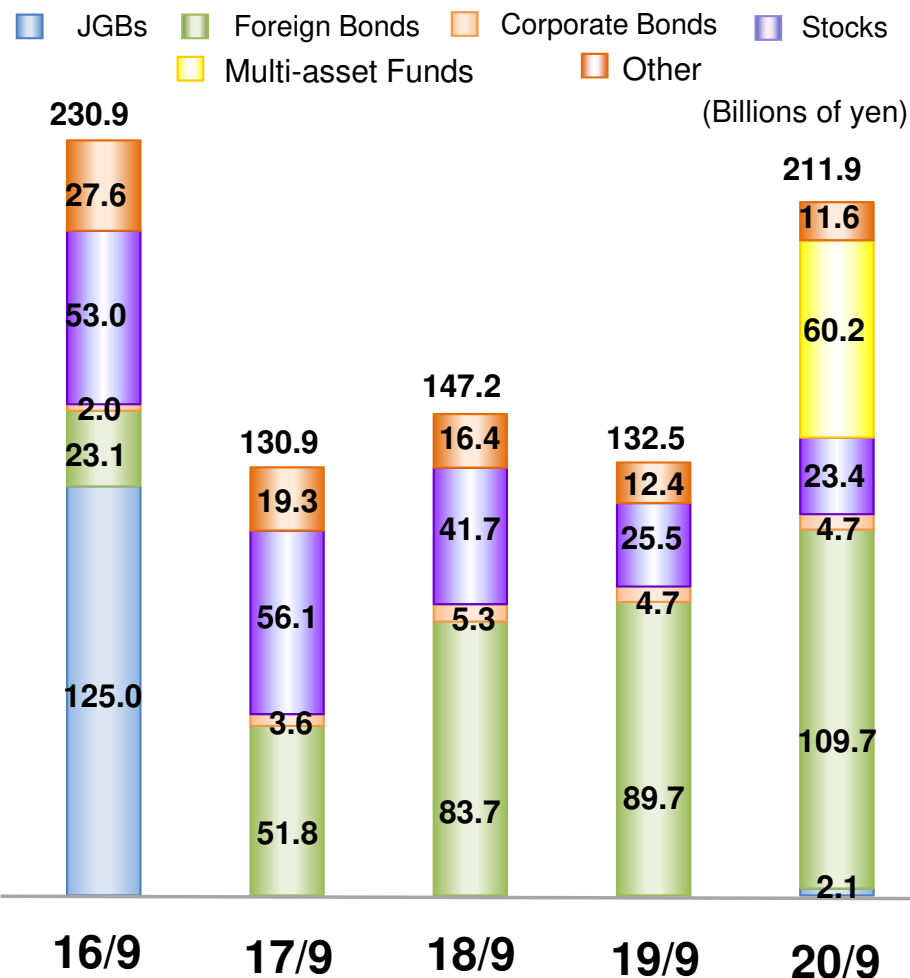
Asset finance property location ratio (as of Sep. 30, 2020)



Securities Operations

- In the mid-term business plan, we determined to start new investments in the market by distributing resources to operations in the market, setting a target of yield 0.7% on a comprehensive income basis.
- Under the policy of diversifying risks and stabilizing earnings while securing liquidity, we started investments into the multi-asset fund in the first half of FY2020. (Balance as of Sep. 30, 2020: 60.2 billion yen)
- We will establish ALM and risk management systems, aiming at stable operations by curbing downside risks.

Portfolio of investment securities



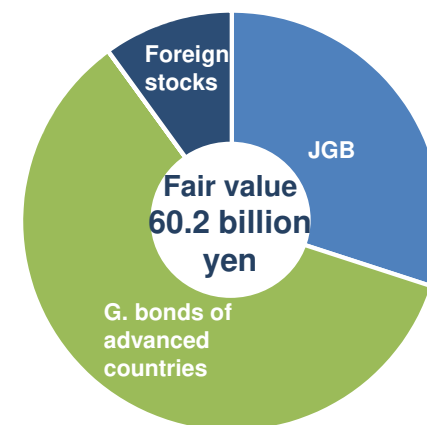
Unrealized gains (losses) on securities

	Sep. 30, 2019		Sep. 30, 2020		Year on year
	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)	
Available-for-sale Securities	113.5	10.7	193.7	8.5	+80.2
Stocks	17.5	9.3	15.2	6.9	(2.3)
Bonds	94.5	0.7	116.5	0.4	+22.0
Multi-asset funds ^(Note)	—	—	60.2	0.2	+60.2
Other	1.4	0.7	1.7	0.9	+0.3

(Note) New investments started in line with the policy to distribute resources to operations in the market, which is set forth in the mid-term business plan.

Portfolio of multi-asset funds

Target yield 0.7%
(Comprehensive income basis)



■ Structural Reform; Reform of Branch Operations

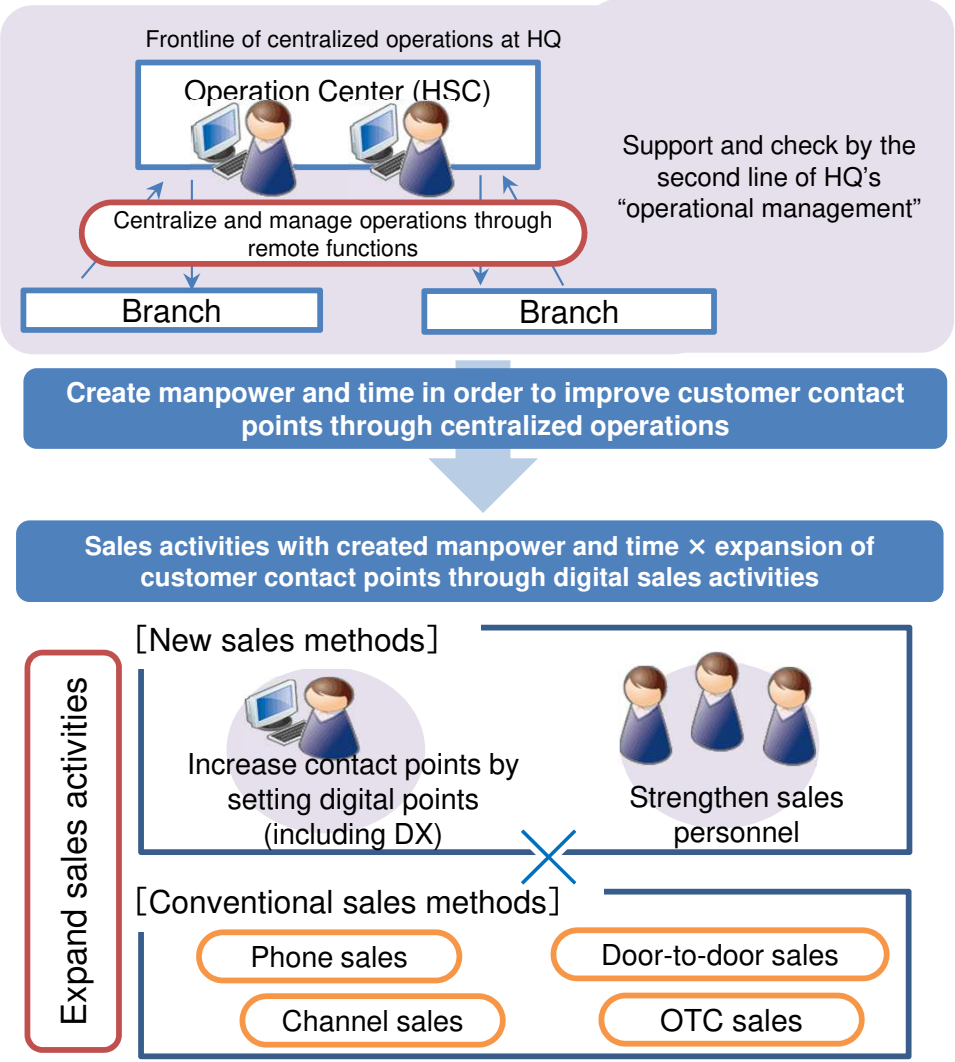
- As of November 20, 2020, we have consolidated three branches (one is planned) in the Tokyo metropolitan area, three branches in major cities nationwide, and one branch in the Kanagawa area, centralizing management resources.
- We have centralized the back office functions of branches into the Headquarters to improve the efficiency of branch functions and increase customer contacts through diversified sales methods.
We will enrich communication with customers by leveraging created manpower and time.

•Branches consolidated

Area	Branch name	Month of consolidation
Tokyo metropolitan area	Futakotamagawa Branch	July 2020
	Kawasaki Branch	August 2020
	Tama Plaza Branch	Jan. 2021 (planned)
Other major urban areas	Sendai Branch	June 2020
	Hiroshima Branch	October 2020
	Kyoto Branch	November 2020
Kanagawa	Keio University Sub-Branch	June 2020

Tokyo metropolitan area and other major urban areas	<ul style="list-style-type: none"> Consolidation of branches, aiming to strengthen sales capability and ensure compliance management. Centralized management will ensure thorough compliance and accumulated sales know-how and information sharing will enhance sales capability and human resource development. Centralize management resources into each branch in Tokyo metropolitan area, Osaka, Nagoya and Fukuoka to promote sales.
Shizuoka and Kanagawa	<ul style="list-style-type: none"> Branch consolidation is conducted to improve the efficiency of operations from the perspective of contributing to the local community and existing customers' convenience, including proximity between branches, the number of visiting customers, the volume of deposits and loans, and the relationship with the local government.

•Branch operation efficiency



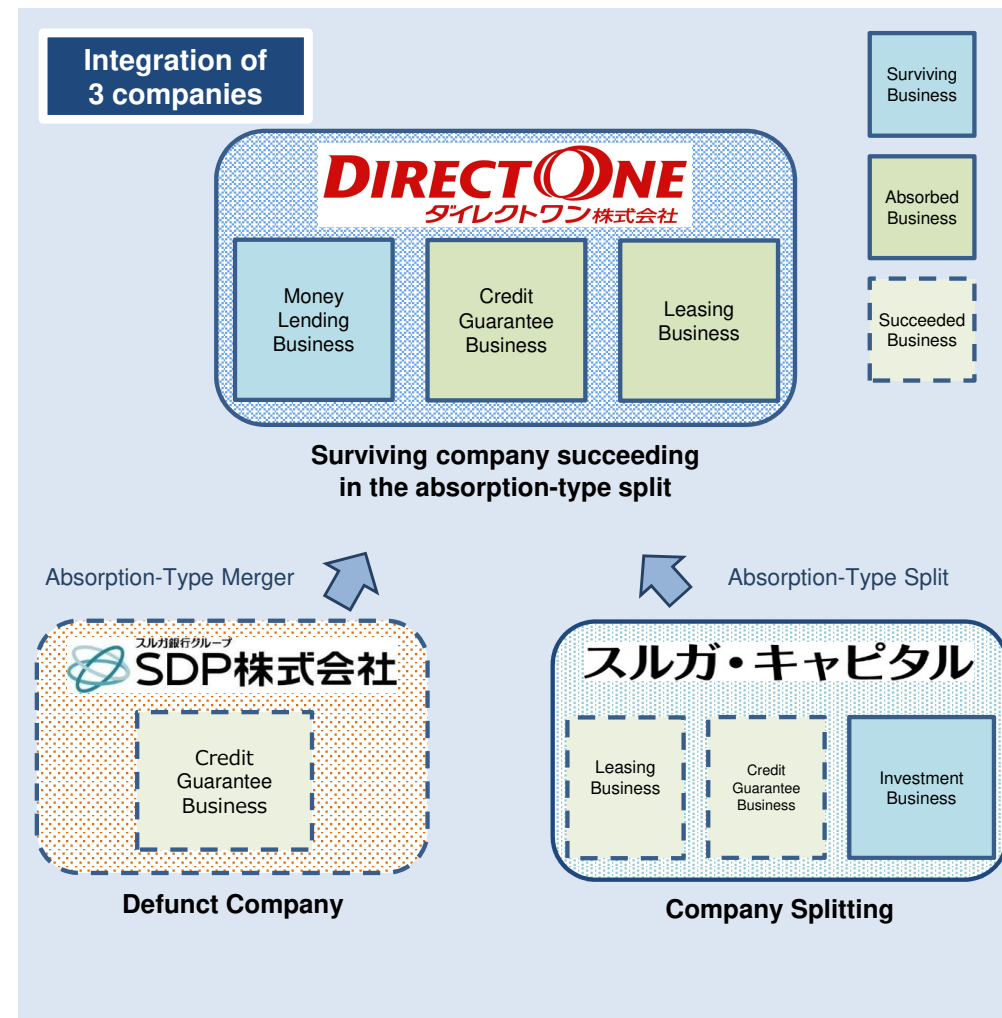
■ Structural Reform; Group Function Review

- We are restructuring companies within the group in order to review and consolidate group functions and optimize management resources.
- We reviewed the overlapping credit guarantee business conducted by three subsidiaries within the group and integrated two companies into Direct One Co., Ltd. At the same time, leasing business was also integrated in order to increase synergies.
- LNP Co., Ltd. discontinued its insurance policy solicitation operations after their transfer in May 2020 and was liquidated in November 2020.
- CHUBU SERVICER Co., Ltd., which is to be liquidated in March 2021, is currently preparing for it.
- The liquidation of LNP Co., Ltd. and CHUBU SERVICER Co., Ltd. will have a minor impact on financial results for the fiscal year ending March 2021.

• Group Function Review

Company name	Main business (Before reform)	Main business (After reform)	Note
DIRECTONE Co., Ltd.	Money lending Credit guarantee Leasing	Money lending Credit guarantee Leasing	Surviving company succeeding in the absorption-type split
Suruga Capital Co., Ltd.	Leasing Credit guarantee Investment	Investment	Company Splitting
SDP Co., Ltd.	Credit guarantee	—	Defunct Company
LNP Co., Ltd.	Insurance policy solicitation	—	Liquidation completed in November 2020
CHUBU SERVICER Co., Ltd.	Servicer	—	To be liquidated in March 2021

• Review of credit guarantee function



I Financial Results for the 1st Half of FY3/21

II COVID-19 Pandemic Response

III Bonds management, Sales, Securities, Structural reform

IV Status of Alliance with Nojima Group

V CSR

Status of Alliance with Nojima Group

- Nojima Corporation (hereinafter called Nojima) and Suruga Bank have established an Alliance Committee chaired by their presidents and an Alliance Promotion Meeting chaired by their vice presidents to discuss synergies, including those of group companies of both companies.
- We promote mutual customer referral with Nojima and NIFTY, including measures to attract customers to branches or stores and enclosure of preferred fliers in mailing envelopes addressed to customers.
- We also started linking contents with the real estate search site of NIFTY Lifestyle Co. Ltd. and NIFTY onsen (hot spring) website, as well as cooperation with Cygni Corporation, which has sales channels to animal clinics and pet shops.

- Details of the Business Alliance
- (1) Joint retail tech business
 - (2) Joint development of online services and fintech business utilizing the customer bases of both companies
 - (3) Collaboration in sales strategies, such as mutual sales of 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 customers
 - (5) Regional revitalization centered on the Tokyo metropolitan 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 Suruga's infrastructure

Shizuoka & Kanagawa

×

Tokyo metropolitan area & other major urban areas

×

Online

(Note1) Nifty Fudousan is a Japanese real estate listing site.

(Note2) Nifty Onsen is a listing site featuring hot springs in Japan.

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.”

I Financial Results for the 1st Half of FY3/21

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■ CSR Contribution to Local Communities

- Contribute to local communities through industry–university–government collaboration and bicycle promotion

Revitalization of local communities through industry–university–government collaboration

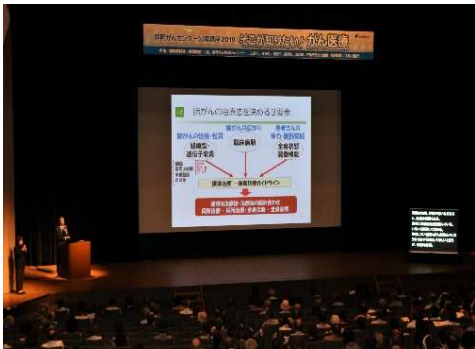
[Pharma Valley Project]

- This is a project to develop manufacturing, human resources, and communities, aiming to become the prefecture with the world’s most healthy and long-lived people, focusing on “health promotion and overcoming illness” as well as “establishment of economic base.”



[Special sponsorship for open lectures held by Shizuoka Cancer Center]

- Since 2004, Suruga Bank has been a special sponsor for open lectures held by Shizuoka Cancer Center, the core of Pharma Valley Project.



(Note)“Open lecture held by Shizuoka Cancer Center”

Revitalization of local communities through bicycles

- Suruga Bank signed a “Partnership agreement on bicycle promotion” with the Council to Make Shizuoka Prefecture a Mecca of Cycle Sports^(Note) on June 19, 2020.

Aim at “Realization of Fuji no Kuni (Shizuoka Prefecture), Mecca for Cyclists” by working together for specific measures based on the Shizuoka Prefecture’s “Good Bicycle Japan” project.

(Note) Organization established in April 2018 to make Shizuoka Prefecture a mecca of cycle sports through public–private cooperation



Ride SHIZUOKA 2020 Round OYAMA



Across Izu Peninsula Ride 70 km

- Suruga Bank signed a “Partnership agreement on bicycle promotion” with Hiratsuka City on June 24, 2020.

Promote tourism in Hiratsuka City and expand visitors from outside through bicycles



Hiratsuka LaLa Pota Miyagase Ride 70 km



Hiratsuka LaLa Pota “Hiratsuka Hakkei Tour”

Reference Materials

“I’m glad you’re here... I’m glad we met...”
This perception is our goal.

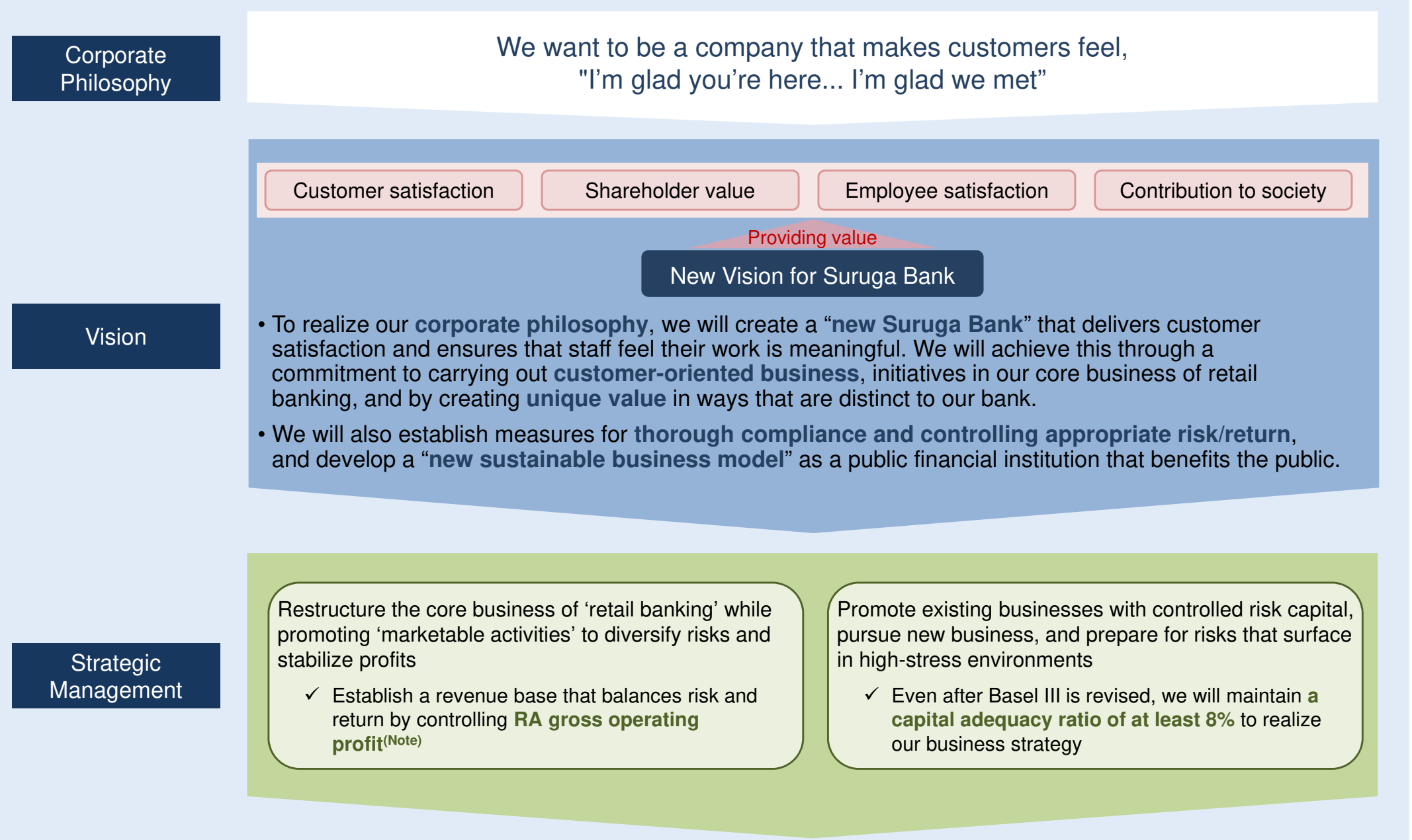
No matter how much the times change or time passes,
we are committed to providing service from the customer’s perspective,
staying closely in tune with their everyday life,
providing value, and helping our customers lead more prosperous lives.

<Our Ambition>

We aim to serve as a bank that always thinks of customers first in any situation.

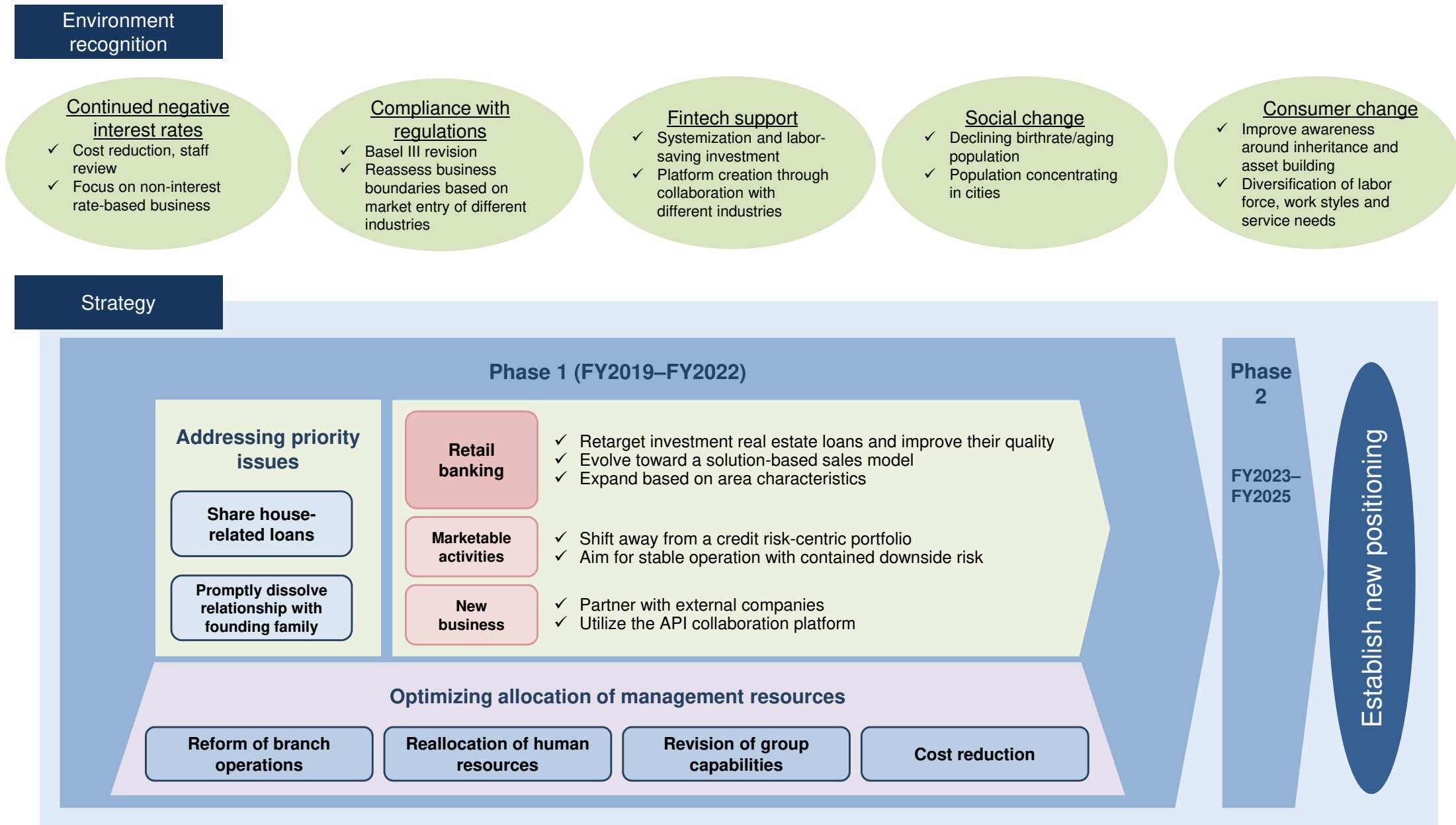
By genuinely listening to our customers and providing added value that only Suruga Bank can deliver, we aim to be the kind of bank that makes customers feel “I’m glad you’re here... I’m glad we met.”

To provide customers with truly satisfying service, it is vital for staff who provide these services to find their work meaningful. Thus, we also strive to be a company that makes not only customers, but also staff feel “I’m glad you’re here... I’m glad we met.”



(Note) RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit - Actual Credit Costs

■ Basic Strategy for Phase 1



■ Financial Plan Overview Target Management Indices

(Billions of yen)

Non-consolidated		FY3/20	FY3/23 (Final FY of Phase 1)
	Net interest income	84.9	71.0
	Actual credit costs	2.4	20.0
	RA gross operating profit ^(Note1)	77.8	49.0
	Net income	24.4	6.0
	OHR ^(Note2)	54%	Up to 60%
	Capital adequacy ratio	10.2%	Over 10%
Consolidated	Net income	25.3	7.0

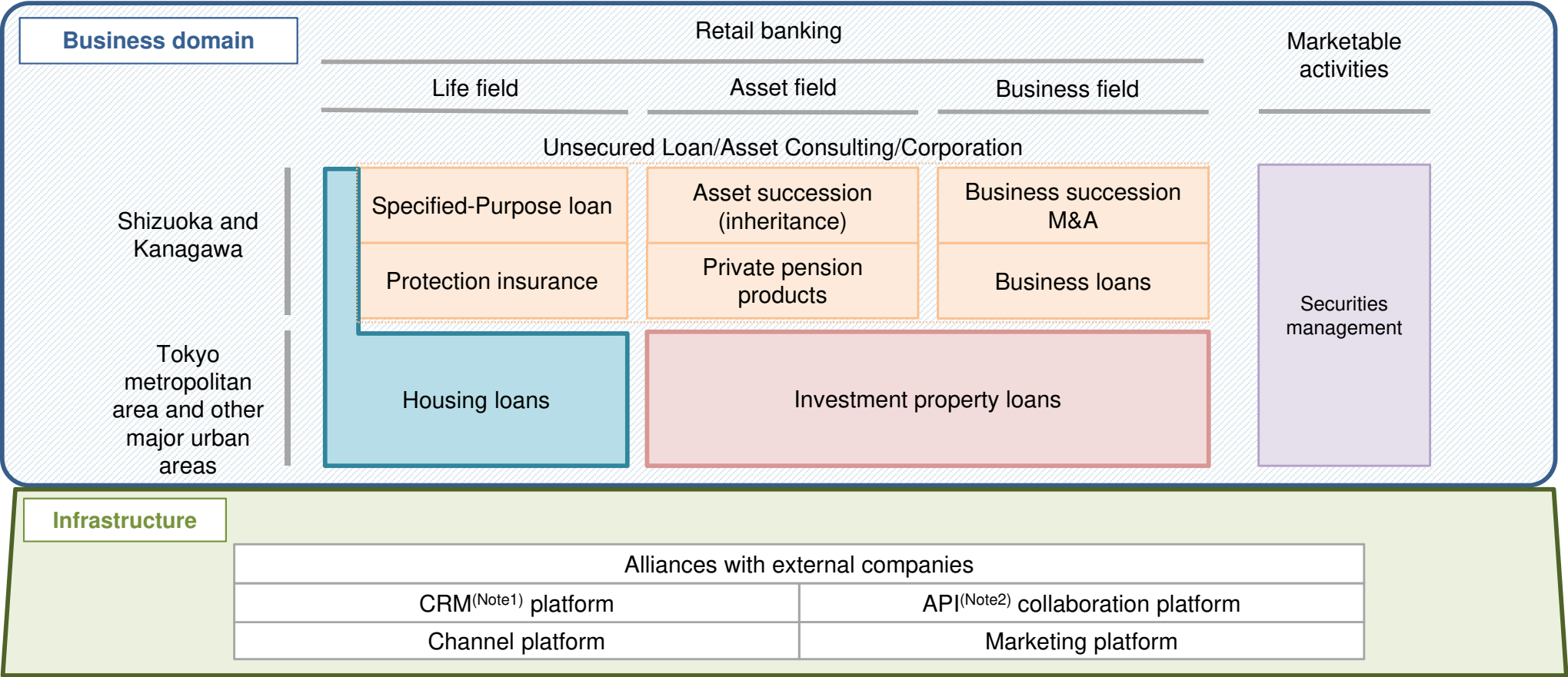
(Note1) RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit – Actual Credit Costs

(Note2) OHR (Overhead Ratio) = Expenses / Gross Operating Profit

Sales Strategy Overview

◆ In the first phase, we will lay the foundation for a sustainable business model based on our unique retail infrastructure.

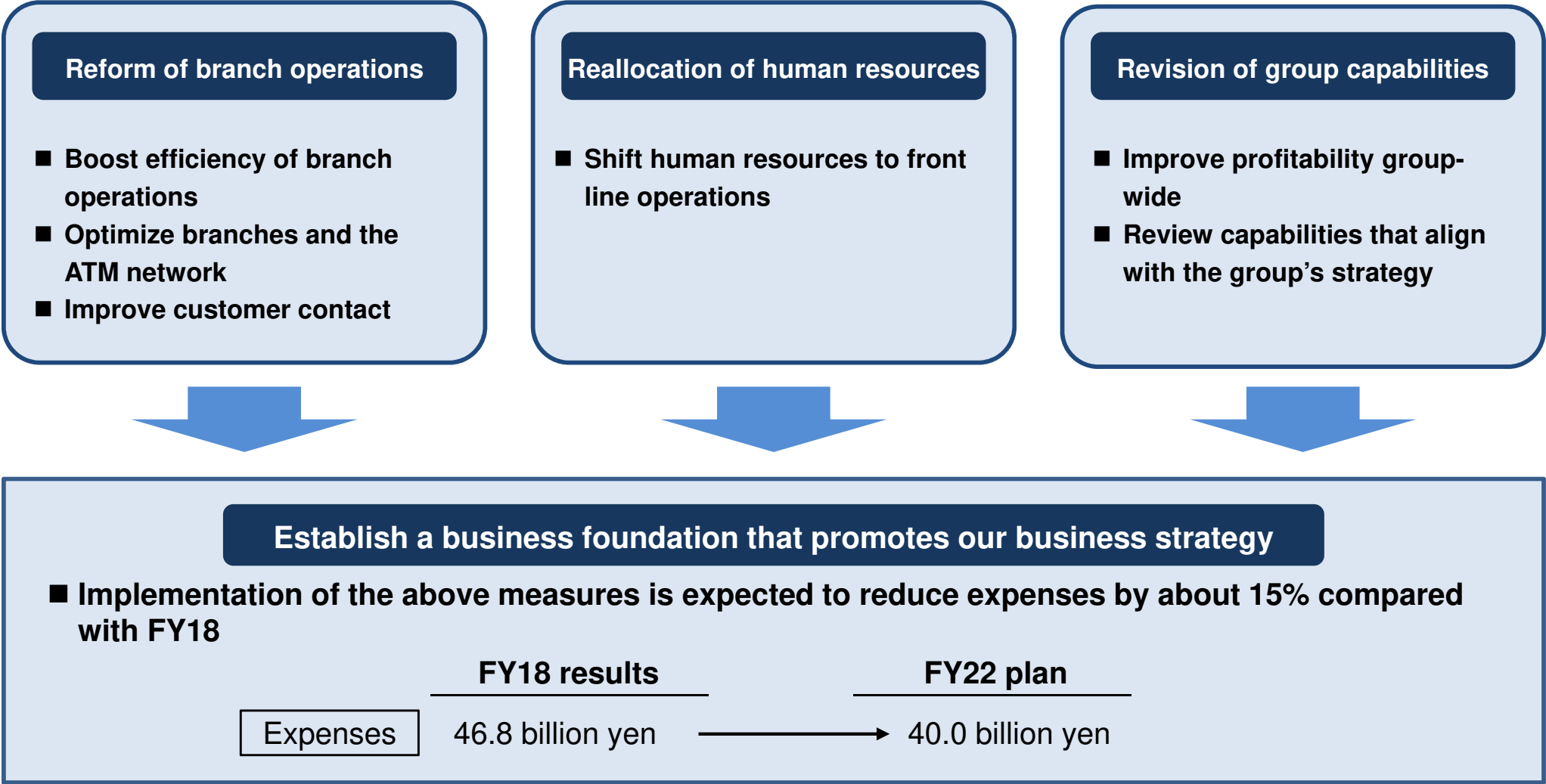
- Key Points**
- Utilize knowledge and expertise built up over decades to continue to position personal loans as a pillar of our retail banking business.
 - Improve financial support capabilities to solve customer issues
 - Promote marketable activities in order to shift away from loan-centered portfolio and stabilize profit



(Note1) Customer Relationship Management (Note2) Application Programming Interface

■ Overview of Structural Reform

◆ Establish a business foundation that promotes our new business strategy by implementing efforts to optimize management resources, including “reform of branch operations,” “reallocation of human resources,” and “revision of group capabilities.”



■ Reference Information (Links)

Page No.	Title of disclosure
1, 2	Timely disclosed on October 29, 2020: “Announcement Regarding the Revision to the Earnings Forecast” https://www.surugabank.co.jp/surugabank/common/english/pdf/201111_en.pdf
7	Disclosed on May 14, 2020: “Consolidated Financial Results for the Fiscal Year Ended March 31, 2020” https://www.surugabank.co.jp/surugabank/common/english/pdf/200514_en.pdf Disclosed on November 13, 2020: “Consolidated Financial Results for the Six Months Ended September 30, 2020” https://www.surugabank.co.jp/surugabank/common/english/pdf/201113_en.pdf
9	Disclosed on May 15, 2019: “Outline of the criteria for exemption for repayment of part of the principal amount of the loan” https://www.surugabank.co.jp/surugabank/common/english/info/pdf/190515_a_en.pdf Timely disclosed on March 25, 2020: “Announcement Regarding Transfer of Share House-related Loan Receivables” https://www.surugabank.co.jp/surugabank/common/english/pdf/financial_results_2003_01.pdf
20	Timely disclosed on May 19, 2020: “Business & Capital Alliances with Nojima Corporation” https://www.surugabank.co.jp/surugabank/common/english/pdf/200519_en.pdf
Reference Material	Disclosed on November 14, 2019: “Suruga Bank Mid-Term Business Plan ‘Re:Start 2025’” https://www.surugabank.co.jp/surugabank/common/english/pdf/191114_en.pdf

SURUGA bank

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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 unpredictable changes in the external business environment.