SURUGA bank, Ltd.

Financial Results for the nine months ended December 31, 2021

February 10, 2022

SURUGA bank

Actual Results for 3Q of FY3/22; Comparison with 3Q, FY3/21

- Gross operating profit fell ¥5.8 billion year-on-year to ¥48.9 billion, mainly due to a decline in net interest income.
- Actual credit costs fell ¥4.3 billion year-on-year to ¥6.6 billion, mainly due to withdrawals of allowance for loan losses owing to revised secured mortgage collateral. Progress is generally as planned with the full-year forecast remaining unchanged at ¥16 billion.
- Quarterly net income (non-consolidated) increased ¥1.8 billion year-on-year to ¥9.4 billion.
- Quarterly net income (consolidated) was ¥9.5 billion, unchanged on previous year.

<Non-consolidated>

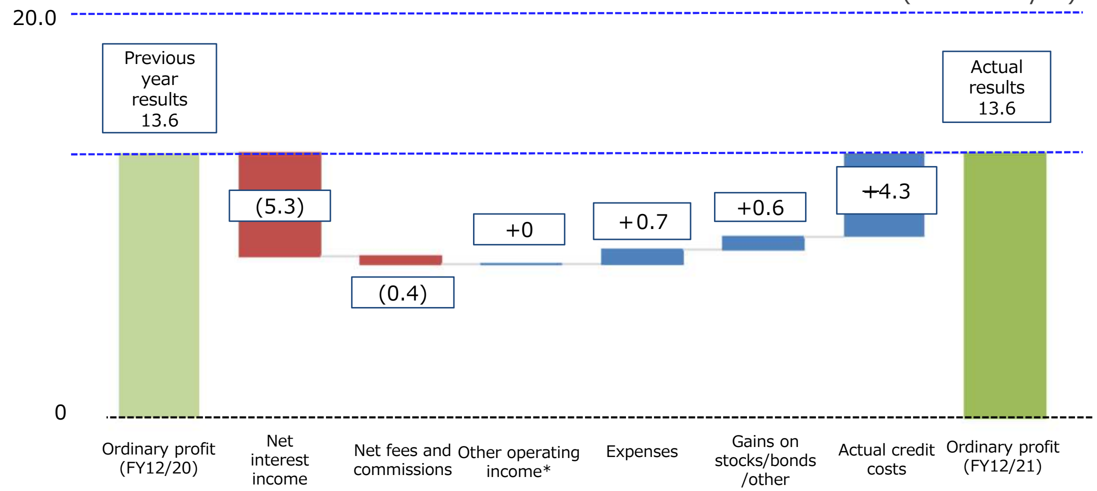
(Billions of yen)

	3Q results for FY3/21	3Q results for FY3/22	Year-on-year change
Gross operating profit	54.8	48.9	(5.8)
Expenses	30.5	29.8	(0.7)
Core net operating profit	23.7	18.6	(5.0)
Net operating profit	50.7	37.7	(13.0)
Ordinary profit	13.6	13.6	(0.03)
Net income	7.5	9.4	+1.8
Actual credit costs	10.9	6.6	(4.3)
ROE (%)(Net income basis)	4.2	4.8	+0.6
Profit attributable to owners of parent	9.4	9.5	+0.1
EPS (¥) (Consolidated)	40.6	41.3	+0.7

Factors causing variation in ordinary profit (YoY)

	Main factors
Net interest income	・Decline in interest on loans (Average balance factors -¥3.9billion, yield factors -¥1.7billion)
Expenses	・Decline in non-personnel expenses (-¥0.6billion) ・Decline in personnel expenses (-¥0.4billion)
Actual credit costs	・Withdrawals of allowance for loan losses due to revised secured mortgage collateral (-¥13billion) ・Increase in recoveries of written-off claims (+¥2.1billion)

(Billions of yen)



*Excludes gains/losses on bonds.

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

- Despite an increase in allowance for loan losses as initially projected, actual credit costs for share house-related loans recorded a loss of ¥5.3 billion on the back of large withdrawals of allowance for loan losses due to revised secured mortgage collateral in the first half of the year.
- Actual credit costs on investment real estate loans, other than share house-related loans, were recorded at ¥11.7 billion as a result of increasing the allowance for loan losses in 3Q as a preventive measure in light of collective bargaining moves by some customers.

・Actual credit costs/allowance for loan losses (FY3/22)

(Billions of yen)

Item	1Q	2Q	3Q	Actual credit costs for 3Q	Allowance for loan losses
Share house-related loans	1.2	(8.0)	1.4	(5.3)	68.2
Investment real estate loans*	1.9	(1.3)	11.2	11.7	64.6
Housing loans	(0)	(0.7)	0.2	(0.5)	3.5
Unsecured loans	0.1	(0)	0.1	0.1	2.1
Monetary claims bought	—	—	0.1	0.1	0.1
Business financing, etc.	0.1	0.1	0.3	0.5	8.7
Total	3.4	(10.1)	13.3	6.6	147.4

*Includes studio apartment loans, single building apartment loans, and other secured loans.

・Coverage status on share house-related loans

	Total credit balance A	Share house-related loans	Mortgage collateral or guarantee B	Unsecured portion C	Allowance D	Coverage ratio (B+D)/A
March 2021	135.7	107.2	52.5	83.1	76.7	95.24%
September 2021	131.6	104.2	61.7	69.8	67.7	98.36%
December 2021	130.0	103.1	60.0	70.0	68.2	98.60%

*Based on obligors of share house-related loans.
*Mortgage collateral or guarantee: Calculated by multiplying the estimated amount of collateral, etc. by a fixed rate (revised in first half of current fiscal year)
*Total credit balance, share house-related loans: Loans and bills discounted, suspense payments equivalent to loans and bills discounted, and accrued interest on loans and bills discounted.

Outstanding Balance, Yield, and Delinquency Rate by Loan Category<Non-consolidated>

- The yield on loans and bills discounted for all loans was 3.53%, down 0.06ppt from the end of September 2021.
- The consumer loan delinquency rate rose 1.85ppt from the end of September 2021 to 8.53%, primarily owing to an increase in the number of delinquent borrowers of share house-related loans who suspended their repayments because they wished to have their loans transferred, and as some customers using investment real estate loans took advantage of collective bargaining to suspend payments. Despite this however, the overall consumer loan delinquency rate excluding these special factors remained unchanged compared to the end of September 2021.

(Billions of yen)

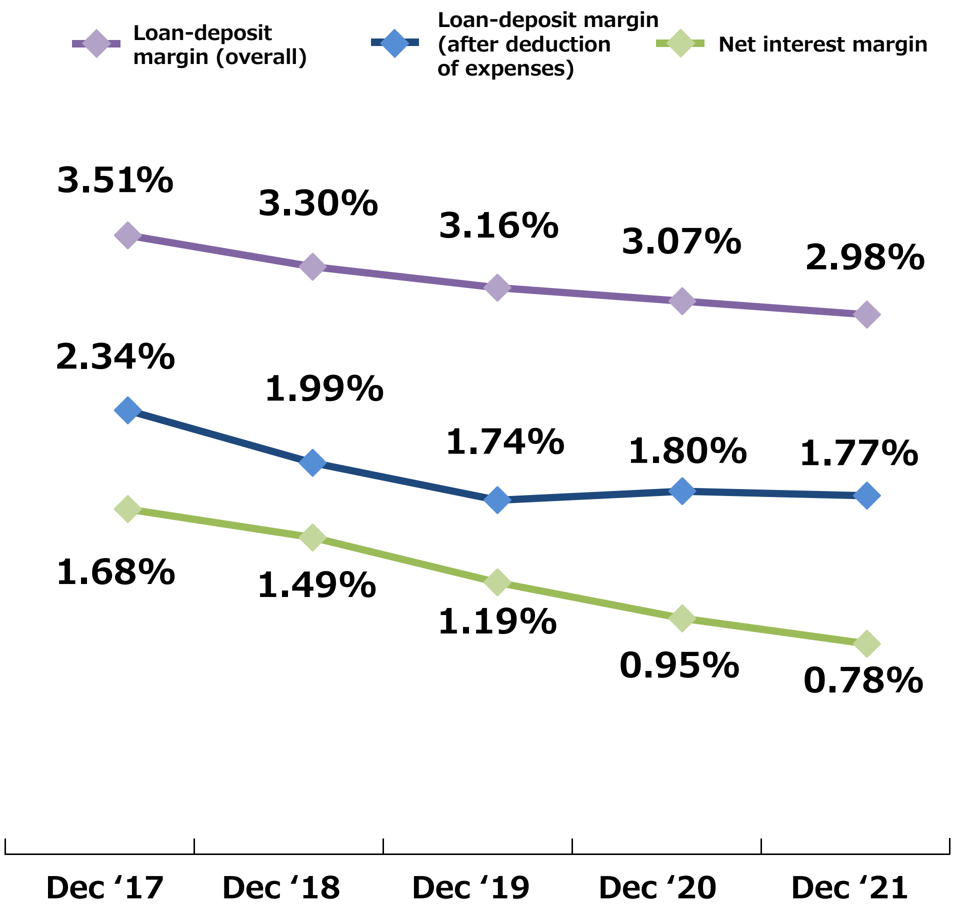
Loan category		September 2021			December 2021		
		Balance	Yield	Delinquency rate	Balance	Yield	Delinquency rate
Secured loans		1,823.6	3.07%	7.05%	1,787.4	3.05%	9.04%
	Housing loans	475.1	2.82%	0.27%	466.2	2.80%	0.33%
	Studio apartment loans	155.0	3.39%	1.75%	147.9	3.38%	2.14%
	Single building apartment loans	1.054.3	3.24%	4.70%	1,036.0	3.23%	7.16%
	Share house loans	104.2	1.40%	73.33%	103.0	1.40%	81.72%
	Other secured loans	34.8	4.66%	0.34%	33.9	4.62%	0.23%
Unsecured loans		156.8	10.37%	2.28%	150.3	10.38%	2.32%
	Card loans	104.5	11.75%	0.85%	100.7	11.76%	0.86%
	Unsecured certificate loans	52.2	7.59%	5.14%	49.6	7.58%	5.29%
Consumer loans (A)		1,980.4	3.64%	6.68%	1,937.7	3.62%	8.53%
Consumer loans (excluding share house-related loans)		1,848.8		2.74%	1,807.7		4.11%
Investment real estate loans for asset management companies (B)		22.2	1.87%	–	27.6	1.84%	–
Structured finance, etc. (C)		50.8	2.34%	–	58.8	2.25%	–
Monetary claims bought (D)		–	–	–	29.9	1.96%	–
Total (A+B+C+D)		2,053.5	3.59%	6.45%	2,054.2	3.53%	8.05%

*Delinquency rate = Loans past due for three months or more / loan balance. *Yield: Yield for customers (excluding guarantee fee and accrued interest), period-end balance basis.
*Yield and delinquency rate of studio apartment loans, secured loans, consumer loans, and the total (A+B+C+D) are calculated based on original claims before securitization.
*As the balance is aggregated by loan type, if borrowers of share house loans or customers participating in collective bargaining default on scheduled repayments, the delinquency rate of other types of loans will be affected.

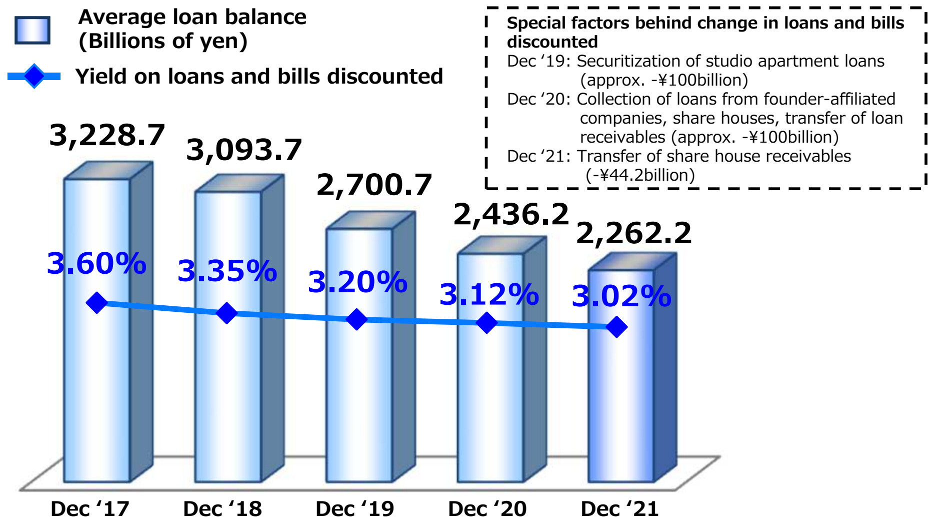
■ Yield/Margins, Loans and Deposits Yield/Average Balance <Non-consolidated>

- The loan-deposit margin dropped 0.03ppt on the previous year to 1.77% as the decline in yield on loans and bills discounted (down 0.1ppt YoY), caused by continued rate reductions with changes to loan repayment conditions, exceeded the declining expense ratio (down 0.06ppt YoY).
- The net interest margin was 0.78%, down 0.17ppt year-on-year, as the fall in return on investment outweighed the decline in funding costs.
- The average loan balance decreased by ¥174 billion year-on-year to ¥2,262.2 billion partly due to special factors (lump-sum transfer of share house-related loans of approximately ¥44.2 billion).
- The average deposit balance increased by ¥100.6 billion year-on-year to ¥3,286.8 billion.

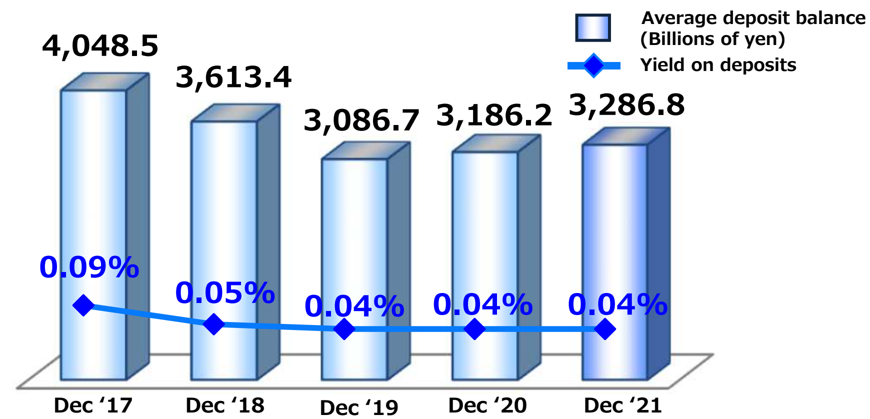
Net interest margin



Loans (average balance / yield)



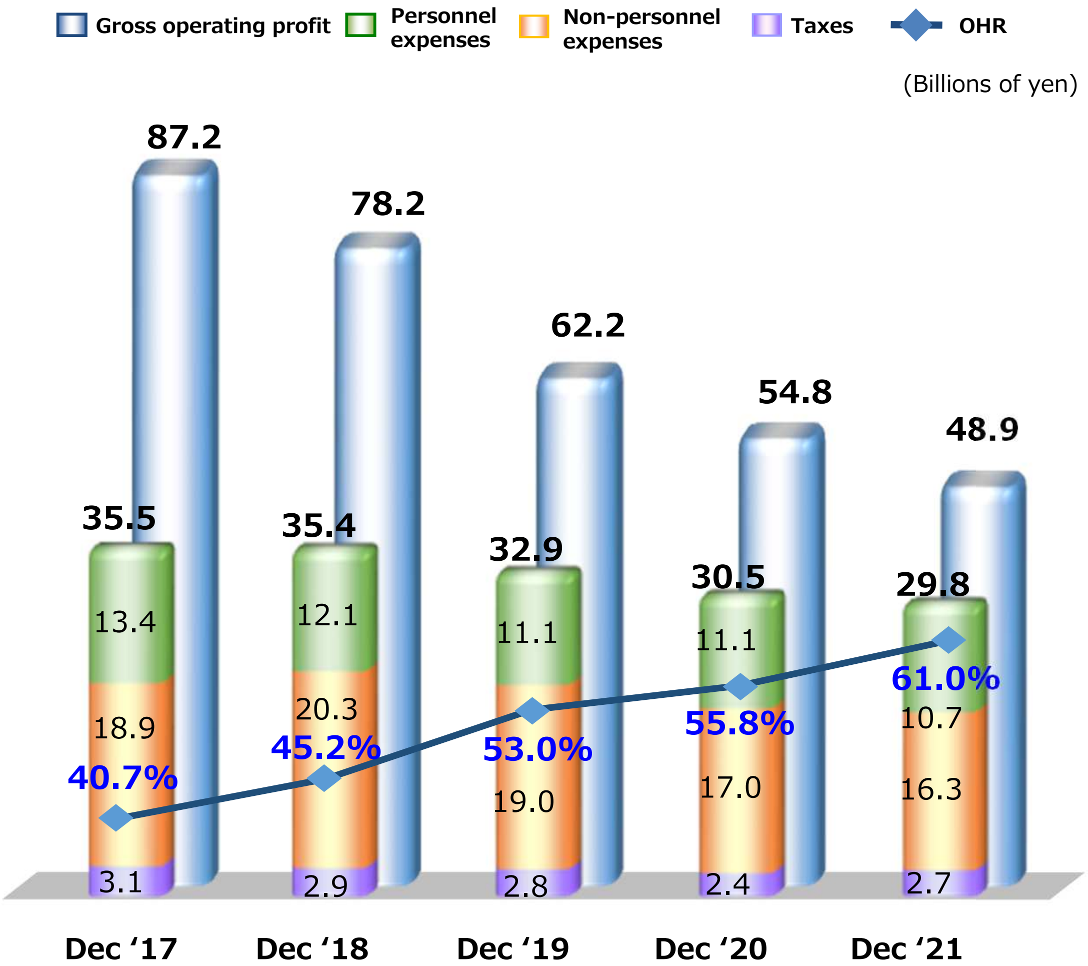
Deposits (average balance / yield)



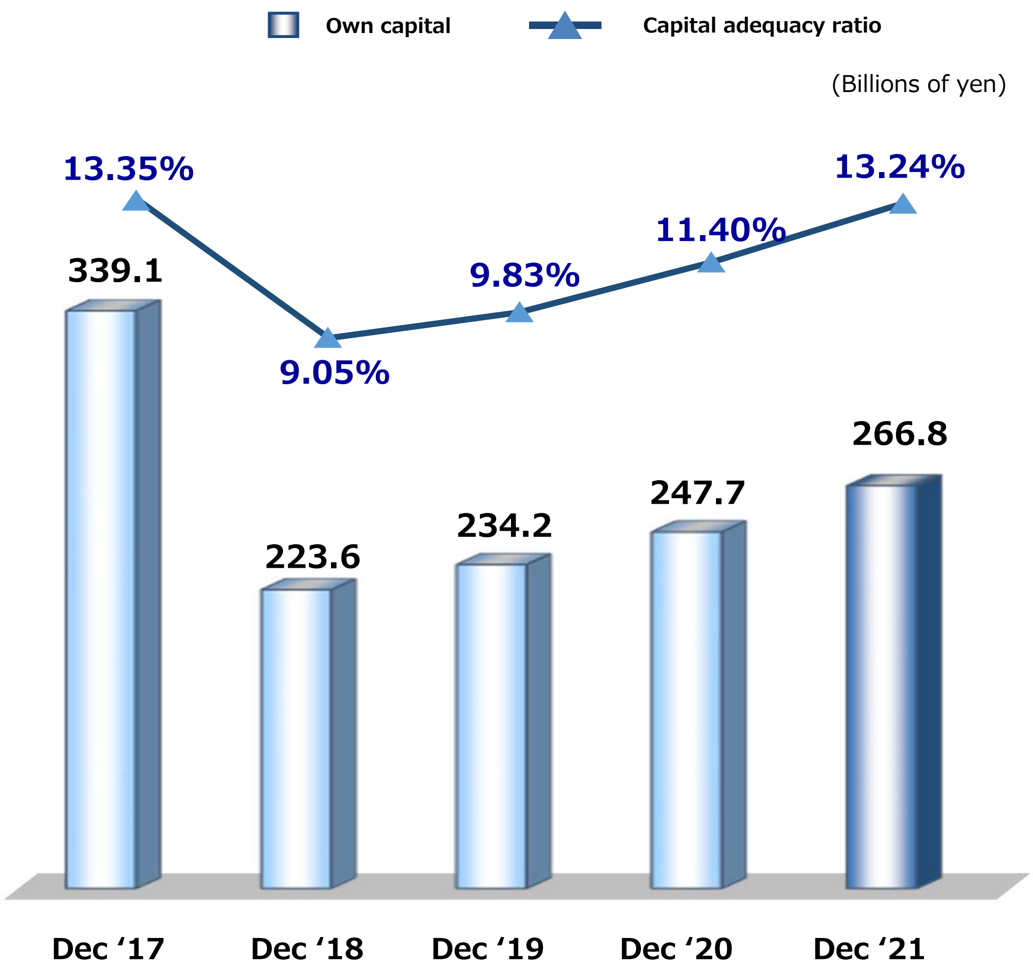
Trends in Expenses, OHR, and Capital Adequacy Ratio <Non-consolidated>

- OHR increased 5.2ppt year-on-year to 61.0% due to a decline in gross operating profit.
- Expenses declined ¥0.7 billion year-on-year to ¥29.8 billion. Steady progress is being made in reducing expenses toward the ¥40 billion target by the end of phase one of the mid-term business plan.
- The capital adequacy ratio (non-consolidated) increased 1.84ppt to 13.24% (13.52% on a consolidated basis).

Trends in expenses & OHR



Trends in capital & capital adequacy ratio



New Loan Disbursements

- From the beginning of fiscal 2021, ¥120 billion worth of new loans was planned for the full year, heavily weighted to the second half considering the impact of the pandemic. Despite struggling with changes in the economic environment due to the rise and control of coronavirus cases, new loans totaled ¥69 billion in the third quarter of 2021.
- Receivables were purchased from the market in the third quarter of 2021 commensurate with our middle-risk/middle return strategy.
- Current market conditions remain unpredictable with the rapid spread of the sixth Covid wave of the Omicron variant. Although the outlook is increasingly uncertain, we aim to achieve the annual plan with stronger sales toward the end of the fiscal year when the real estate market picks up.

・Changes in loan disbursements promoted under the mid-term business plan

(Billions of yen)

	1Q-3Q FY3/22	1Q	2Q	3Q
Consumer loans	23.6	7.2	6.8	9.5
Investment real estate loans for asset management companies	12.9	2.8	4.4	5.6
Subtotal	36.5	10.1	11.2	15.1
Structured finance	32.5	9.3	10.8	12.3
Total (A)	69.0	19.4	22.0	27.4
Monetary claims bought (B)	29.9			29.9
Grand total (A)+(B)	99.0	19.4	22.0	57.3

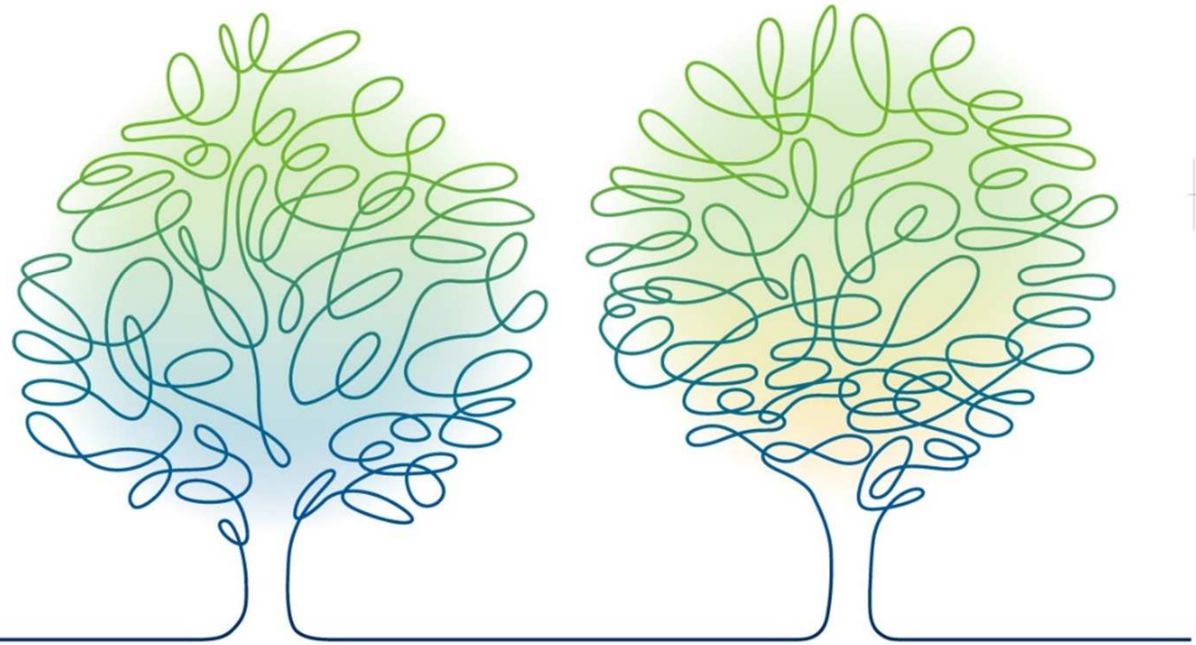
Reference Materials

Corporate Philosophy

Posted

“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 lives 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 members who provide these services to find their work meaningful.
Thus, we also strive to be a company that makes not customers, but also staff members feel “I’m glad you’re here... I’m glad we met.”

スルガ銀行

Corporate Philosophy

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“I’m glad you’re here... I’m glad we met.”

Vision

Customer satisfaction | Shareholder value | Employee satisfaction | Contribution to society

Providing value

New Vision for Suruga Bank

- To realize our **corporate philosophy**, we will create a “**new Suruga Bank**” that delivers customer satisfaction and ensures that staff feel their work is meaningful. We will achieve this through a commitment to carrying out **customer-oriented business**, initiatives in our core business of retail banking, and by creating **unique value** in ways that are distinct to our bank.
- We will also establish measures for **thorough compliance and controlling appropriate risk/return**, and develop a “**new sustainable business model**” as a public financial institution that benefits the public.

Strategic Management

Restructure the core business of “retail banking” while promoting “marketable activities” to diversify risks and stabilize profits.

✔ Establish a revenue base that balance risk and return by controlling **RA gross operating profit***.

Promote existing businesses with controlled risk capital, pursue new business, and prepare for risks that surface in high-stress environments.

✔ Even after Basel III is revised, we will maintain **a capital adequacy ratio of at least 8%** to realize our business strategy.

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

Basic Strategy for Phase 1

Environment recognition

Continued negative interest rates
- ✔ Cost reduction and staff review
- ✔ Focus on non-interest-rate-based business

Compliance with regulations
- ✔ Basel III revision
- ✔ Reassess business boundaries based on market entry of different industries

FinTech support
- ✔ Systemization and labor-saving investment
- ✔ Platform creation through collaboration with different industries

Social change
- ✔ Declining birthrate/aging population
- ✔ Population concentrating in cities

Consumer change
- ✔ Improve awareness around inheritance and asset building
- ✔ Diversification of labor force, work styles, and service needs

Strategy

Phase 1 (FY2019 - FY2022)

Addressing priority issues
- Share house-related loans
- Promptly dissolve relationship with founding family

Retail banking
- ✔ Retarget investment real estate loans and improve their quality
- ✔ Evolve toward a solution-based sales model
- ✔ Expand based on area characteristics

Marketable activities
- ✔ Shift away from a credit risk-centric portfolio
- ✔ Aim for stable operation with contained downside risk

New business
- ✔ Partner with external companies
- ✔ Utilize the API collaboration platform

Optimizing allocation of management resources
- Reform of branch operations
- Reallocation of human resources
- Revision of Group capabilities
- Cost reduction

Phase 2

FY2023 - FY2025

Establish new positioning

Initiatives for SDGs

Posted

Identification of materiality issues	Selection and determination of materiality issues	Suruga Bank group's materiality issues	Suruga Bank group's initiatives	Relevant SDGs
We identified materiality issues by referring to the four pillars of "stakeholder capitalism metric/ measurement standards" proposed by the World Economic Forum in 2020.	We analyzed and evaluated elemental information on both what our Group values and what stakeholders do, and formulated "materiality" issues that are important to both sides.	Our Group's materiality are the following four issues. Each materiality issue, which is not independent but organically linked with the other issues, is an integral part of fulfilling our responsibilities to all stakeholders.	We promote the following initiatives in order to solve internal and external issues of each of the four themes listed as materiality. Each initiative, which is linked to the SDGs, will contribute to the achievement of sustainable development goals. We will continue to improve and enhance their effectiveness.	
Principles of governance	**What Suruga Bank Group values** **Corporate Philosophy** **Compliance Charter** **Mid-term Business Plan "Re:Start2025"** **History**	**Establish a solid foundation for governance**	●Penetration of the corporate philosophy ●Enhancement of corporate governance ●Establishment of a solid compliance system ●Realization of customer-oriented business operations ●Strengthening of measures to prevent financial crimes	
People	**X**	**Create an environment where employees can play an active role and grow**	●Human resource development system to support employees to grow ●Enhancement of work-life balance measures ●Promotion of diversity and employment of people with disabilities ●Initiatives to improve the mental and physical health of employees ●Initiatives to increase the motivation of employees	
Prosperity	**What stakeholders value and expect from the Suruga Bank Group** Employees Customers Regional community Shareholders	**Building sustainable local economies and societies**	●Responding to diverse customer needs through retail banking ●Providing solutions to local companies and businesses ●Contributing to regional revitalization through partnerships with local governments ●Initiatives for Business Continuity Plan (BCP) ●Supporting culture, art, and sports for children who will be future leaders	
Planet	Regulatory authorities Global environment	**Contribute to environmental conservation**	●Participation and cooperation in local environmental conservation activities ●Reducing environmental impact by promoting digitization of business procedures and operations ●Promotion of environmental measures for branch facilities	

Assumptions Underlying Actual Credit Cost Forecast For FY3/22

Posted

・**From FY3/22 interim results explanatory materials (P2)** (Billions of yen)

	Full-year forecast
Actual credit costs	16
Normal credit costs (a)	1
Share house-related loans (b)	4
Bulk transfer of share house loans receivable (c)	(10)
Preventive allowances (d)	34
Revised secured mortgage collateral (e)	(13)

Normal credit costs (a)	The actual credit cost of receivables without special factors such as share house-related loans is assumed to be ¥1 billion for the full year, a decrease of ¥3 billion from the previous plan due to the following two factors: 1. Lower consumer balance requiring attention/management; 2. Higher prices for transfers of loan receivables due to higher real estate prices
Share house-related loans (b)	Actual credit costs for recipients of share house-related loans remain unchanged from the initially projected ¥4 billion for the full year.
Bulk transfer of share house loans receivable (c)	Reversal of allowance for loan losses from the bulk transfer of share house loan receivables is expected to be ¥10 billion, a decrease of ¥5 billion from the previous plan. Causes include some costomers desiring these procedures completing the procedures and changing schedules for next year.
Preventive allowances (d)	The projected preventive allowance remains unchanged from the previous plan at ¥34 billion. This takes into account examinations of the status of consumer borrowers to review borrower classifications and allocation methods, as well as the situation where collective bargaining has been seen among some customers who are using investment real estate loans other than share house loans. The portion below the projected first half amount is expected to arise in the second half.
Revised secured mortgage collateral (e)	As for the revised secured mortgage collateral, withdrawals of allowance for loan losses is projected at ¥13billion, an increase of ¥2 billion from the previous plan, as a result of an examination of first half results. (For the revised secured mortgage collateral, since recent sales of loans to servicers remains far above mortgage collateral evaluations, the collateral value has been revised based on the Bank's periodic review rules.)

SURUGA bank

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