

**SURUGA bank,Ltd**  
**Financial Results for the 1st Half of FY3/22**

November 26, 2021

**SURUGA bank**



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## **I Financial Results for the 1st Half of FY3/22**

## **II Business Strategy Based on Mid-Term Business Plan**

## **III SDGs**

# Actual Results for 1H, FY3/22 and Comparison with 1H, FY3/21



- Gross operating profit fell ¥3.3 billion year-on-year to ¥33.5 billion, mainly due to a decline in net interest income.
- Actual credit costs fell ¥14.4 billion year-on-year to ¥6.6 billion, mainly due to withdrawals of allowance for loan losses owing to revised secured mortgage collateral.
- For the reasons given above, non-consolidated net income for the first half of FY3/22 increased ¥13.3 billion year-on-year to ¥17.5 billion.
- Due partially to higher non-consolidated net income, consolidated net income for the first half of FY3/22 increased ¥12.3 billion year-on-year to ¥17.8 billion.

## <Non-consolidated>

(Billions of yen)

	Actual results for FY3/21	1st half FY3/22	Year-on-year change
Gross operating profit	36.8	33.5	(3.3)
Expenses	20.5	20.2	(0.3)
Core net operating profit	15.9	12.9	(2.9)
Net operating profit	37.9	13.3	(24.6)
Ordinary profit	8.7	20.8	+12.1
Net income	4.1	17.5	+13.3

Actual credit costs	7.7	(6.6)	(14.4)
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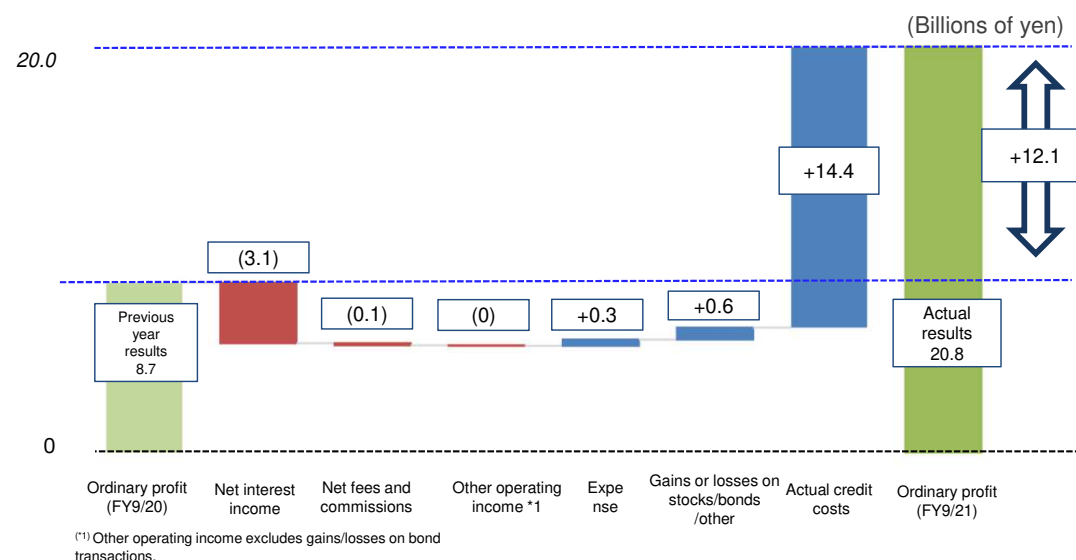
ROE (%) (Net income basis)	3.4	13.6	+10.1
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Profit attributable to owners of parent	5.4	17.8	+12.3
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Earnings per share (consolidated)	23.6	76.8	+53.2
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## Factors causing variation in ordinary profit (comparison with previous year)

	Main factors
Net interest income	•Decline in interest on loans (average balance factors (¥-2.7 billion), yield factors (¥-0.8 billion))
Expenses	•Decline in non-personnel expenses (primarily a decline in land and building rent expenses)
Actual credit costs	•Withdrawals of allowance for loan losses due to revised secured mortgage collateral (¥-13.0 billion)



# Actual Results for 1H, FY3/22 and Comparison with Previous Forecast



- Ordinary income was ¥8.6 billion higher than the forecast at ¥49.6 billion due in part to the booking of reversals of allowance for loan losses and gains on bad debts recovered.
- Actual credit costs were ¥8.6 billion less than forecast at ¥6.6 billion due to the following factors.
  - ✓ Actual credit costs normally arising from loans and bills discounted excluding share house-related loans were low.
  - ✓ Withdrawals of allowance for loan losses due to revised secured mortgage collateral exceeded expectations.
- Net income in the first half of FY22 was ¥17.5 billion on a non-consolidated basis and ¥17.8 billion on a consolidated basis, but the full-year earnings forecast will retain the initial projections, due to uncertainties on such matters as the future of the economy and financial landscape, as well as the lack of changes to the full-year forecast for actual credit costs (see figure at bottom right for analysis of factors).

## [Non-consolidated]

	1st half earnings forecast (1) (released 8/13)	1st half forecast (2)	Difference (2)-(1)	Full-year forecast *As initially forecast
Ordinary income	41.0	49.6	+8.6	78.0
Gross operating profit	33.0	33.5	+0.5	64.0
Expenses	20.5	20.2	(0.3)	41.0
Core net operating profit	12.5	12.9	+0.4	23.0
Ordinary profit	11.0	20.8	+9.8	7.0
Net income	9.5	17.5	+8.0	6.0
Actual credit costs	2.0	(6.6)	(8.6)	16.0

## [Consolidated]

	1st half earnings forecast (3) (released 8/13)	1st half forecast (4)	Difference (4)-(3)	Full-year forecast *As initially forecast (Billions of yen)
	45.5	54.1	+8.6	87.0
	11.5	21.3	+9.8	8.0
	10.0	17.8	+7.8	7.0

## <Premise Behind FY3/22 Actual Credit Cost Forecast>

- The full-year projection for actual credit costs from receivables without special factors, such as share house-related loans, ¥1.0 billion, ¥3.0 billion below the previous plan figure.
  - Lower consumer balance requiring attention/management
  - Higher prices for transfers of loan receivables due to higher real estate prices
- Actual credit costs for recipients of share house-related loans remain the initially projected ¥4.0 billion for the full year.
- Reversals of allowance for doubtful receivables due to comprehensive transfers of share house loans is projected to be ¥10.0 billion, ¥5.0 billion less than the previous plan figure.
 

Causes include some customers desiring these procedures completing the procedures and changing schedules for next year
- The projected preventive allowance retains the previous plan figure of ¥34.0 billion. This takes into account examinations of the status of consumer borrowers to review borrower classifications and allocation methods, as well as collective bargaining with some customers 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.
- As for the revised mortgage collateral, withdrawals of allowance for loan losses is projected at ¥13.0 billion, ¥2.0 billion higher than the previous plan figure, as a result of an examination of first half results. (For the revised secured mortgage collateral, the collateral value was revised according to rules in a routine revision by the Bank because recent sales of loans to servicers remains far above mortgage collateral evaluations.)

	Forecast (Full year)		Change
	Released 8/13	Revised	
Actual credit costs	16.0	16.0	±0
Normal amount (a)	4.0	1.0	(3.0)
Share house-related loans (b)	4.0	4.0	±0
Comprehensive transfer of share house loans (c)	(15.0)	(10.0)	+5.0
Preventive allowances (d)	34.0	34.0	±0
Revised secured mortgage collateral (e)	(11.0)	(13.0)	(2.0)

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



- Actual credit costs for share house-related loans booked a loss of ¥6.8 billion despite an increase in allowance for loan losses as initially projected, as there were large withdrawals of allowance for loan losses due to revised secured mortgage collateral.
- Actual credit costs excluding share house-related loans declined ¥3.5 billion year-on-year to ¥0.1 billion.

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

(Billions of yen)

Item			1st half actual credit costs	Allowance for loan losses
	1 Q	2 Q		
Share house-related borrowers	1.2	(8.0)	(6.8)	67.7
Investment real estate loans*	1.9	(1.3)	0.5	54.1
Housing loans	(0)	(0.7)	(0.8)	3.3
Unsecured loans	0.1	(0)	0	2.4
Business financing, etc.	0.1	0.1	0.3	8.4
Total	3.4	(10.1)	(6.6)	136.1

\*Investment real estate loans: studio apartment loans, single building apartment loans, other secured loans

## Status of coverage of 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
September 2021	189.1	153.5	71.8	117.3	106.5	94.31%
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%

\*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. (Revision performed during the first half of the 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 decreased by 0.02% compared to the end of June 2021 to 3.59%.
- The consumer loan delinquency rate would be unchanged from the end of June 2021, but due to special factors, it rose 1.49% to 6.68%, primarily owing in part to an increase in the number of delinquent borrowers of share house-related loans, who suspended their repayment because they wished to have their loans transferred, as well as those who took advantage of collective bargaining to suspend payments.

(Billions of yen)

Loan category	June 2021			September 2021		
	Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans	1,863.0	3.07%	5.44%	1,823.6	3.07%	7.05%
Housing loans	486.3	2.83%	0.27%	475.1	2.82%	0.27%
Studio apartment loans	161.3	3.39%	1.51%	155.0	3.39%	1.75%
Single building apartment loans	1,073.7	3.24%	3.46%	1,054.3	3.24%	4.70%
Share house loans	105.9	1.40%	58.12%	104.2	1.40%	73.33%
Other secured loans	35.7	4.70%	0.56%	34.8	4.66%	0.34%
Unsecured loans	162.8	10.35%	2.30%	156.8	10.37%	2.28%
Card loans	108.2	11.73%	0.81%	104.5	11.75%	0.85%
Unsecured certificate loans	54.5	7.62%	5.27%	52.2	7.59%	5.14%
Consumer loans (A)	2,025.9	3.65%	5.19%	1,980.4	3.64%	6.68%
Consumer loans (excluding share house-related loans)	1,891.9		2.10%	1,848.8		2.74%
Investment real estate loans for asset management companies (B)	17.9	1.92%	-	22.2	1.87%	-
Structured finance, etc.(C)	40.6	2.37%	-	50.8	2.34%	-
Total <total of (A), (B), and (C)>	2,084.4	3.61%	5.05%	2,053.5	3.59%	6.45%

\* 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

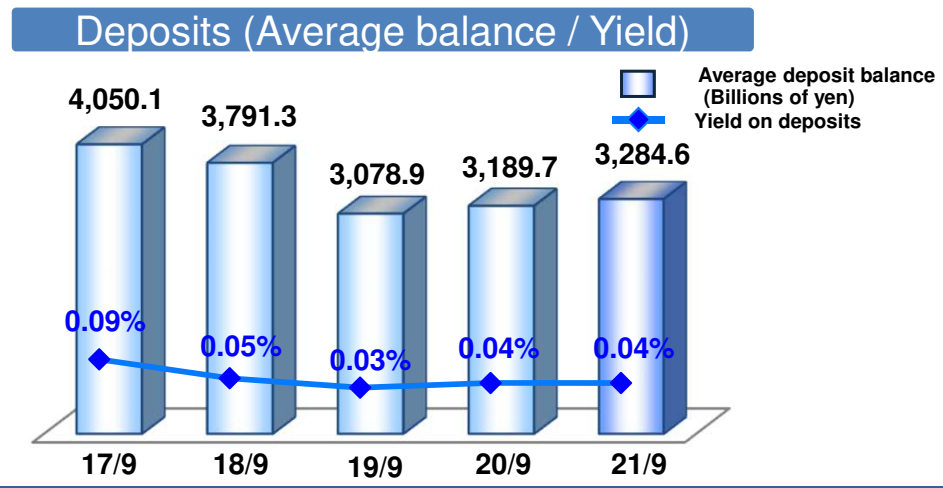
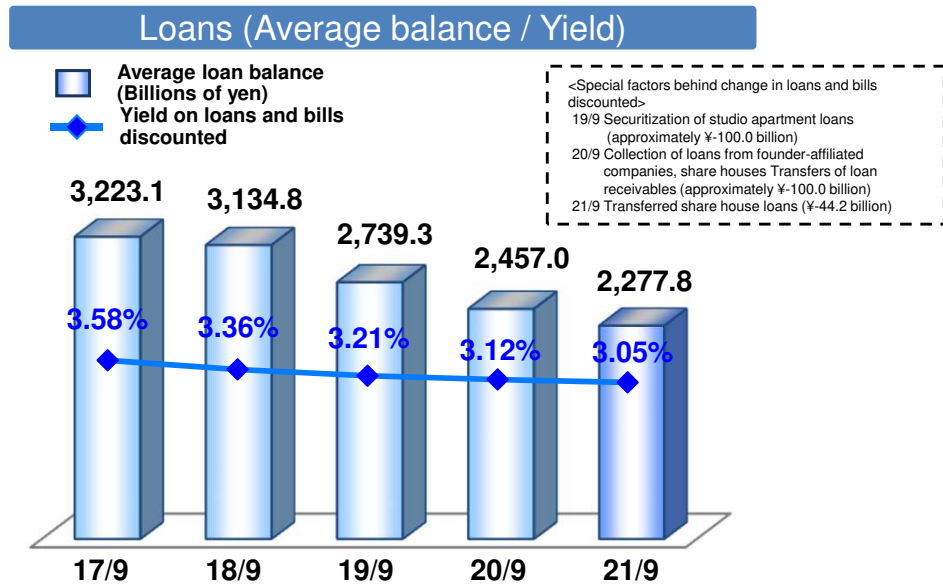
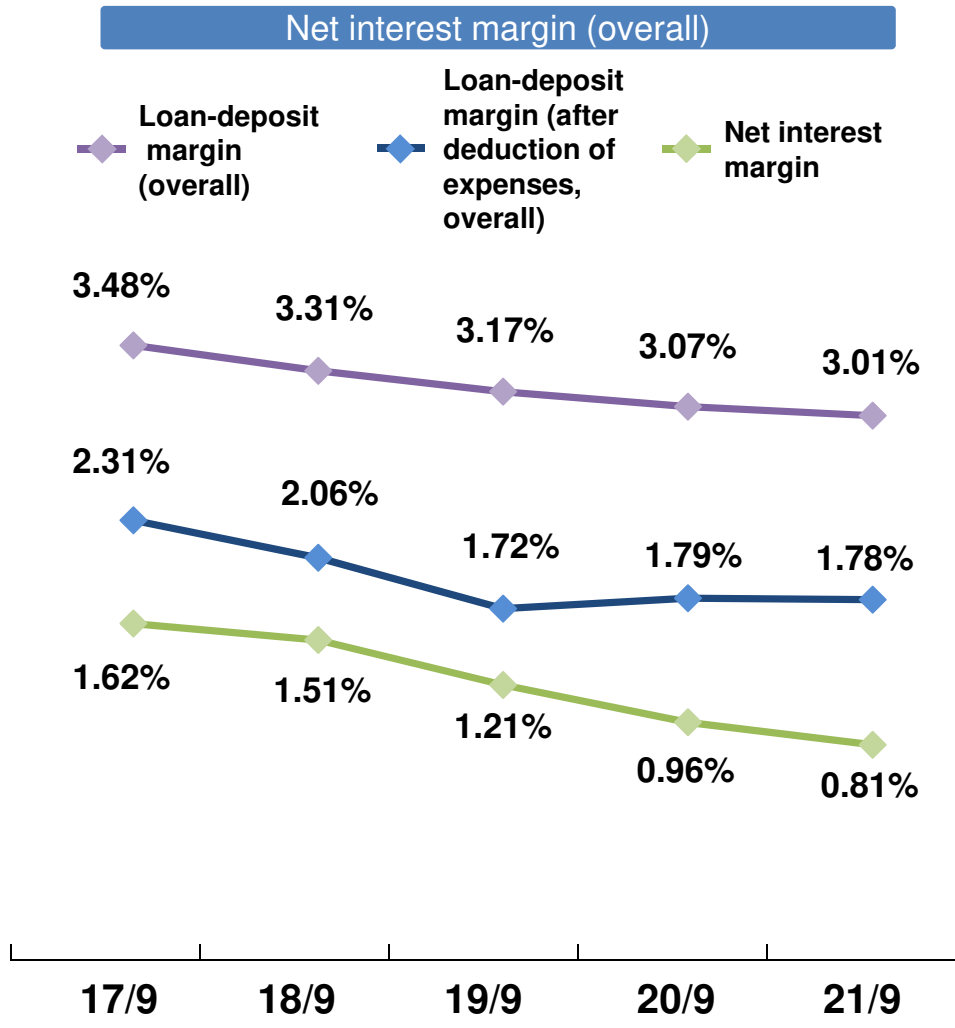
\* Yield and delinquency rate of studio apartment loans, secured loans, consumer loans, and the total <(A)+(B)+(C)> are calculated based on original claims before securitization.

\* As the balance is aggregated by loan type, if borrowers of share house loans or customers participating in collective bargaining default on scheduled repayment, the delinquency rate of other types of loans will be affected.



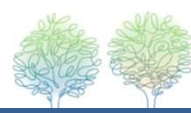
# ■ Yield/Margins, Loans and Deposits Yield/Average Balance <Non-consolidated>

- The loan-deposit margin increased by 1 basis point year-on-year to 1.78% because the 6 basis point decrease year-on-year in the expense ratio exceeded the 7 basis point decrease year-on-year in yield on loans and bills discounted resulting from the continued relaxation of loan repayment conditions such as lowered interest rates.
- The net interest margin shrank by 15 basis points year-on-year to 0.81% because 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.
- The average loan balance decreased by ¥179.2 billion year-on-year to ¥2,277.8 billion due partly to special factors (comprehensive transfer of share house-related loans of approximately ¥44.2 billion).
- The average deposit balance increased by ¥94.9 billion year-on-year to ¥3,284.6 billion.



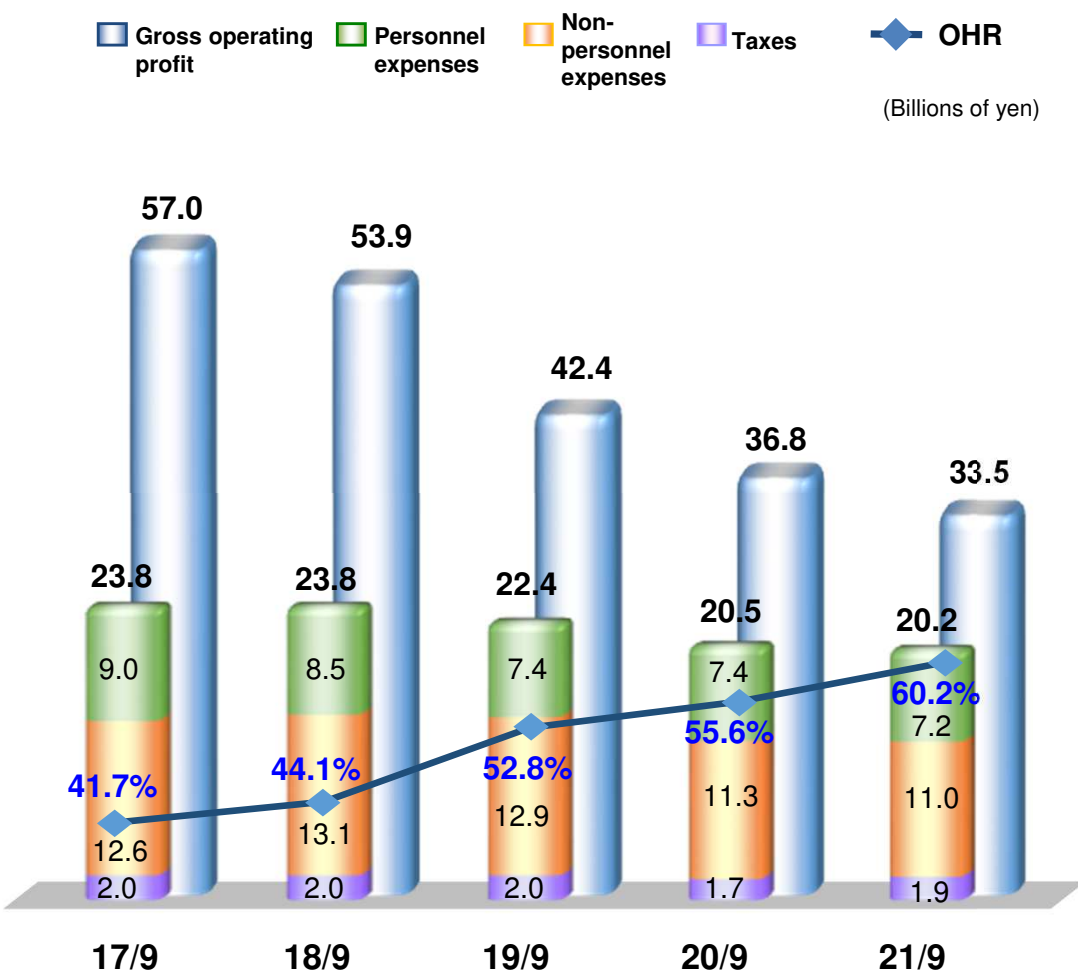


# Trends in Expenses, OHR, and Capital Adequacy Ratio <Non-consolidated>

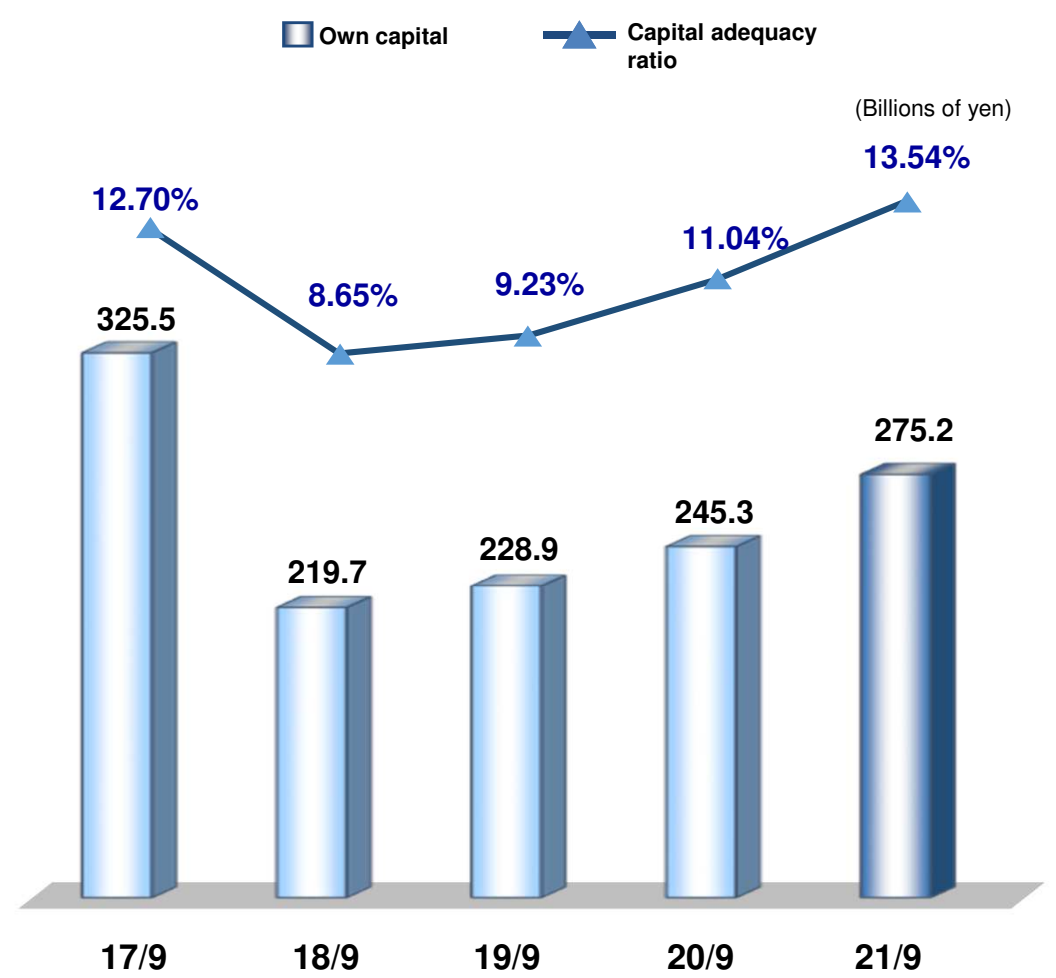


- OHR increased 4.6% year-on-year to 60.2% due to a decline in gross operating profit.
- Expenses declined ¥0.3 billion year-on-year to ¥20.2 billion. Steady progress is being made in reducing expenses toward next year's goal of ¥40.0 billion by the end of Phase 1 of the Mid-Term Business Plan.
- The capital adequacy ratio increased 2.50% year-on-year to 13.54% (13.82% on a consolidated basis).

Trends in Expenses & OHR



Trends in Capital & Capital Adequacy Ratio



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**III SDGs**

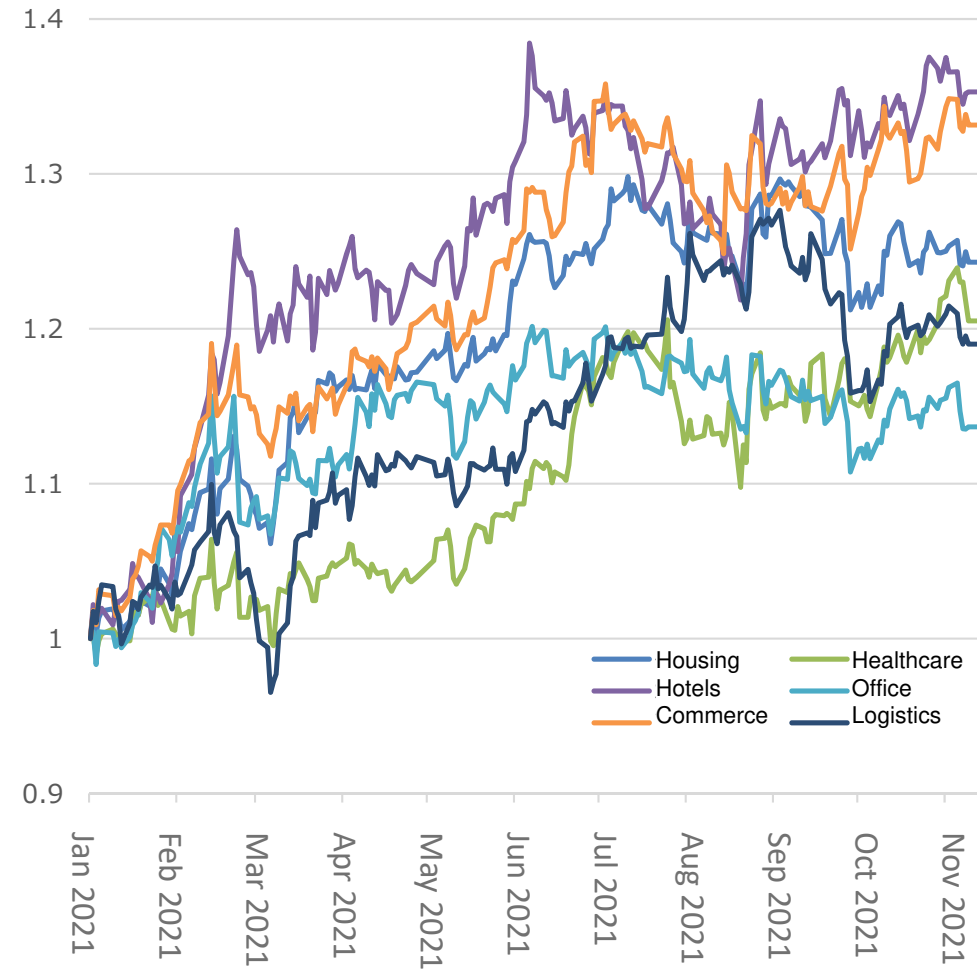


# The Real Estate Market's Status

- With regard to REIT market capitalization, funds for investment continue to flow into Japan's REIT market, despite a temporary decline due to such factors as higher long-term interest rates in the U.S.
- Hotel and commercial property capitalization were up compared to the beginning of the year due to the post-pandemic outlook.
- The office market capitalization has been on a recovery trend, in part due to a move to review communication work, although there have been signs of a decline in rent and an increase in vacancy rates due to the progress of remote work and other factors.
- The pandemic has had a limited impact on Japan's relatively stable real estate market, where overseas investors have been making new investments.

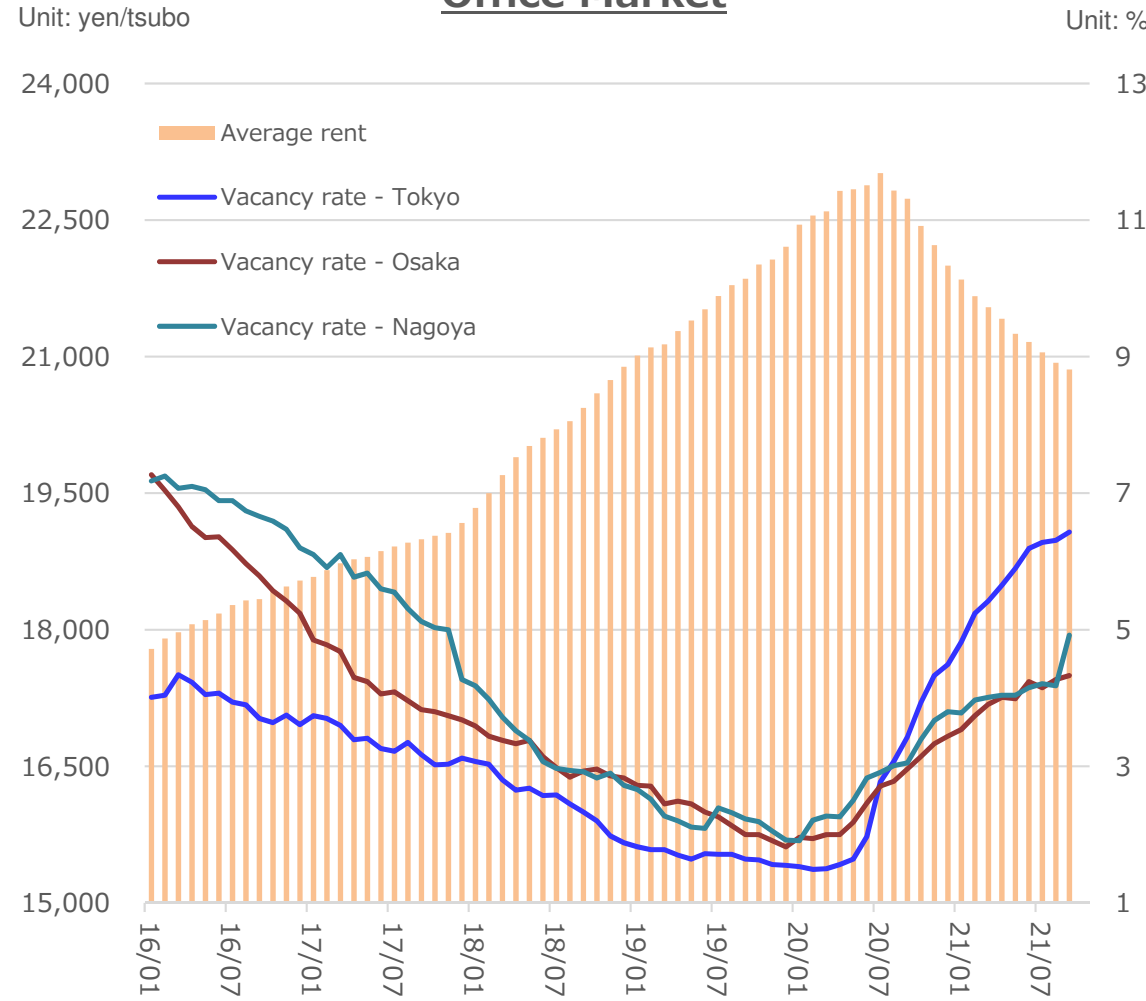
(Jan 4, 2021 = 1)

## REIT Market Capitalization



Source: Bloomberg

## Office Market

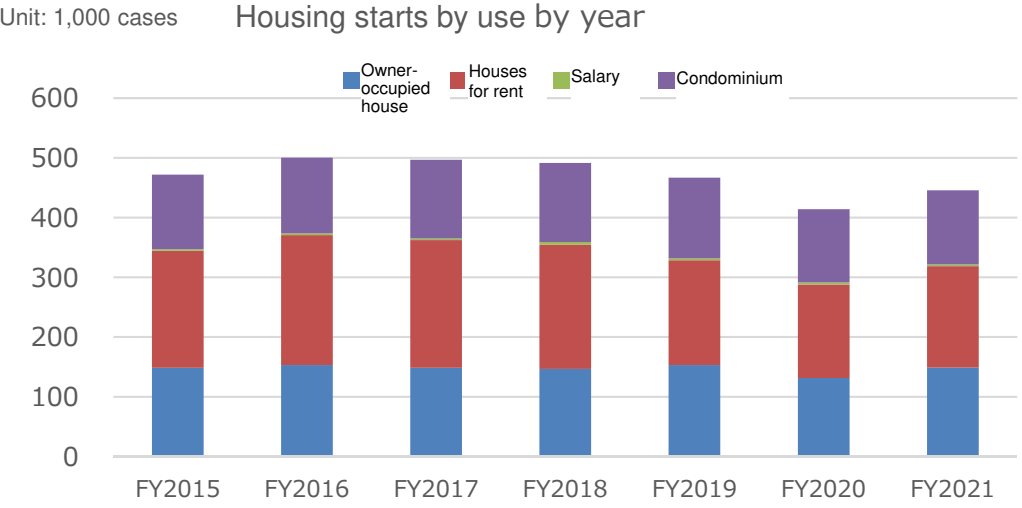


Source: Miki Shoji

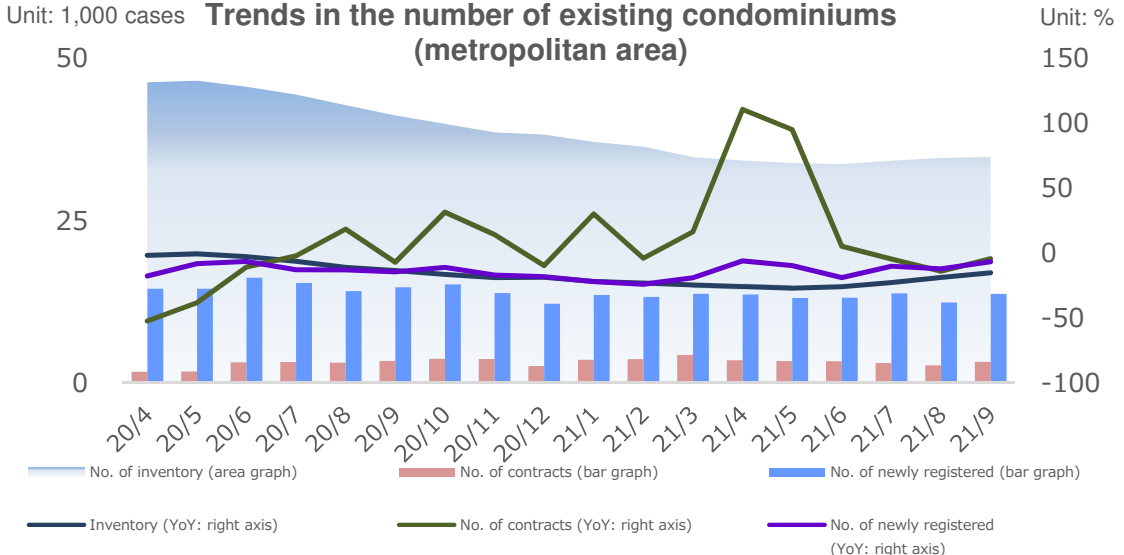


# The Real Estate Market's Status

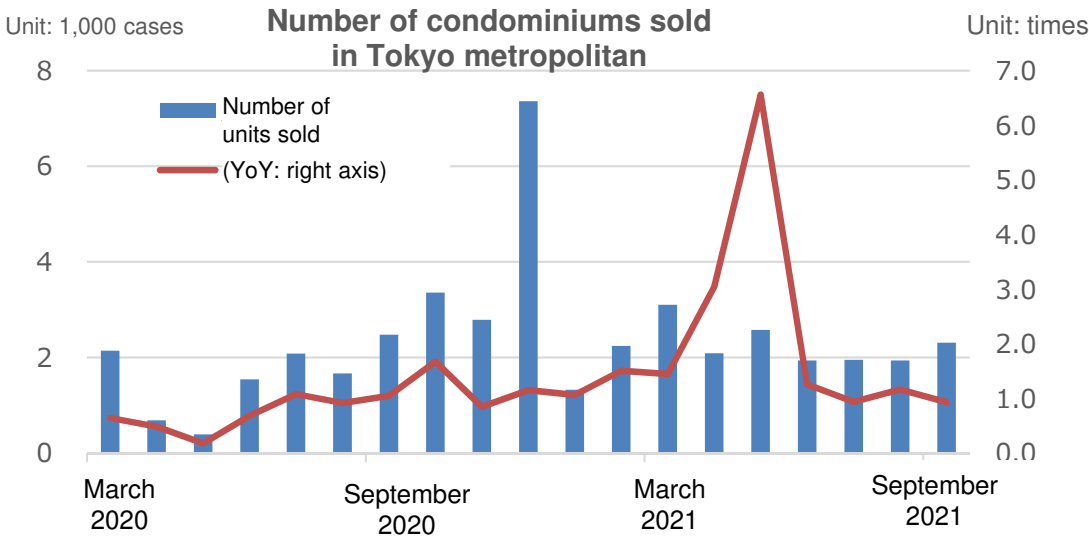
- The housing market's supply has been gradually increasing, as the number of housing starts increased year-on-year and inventory for existing condominiums has been flat recently. Demand has been strong and the market has been firm, as shown by the number of condominiums sold in the Tokyo metropolitan area, the number of existing condominiums contracted, and the contract rate in the first month of sales in the Tokyo metropolitan area.
- The Bank separately promotes investment real estate loans, housing loans, and structured finance while carefully monitoring market trends and individual transaction risks.



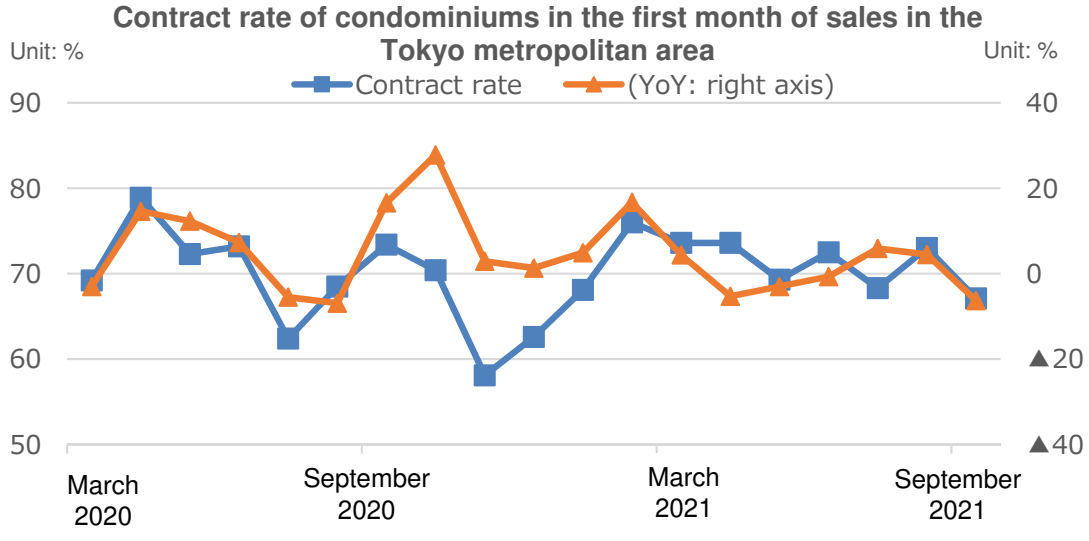
Source: Ministry of Land, Infrastructure, Transport and Tourism



Source: Real Estate Information Network for East Japan



Source) Real Estate Economic Institute Co., Ltd.



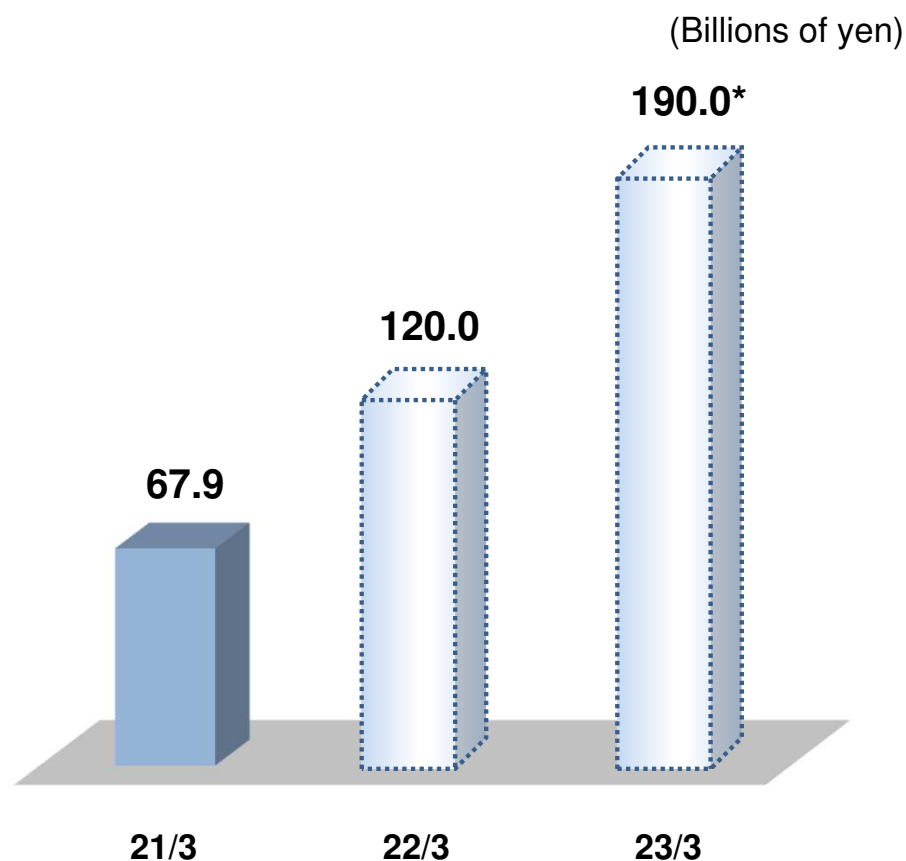
Source) Real Estate Economic Institute Co., Ltd.



# Forecast of New Loans Disbursed

- In the first half of FY3/22, the Bank focused on making assistance to customers the top operational priority in response to the COVID-19 pandemic. In the second half, sales activity increased as economic activity expanded with the vaccine rollout, and the amount of new loan disbursements gradually built up. The Bank's plan sets a target of ¥120.0 billion in newly disbursed loans for the full year.
- The amount of newly disbursed loans in the first half of FY3/22 built up steadily according to plan to ¥41.5 billion (up ¥18.6 billion year-on-year), compared to the ¥42.0 billion in the plan.
- In addition to the ¥120.0 billion new loan disbursement plan, the Bank purchased loans that met the Bank's medium-risk/medium-return criteria from the market in October 2021 (amount of loans: ¥30.0 billion; projected yield: 1.30%).

## Forecast of the amount of new loans disbursed



\* Final fiscal year of Phase 1 of Mid-term Business Plan “Re: start 2025”

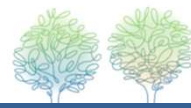
## Forecast of the amount of new loans disbursed

- Trends in the amount of disbursement by business area, which was planned to be promoted in the mid-term business plan

	FY3/22 Cumulative Total			Plan
		1Q	2Q	
Consumer loans	14.0	7.2	6.8	90.0
Loans for asset management companies Investment real estate loans	7.3	2.8	4.4	* -
Subtotal	21.4	10.1	11.2	90.0
Structured finance	20.1	9.3	10.8	30.0
Total	41.5	19.4	22.0	120.0

\* The planned amount of investment real estate loans for asset management companies is included in the ¥90.0 billion of consumers loans, because we conduct the same promotional activities as for investment real estate loans for individuals.

# FY21 Sales Policy



- In the markets of the Shizuoka and Kanagawa areas, the Metropolitan area and other major urban areas, and the Direct area, we aim for our own model that is "closer and more considerate to customers."
- In the Shizuoka and Kanagawa areas, we will reorganize the eight-area system into a 30-area system to precisely address the needs of diverse customers according to the characteristics of each area.
- In the Tokyo metropolitan area and other major urban areas, we will specialize in secured loans, primarily in the five major urban areas and their large markets.
- In the Direct area, we seek to enhance customer touchpoints by utilizing digital technology, including collaborations with other business sectors.

## Our understanding of the market

### ■ Shizuoka and Kanagawa areas

Community-based development based on the branch network in the local area

Shizuoka area

61 branches

Population: 3.67 million

Private business locations: 190,000

New housing starts: 20,528

Kanagawa area

36 branches

Population: 9.22 million

Private business locations: 370,000

New housing starts: 61,589

### ■ Tokyo metropolitan area and other major urban areas

Development focused on secured loans in five metropolitan areas

9 branches and four departments

New housing starts: 407,401  
(Share of nationwide statistics: 50.5%)

\*Total prefectures with branches

(Metropolitan area)

Sales in Tokyo, Shibuya, Shinjuku, Omiya, Chiba, and other urban areas

(Other major urban areas)

Sapporo, Nagoya, Osaka, Fukuoka

### ■ Direct

Net development centered on collaboration with companies in different industries

11 branches

(Major branches)

ANA branch, Recruit branch, T-point branch, So-net branch, D-bank branch, Dream Direct branch

## Direction

### Strengthening community-based services

Eight-area system → 30-area system

Regional segmentation

### Promotion of comprehensive proposals based on understanding of customers' needs

Product-based → Customer-based

Loan staff, Investment trust staff, Investment trust staff → Staff for individual customers

Loans, investment trusts, insurance, etc.

### Concept of non-price competition

<p>○ <u>Value competition</u></p> <p>Diversity and carefulness</p> <p>Custom-made services</p> <p>Full product lineup</p>	<p>✗ <u>Price competition</u></p> <p>Uniformity and efficiency</p> <p>Ready-made services</p> <p>Limited product lineup</p>
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### Development of niche markets

Attribute

Segmentation of targeting

Properties

Areas

### Expansion of customer contacts

Customers

Notice

Companies in different industries

Application

Collaboration

Suruga bank

### Common to markets

Promotion of DX for customer relations

CRM

Personalization

Customer journey

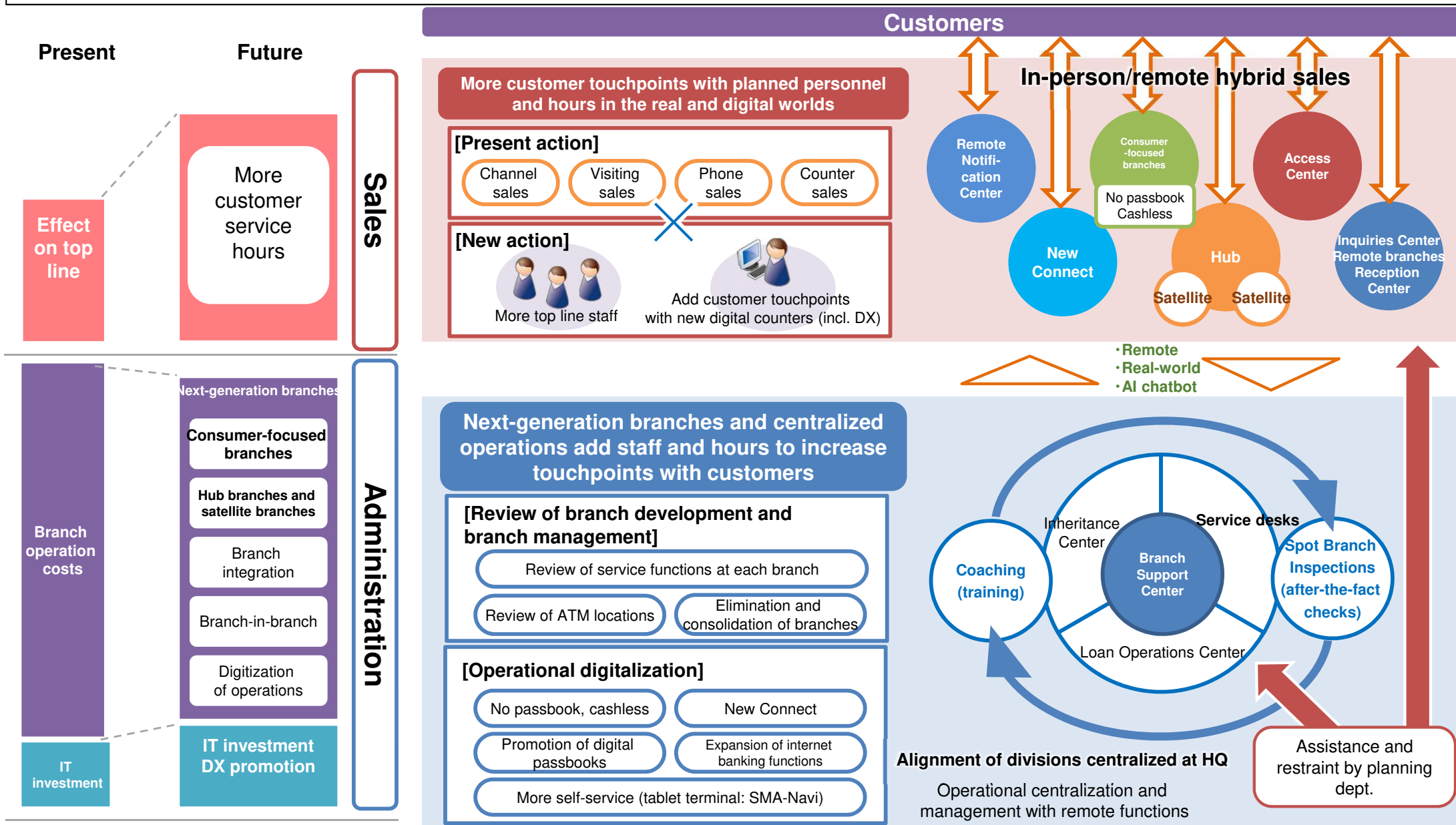
Digital marketing foundation

Omni channel

Population: as of January 1, 2021 (Ministry of Internal Affairs and Communications) / private business locations: as of June 1, 2019 (Economic Census for Business Activity) / New housing starts: FY2020 (Ministry of Land, Infrastructure, Transport and Tourism)

# Streamline to Add Sales Staff and Hours

- Implement a restructuring (by shifting personnel to customer-facing roles) to both expand customer touchpoints and reduce operational and branch management costs through a variety of sales approaches.
- By digitalizing branch operations and centralizing back-office operations at headquarters, we endeavor to shift personnel to customer-facing roles to spend more time with customers.



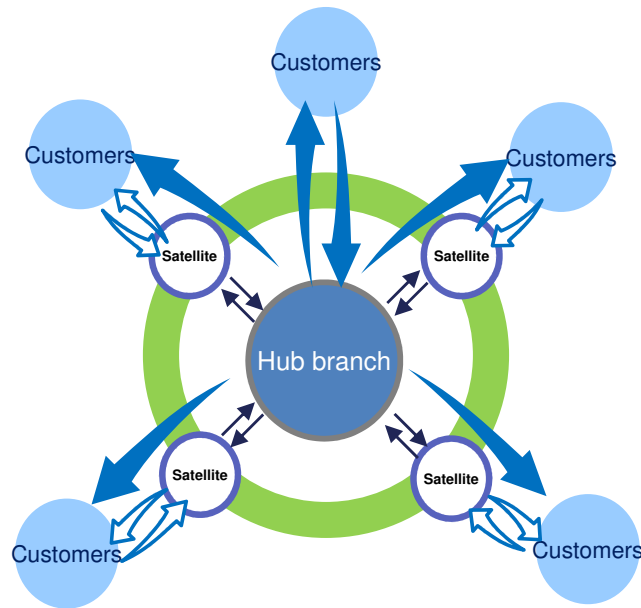


# ■ (Shizuoka and Kanagawa Areas) Strengthening Close Ties with Local Communities by Reforming the Area System and Branch Network



- In the Shizuoka and Kanagawa areas, the Bank will reorganize into a 30-area system, giving each hub, satellite, and independent branch a category and clarified sales roles.
- Satellite branches will be critical to streamlining by centralizing back-office functions at headquarters and digitalizing operations. This will create more time for communication with customers.
- The gradual introduction of next-generation branches with enhanced customer consultation spaces will further raise the quality of communication with customers.

## Hub/satellite branch organization



### Streamlined operations

- Satellite branches will centralize back-office functions at headquarters and streamline operations to create more time for communication with customers.
- Meanwhile, expanded internet banking functions and other digitalization will create multifaceted customer touchpoints.

### Sales Approaches

- Consulting functions will be centralized at hub branches to perform outbound sales and engage in more intimate transactions with customers.
- Coordination between hub and satellite branches will put into practice elaborate strategies based on attributes of the local community and area.

## [Next-generation branches]

- To make Suruga Bank a more familiar part of customers' lives, as well as to provide them with more personalized guidance and meticulous service, the hub branch at the center of each area will minimize the counter services offered by regular branches and will have a relaxing, comfortable layout for transactions.

**First in Shizuoka Prefecture: Fujiyoshiwara Branch**  
(opened November 8, 2021 after relocation)

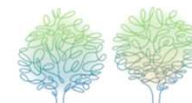


**First in Kanagawa Prefecture: Atsugi Branch**  
(opened July 12, 2021 after relocation)



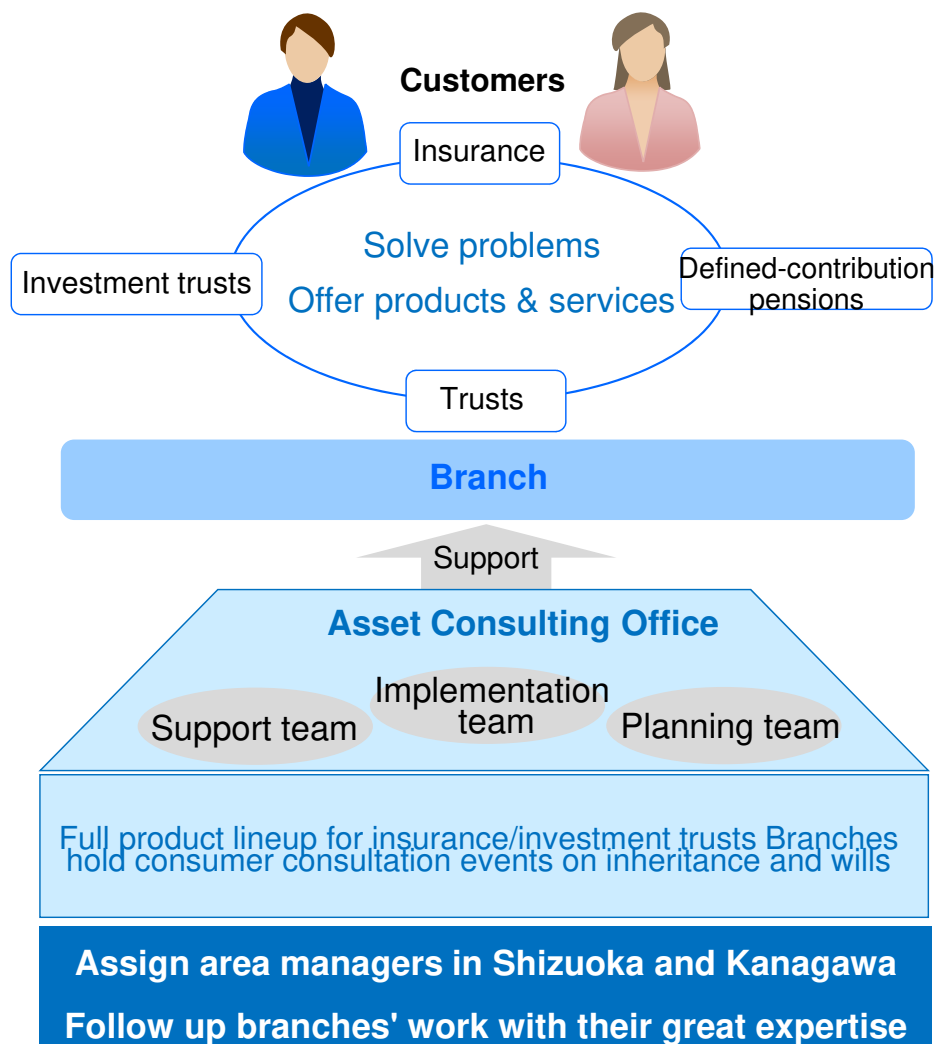


# ■ Consumer/Corporate Solution Sales



- The Asset Consulting Office offers personalized solutions that suit the diverse asset building and management needs of consumer customers.
- The Bank collaborates with external companies and other partners to offer corporate customers a variety of solutions. We also provide services for business owners as a gateway to consumer transactions.

## Consumer solution sales



## Corporate solution sales

### Promotion organization/policy

- Assign staff to main locations  
(Numazu, Shizuoka, Odawara, Atsugi)
- Collaboration with group/external companies  
(Shinsei Bank, tax accountant corporations, public institutions)
- Provide solutions
  - Offer answers, rebuild trust
  - First choice for consultations
  - Augment your company's knowledge

### Cooperation with branches

- Touchpoint to offer service options
  - Business succession/M&A needs matching
  - Asset management, leases, factoring
  - Operational streamlining, personnel training
- Information aggregation/use
  - Continuous support for business succession/M&As
- Joint interviews, including with external companies
- Independently share knowledge

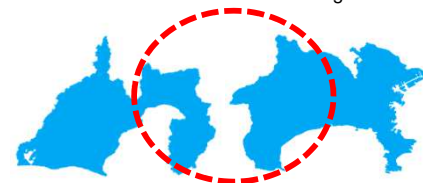


### Collaboration with external companies

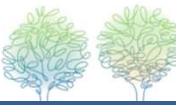
- Shinsei Bank
  - Train personnel with continuous stream of trainees
  - Implement business succession/M&A operations
  - Assist business turnarounds/raising enterprise value
- Local tax accountant corporations
  - M&A advisors/matching
  - Business succession/tax consulting
  - Subsidy/grant plan formulation assistance

### Stand out from other companies

- Start with substantial consumer transactions
  - Provide services for business owners as a gateway to consumer transactions
- Focus on Suruga's regional base
  - Establish friendly business owner solutions in eastern Shizuoka and western Kanagawa

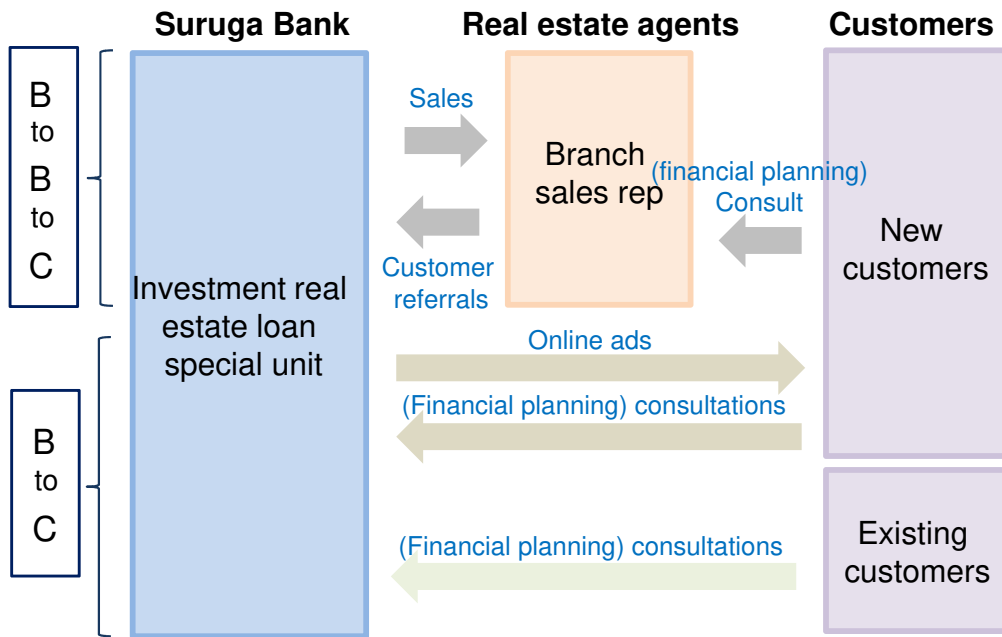


# Investment Real Estate Loans



- Proceed with a B-to-B-to-C model via real estate agents (mostly major listed companies) and a B-to-C model of direct consultations from consumer customers.
- In addition to referrals from real estate agents, expand customer touchpoints through online advertising and existing customer relations.
- Continue following the Mid-Term Business Plan by focusing on transactions from the important target segment of wealthy customers.

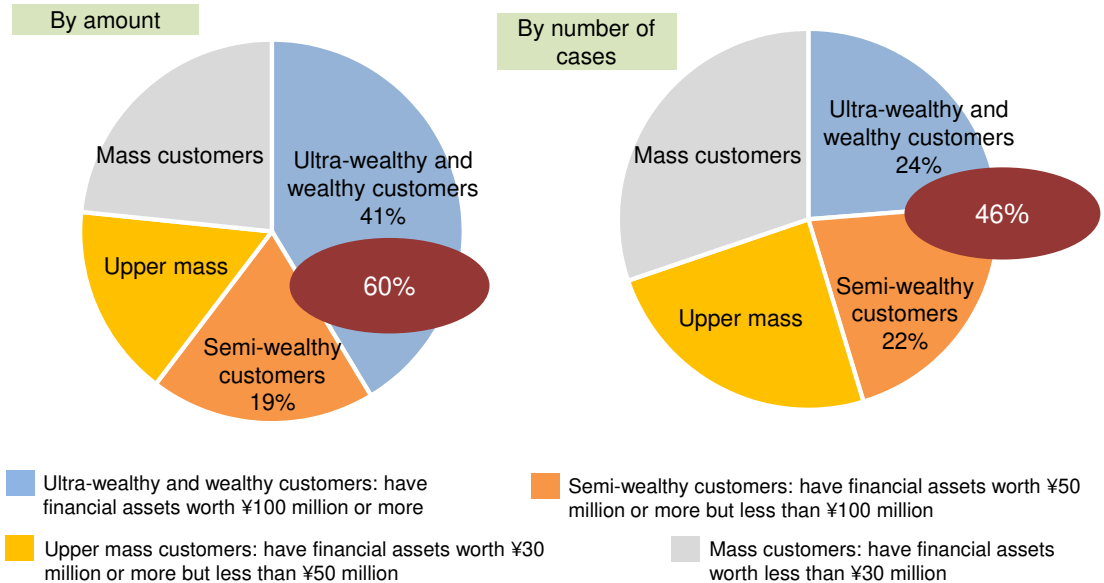
## Investment real estate loans promotion organization



## Amount ratio of investment real estate loans by customer segment

### Continue focusing on transactions with wealthy and ultra-wealthy customers

\*Customer segments are classified based on their financial assets at the time of loan screening.  
Period: April 1, 2021 to September 30, 2021



## Status of receiving consultations on our investment real estate loans

Status of receiving consultations

Steady pace of customer referrals through continuous relations focusing on major listed real estate agents

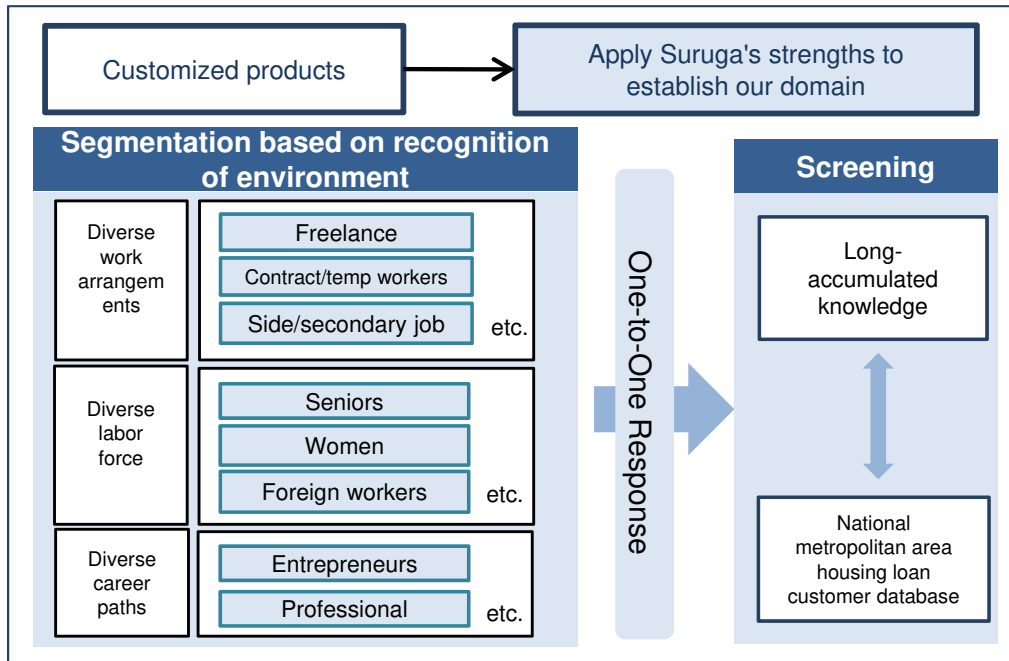
Direct consultations from consumer customers are trending upward thanks to Suruga Bank product announcements online and remote customer service, as well as from building relationships with existing customers

# Housing Loans



- The Bank offers housing loans to various segments through our long-standing strength of customized services and loan screening knowledge based on a database accumulated over many years.
- In the Shizuoka and Kanagawa areas, the Bank partners with local governments and takes community-based measures for employees of our corporate customers .
- Through specialized products and partnerships with local governments, the Bank supports relocation and settlement from the Tokyo metropolitan area to our local areas with excellent transportation options.

## Housing loan strategy

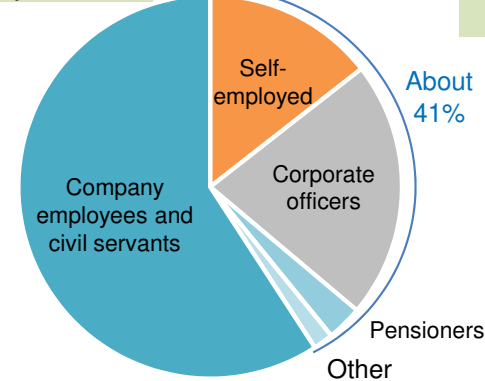


## Amount ratio of housing loans by customer segment

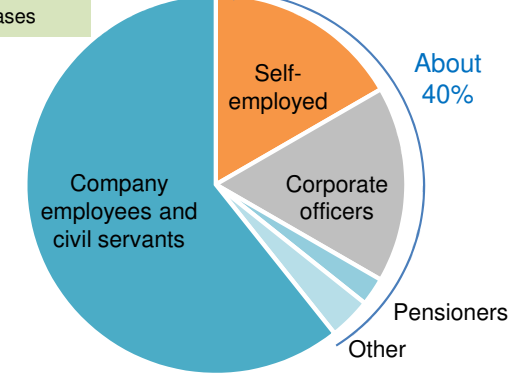
We provide various customer segments with housing loans by area in different measures.

\*Segment sampling period: April 1, 2021 to September 31, 2021

By amount



By number of cases



Local

Community-based measures for employees of our corporate customers in Shizuoka and Kanagawa Prefectures, etc.

Metropolitan

Measures for secured loans targeted at areas, segments, usage scenarios, etc.

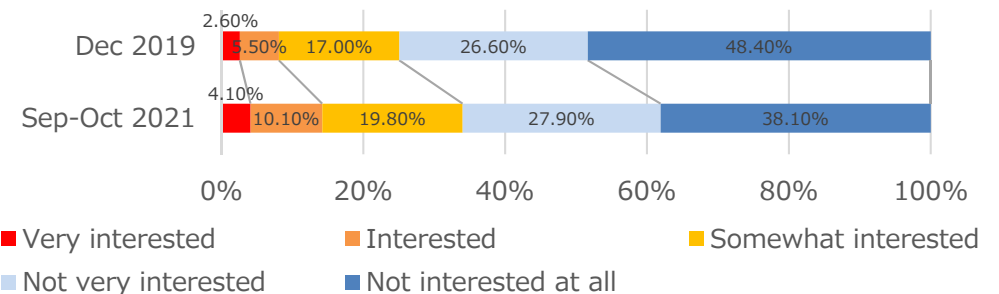
## New measures and promotion of housing loans

### Started handling housing loans for customer relocating to and settling in Shizuoka and Kanagawa prefectures

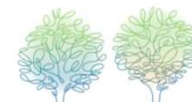
- Started handling housing loans specifically for customers using relocation and settlement support programs from local governments in certain areas of Shizuoka and Kanagawa prefectures (July 2021)
- In response to growing interest during the pandemic in relocating to outlying areas, the Bank is supporting customers who are considering relocating from the metropolitan area and settling in our local areas with excellent transportation options and we are helping to stimulate the local economy through the population influx.

### Interest in moving to outlying areas (Tokyo area residents)

Greater interest in moving to outlying areas since the pandemic began

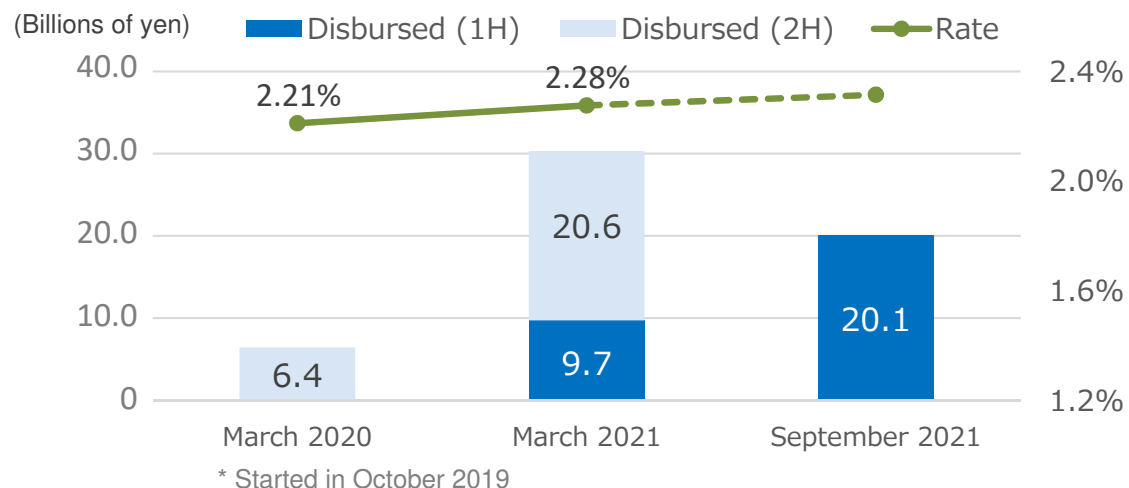


Source: Cabinet Office, "Survey on Changes in Lifestyle Awareness and Behavior Due to the Influence of COVID-19" (November 2021)

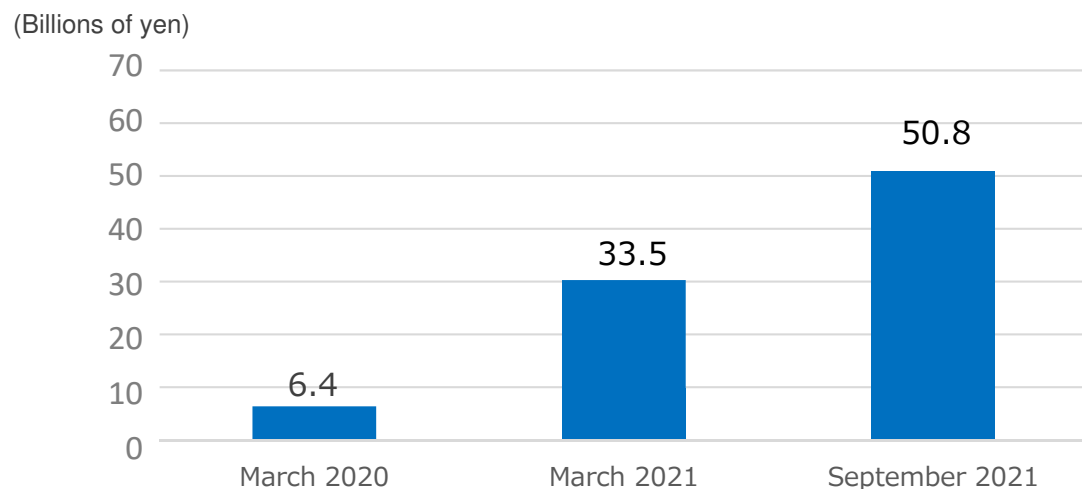


- In the first half of FY3/22, new disbursements totaled ¥20.1 billion at a practical rate of 2.32%. The outstanding balance of loans receivable as of the end of September 2021 was ¥50.8 billion.
- The Bank will continue expanding administrative resources for both sales and management, will act on LBO and other non-real estate deals, and will build up the medium-risk and medium-return portfolio.

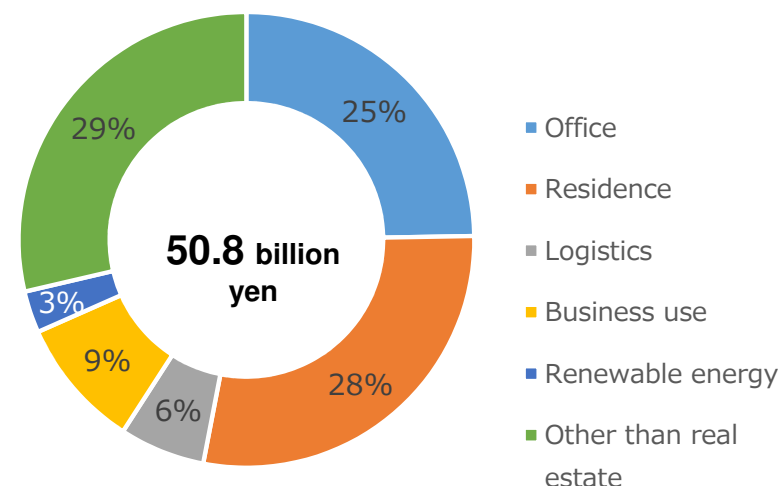
## Trends in financing amount / Forecast



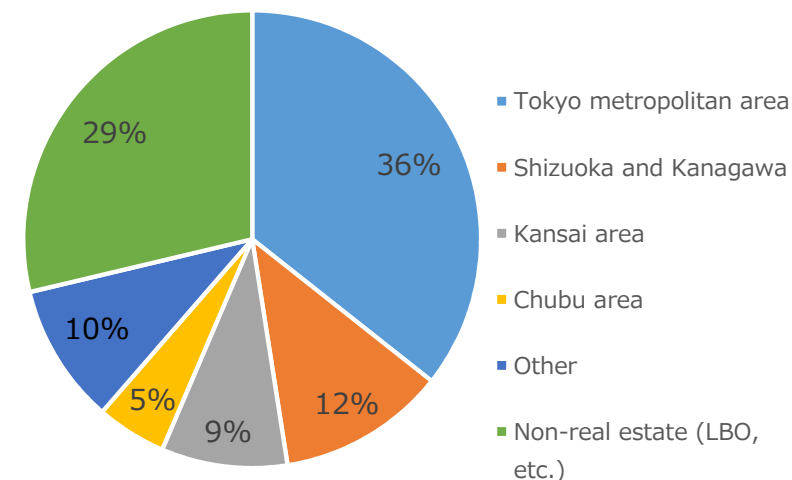
## Balance of loans receivable

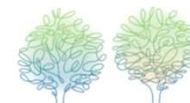


## Balance composition ratio by category (September 30, 2021)



## Composition ratio by property area (September 30, 2021)





- The bank created the FI Promotion Office to implement financial inclusion. The office will approach customers nationwide to offer reassuring financial services that would otherwise be unavailable to them.  
Our first goal is to expand financial services to customers who are foreign residents.
- The Bank aims to upgrade alliances and business models by utilizing our powerful digital platform.
- The D-Bank Branch seeks to add customer touchpoints by initiating a new, first-of-its-kind product in Japan, the Sumakoza Account.

## Promotion of financial inclusion (FI)

### ■ Established the Financial Inclusion (FI) Promotion Office

- Financial inclusion enables diverse people to enjoy financial stability throughout their lives, shares financial knowledge, and facilitates access to financial services. Japanese society has an increasing need for financial inclusion.
- Suruga Bank established the FI Promotion Office in September 2021. It will approach customers nationwide to offer reassuring financial services that would otherwise be unavailable to them.
- The office will create financial inclusion, starting with the provision of financial services to customers who are foreign residents, a group of increasing importance as Japan globalizes.

### ■ Partnership with Kurofune Co., Ltd.

The Bank formed a business partnership with Kurofune Co., Ltd. in November 2021. Kurofune helps foreigners establish comfortable living and working arrangements in Japan. By partnering with Kurofune and utilizing its knowledge, the Bank will provide products and services that match the needs of foreign residents.



Ref: November 1, 2021 announcement on the Suruga Bank website: "Business Partnership with Kurofune Co., Ltd." (in Japanese only)

## Horizontal rollout of the Bank's digital platform

### ■ Strategy for alliances with external companies

Build and implement new collaborative model with other companies (finance/other sectors)

Collaborate with companies seeking to enter the financial business (FI, etc.)

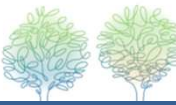
Improve and expand products and services offered with existing alliance members

### ■ Utilize and expand remote sales

Plan and execute digitalized bank operation workflows and customer touchpoints

Expand remote products and services enabling online consultations, applications, and contracts

Collaborate with tech firms to improve UI/UX and streamline operations



## Launch of Sumakoza Accounts

### ■ First bank account in Japan designed for cashless payments!

In October 2021, the D-Bank Branch began handling Sumakoza Accounts, the first ordinary savings account in Japan that lets account holders charge for cashless payments and receive cash benefits.

#### <Three advantages>

Up to ¥500 a month in cash benefits



General full compensation for fraud damages



Low-fee services



- Can apply to open an account on a smartphone anytime without visiting a branch (introduced eKYC)
- Automated finance features assist in case you need them

In response to the spreading use of cashless payments, the Bank is adding customer touchpoints by broadly offering Sumakoza Accounts designed specifically for cashless payments.



Sumakoza website

Ref: September 17, 2021 announcement on the Suruga Bank website: "New Sumakoza Ordinary Savings Accounts Launch Monday, October 4" (in Japanese only)

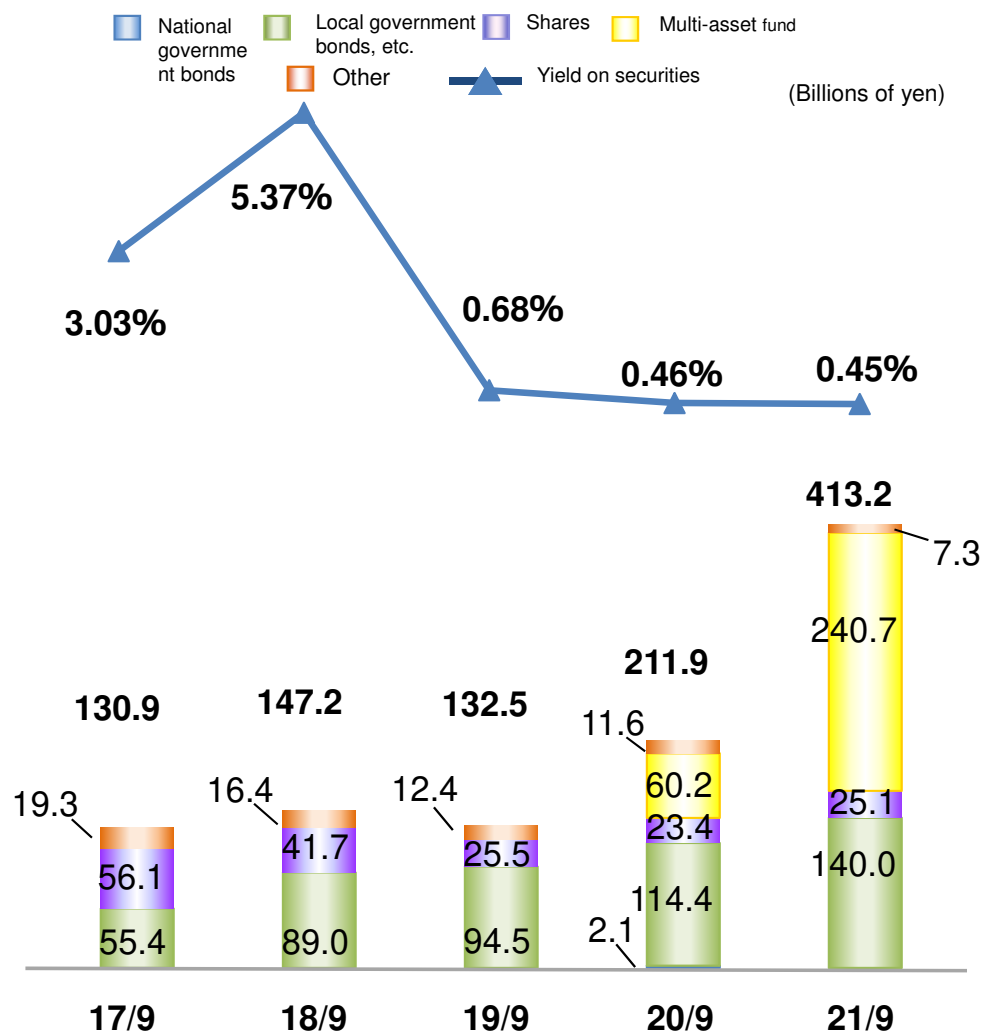


# Securities Management



- The balance of investments in the September 2021 period for multi-asset funds that commenced investments in FY2020 was ¥240.7 billion. As of the end of September 2021, risk diversification led to an unrealized gain/loss of ¥+0.7 billion, despite rising interest rates in the U.S. amid a push to normalize U.S. monetary policy.
- Under the Bank's policy of investing in assets with high liquidity and balancing risk diversity with revenue, our target yield (after deducting costs) is 1.3%
- In light of market conditions and surplus funds, the Bank's policy is to gradually build up the balance of investments. The Bank will also approach ESG investment as a new area for investing.

## Securities portfolio



## Unrealized gains (losses) on securities

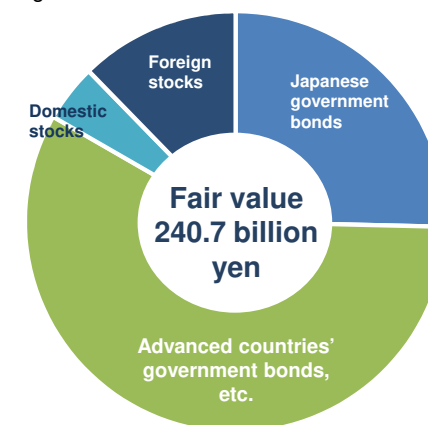
### Valuation difference on available-for-sale securities

(Billions of yen)

	End of September 2020		End of September 2021		Year-on-year
	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)	
Other securities	193.7	8.5	400.8	1009	+2.4
Shares	15.2	6.9	17.0	8.7	+1.7
Bonds	116.5	0.4	140.0	0.4	+0
Multi-asset fund*	60.2	0.2	240.7	0.7	+0.4
Other	1.6	0.8	2.9	1.0	+0.2

\*New investment started under the securities management policy specified in the mid-term business plan.

### Portfolio of multi-asset fund (As of the end of September 2021) Target yield 1.3% (after costs)



# ■ Response to Borrowers of Share House-related Loans



- In order to finally resolve the share house-related loan issue, which is one of the priority issues in Phase 1 of the Mid-Term Business Plan, we have been taking measures tailored to their individual circumstances, focusing on the unprecedented exemption for repayment of part of the principal amount of loans as well as comprehensive transfer of loans.
- In March 2021, we informed our applicable borrowers that those who request the above scheme will be required to file a petition for civil conciliation by the end of August 2021, and those who wished to do so filed petitions.
- We completed a second comprehensive transfer of share house loans in March 2021, following March 2020. The two actions are scheduled for completion in the second half of FY2021 and the first half of FY2022.
- For borrowers of investment real estate loans other than share house loans, we will respond in good faith in accordance with their individual circumstances, including exemption for repayment of part of the principal amount.

## Response to customers since FY2018

- ✓ We established the “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 financial institution, including exemption for repayment of part of the principal amount of the loan using ADR.
- ✓ At present, we have not taken legal action if the share house-related loan has become delinquent.
- ✓ We adopt the DC method for calculation of allowance for possible losses for 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 real estate 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 correspondent 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. By the end of February 2021, we completed sending to the borrowers who applied for the exemption a primary calculation notice of the exemption amount. For borrowers who request the next step, we are proceeding with 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 and March 1, 2021

Target: share house loans

Content: Before we executed share house loans, we did not sufficiently analyze share house-specific risks associated with general investment real estate loans, including inappropriate action such as ignoring 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 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.

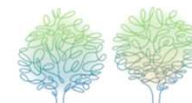
Status: The first transfer was carried out in March 2020. (257 borrowers for ¥44.0 billion)  
The second transfer was carried out in March 2021. (285 borrowers for ¥44.0 billion)  
The two actions are scheduled for completion in the second half of FY2021 and the first half of FY2022.

## Reflection in and progress of the business forecasts

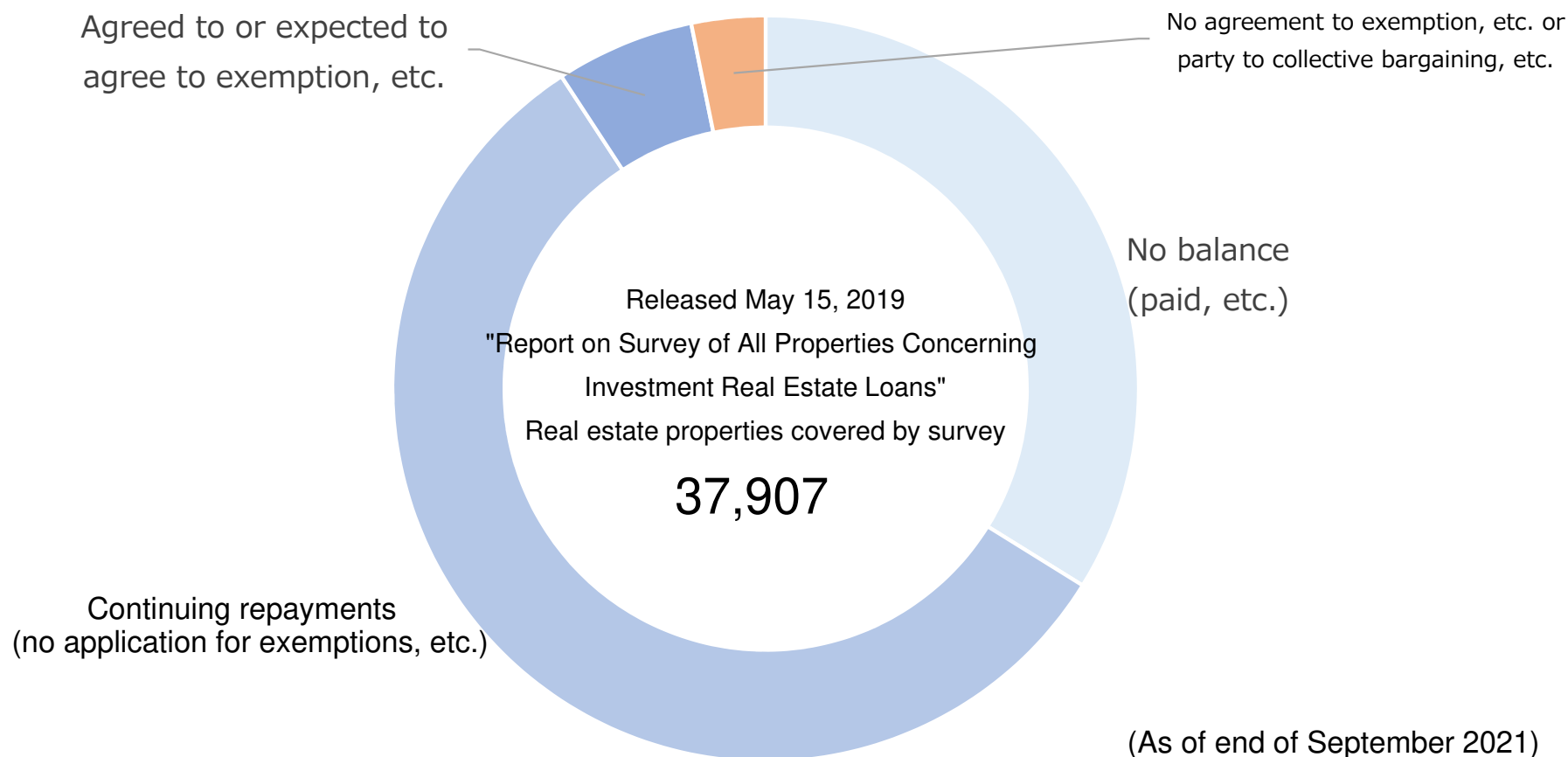
- ✓ We expect to carry out the third and subsequent comprehensive transfers in the fiscal year ending March 2021. According to the intention of the remaining borrowers, most of them wished for a comprehensive transfer of their loans. We assumed the occurrence of repayment suspension associated with the transfer, and the amount assumed has at present remained steady. <¥4.0 billion for the full year, as initially forecast>
- ✓ We had planned to carry out the third comprehensive transfer for collectively requesting customers by the end of August, but due to the circumstances of some customers, procedures for some of them will be completed in the first half of FY2022. <Full-year forecast of ¥-10.0 billion, ¥+5.0 billion from figure announced August 13>



# ■ State of Response to Customers of Investment Real Estate Loans



- We continue our sincere response to customers of investment real estate loans through special measures such as exemption for repayment of part of the principal amount of loans and the comprehensive transfer of loans for share houses.
- In about two-and-a-half years, around 30% of property owners have an outstanding loan balance of 0, while around 60% are continuing to repay without having requested an exemption for repayment of part of the principal amount of loans or comprehensive transfer of loans, or having engaged in collective bargaining.
- While around 10% of property owners with an outstanding loan balance have not requested an exemption for repayment of part of the principal amount of loans or comprehensive transfer of loans, and have not participated in collective bargaining, around two-thirds of those have responded or are expected to respond, such as by consenting with the Bank to procedures for an exemption for repayment of part of the principal amount of loans or requesting a comprehensive transfer of share house loans including future scheduled amounts.
- The remaining property owners other than this group have not requested an exemption for repayment of part of the principal amount of loans, reached an agreement with the Bank, or engaged in collective bargaining such as by entrusting a law firm or other entity. The Bank continues to respond sincerely toward a resolution with these property owners.



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



- Due to strict self-assessment based on the changes in the self-assessment standards<sup>\*1</sup> at the end of September 2018, non-delinquent loans of approximately ¥600.0 billion were classified as loans requiring special attention.
- As of the end of September 2021, 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 maintain or upgrade the classification of borrowers by providing them with in-depth support for property management, including reporting to them the management status of the property.
- In FY3/22, we expect additional provisions to prepare for future credit risks.

## Loan balance of single building apartment loans by classification of borrowers and delinquency status (End of September 2021)

(Billions of yen)

Borrower classification	Credit claims such as loans *2	Portion of single building apartment loans (excluding share house cases)	
		Portion not delinquent	
Normal clients	1,176.2	252.0	252.0
Clients requiring special attention <sup>(*1)</sup>	739.1	603.7	599.7
Clients requiring corrective action	107.5	75.8	72.7
Clients at high risk of bankruptcy	126.8	67.7	43.8
Virtual bankruptcy clients/bankruptcy	113.3	33.5	1.5
Total	2,263.1	1,032.9	970.0

\*1 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.

\*2 Credit claims such as loans: Loans and bills discounted, customers' liabilities for acceptances and guarantees, foreign exchanges, securities lent, suspense payments equivalent to loans and bills discounted, accrued interest on loans and bills discounted

## Occupancy rate of single building apartments (periodic survey)

**Occupancy rate at the end of September 2021: 87.8%** (Survey results for occupancy rate in fiscal 2020: 87.7%)

<Survey>















- In principle, the person in charge of bank loans visits the location of the 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 conducted on investment properties owned by borrowers where each borrower's loan balance is ¥50 million or more. (the number of targeted single building apartments: about 9,000, accounting for more than 90% of the loan balance)
- The survey has been sincerely carried out in FY2021 with measures to prevent transmission of the coronavirus as the pandemic continues. (As of the end of September 2021, over 40% of properties have been surveyed.)

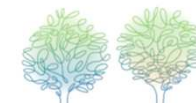
**I Financial Results for the 1st Half of FY3/22**

**II Business Strategy Based on Mid-Term Business Plan**

**III SDGs**

• Taking into account the social responsibilities requested by stakeholders and diversifying social and environmental issues, we have identified priority issues that must be addressed by the Group in light of its business opportunities and risks, and also formulated important issues (materiality) to realize a sustainable society and maintain and improve its corporate value.

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	<b>What Suruga Bank Group values</b>  Corporate Philosophy Compliance Charter Mid-term Business Plan "Re:Start2025" History	<b>Establish a solid foundation for governance</b>	<ul style="list-style-type: none"><li>● Penetration of the corporate philosophy</li><li>● Enhancement of corporate governance</li><li>● Establishment of a solid compliance system</li><li>● Realization of customer-oriented business operations</li><li>● Strengthening of measures to prevent financial crimes</li></ul>	 
People	<b>What stakeholders value and expect from the Suruga Bank Group</b>  X	<b>Create an environment where employees can play an active role and grow</b>	<ul style="list-style-type: none"><li>● Human resource development system to support employees to grow</li><li>● Enhancement of work-life balance measures</li><li>● Promotion of diversity and employment of people with disabilities</li><li>● Initiatives to improve the mental and physical health of employees</li><li>● Initiatives to increase the motivation of employees</li></ul>	 
Prosperity		<b>Building sustainable local economies and societies</b>	<ul style="list-style-type: none"><li>● Responding to diverse customer needs through retail banking</li><li>● Providing solutions to local companies and businesses</li><li>● Contributing to regional revitalization through partnerships with local governments</li><li>● Initiatives for Business Continuity Plan (BCP)</li><li>● Supporting culture, art, and sports for children who will be future leaders</li></ul>	 
Planet		<b>Contribute to environmental conservation</b>	<ul style="list-style-type: none"><li>● Participation and cooperation in local environmental conservation activities</li><li>● Reducing environmental impact by promoting digitization of business procedures and operations</li><li>● Promotion of environmental measures for branch facilities</li></ul>	       



- The Bank promotes sustainable finance initiatives to create a sustainable society.
- We contribute to stimulating the local economy by spreading detailed information on tourism, such as the City Promotion, and partnering with companies and local governments on encouraging bicycle use.
- By arranging an environment where employees can thrive, the Bank seeks to enable work-life balance and to raise employee motivation.

## Sustainable finance initiatives



## Sustainability Link Loans (SLLs)

To encourage improved sustainability performance by companies, loans give companies incentives or disincentives according to their achievement of prescribed Sustainability Performance Targets (SPTs), which are goals that align with companies' ESG strategies.

### Action thus far

SLL initiative by Outsourcing Inc. with SPTs to arrange settings for demonstrating one's skills and expanding job opportunities

## Transition Link Loans (TLLs)

To create a zero-carbon society, loans create incentives to achieve prescribed Sustainability Performance Targets (SPTs) for reductions coordinated with companies' greenhouse gas reduction strategies. The purpose of these loans is to reduce greenhouse gas emissions in concert with companies' long-term strategies.

### Action thus far

TLL initiative with SPTs to reduce emissions of CO<sub>2</sub> and other greenhouse gases by Kawasaki Kisen Kaisha, Ltd.

## Positive Impact Finance (PIF)

Comprehensive analysis and evaluation of corporate activity's impact on the environment, society, and the economy (both positive and negative effects). The results are the basis for indicators assessing levels of contribution to achieving the SDGs. Financing encourages companies to continue this action, which is monitored.

### Action thus far

PIF by Toray Industries, Inc. to accelerate climate change countermeasures and promote sustainable, recycling-oriented use of resources and production

## Contributions to regional revitalization through bicycles



## Signed the Partnership Agreement on Bicycle Promotion

- June 2021: Sampo Japan Insurance Inc.
  - September 2021: TEPCO Power Grid, Inc.
- As of the end of September 2021  
Agreements with three local governments and six companies

## City Promotion

Publicity on social media and elsewhere online about local sightseeing spots visited on bicycles

- Miya Pota\* (Fujinomiya, Shizuoka Pref.)
- Izu Pota (Izuky Corp.)



\*Short for "pottering": casual cycling in a neighborhood, like taking a stroll

## Diversity promotion



- Odawara Branch and Odawara Higashi Branch recognized by Odawara L-Ale as the Gold Stage (the highest rank)

\*Odawara L Yell (a certification system for companies encouraging and incentivizing women to work) is the City of Odawara's own system for recognizing companies that encourage and incentivize women to work by applying certain criteria to companies in the city that proactively encourage women to work.



<Four actions for certification>

Foster awareness and better workplace cultures

Action to encourage women to work

Action to achieve work-life balance

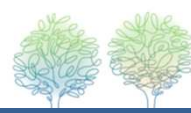
Independent action



Certification logo mark

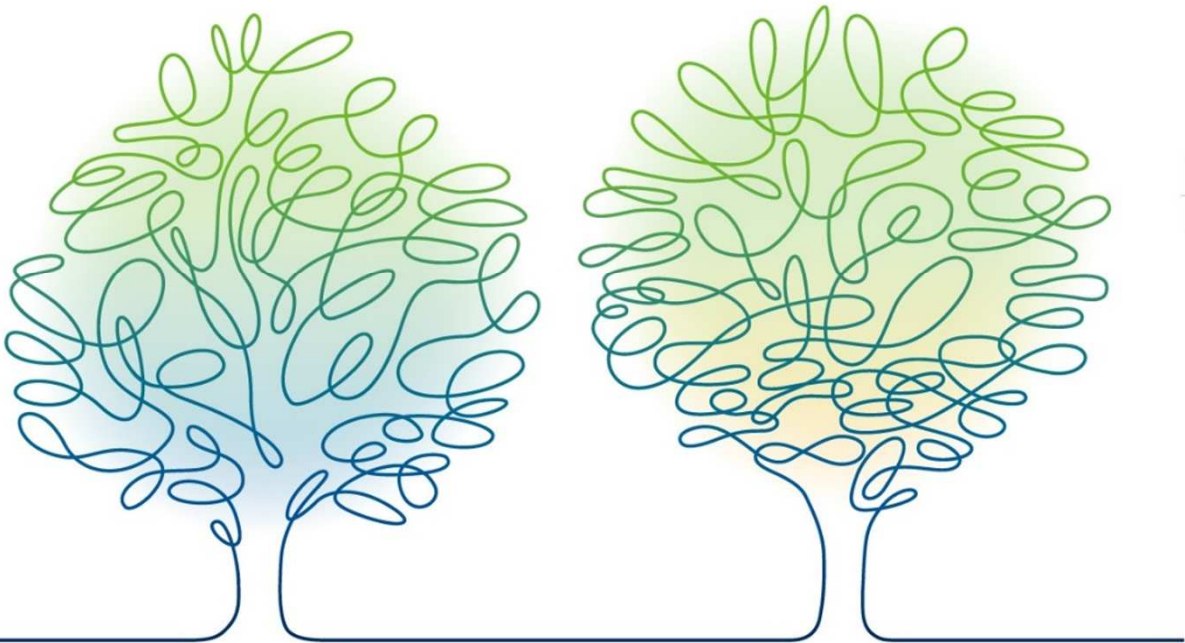
# Reference Materials





“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 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.”





Corporate  
Philosophy

We want to be a company that makes customers feel,  
“I’m glad you’re here... I’m glad we met.”

Customer satisfaction

Shareholder value

Employee satisfaction

Contribution to society

Providing value

New Vision for Suruga Bank

Vision

- 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





## 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



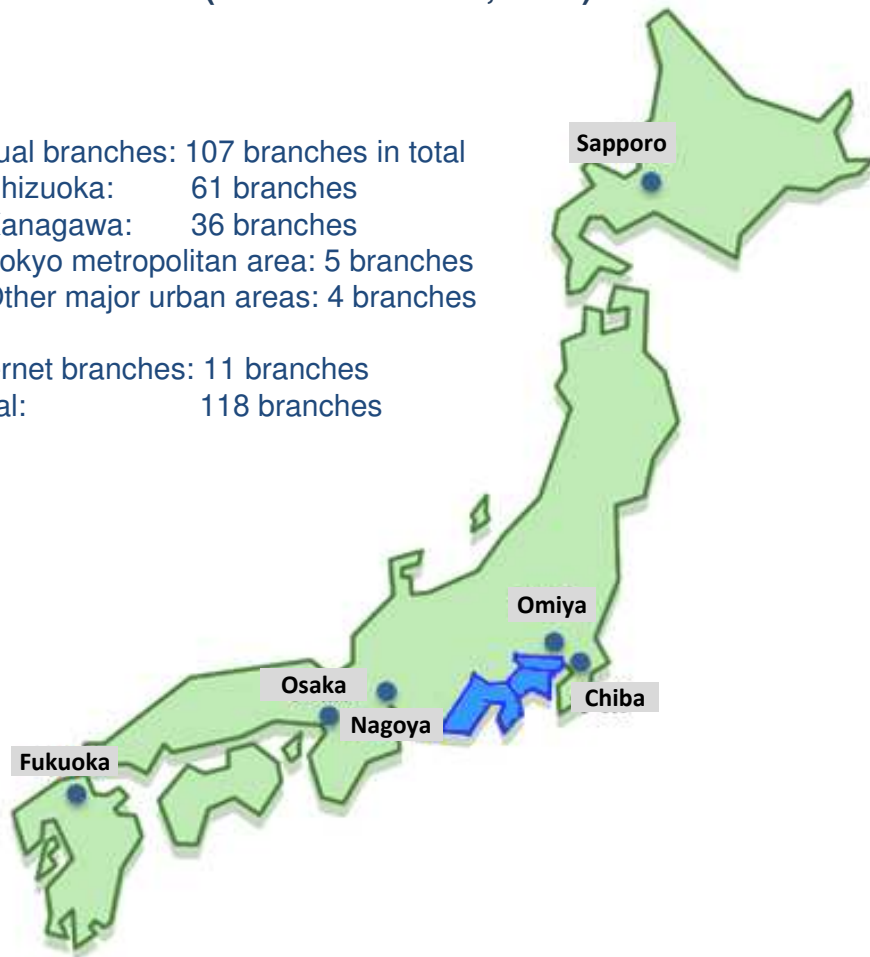
# ■ Revised Branch Network

- In the Tokyo metropolitan area and other major urban areas, we are building a network to centralize management resources and promote sales with the aim of stronger sales capabilities and thorough compliance management.
- In the Shizuoka and Kanagawa areas, we are streamlining operations by consolidating branches, taking into account regional contribution and convenience for existing customers, such as the proximity between branches, the number of visiting customers, and relationships with local governments.

## • Branch network (as of October 31, 2021)

Actual branches: 107 branches in total  
Shizuoka: 61 branches  
Kanagawa: 36 branches  
Tokyo metropolitan area: 5 branches  
Other major urban areas: 4 branches

Internet branches: 11 branches  
Total: 118 branches



## • Consolidated branches since releasing the Mid-Term Business Plan

Areas	Applicable branches	Integration month
Tokyo metropolitan area	Futakotamagawa Branch	July 2020
	Kawasaki Branch	August 2020
	Tama Plaza Branch	January 2021
	Midtown Branch	October 2021
Other major urban areas	Sendai Branch	June 2020
	Hiroshima Branch	October 2020
	Kyoto Branch	November 2020
Kanagawa	Keio University Sub-Branch	June 2020
Shizuoka	Well-D Nagaizumi Sub-Branch	April 2021
	Denmacho Branch	June 2021
	Numazu Shizuura Branch	October 2021
	Izu Chuo Branch	October 2021



# 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.