SURUGA bank, Ltd.

Financial Results for the Three Months Ended June 30, 2022

August 10, 2022

SURUGA bank

Actual Results for 1Q of FY3/23; Comparison with 1Q, FY3/22

- Gross operating profit decreased by 1.5 billion yen year-on-year to 15.1 billion yen, mainly due to a decrease in net interest income.
- Expenses decreased by 0.6 billion yen year-on-year to 9.5 billion yen, mainly due to a decrease in non-personnel expenses due to progress in cost reduction.
- Actual credit costs decreased by 2.1 billion yen year-on-year to 1.3 billion yen, mainly due to the fact that we implemented an additional allowance for the share house loan claim that requested a lump-sum transfer of receivables in the previous fiscal year.
- Quarterly net income (non-consolidated) increased by 1.4 billion yen year-on-year to 3.9 billion yen.
- Quarterly net income (consolidated) increased by 1.5 billion yen year-on-year to 4.0 billion yen.

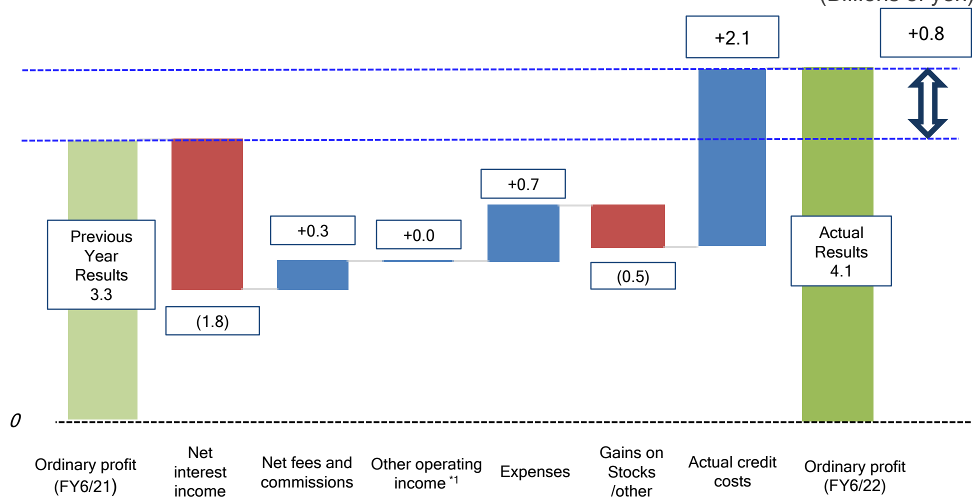
<Non-consolidated> (Billions of yen)

	1Q results for FY3/22	1Q results for FY3/23	Year-on-year
Gross operating profit	16.6	15.1	(1.5)
Expenses	10.1	9.5	(0.6)
Core net operating profit	6.3	5.6	(0.7)
Net operating profit	13.4	6.1	(7.2)
Ordinary profit	3.3	4.1	+0.7
Net income	2.5	3.9	+1.4
Actual credit costs	3.4	1.3	(2.1)
ROE(%) (Quarterly Net Income Basis)	3.9%	6.4%	+2.5%
Consolidated net income	2.5	4.0	+1.5
EPS (JPY) (consolidated)	11.0	21.5	+10.5

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

	Main factors
Net interest income	・Decrease in interest on loans (average balance factors -1.2 billion yen, yield factor -0.8 billion yen)
Expenses	・Decrease in non-personnel expenses
Net operating profit	・Increase in provision for general reserve for possible loan losses
Actual credit costs	・Additional provision for share house related borrowers dropped ・Decrease in actual credit costs related to investment real estate loans

(Billions of yen)



*1 Excludes gains/losses on bonds.

* Since the figures in the above graph are rounded to the nearest unit, they may differ from the numbers in the table on the left.

Key Assumptions Underlying the Revised Earnings Forecasts for FY3/23

- 1Q results and revised forecast for FY3/23 to include the following elements.

A) Actual credit costs

As a result of analyzing recent debtor trends, we expect that the progress of the structured suspension of repayments foreseen by the preventive allowances (see (c) below) will be pushed back further than expected at the beginning of the period.

B) Securities management (risk reduction based on market environment)

(1) Allocation change of multi-asset funds (2) Partial sale of multi-asset funds (interim period)
(3) Suspension of distributions from multi-asset funds (full-year forecast) (4) Sale of foreign shares denominated in foreign currencies (interim period)

・Assumptions for the actual credit cost outlook for the fiscal year ending March 31, 2023

(Billions of yen)

	Announcement on May 13		Announcement on August 10		Change	
	First half	Full-year	First half	Full-year	First half	Full-year
Actual credit costs	7.5	13.5	(0.5)	10.5	(8.0)	(3.0)
Normal credit costs (a)	3.5	5.5	(2.0)	3.5	(5.5)	(2.0)
Share house-related loans (b)	(2.0)	(2.0)	(2.5)	(2.5)	(0.5)	(0.5)
Preventive allowance(c)	6.0	10.0	4.0	9.5	(2.0)	(0.5)

(a) Actual credit costs for claims without special factors such as share house-related borrowers and organizational negotiation partners are assumed to be 3.5 billion yen, a decrease of 2.0 billion yen from the last published value. This is due to the fact that although the provision for general bad debts was included in the increase in the expected loss rate due to the preventive allowance assumed for the current period (hereinafter referred to as "(c)"), the implementation of the preventive allowance will be pushed back.
(-2.0 billion yen for the interim period, which is -5.5 billion yen compared to the previously announced value)

(b) The actual credit cost for share house-related borrowers is expected to rise in the transfer price of the 4th share house lump-sum transfer of receivables scheduled for the interim period, and it is assumed that the profit from the return of allowance for doubtful accounts will be -2.5 billion for the full year, an increase of 0.5 billion over the previously announced value.
(-2.5 billion yen for the interim period, which is -0.5 billion yen compared to the previously announced value)

(c) As for the precautionary allowance, as a result of analyzing the trends of the target companies, while there were debtors who stopped structured negotiations such as switching to individual negotiations, and while, as of the end of the first quarter, the debtors who reached methods such as suspension of repayment are less than we expected at the beginning of the period, we maintain our outlook that provisions in the current period due to changes in structured negotiations, etc. will occur at approximately the level we assumed at the beginning of the period, and we assume a decrease of 0.5 billion yen from the last published value to 9.5 billion for the full year. (4.0 billion yen for the interim period, which is -2.0 billion yen compared to the previously announced value)
*We expect that there will be a certain amount of additional provisions for the current period.

・Assumptions for securities investment

<Valuation difference on available-for-sale securities>

(Billions of yen)

	End of March 2022		End of June 2022		Change
	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)	Net unrealized gains (losses)
Other securities	454.2	(1.4)	460.7	(14.6)	(13.1)
Shares	15.8	7.5	16.3	8.0	+0.5
Bonds	143.5	(0.3)	162.5	(0.7)	(0.4)
Multi-asset fund*	290.2	(9.7)	277.1	(22.8)	(13.1)
Other	4.5	1.0	4.6	0.8	(0.1)

Based on the market environment, the following risk reduction measures will be incorporated.

① The amount of risk (*) in the securities portfolio was halved compared to last year due to changes in the allocation of multi-asset funds with relatively high risk

(*) 10 years observation period, VaR of 120 days holding period, comparison of risk amounts in February and July 2022

② Planned partial sale of multi-asset funds (interim period)

③ The distribution of multi-asset funds, which was forecast in the initial results plan, is expected to be suspended.

④ High risk foreign currency foreign shares (individual shares) are to be sold (interim period)

Revised Earnings Forecasts for FY3/23

- As a result of incorporating the factors on the previous page, ordinary income increased by 2.0 billion yen in the interim period to 40.5 billion yen, and by 1.0 billion yen for the full year to 77.0 billion yen.
- Actual credit costs decreased by 8.0 billion yen in the interim period to -0.5 billion yen and by 3.0 billion yen for the full year to 10.5 billion yen.
- Net profit (non-consolidated) increased by 8.0 billion yen to 10.5 billion yen in the interim period and by 2.0 billion yen to 8.5 billion yen for the full year.
- Net income (consolidated) is expected to increase by 2.0 billion yen to 9.0 billion yen.

(*) Timely disclosure on August 10, 2022 "Announcement Regarding the Revision to the Earnings Forecast"

[Non-consolidated] [Consolidated] (Billions of yen)

	Earnings Forecast Values Announced on May 13		Earnings Forecast Values Announced on August 10		Change		Earnings Forecast (Full-Year)		Change
	First half (A)	Full-year (B)	First half (C)	Full-year (D)	First half (C) - (A)	Full-year (D) - (B)	Values announced on May 13 (E)	Values announced on August 10 (F)	(F) - (E)
Ordinary income	38.5	76.0	40.5	77.0	+2.0	+1.0	84.0	86.0	+2.0
Gross operating profit	30.0	59.0	28.5	56.0	(1.5)	(3.0)			
Expenses	19.5	38.0	19.5	38.0	±0.0	±0.0			
Core net operating profit	10.5	21.0	11.5	21.0	+1.0	±0.0			
Net operating profit	9.0	19.0	8.0	17.0	(1.0)	(2.0)			
Ordinary profit	3.0	7.5	11.0	9.0	+8.0	+1.5	8.0	10.5	+2.5
Net income	2.5	6.5	10.5	8.5	+8.0	+2.0	7.0	9.0	+2.0

Actual credit costs	7.5	13.5	(0.5)	10.5	(8.0)	(3.0)

■ Revised Earnings Forecasts for FY3/23 <Comparison of KPIs for the Final Year of Phase One of the Med-Term Business Plan>

- In the revised Med-Term Business Plan Final Year Earnings Forecasts, RA gross operating profit remained unchanged from before the revision, and OHR rose 4% from before the revision (KPI not reached).
  Net income increased by 2.0 billion yen in for both consolidated and non-consolidated compared to before the revision, and we assume a level that exceeds the plan.
  The capital adequacy ratio increased by 0.1% compared to before the revision, and we assume it will continue to exceed the plan.
- Expenses are proceeding with the structural reforms set out in the Med-Term Business Plan, and are expected to be 38.0 billion yen, which is -2.0 billion yen compared to the Med-Term Business Plan, unchanged from before the revision.

(Billions of yen)

		FY3/22 Results	Earnings Forecasts for FY3/23		FY3/23 (Phase 1 Final Year) [KPI]
			Announcement on May 13	Announcement on August 10	
Non-consolidated	RA gross operating profit [*1]	49.3	45.5	45.5	49.0
	OHR [*2]	60%	64%	68%	Within 60%
	Net income	7.8	6.5	8.5	6.0
	Capital adequacy ratio	12.3%	13.1%	13.2%	More than 10%
Consolidated	Profit attributable to owner of parent	7.9	7.0	9.0	7.0
Other Indicator	Expenses	39.7	38.0	38.0	40.0

[*1] RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit - Actual credit cost

[*2] OHR (Over Head Ratio) = Expenses ÷ Gross Operating Profit

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

- Actual credit costs for share house related loans were recorded at -0.1 billion yen.
- Actual credit costs on investment real estate loans other than those related to share houses were recorded at 0.9 billion yen.
- As of the end of June 2022, the balance of share house-related loans was 52.8 billion yen, with a coverage ratio of 96.88%, due to the past three lump-sum transfers of receivables.

・Actual credit costs / allowance for loan losses (1Q, FY3/23)

(Billions of yen)

Item	Actual credit costs	Allowance for loan losses
Share house-related loans	(0.1)	25.4
Investment real estate loans *	0.9	91.2
Housing loans	0.1	3.2
Unsecured loans	0.0	3.2
Monetary claims bought	0.0	0.2
Business financing, etc.	0.2	8.8
Total	1.3	132.3

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

・Coverage status on share house-related loans

(Billions of yen)

	Total credit balance A	Share house-related loans	Mortgage collateral or guarantee B	Unsecured portion C	Allowance D	Coverage ratio (B + D)/A
March 2019	250.3	201.9	91.4	158.8	139.3	92.20%
March 2020	192.1	154.7	72.7	119.3	102.5	91.29%
March 2021	135.7	107.2	52.5	83.1	76.7	95.24%
March 2022	53.6	41.9	26.2	27.4	25.7	96.87%
June 2022	52.8	41.4	25.7	27.1	25.4	96.88%

*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.

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

- Based on the Med-Term Business Plan, the loan yield for the entire region that promotes the "quality" conversion of assets to middle-risk and middle-return, is 3.51% (total (E)).
- The delinquency rate for consumer loans is affected by special factors, such as the fact that some share house-related borrowers want the bank to provide a 4th Group's request for lump-sum transfer of loans, and some customers who are using investment real estate loans have suspended repayment on the occasion of structured negotiations. As of the end of June 2022, it is 7.04% (A).
- In order to improve the delinquency rate of investment real estate loans, we are not only supporting repayments by changing conditions, but is also providing feedback to customers on information of concerns such as damage to real estate found in our own periodic surveys. We are also discussing changing the management companies, and there has been no significant change in the overdue status of debts without special factors.

(Billions of yen)

Loan category		March 2022			June 2022		
		Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans		1,693.1	3.09%	7.18%	1,659.4	3.08%	7.42%
	Housing loans	457.6	2.79%	0.31%	449.7	2.77%	0.27%
	Studio apartment loans	142.3	3.37%	2.64%	136.0	3.37%	2.76%
	Single building apartment loans	1,017.7	3.21%	8.96%	999.2	3.20%	9.31%
	Share house loans	41.8	1.39%	61.91%	41.4	1.37%	61.92%
	Other secured loans	33.4	4.57%	0.38%	32.8	4.51%	0.23%
Unsecured loans		145.4	10.40%	2.44%	139.6	10.45%	2.44%
	Card loans	98.0	11.77%	0.89%	95.0	11.78%	0.94%
	Unsecured certificate loans, etc.	47.4	7.57%	5.64%	44.6	7.61%	5.63%
Consumer loans (A)		1,838.5	3.67%	6.81%	1,799.1	3.65%	7.04%
Consumer loans (excluding share house-related loans)		1,784.9		5.37%	1,746.2		5.57%
Investment real estate loans for asset management companies (B)		33.5	1.81%	–	35.3	1.82%	–
Structured finance (C)		68.9	2.27%	–	76.0	2.27%	–
Monetary claims bought (D)		59.7	1.89%	–	58.9	1.94%	–
Total (E：A+B+C+D)		2,000.8	3.54%	6.26%	1,969.5	3.51%	6.43%

*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.

New Loan Execution Status

- Executed 22.1 billion yen versus the FY3/23 full-year new loan execution plan of 190 billion yen (total (A) + (B)).
- Execution of personal loans and investment real estate loans for asset management companies will remain at 12.5 billion yen, but we will continue to secure contracts for the current period, and the progress rate against the full-year plan exceeded 25%, including prospective projects. Execution of structured finance was 9.6 billion yen, 24% of the plan, and is progressing well.
- In terms of monetary claims purchased, we purchased a receivable (receivable amount: about 40 billion yen, assumed yield: 1.41%) in July 2022 from the market that matches the bank's aims for middle-risk, middle-return.
- The 7th wave of COVID-19 and the surge in the price of materials due to the impact of the Ukrainian situation are ongoing and will work to promote our loans while keeping an eye on the business environment and market trends.

· Trend in loan execution amount promoted in the Med-Term Business Plan

(Billions of yen)

	1Q, FY3/22	1Q, FY3/23	Year-on-year	Forecasts for FY3/23
Consumer loans	7.2	9.8	+2.6	110.0
Investment real estate loans for asset management companies	2.8	2.7	(0.1)	* -
Subtotal	10.1	12.5	+2.4	110.0
Structured finance	9.3	9.6	+0.3	40.0
Total (A)	19.4	22.1	+2.7	150.0
Monetary claims bought (B)	–	–	–	40.0
Total (A) + (B)	19.4	22.1	+2.7	190.0

*The planned amount of investment real estate loans for asset management companies is included in the 110.0 billion yen of consumers loans, because we conduct the same promotional activities as for investment real estate loans for individuals.

Reference Materials

Actual Results for 1Q of FY3/23; Comparison with Previous Forecast

[Non-consolidated]

	1Q results (1)	Earnings Forecast Values Announced on May 13: First half	Earnings Forecast Values Announced on May 13: Full-year (2)	Progress (1)/(2)
Ordinary income	18.4	38.5	76.0	24.6%
Gross operating profit (A)	15.1	30.0	59.0	25.5%
Expenses (B)	9.5	19.5	38.0	25.0%
Core net operating profit	5.6	10.5	21.0	26.7%
Ordinary profit	4.1	3.0	7.5	55.2%
Net income	3.9	2.5	6.5	60.8%

Actual credit costs (C)	1.3	7.5	13.5	9.8%
RA Gross Operating Profit (A-C)	13.8	22.5	45.5	30.2%
Annual dividend per share			6 yen	

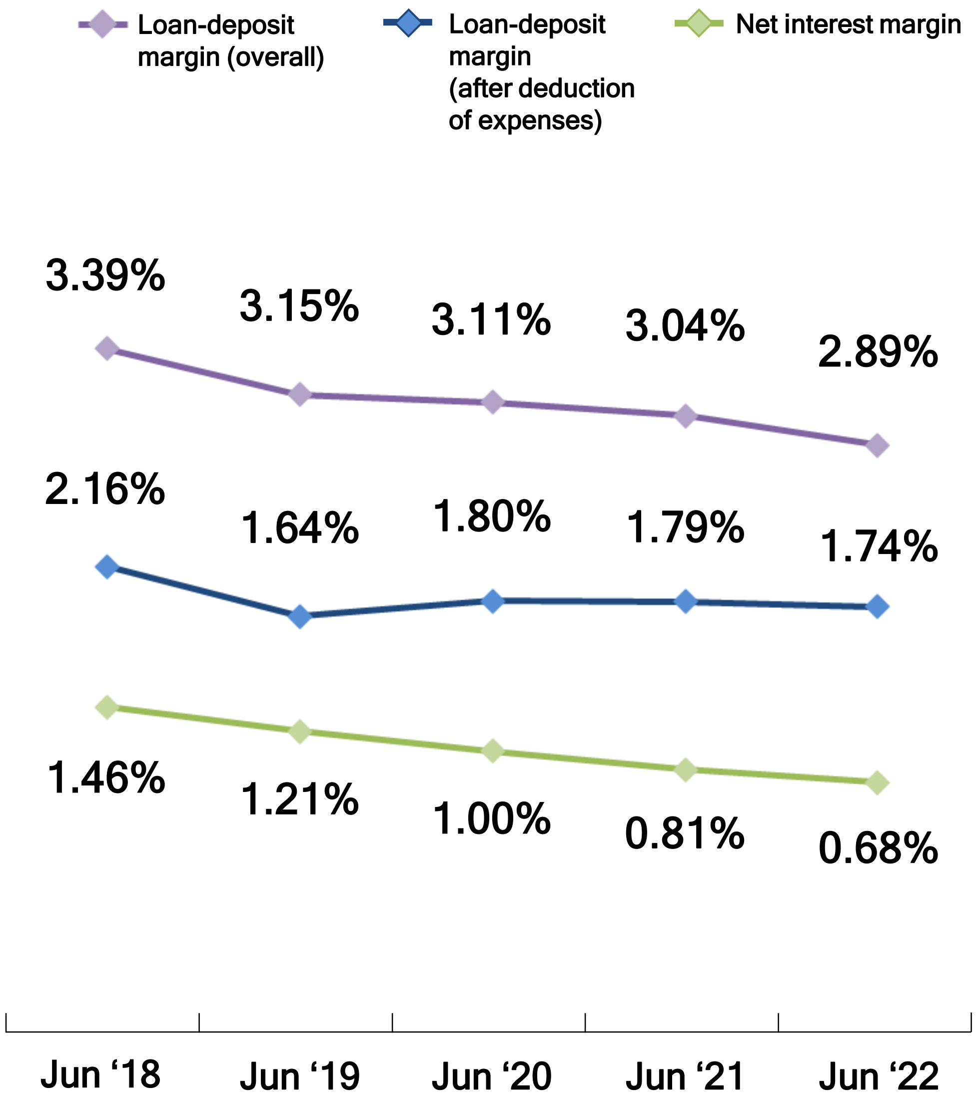
[Consolidated] (Billions of yen)

	1Q results (3)	Earnings Forecast Values (Full-year) Announced on May 13 (4)	Progress (3)/(4)
Ordinary income	20.6	84.0	24.6%
Ordinary profit	4.3	8.0	53.7%
Net income	4.0	7.0	58.0%

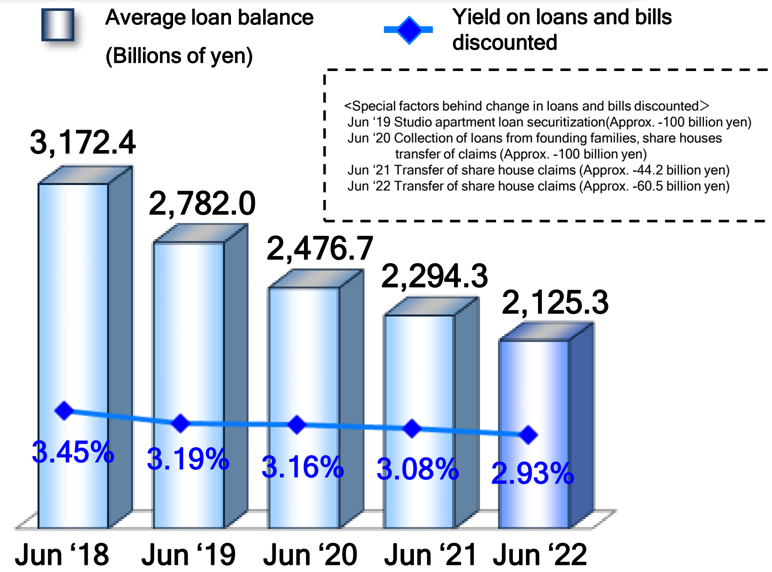
* RA (Risk Adjusted) Gross Operating Profit = Gross Operating Profit - Actual credit cost

Yield/Margins <Non-consolidated>

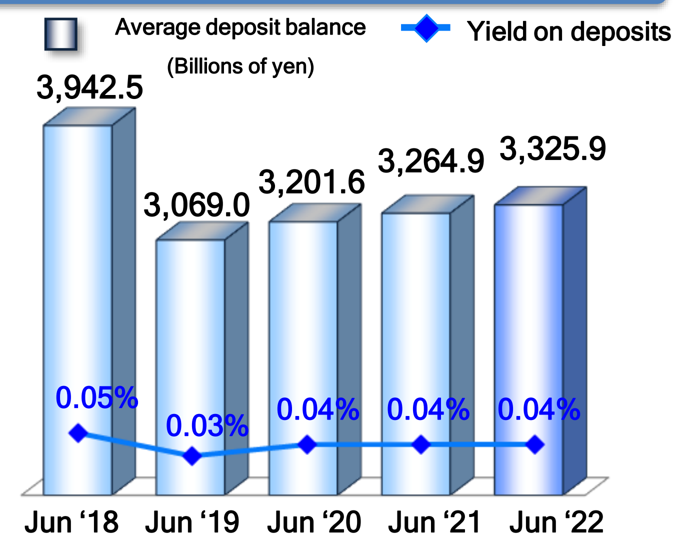
Net Interest Margin



Loans (average balance / yield)

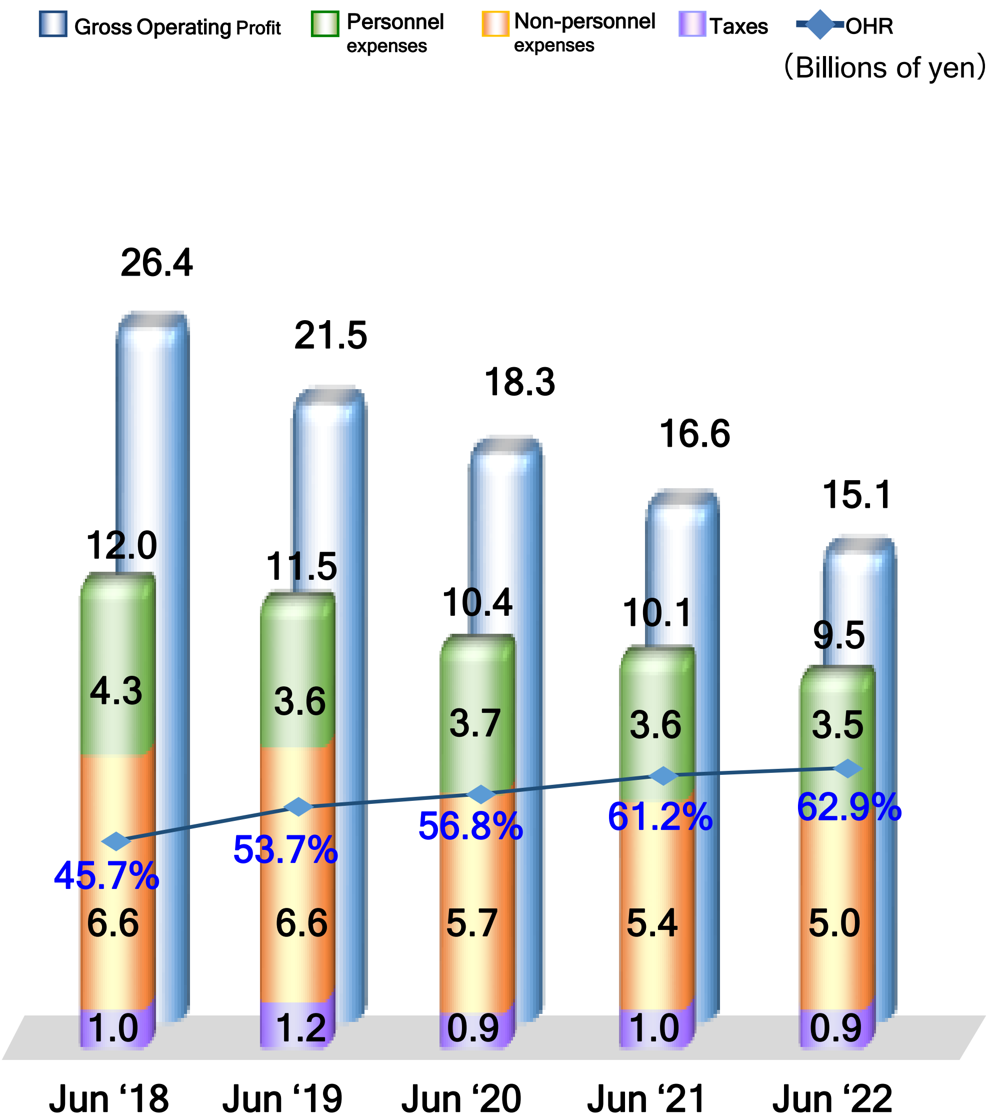


Deposits (average balance / yield)

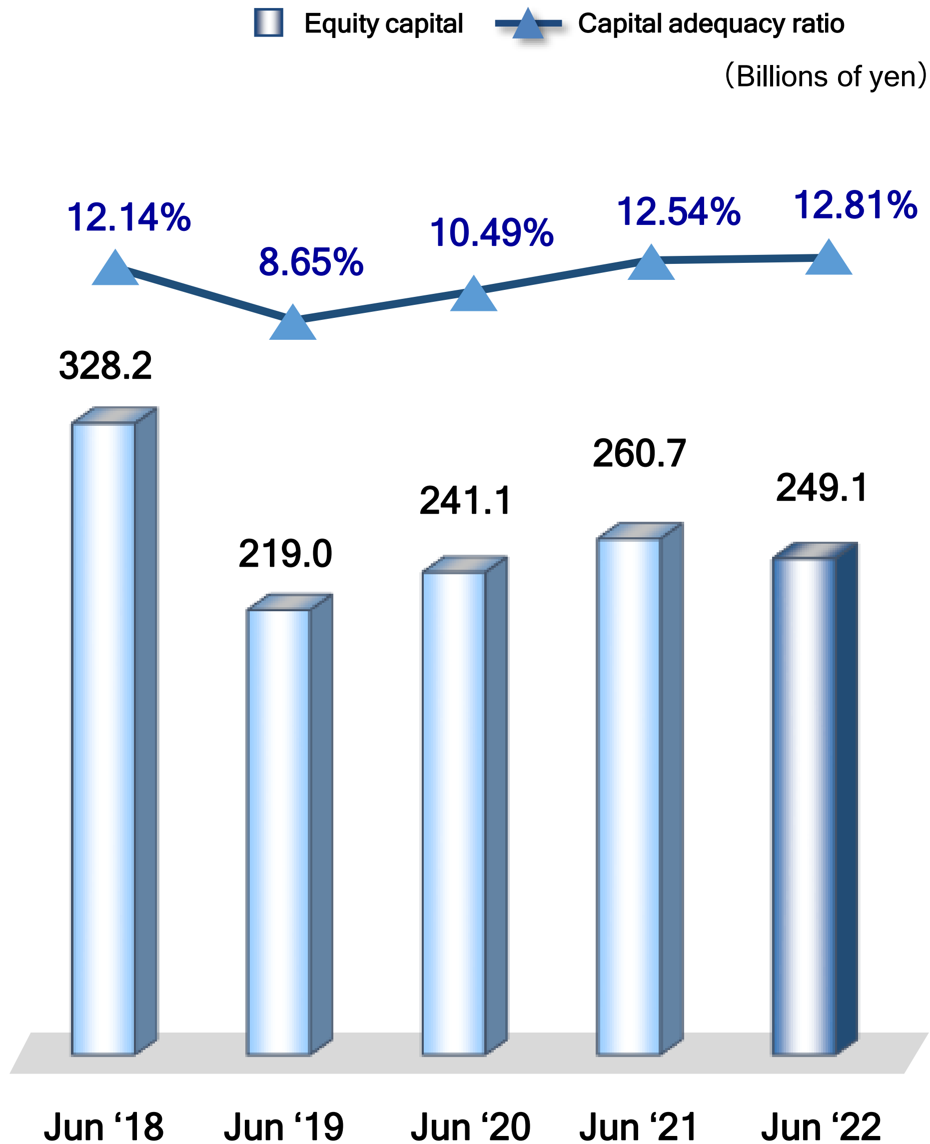


■ Trends in Expenses, OHR, and Capital

Trend in Expenses and OHR <non-consolidated>



Trends in Capital & Capital Adequacy Ratio



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