

Suruga Bank, Ltd.
Summary of Financial Results for Q1 FY3/24

August 10, 2023

SURUGA bank

■ Actual Results for Q1 FY3/24; Comparison with Q1 FY3/23



- Core gross operating profit (excluding gains on cancellation of investment trusts) decreased by 0.1 billion yen year-on-year to 14.9 billion yen, mainly due to a decrease in net interest income (0.2 billion yen).
- Actual credit costs decreased by 0.6 billion yen YoY to 0.6 billion yen, mainly due to an increase in recoveries of written-off claims (0.6 billion yen).
- Net income (non-consolidated) decreased 0.5 billion yen YoY to 3.3 billion yen due to a change in tax position and an increase in income taxes.

<Non-consolidated>

(billion yen)

	Actual results for Q1 FY3/23	Actual results for Q1 FY3/24	Year-on-year
Core net operating profit (excluding gains [losses] on cancellation of investment trusts)	15.1	14.9	(0.1)
Expenses	9.5	9.6	+0.1
Gains (losses) on securities	(0)	(0)	(0)
Actual credit costs	1.3	0.6	(0.6)
Ordinary profit	4.1	4.6	+0.4
Net income	3.9	3.3	(0.5)
Profit attributable to owners of parent	4.0	3.5	(0.5)

Factors causing variation in ordinary profit (year-on-year)

	Main factors
Net interest income	<ul style="list-style-type: none"> • Decrease in interest on loans and bills discounted: -0.7 billion yen (Flat balance factor: -0.3 billion yen, Yield factor: -0.3 billion yen) • Increase in other interest income due to increase in interest on monetary claims bought: +0.4 billion yen
Expenses	<ul style="list-style-type: none"> • Increase in property expenses: +0.1 billion yen
Actual credit costs	<ul style="list-style-type: none"> • Increase in recoveries of written-off claims: +0.6 billion yen

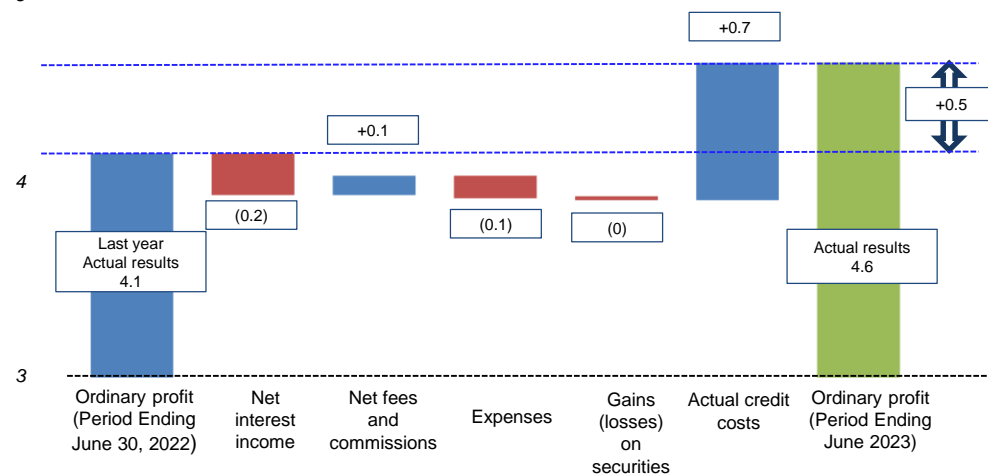
Unit: billion yen

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<Actual Credit Costs for Q1 FY3/24>

(billion yen)

Actual credit costs			0.6
Normal amount	Actual credit costs arising from loans without special factors (Including share house-related loans)		(1.6)
Preventive allowances	Allowances based on the following two assumptions		2.2
	Allowance for investment real estate loan customers who have newly suspended repayments triggered by organizational negotiations		0.1
	Allowance for claims for restructuring of loan terms and conditions from Q3 for which normalization of recovery is unlikely		2.1



*Figures in the graph above are rounded to the nearest unit and may differ from the figures in the table on the left.



- 0.6 billion yen in overall actual credit costs for Q1 FY3/24 were recorded.
- 0.3 billion yen in actual credit costs for investment real estate loans were recorded. 0.3 billion yen in actual credit costs for purposes other than investment real estate loans were recorded.
- As of June 30, 2023, the ratio of nonperforming claims to disclosed claims under the Financial Reconstruction Law was 10.2%, and the coverage ratio was approximately 83.5% based on collateral, guarantees, etc. and allowance for loan losses.

Actual credit costs (Period Ending June 30, 2023)

(billion yen)

Item	Actual credit costs	Allowance for loan losses
Investment real estate loans*	0.3	103.6
Housing loans	0.1	2.4
Unsecured loans	0	3.3
Monetary claims bought	(0)	0.2
Business financing, etc.	0	8.7
Total	0.6	118.4

*Investment real estate loans : Studio apartment loans, single building income loans, other secured loans

Disclosed Claims under the Financial Reconstruction Law (as of June 30, 2023)

(billion yen)

	Balance	Total coverage amount	Coverage amount by collateral and guarantees, etc.		Coverage ratio
			Coverage amount by collateral and guarantees, etc.	Allowance for loan losses	
Claims against bankrupt and substantially bankrupt obligors	120.4	120.4	44.6	75.7	100%
At-risk claims	43.9	30.1	19.8	10.3	68.7%
Claims for special attention	48.5	27.1	15.6	11.4	55.9%
Total	212.8	177.7	80.2	97.5	83.5%

Ratio of disclosed amount to total credit (non-performing loan ratio)	10.2%
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■ Outstanding Balance, Yield, and Delinquency Rate by Portfolio Area <Non-consolidated>



- Portfolio areas in the mid-term business plan as a whole had a balance of 1,969.6 billion yen and a yield of 3.36% (total (E)) as of June 30, 2023.
- The delinquency rate for consumer loans was 6.79% (A), due in part to the fact that some customers with investment real estate loans have suspended repayments triggered by organized negotiations. The delinquency rate for loans excluding these special factors was 1.61% (F).
- In order to improve the delinquency rate of investment real estate loans, we are not only supporting repayments by changing conditions, but we are also providing feedback to customers on information of concerns such as damage and management conditions to real estate found in our own periodic surveys. Our support also continues to include potentially changing management companies.

(billion yen)

Loan category	Mar. 2023			Jun. 2023		
	Balance	Yield	Delinquency rate	Balance	Yield	Delinquency rate
Secured loans	1,542.6	3.05%	7.02%	1,509.0	3.04%	7.15%
Housing loans	430.5	2.69%	0.27%	426.0	2.67%	0.35%
Studio apartment loans	120.5	3.33%	2.97%	112.5	3.32%	2.94%
Single building apartment loans (including share house loans)	959.0	3.14%	10.79%	938.1	3.13%	10.98%
Other secured loans	32.4	4.26%	0.34%	32.2	4.19%	0.23%
Unsecured loans	127.8	10.47%	2.36%	123.8	10.47%	2.41%
Card loans	89.0	11.74%	0.88%	87.1	11.71%	0.90%
Unsecured certificate loans	38.7	7.54%	5.77%	36.7	7.52%	6.01%
Consumer loans (A)	1,670.4	3.62%	6.66%	1,632.8	3.60%	6.79%
Personal loans (excluding organizational negotiation partners, etc.) (F)	1,569.3		1.60%	1,533.7		1.61%
Corporate investment real estate loans (B)	57.4	1.77%	—	65.7	1.76%	—
Structured finance, etc. (C)	126.4	2.37%	—	143.3	2.34%	—
Monetary claims bought (D)	131.5	2.08%	—	127.6	2.23%	—
Total <(E=A+B+C+D)>	1,985.8	3.38%	5.60%	1,969.6	3.36%	5.62%

*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.

*Classified by portfolio areas in the mid-term business plan "Re:Start 2025" and beyond

Corporate investment real estate loans includes investment real estate loans to asset management companies, etc. Structured finance includes specified corporate bonds, etc.

*Yield and delinquency rate of studio apartment loans, secured loans, consumer loans in March 2023 were calculated based on the original claims before securitization.

**"Organizational negotiation partners, etc." refers to loans to borrowers who have submitted a request for suspension of repayments as a result of organizational negotiations (share house-related loans are excluded).



- In Q1 FY3/24, we disbursed a total of 45.8 billion yen (Total (A)+(B)) in all of the portfolio areas, equivalent to around a two-fold increase YoY. Of this, 25.1 billion yen was disbursed in consumer loans and corporate investment real estate loans, while 20.7 billion yen was disbursed in structured finance.
- As for the full-year plan for FY3/24, which is weighted toward 2H, accounting for past results and the seasonality of the market, new disbursements with origination by the Company trended favorably in Q1, progressing at 28.6% against the plan (Total (A)).
- Monetary claims bought is an area where we aim for middle-risk/middle-return and where our credit decision skills can be leveraged. We are continuously sounding out with suppliers about leads.
- In light of the monetary policy review, including the loosening of the YCC, etc., we will promote sales while keeping an even closer eye on trends in the financial and real estate markets.

•Disbursement of Loans, Etc. by Portfolio Area

				(billion yen)	
	Actual results for Q1 FY3/23	Actual results for Q1 FY3/24	Year-on-year	FY3/24 Full-year Plan	Progress rate
Consumer loans	9.8	16.4	+6.6		
Corporate investment real estate loans	2.7	8.7	+6.0		
Subtotal	12.5	25.1	+12.6	105.0	23.9%
Structured finance	9.6	20.7	+11.1	55.0	37.6%
Total (A)	22.1	45.8	+23.7	160.0	28.6%
Monetary claims bought (B)	—	—	—	50.0	—
Total (A) + (B)	22.1	45.8	+23.7	210.0	21.8%

*Planned values for corporate investment real estate loans (see note on previous page) are combined with those for consumer loans in the plan, as sales promotion activities for personal investment real estate loans will be conducted in the same manner.

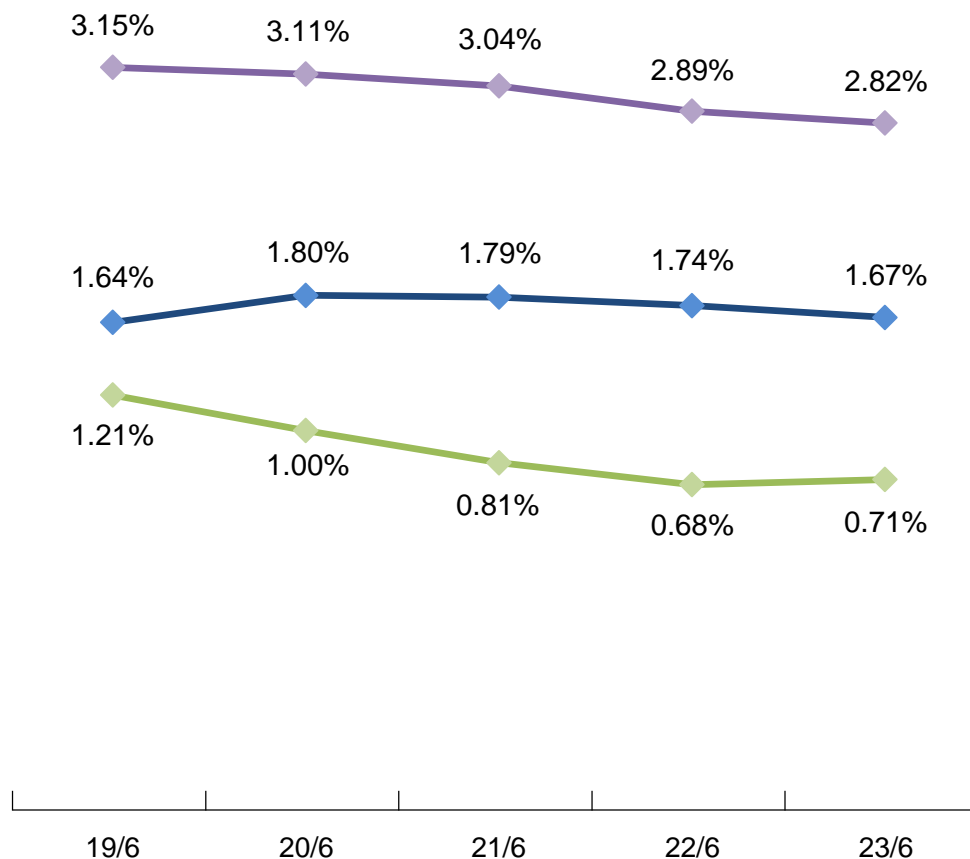
*Structured finance includes specified corporate bonds, etc.

Reference Materials



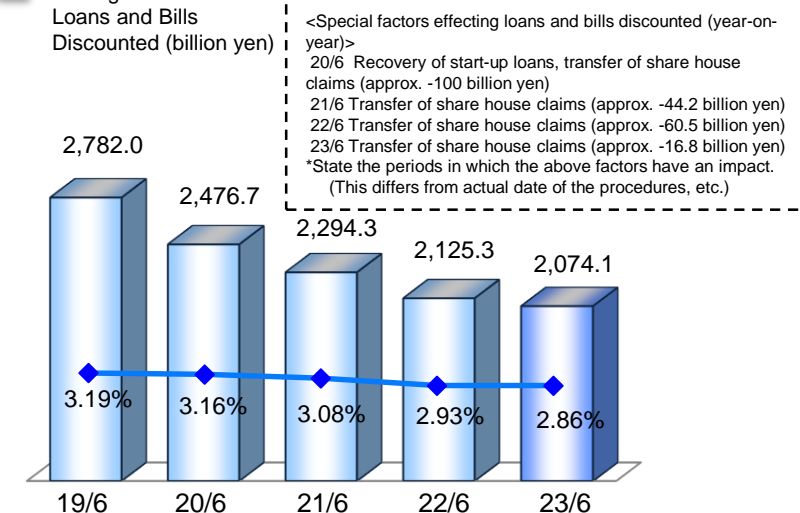
Interest Margin, etc.

◆ Gross Loan-Deposit Interest Margin
 ◆ Loan-Deposit Interest Margin
 ◆ Net Interest Margin



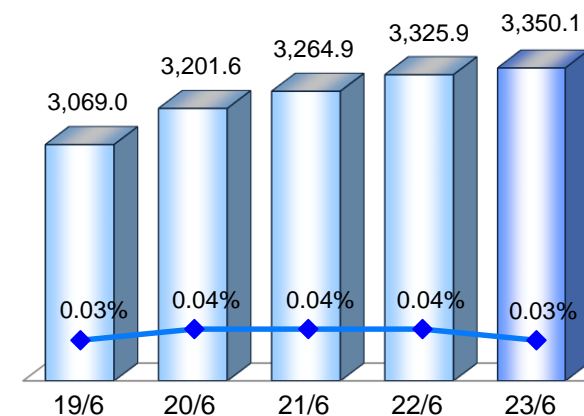
Yield and Average Balance of Loans and Bills Discounted

■ Average Balance of Loans and Bills Discounted (billion yen)
 ◆ Yield of Loans and Bills Discounted



Yield and Average Balance of Deposits

■ Average Balance of Deposits (billion yen)
 ◆ Yield of Deposits





Unrealized gains (losses) on securities

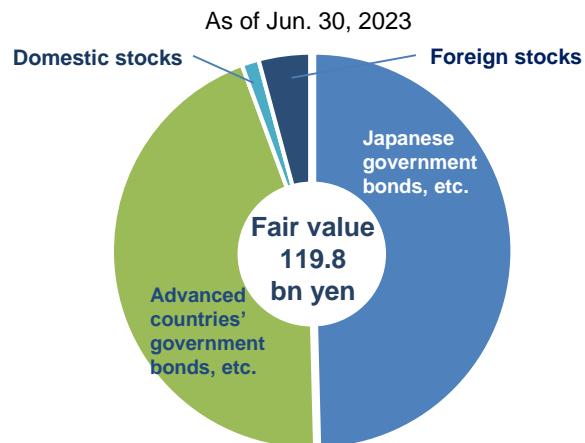
• Unrealized gains (losses) on available-for-sale securities

(billion yen)

	Mar. 31, 2023		Jun. 30, 2023		Jul. 31, 2023	
	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)
Other securities	292.0	(1.2)	316.2	0.6	337.6	3.0
Shares	15.5	7.7	17.6	9.8	37.2	13.9
Bonds	154.7	(0.3)	176.3	0	177.6	(1.6)
Multi-asset fund	120.3	(8.6)	119.8	(9.1)	119.7	(9.2)
Others	1.3	(0)	2.3	(0)	2.9	(0)

•As part of our capital and business alliance with Credit Saison Co., Ltd., we acquired approximately 15.4 billion yen in shares of said company on July 3, 2023 (see Reference Material 13).

• Multi-asset fund investment asset classes

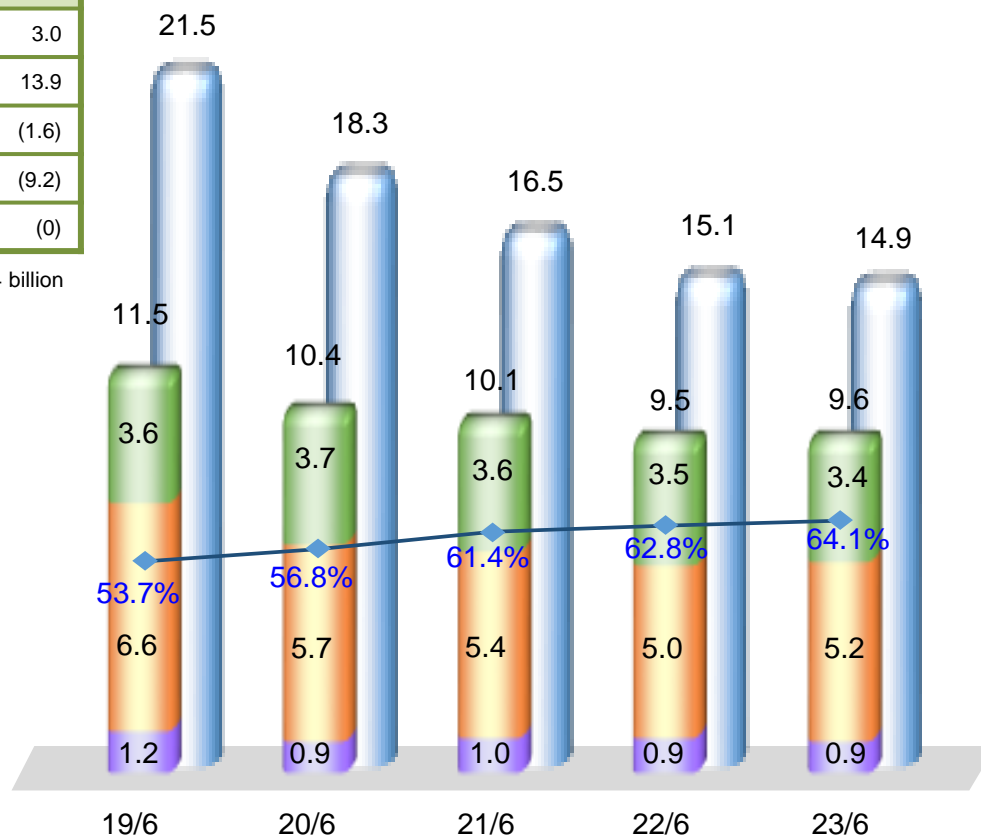


Changes in Expenses and OHR <Non-consolidated>

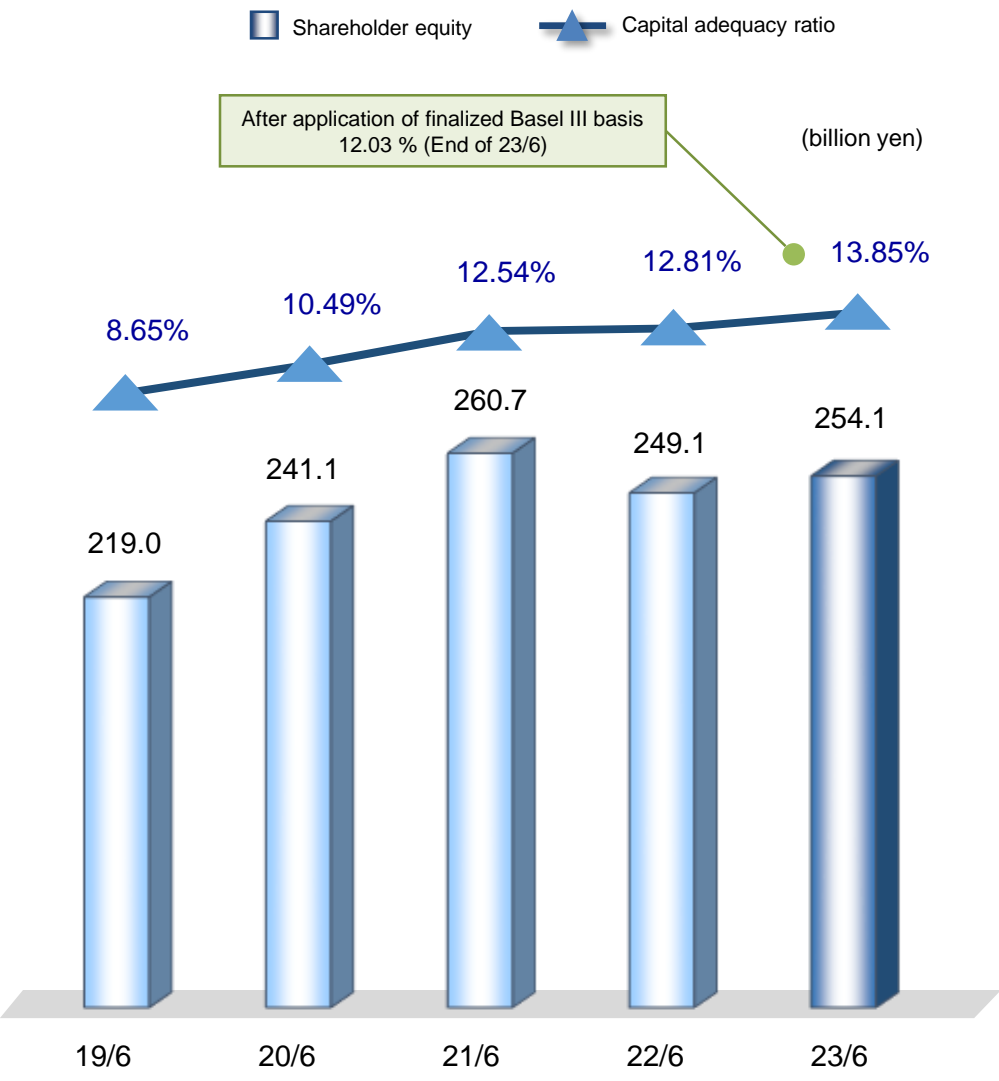
■ Core net operating profit (excluding gains [losses] on redemption of investment trusts)
 ■ HR expenses
 ■ Property expenses
 ■ Taxes

◆ Based on OHR core business gross profit (excluding gains [losses] on redemption of investment trusts)

(billion yen)



Shareholder Equity and Capital Adequacy Ratio <Non-consolidated>



Shareholder Returns Policy

Returns

We will return profits to stakeholders after taking into consideration our Group's corporate philosophy and long-term vision.

- Basic Shareholder Returns Policy**
Our policy is to strive to enhance shareholder returns after considering the optimal balance between capital soundness and investment for growth
- Dividends**
Our basic policy is to maintain stable dividends, targeting a dividend payout ratio of around 30%
- Acquisition of treasury stock**
We will flexibly implement shareholder return measures that contribute to the improvement of capital efficiency, taking into account business performance, capital conditions, growth investment opportunities, and market conditions including the stock price.
- Promotion of ESG/SDGs**
We will promote them on a Group-wide basis, focusing on the four themes set forth as materialities (see Reference Material 12).

◆ Acquisition of treasury stock *Disclosed May 18, 2023

Type of shares acquired	Common stock
Total number of shares acquired	35,000 thousand shares (maximum)
Total acquisition cost	22 billion yen (maximum)
Acquisition period	July 4, 2023 to March 31, 2024

After the acquisition of treasury stock is completed, the Company expects to utilize the shares for stock-based compensation plans, etc.
Treasury stock in excess of the number of shares will be retired, in principle.



[Non-consolidated]

	FY3/23 Results (1)	Earnings Forecast for FY3/24		Year-on-year (2)-(1)
		Full year (2)		
		1st half		
Ordinary income	82.7	35.0	69.0	(13.7)
Core net operating profit (excluding gains [losses] on redemption of investment trusts)	60.2	27.5	54.0	(6.2)
Expenses	36.2	18.5	36.0	(0.2)
Gains (losses) on securities	(14.4)	—	—	+14.4
Actual credit costs	(1.1)	4.5	6.5	+7.6
Ordinary profit	11.2	4.5	11.5	+0.2
Net income	9.5	2.5	8.5	(1.0)

Dividends per share	9 yen	7 yen	14 yen*	+5 yen
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*Dividends per share of 14 yen = Interim dividend of 7 yen + Year-end dividend of 7 yen

[Consolidated]

(billion yen)

Earnings Forecast for FY3/24		Cons-parent differential (3)-(2)
	Full year (3)	
1st half		
39.0	77.5	+8.5

4.5	12.0	+0.5
2.5	8.5	±0

<Premise Behind FY3/24 Actual Credit Cost Forecast>

[Normal amount]

Actual credit costs for loans without special factors (including share house-related loans) are expected to be -2.0 billion yen for the full year, taking into account a lower expected loss ratio.

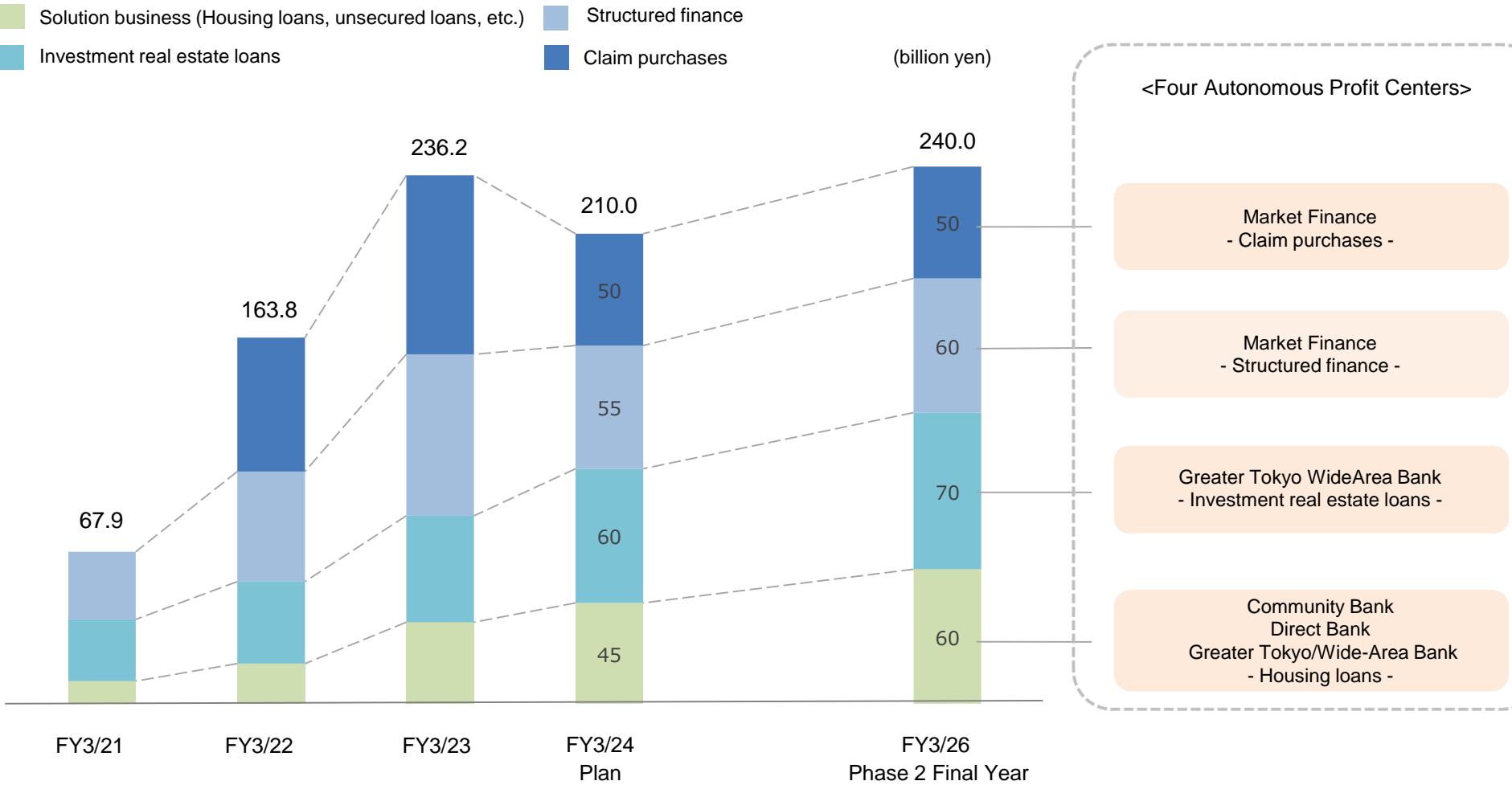
[Preventive allowances]

We plan preventive allowances of 8.5 billion yen for the full year, taking into account additional provisions for (a) suspension of repayments by some investment real estate loan customers triggered by organized negotiations and for (b) claims for restructuring of loan terms and conditions from 3Q of the previous fiscal year for which normalization of recovery is unlikely.

(billion yen)

		1st half	Full year
Actual credit costs total	Normal amount	(1.5)	(2.0)
	Preventive allowances subtotal	6.0	8.5
	(a)	0.5	1.0
	(b)	5.5	7.5

Forecast of New Loan Disbursements, etc. *



Corporate Philosophy

Vision

Phase2 Management Strategy

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

•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.

Shared in Phase 1 & 2

I. Evolving the Retail and Solution Businesses

We will **create sources of differentiation** founded in resolving AID^{*1} for our customers, leading them to say “I’m glad you’re here... I’m glad we met.”

^{*1} Anxiety, inconvenience, dissatisfaction, etc.

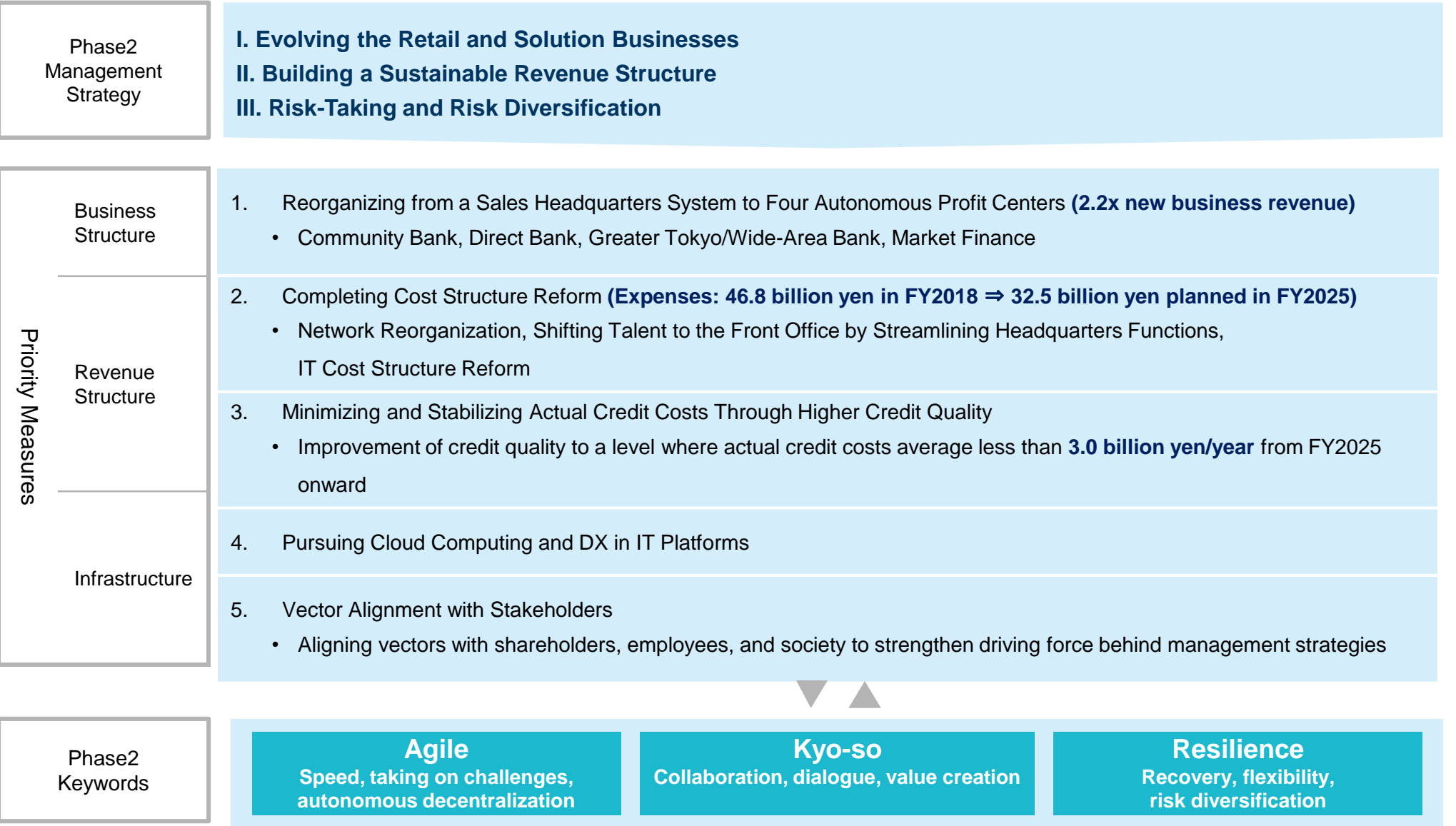
II. Building a Sustainable Revenue Structure

We will counteract the decline in the top line due to the collection of existing loans and pivot to a sustainable revenue structure with **three measures. Namely, growth of new business revenue through four autonomous profit centers, cost structure reform, and minimizing and stabilizing actual credit costs through higher credit quality.**

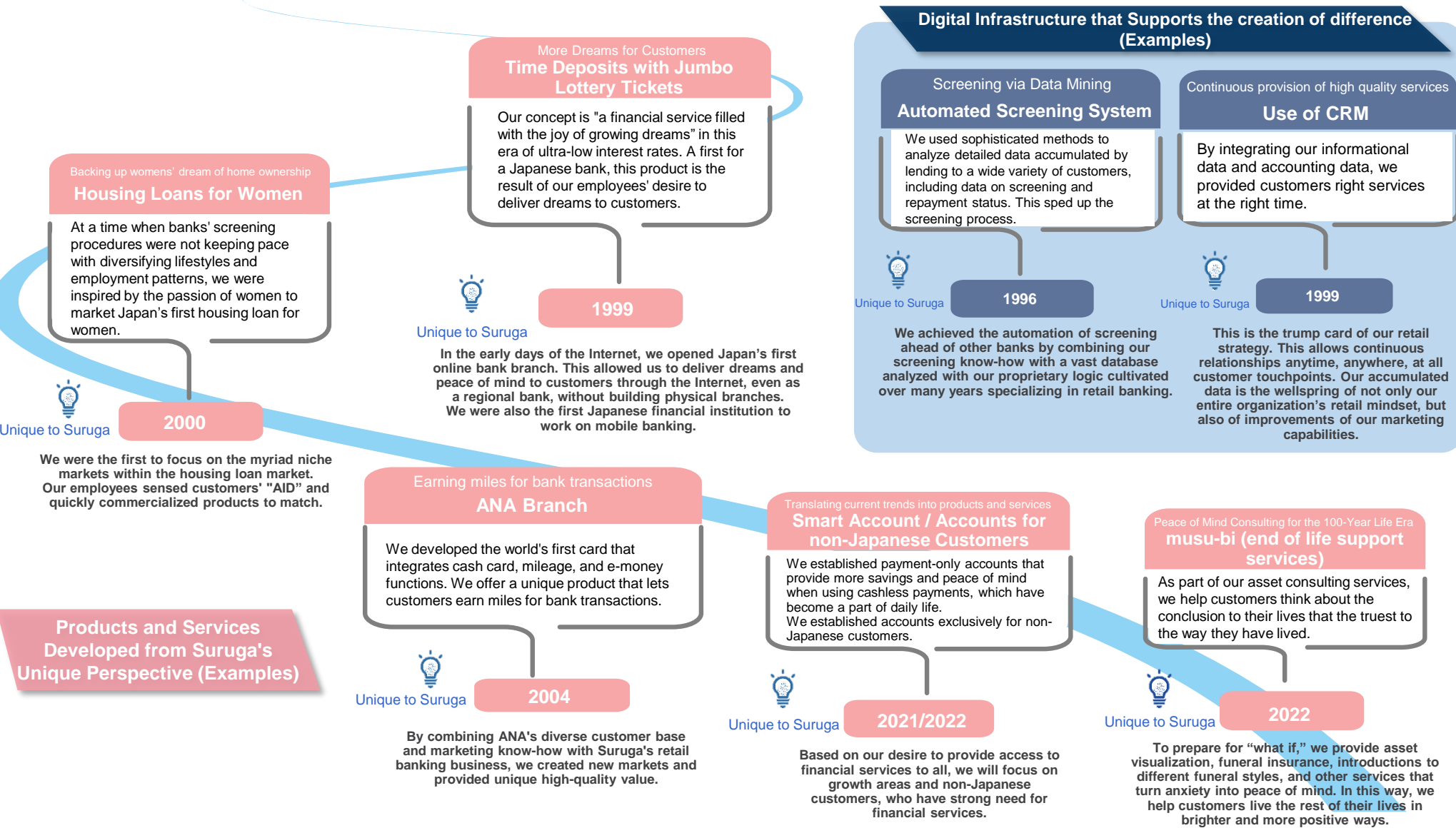
III. Risk-Taking and Risk Diversification

In accordance with the **Risk Appetite Framework (RAF)**, we will repeat a cycle of active risk-taking and verification in selected areas, diversifying away from our traditional risk structure concentrated in specific real estate areas^{*2}.

^{*2} Single building income properties (relatively high share of older properties and properties located in regional areas) executed prior to the full-scale rollout of Phase 1



From the past to the present, Suruga Bank has been providing solutions from Suruga’s unique perspective that first looks at customers’ “AID.”



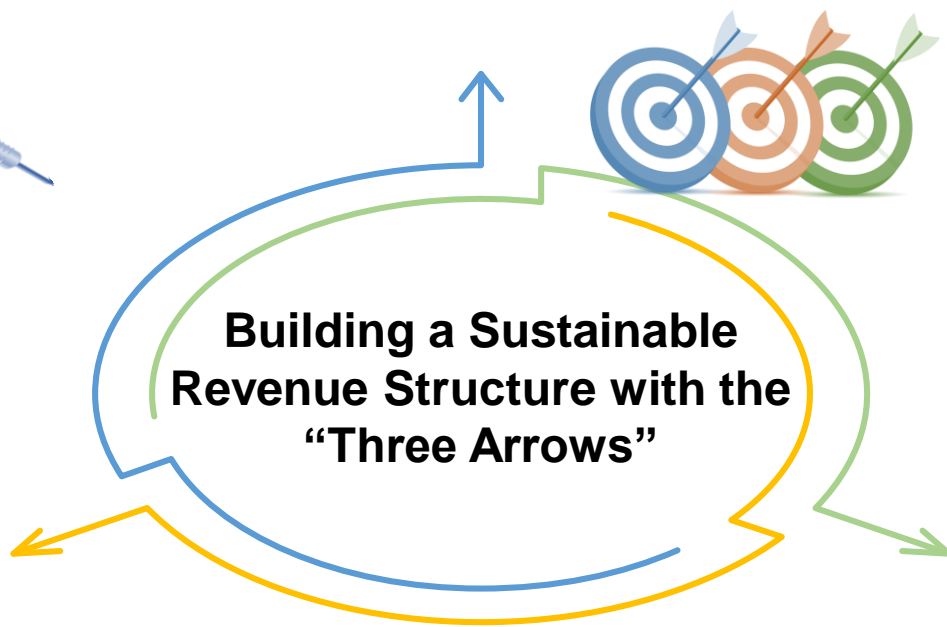
New Business Gross Profit (Core Gross Operating Profit, New Portfolio)

- We forecast that Management Strategy I (Evolving the retail and solution business) will grow new business gross profit by around two fold over FY2022.

Breakdown of new business gross profit	FY2025 Plan	FY2022 Results	Change
Retail/Solution Businesses	6.5	2.3	+4.2
Solution Business*1	3.0	0.8	+2.2
Investment real estate loans	3.5	1.5	+2.0
Market Finance	9.5	5.4	+4.1
Structured finance	4.5	2.3	+2.2
Market operations, etc.*2	5.0	3.0	+2.0
New Portfolio Total	16.0	7.7	+8.3

↑ Approx. 2X (Unit: billion yen)

*1 Solution Business includes asset consulting, housing loans, unsecured loans, etc.
*2 Market operations, etc. includes claim purchases



Expenses

- Continuing from Phase 1, we plan to implement and complete cost structure reforms as part of Management Strategy II (building a sustainable revenue structure).
*Expenses: 36.2 billion yen in FY2022 ⇒ 32.5 billion yen in FY2025 (Approx. -4.0 billion yen)

Actual credit costs

- We plan to stabilize actual credit costs at a low level by proactively taking measures to improve credit quality of single building income loans (other than those for share houses).
*Actual credit costs: approx. 9.0 billion yen (average of FY2020-2022 results)
→ Average under 3.0 billion yen per year from FY2025 (Approx. -6.0 billion yen)

Decrease in core gross operating profit from old portfolio

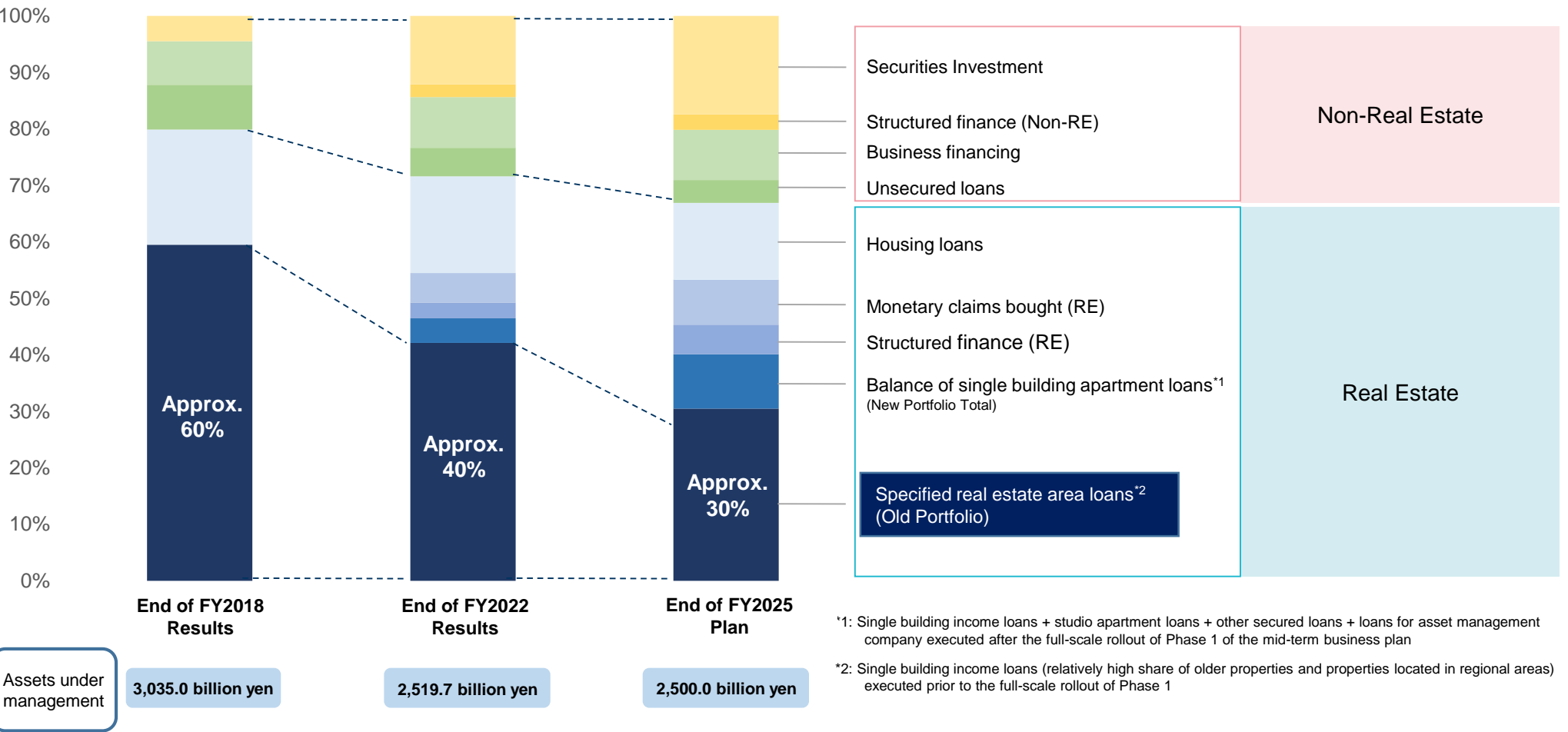
52.4 billion yen → 32.5 billion yen
(FY2022 Actual) (FY2025)

(Approx. -20.0 billion yen)


Definition of New/Old Portfolios

• New Portfolio: Revenue from goods and services contracted in or after April 2020
Old Portfolio: Revenue from goods and services contracted in or before March 2020

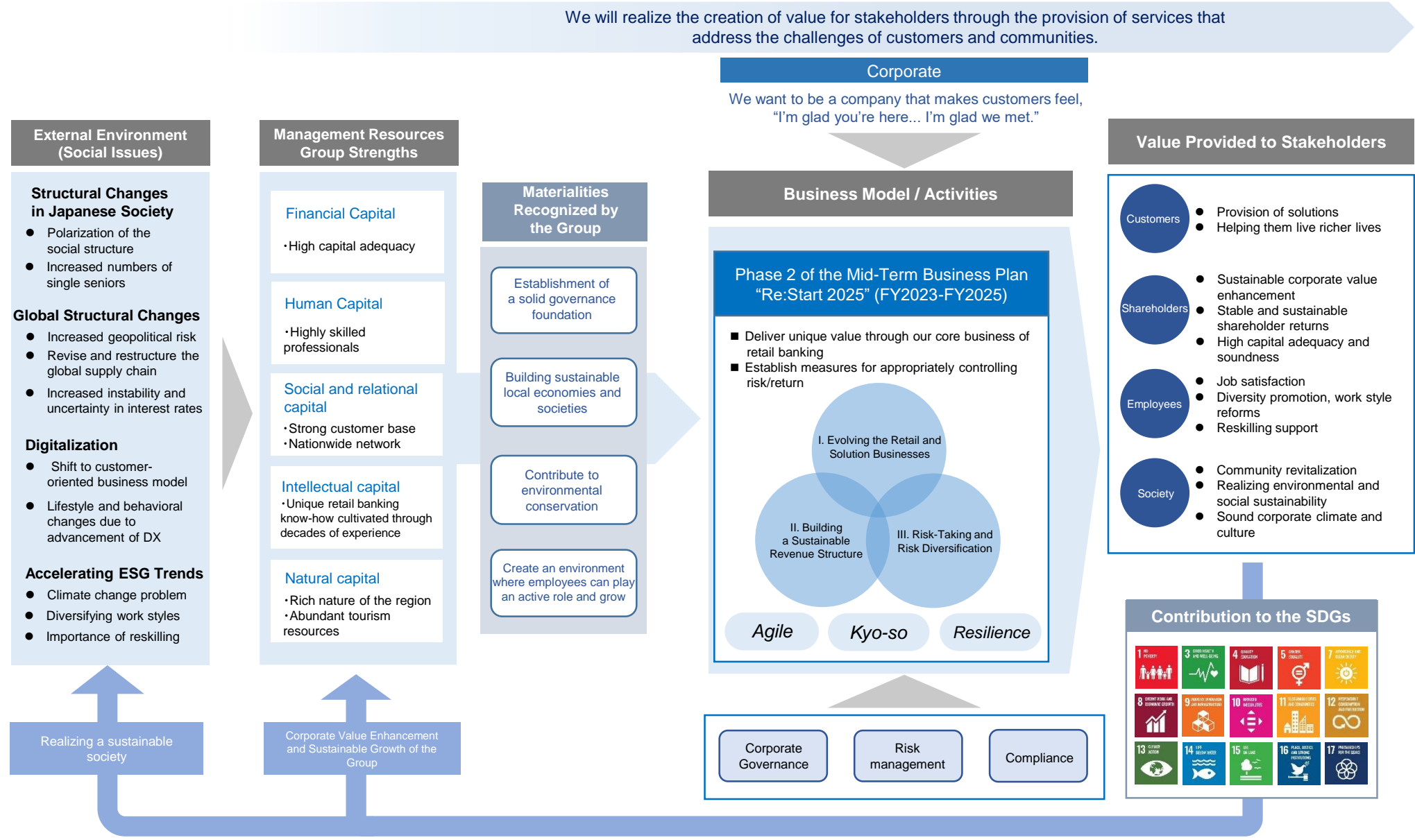
Change in composition of assets under management from FY2018 to FY2025



The ratio of conventional specified real estate areas to total assets under management is planned to decrease from approx. 60% (end of FY 2018) to approx. 40% (end of FY 2022) and to approximately 30% (end of FY 2025).

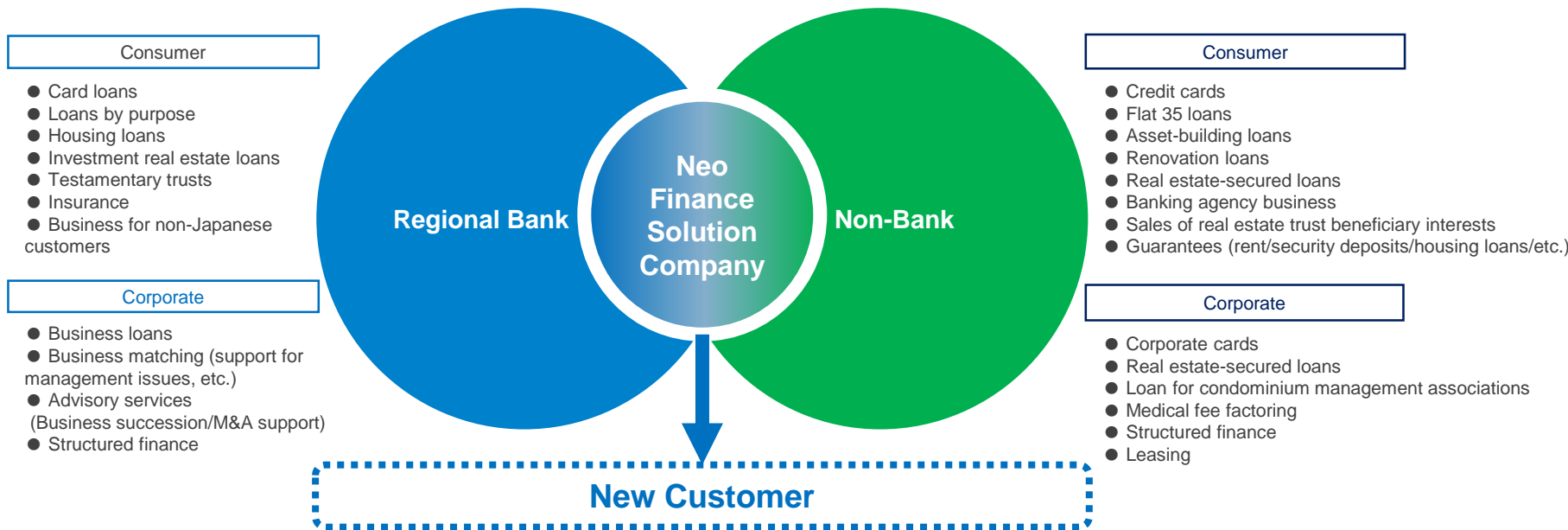
		FY2022 Results	FY2025 Plan	Notes
Main KPIs	Ordinary profit	11.2 billion yen	13.0 billion yen	
	Net income (Consolidated)	10.5 billion yen	11.0 billion yen	• Profit attributable to owners of parent
	Capital adequacy ratio (Finalized Basel III basis)	11.39%	10% or more (effective)	• Any unrealized loss on securities is deducted from core capital
				
Secondary KPIs [Key action indicators for achieving main KPIs]	New business gross profit	7.7 billion yen	16.0 billion yen or more	• Revenue from goods and services issued on or after April 2020 • Based on core business gross profit (excluding gains on cancellation of investment trusts)
	Expenses	36.2 billion yen	32.5 billion yen or less	
	Actual credit cost ratio	-5 bps	Approx. 15 bps	• Intended cruising speed for FY2025 and beyond • Actual credit costs / Loans and bills discounted (average balance) × 10,000

*Figures/indicators without "consolidated" are for Suruga Bank (non-consolidated)



Mutual Vision

Through full use of the retail expertise of both companies and seamless collaboration, creating a **"Neo Finance Solution Company"** transcending conventional financial institution archetypes and starting from resolution of troubles and other "AID."



Overview of the Capital and Business Alliance

1. Capital Alliance Details

(1) Suruga Bank acquires Credit Saison shares:	8,224,700 shares of common stock	(5.0% of voting rights)	for approximately 15.4 billion yen
(2) Credit Saison acquires Suruga Bank shares:	35,089,000 shares of common stock	(15.72% of voting rights)	for approximately 17.1 billion yen

2. Business Alliance Details

Implementing the following:

(1) Establishment of Saison Branch and acquisition of bank agency business by Credit Saison; (2) Joint commercialization of Saison Platinum Business Card;

(3) Collaboration in the housing loan business; (4) Joint development of real estate finance

In addition to the above measures, discussions are underway regarding collaboration in other areas.

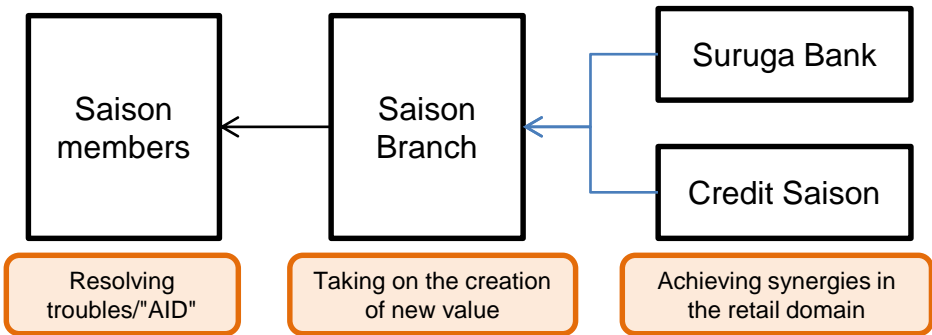
3. Mutual Director Dispatch

In order to further deepen the cooperation between the two companies and strengthen their respective governance systems, each company will dispatch one director to the other company.

(Dispatched directors: Kosuke Kato, President of the Company, and Naoki Takahashi, Vice President of Credit Saison)

➤ **Suruga Bank establishes the Saison Branch and Credit Saison acquires banking agency business**

- Suruga Bank establishes an Internet-only branch (tentative name: Saison Branch) for Credit Saison's Saison members, offering products and services unique to the branch jointly developed by the two companies.
(Specific details to be discussed by both companies)
- An initiative to provide branch accounts for Saison members, subject to Credit Saison's permission to engage in the banking agency business with Suruga Bank as the affiliated bank.
- An initiative in which Credit Saison guarantees loans provided at the Saison Branch.



➤ **Joint commercialization of the Saison Platinum American Express® Card**

- Providing the Saison Platinum Business American Express® Card issued by Credit Saison, allowing Suruga Bank's affluent customers and SME owners to enjoy the special benefits of various supplementary privileges in addition to the business benefits offered to them.
- * "American Express" is a registered trademark of American Express. Credit Saison Co., Ltd. uses this under license from American Express.

➤ **Collaboration in the housing loan business**

- Suruga Bank sells new Credit Saison-guaranteed housing loans, expanding both Suruga Bank's housing loan business and Credit Saison's credit guarantee business.

➤ **Joint development of the real estate finance business**

- The two companies will combine their expertise and resources in real estate finance to enhance their presence in the market.



SURUGA bank

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