SURUGA bank, Ltd.

Financial Results for the Nine Months Ended December 31, 2022

February 9, 2023

SURUGA bank

■ Actual Results for 3Q of FY3/23; Comparison with 3Q, FY3/22

- Gross operating profit decreased by 5.8 billion yen year-on-year to 43.0 billion yen, mainly due to a decrease in net interest income (2.9 billion yen) and a decrease in gains (losses) on bond transactions (3.2 billion yen).
- Net operating profit decreased by 22.5 billion yen year-on-year to 15.1 billion yen, mainly due to a change in the accounting item for provision of allowance for loan losses based on accounting standards (*).
- Actual credit costs decreased 10.1 billion yen year-on-year to -3.5 billion yen.
- Quarterly net income (non-consolidated) increased 10.9 billion yen YoY to 20.3 billion yen, due to the above factors as well as gains on sales of stocks and a decrease in income taxes.

(*) In the recognition of general allowance for loan losses and individual allowance for loan losses for 3Q of FY3/22, there was an excess reversal, and the excess reversal amount was recorded as gain on reversal of allowance for loan losses (non-recurring income).

<Non-consolidated> (Billions of yen)

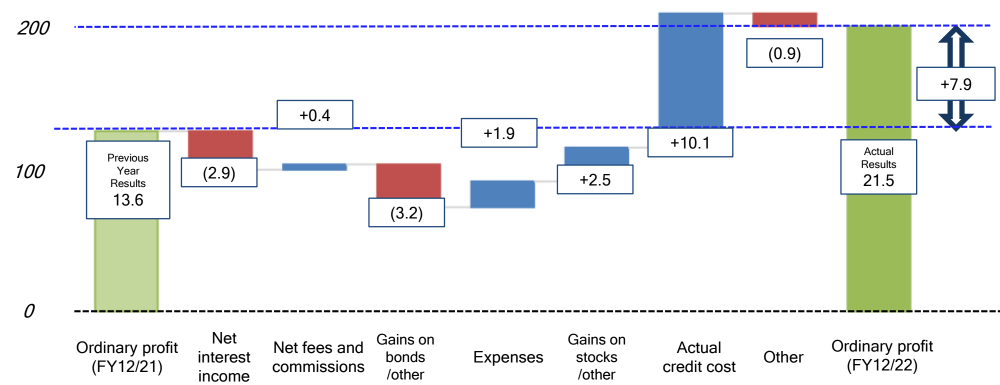
	3Q results for FY3/22	3Q results for FY3/23	Year-on-year
Gross operating profit	48.9	43.0	(5.8)
Expenses	29.8	27.9	(1.9)
Core net operating profit	18.6	18.0	(0.6)
Net operating profit	37.7	15.1	(22.5)
Ordinary profit	13.6	21.5	+7.9
Net income	9.4	20.3	+10.9
Actual credit costs	6.6	(3.5)	(10.1)
Profit attributable to owner of parent	9.5	20.8	+11.2

< 3Q results per assumption of actual credit costs > (Billions of yen)

	Mid-term	3Q
Actual credit cost total	(5.2)	(3.5)
Normal credit cost (a)	(3.2)	(4.3)
Share house-related loans (b)	(3.2)	(3.4)
Preventive allowances (c)	1.1	4.1

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

	Main factors
Net interest income	・Decrease in interest on loans and discount: -5.5 billion yen (flat balance factor: -3.6 billion yen, yield factor: -1.9 billion yen) Increase in interest and dividends on securities due mainly to dividends from subsidiaries: +1.3 billion yen
Net fees and commissions	・Decrease in group credit life insurance premiums: -900 million yen
Gains on bonds/other	・Loss on redemption mainly due to partial cancellation of multi-asset funds: -3.2 billion yen
Expenses	・Decrease in property expenses -1.2 billion yen
Gains on stocks/other	・Net gains/losses on stock transactions, mainly due to sales of foreign stocks +2.5 billion yen
Actual credit costs	・Gain on reversal of allowance for loan losses due to lump-sum transfer of shared loan receivables and lower expected loss ratio



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

Key Assumptions Underlying the Revised Earnings Forecasts for FY3/23

- In light of 3Q results and the start of the next medium-term management plan (FY2023-FY2025), we have revised our forecast for FY2023, considering the following factors.
  A) Actual credit costs
  Assumed to be 1.0 billion yen, a decrease of 9.0 billion yen from the previous forecast. A new precautionary provision will be adopted in 3Q (see (c) below).
  B) Securities investment
  In light of growing concerns of a global recession and the risk of high inflation, we will restructure our securities portfolio by reducing mainly multi-asset funds with valuation losses (expected to record approximately 11.0 billion yen in redemption losses, etc.).

・Assumptions for the actual credit cost outlook for FY3/22

(Billions of yen)

	3Q results	Full year forecast announced on November 11	Full year forecast announced on February 9
Actual credit costs	(3.5)	10.0	1.0
Normal credit cost (a)	(4.3)	3.5	(3.0)
Share house-related loans (b)	(3.4)	(3.0)	(3.5)
Preventive allowances (c)	4.1	9.5	7.5

(a) Actual credit costs for loans without special factors such as share house-related loans and loans subject to preventive allowances are assumed to be -3.0 billion yen, a decrease of 6.5 billion yen from the previous forecast, after taking into account the reversal of the general allowance for loan losses due to a decrease in the expected loss ratio, as a result of careful examination of borrower trends, including (b) and(c) below.

(b) Since no special factors are expected in the second half of the fiscal year, we assume that actual credit costs for share house-related borrowers will decrease by 500 million yen from the previously announced figure to -3.5 billion yen, based on the actual results through 3Q.

(c) As for the preventive allowances, after a close examination of trends among eligible borrowers, the number of borrowers who have taken measures such as suspending repayments is lower than expected in the previous forecast, resulting in recording 2.0 billion yen in 3Q. In 4Q, we expect a certain amount of allowance for the current period to continue to accrue due to organizational negotiations and other activities, and assume 3.0 billion yen for the full year. In addition, from 3Q, we have increased the allowance for loan losses for borrowers, etc., for whom collection is difficult to normalize in the future among restructured loans, to 2.1 billion yen in 3Q, and we estimate 4.5 billion yen for the full year. Taking these factors into account, we estimate that the allowance will be 7.5 billion yen, a decrease of 2.0 billion yen from the previous forecast.

・Assumptions for securities investment

<Valuation difference on available-for-sale securities>

(Billions of yen)

	End of March 2022		End of September 2022		End of December 2022	
	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)	Fair value	Net unrealized gains (losses)
Available for sale securities	454.2	(1.4)	432.6	(15.8)	446.2	(20.0)
Shares	15.8	7.5	16.6	8.4	15.6	7.6
Bonds	143.5	(0.3)	171.3	(1.2)	187.0	(3.9)
Multi-asset fund*	290.2	(9.7)	242.4	(22.5)	241.6	(23.3)
Other	4.5	1.0	2.1	(0.4)	1.9	(0.4)

➢ Duration of securities holdings as of December 31, 2022: 6.7 years
➢ Interest rate risk (10BPV) on securities held as of December 31, 2022: -1.2 billion yen

Risk reduction measures implemented (or planned) in the current fiscal year in light of deteriorating market conditions, etc.

(First half)
✓ Reduction of risk amount by changing the allocation of multi-asset funds, which have relatively high risk among securities portfolios, etc.
✓ Partial cancellation of multi-asset fund (approx. 35 billion yen).
✓ Distributions from the Multi-Asset Fund, which were projected in the initial earnings plan, are now expected to be deferred.
✓ Sold high-risk foreign currency-denominated stocks (individual stocks).
(Second half)
✓ Plans to make reductions mainly in multi-asset funds with valuation losses.

Revised Earnings Forecasts for FY3/23

- As a result of incorporating the factors on the previous page, gross operating profit decreased by 11.0 billion yen to 45.0 billion yen. Net operating income decreased by 9.5 billion yen to 8.0 billion yen.
- Ordinary profit was unchanged at 10.0 billion yen.
- Net income (non-consolidated) decreased by 1.0 billion yen to 8.5 billion yen.
- Net income (consolidated) is projected to decrease by 1.0 billion yen to 9.0 billion yen.

(*) February 9, 2023 Tentative Disclosure: "Notice of Losses on Sales of Securities Holdings, etc. and Revision of Full-Year Earnings Forecasts for FY3/22"

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

	[Non-consolidated] Full year forecast announced on November 11 (A)	[Non-consolidated] Full year forecast announced on February 9 (B)	[Non-consolidated] Change (B)-(A)	[Consolidated] Full year forecast announced on November 11(C)	[Consolidated] Full year forecast announced on February 9 (D)	[Consolidated] Change (D)-(C)
Ordinary income	77.0	77.0	±0	86.0	86.0	±0
Gross operating profit	56.0	45.0	(11.0)			
Expenses	37.5	37.0	(0.5)			
Core net operating profit	22.0	22.5	+0.5			
Net operating profit	17.5	8.0	(9.5)			
Ordinary profit	10.0	10.0	±0	11.0	11.0	±0
Net income	9.5	8.5	(1.0)	10.0	9.0	(1.0)

	(A)	(B)	Change (B)-(A)
Actual credit costs	10.0	1.0	(9.0)
Normal credit cost (a)	3.5	(3.0)	(6.5)
Share house-related loans (b)	(3.0)	(3.5)	(0.5)
Preventive allowances (c)	9.5	7.5	(2.0)

■ Actual Credit Costs, Disclosed Claims under the Financial Reconstruction Law <Non-consolidated>

- Actual credit costs for share house related loans were -3.4 billion yen, mainly due to the lump-sum transfer of the 4th group of loans implemented in September 2022.
- Actual credit costs for loans other than share house-related loans were -100 million yen, partly due to a reversal of the allowance for loan losses resulting from a decrease in the expected loss ratio and other factors.
- As of December 31, 2022, the ratio of nonperforming claims to disclosed claims under the Financial Reconstruction Law was 10.8%, and the coverage ratio was approximately 80% based on collateral, guarantees, etc. and allowance for loan losses.

・Actual Credit Costs (3Q, FY3/23)

(Billions of yen)

Item	1Q	2Q	3Q	3Q actual credit costs	Allowance for loan losses
Share house-related loans	(0.1)	(3.0)	(0.2)	(3.4)	13.9
Investment real estate loans *	0.9	(3.2)	1.6	(0.6)	88.8
Housing loans	0.1	(0.5)	0.2	(0.1)	2.6
Unsecured loans	0	(0.1)	0	(0)	3.0
Monetary claims bought	0	0	(0)	0	0.2
Business financing, etc.	0.2	0.4	0	0.8	9.2
Total	1.3	(6.5)	+1.7	(3.5)	117.9

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

・Disclosed Claims under the Financial Reconstruction Law (as of December 31, 2022)

(Billions of yen)

	Balance	Total coverage amount	Coverage amount by collateral and guarantees, etc.	Allowance for loan losses	Coverage ratio
Bankruptcy reorganization claims and similar claims	116.6	116.6	44.3	72.3	100%
At-risk claims	50.6	33.2	22.2	11.0	65.6%
Claims requiring special attention	57.7	30.1	18.1	12.0	52.1%
Total	225.0	180.0	84.6	95.3	79.9%

Ratio of disclosed amount as a percentage of total credit (Non-performing loan ratio)	10.8%

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 3.44% (total (E)).
- The delinquency rate for personal loans is 6.49% (A), partly since some customers with investment real estate loans have suspended repayment triggered by organized negotiations. However, excluding these special factors, the delinquency rate is 1.52% (F).
- 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.

(Billions of yen)

Loan category	September 2022			December 2022		
	Period-end balance	Yield	Delinquency rate	Period-end balance	Yield	Delinquency rate
Secured loans	1,606.0	3.08%	6.68%	1,571.5	3.06%	6.82%
Housing loans	441.8	2.75%	0.28%	435.0	2.73%	0.32%
Studio apartment loans	130.0	3.36%	2.82%	124.5	3.35%	2.91%
Single building apartment loans (including share house loans)	1,001.2	3.14%	10.24%	979.3	3.14%	10.44%
Other secured loans	32.8	4.41%	0.46%	32.5	4.33%	0.21%
Unsecured loans	135.5	10.46%	2.51%	131.0	10.46%	2.45%
Card loans	92.8	11.78%	0.94%	90.2	11.77%	0.84%
Unsecured certificate loans, etc.	42.6	7.59%	5.94%	40.7	7.56%	6.02%
Consumer loans (A)	1,741.5	3.65%	6.36%	1,702.5	3.63%	6.49%
Personal loans (excluding organizationally negotiated loans, etc.) (F)	1,636.2		1.50%	1,598.6		1.52%
Investment real estate loans for asset management companies (B)	40.3	1.82%	–	45.0	1.81%	–
Structured finance (C)	82.7	2.24%	–	97.3	2.24%	–
Monetary claims bought (D)	97.0	1.95%	–	94.3	2.06%	–
Total (E˙˙A+B+C+D)	1,961.6	3.47%	5.65%	1,939.2	3.44%	5.69%

*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.
*"Organizationally negotiated loans" refers to loans to borrowers who have submitted a request for suspension of repayment as a result of organizationally negotiations (share house-related loans are excluded).

■ New Loan Execution Status

- 132.0 billion yen in new loans by 3Q, compared to the 190.0 billion yen planned for the full year of FY3/23 (Total: (A) + (B)).
- The amount of personal loans and investment real estate loans to asset management companies remained at 52.2 billion yen, but including the loans expected to be concluded in the current fiscal year, the amount of executed loans progressed to approximately 75.0 billion yen as of the end of January. The amount of structured finance transactions amounted to 39.8 billion yen, reaching the planned level in 3Q.
- In terms of monetary claims purchased, we purchased claims in July 2022 that meet our goal of middle-risk/middle-return (amount of claims: approx. 40 billion yen, estimated yield: 1.41%). We will continue sounding out suppliers and are considering additional purchases within the fiscal year.
- We will work to promote loans while closely monitoring the business environment and market trends, including the prolonged spread of COVID-19, concerns about the global economic recession, and material price trends.

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

(Billions of yen)

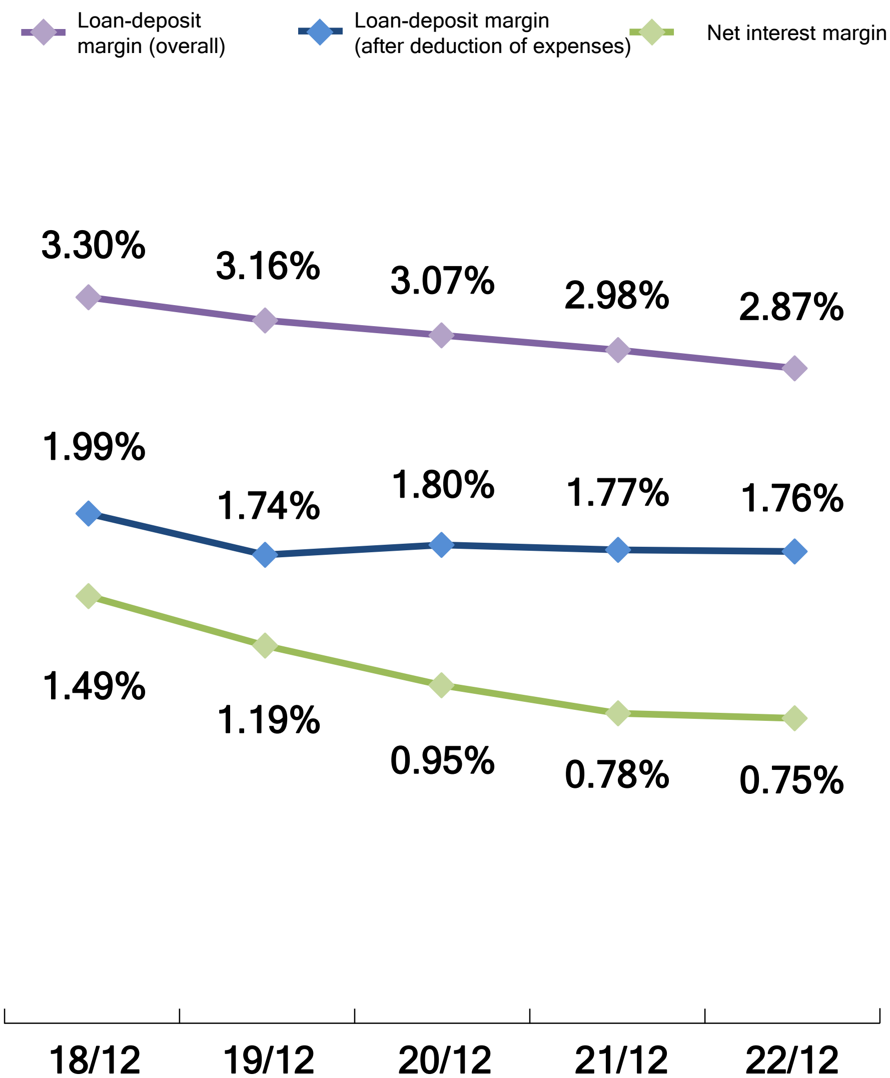
	3Q, FY3/22	3Q, FY3/23	Year-on-year	Full year projection for FY3/23
Consumer loans	23.6	39.2	+15.6	110.0
Investment real estate loans for asset management companies	12.9	12.9	+0	※ −
Subtotal	36.5	52.2	+15.7	110.0
Structured finance	32.5	39.8	+7.3	40.0
Total (A)	69.0	92.0	+23.0	150.0
Monetary claims bought (B)	29.9	39.9	+10.0	40.0
Total (A) + (B)	99.0	132.0	+33.0	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.

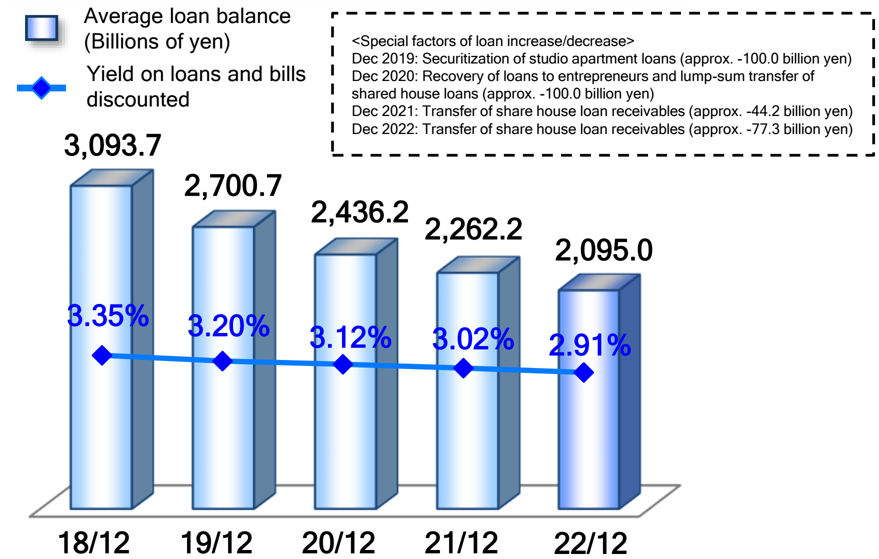
Reference Materials

Yield/Margins＜Non-consolidated＞

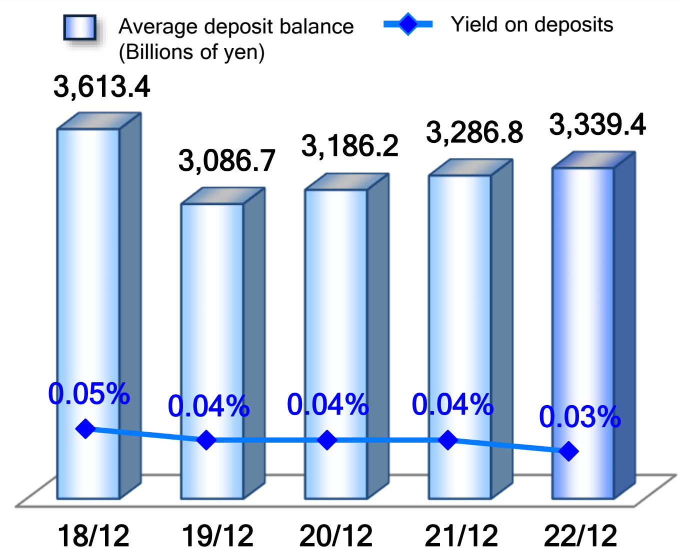
Net Interest Margin



Loans (average balance / yield)

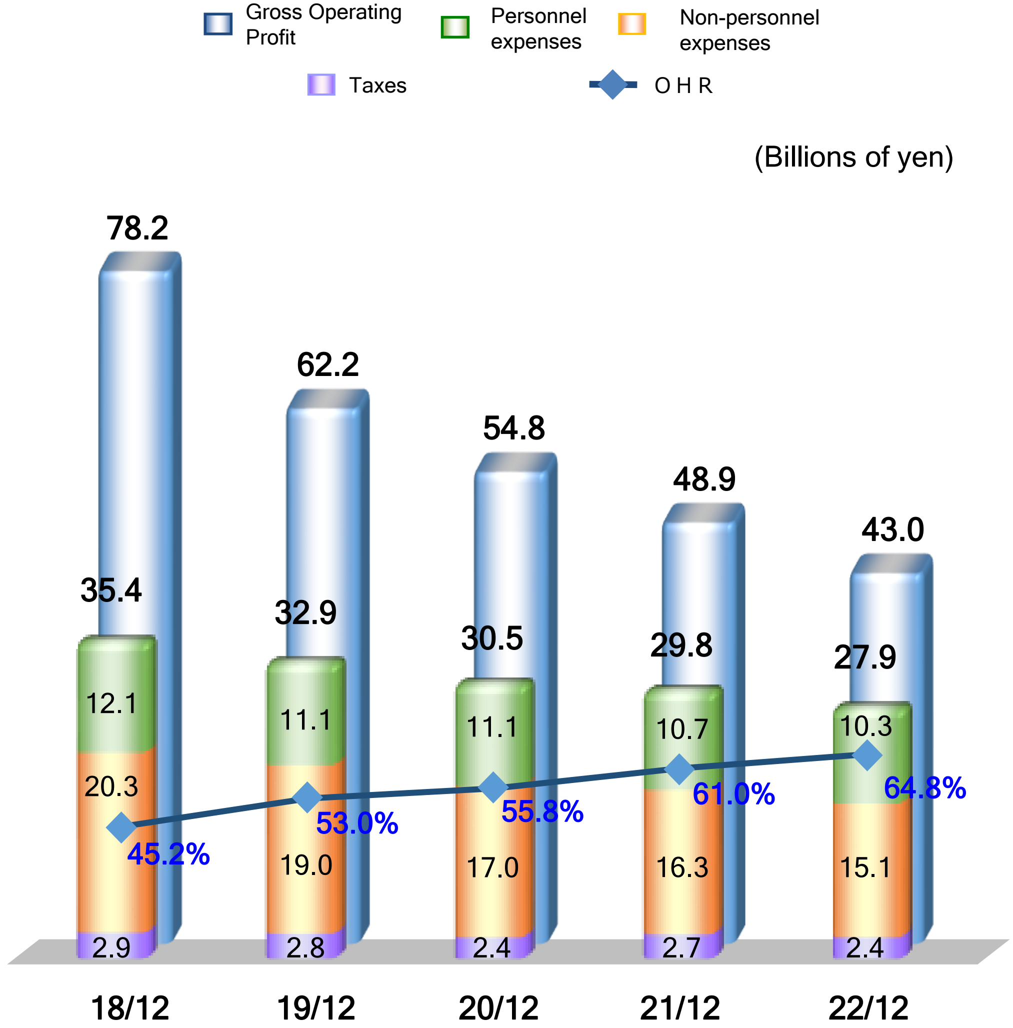


Deposits (average balance / yield)

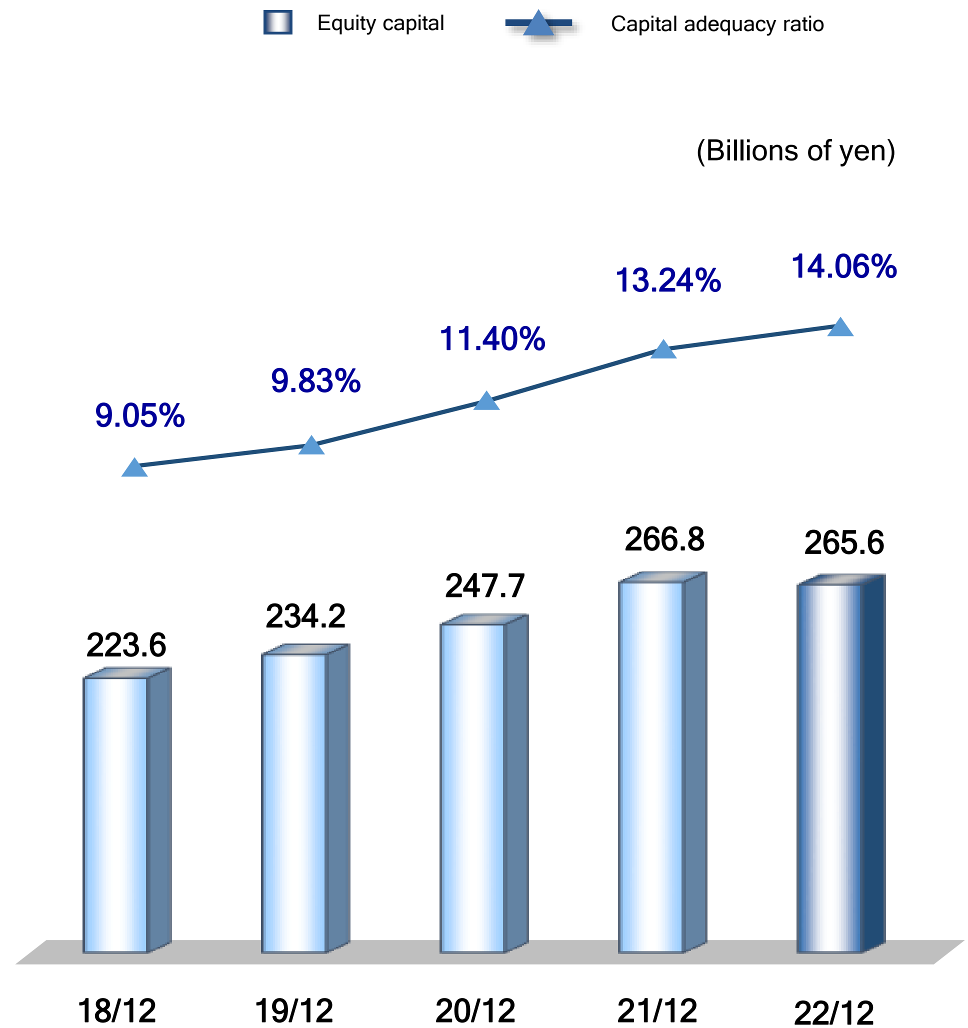


Trends in Expenses, OHR, and Capital

Trend in Expenses and OHR



Trends in Capital & Capital Adequacy Ratio



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