

SURUGA bank, Ltd.

Consolidated financial results for the three months ended June 30, 2017

<under Japanese GAAP>

Stock exchange listings: Tokyo (code: 8358)

URL: <http://www.surugabank.co.jp>

Representative: Akihiro Yoneyama, President

(Amounts and percentages are rounded down to the nearest million yen and first decimal places, respectively.)

1. Consolidated financial results for the three months ended June 30, 2017

(1) Consolidated operating results (% represents the change from the same period in the previous fiscal year)

	Ordinary income		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended						
June 30, 2017	37,953	8.8	15,701	19.7	10,731	20.5
June 30, 2016	34,882	(0.9)	13,110	(10.9)	8,901	(8.4)

(Note) Comprehensive income: (a) Three months ended June 30, 2017: ¥13,002 million [200.5%]

(b) Three months ended June 30, 2016: ¥4,326 million [(56.9)%]

	Earnings per share		Earnings per share (diluted)	
	yen		yen	
Three months ended				
June 30, 2017	46.33		46.32	
June 30, 2016	38.45		38.43	

(2) Consolidated financial position

	Total assets		Total net assets		Net assets ratio	
	Millions of yen		Millions of yen		%	
As of						
June 30, 2017	4,444,436		350,607		7.8	
March 31, 2017	4,471,725		340,379		7.5	

(Reference) Shareholders' equity: (a) As of June 30, 2017: ¥348,131 million; (b) As of March 31, 2017: ¥338,029 million

(Note) Net assets ratio = {(Total net assets - Subscription rights to shares - Non-controlling interests) / Total assets} × 100

This ratio is not calculated based on the "Capital Adequacy Ratio Notification".

2. Dividends on common stock

	Dividends per share				
	1 st quarter-end	2 nd quarter-end	3 rd quarter-end	Fiscal year-end	Total
Fiscal year	yen	yen	yen	yen	yen
ended March 31, 2017	—	10.00	—	12.00	22.00
ending March 31, 2018	—				
ending March 31, 2018 (forecast)		10.50	—	10.50	21.00

(Note) Revision of dividend forecast from the latest announcement: No

Breakdown of fiscal year-end dividend for the fiscal year ended March 31, 2017:

(a) Ordinary dividend: ¥11.00; (b) Special dividend: ¥1.00

3. Consolidated earnings forecast for the fiscal year ending March 31, 2018

(% represents the change from the same period in the previous fiscal year)

	Ordinary profit		Profit attributable to owners of parent		Earnings per share	
	Millions of yen	%	Millions of yen	%	yen	
1H, FY3/2018	30,000	7.1	20,500	6.6	88.50	
FY3/2018	61,500	5.6	43,000	0.8	185.65	

(Note) Revision of earnings forecast from the latest announcement: No

*Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries that caused changes in the scope of consolidation): No
- (2) Adoption of any particular accounting methods for quarterly consolidated financial statements: Yes
Note: For details, please refer to page 6 of the appendix “(3) Notes regarding consolidated financial statements, (Adoption of any particular accounting methods for quarterly consolidated financial statements)”.
- (3) Changes in accounting policies, changes in accounting estimates and restatements
- (A) Changes in accounting policies due to revision of accounting standards: No
- (B) Changes in accounting policies due to reasons other than (A): No
- (C) Changes in accounting estimates: No
- (D) Restatements: No
- (4) Number of issued shares (common stock)

(A) Number of issued shares (including treasury shares):	As of June 30, 2017	232,139,248 shares	As of March 31, 2017	232,139,248 shares
(B) Number of treasury shares:	As of June 30, 2017	525,482 shares	As of March 31, 2017	530,965 shares
(C) Average number of shares:	Three months ended June 30, 2017	231,612,301 shares	Three months ended June 30, 2016	231,503,943 shares

(Note) This report is outside the scope of the external auditor’s quarterly review procedure.

(Note) Explanation on appropriate use of forecast and other special items

The performance forecasts and other forward-looking statements in this report are based on information currently available to the company and on certain assumptions deemed to be reasonable, and are not intended to guarantee future performance. Actual performance may differ materially depending on various factors.

(Appendix)

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1. Qualitative information on financial results

(1) Details of operating results

As for the consolidated operating results for the three months ended June 30, 2017, ordinary income increased by ¥3.071 billion year-on-year to ¥37.953 billion. This was primarily due to the growth in interest income on the back of the rise in interest on loans and discounts. Ordinary expenses increased by ¥0.479 billion year-on-year to ¥22.251 billion, mainly due to the rise in other expenses.

As a result, ordinary profit increased by ¥2.591 billion year-on-year to ¥15.701 billion.

Profit attributable to owners of parent increased by ¥1.830 billion year-on-year to ¥10.731 billion.

(2) Details of financial position

As for the major account balances as of June 30, 2017 on a consolidated basis, deposits were ¥4,062.337 billion, down by ¥33.172 billion from March 31, 2017 despite an increase in individual deposits of ¥37.536 billion.

Loans and bills discounted came in at ¥3,244.690 billion, down by ¥9.033 billion from March 31, 2017 despite an increase in consumer loans (non-consolidated) of ¥24.509 billion.

Securities were ¥132.929 billion, down by ¥15.598 billion from March 31, 2017.

(3) Details of forecast information, including earnings forecast

The earnings forecast for the fiscal year ending March 31, 2018 remains unchanged from that announced on May 11, 2017.

Consolidated

(Billions of yen)

	1H, FY3/2018	FY3/2018
Ordinary profit	30.0	61.5
Profit attributable to owners of parent	20.5	43.0

Non-consolidated

(Billions of yen)

	1H, FY3/2018	FY3/2018
Net operating profit	31.5	65.0
Ordinary profit	29.0	60.0
Net income	20.0	42.0
Actual credit costs	2.3	4.5

(Note) The performance forecasts and other forward-looking statements in this report are based on information currently available to the company and on certain assumptions deemed to be reasonable, and are not intended to guarantee future performance. Actual performance may differ materially depending on various factors.

2. Consolidated financial statements and notes

(1) Consolidated balance sheets

(Millions of yen)

	As of March 31, 2017	As of June 30, 2017
Assets		
Cash and due from banks	927,519	917,170
Call loans and bills bought	2,276	2,421
Trading account securities	72	83
Money held in trust	1,149	1,203
Securities	148,527	132,929
Loans and bills discounted	3,253,723	3,244,690
Foreign exchanges	2,885	2,791
Lease receivables and investment assets	5,479	5,471
Other assets	56,909	63,929
Tangible fixed assets	51,906	52,222
Intangible fixed assets	28,591	28,357
Net defined benefit asset	7,787	8,418
Deferred tax assets	860	806
Customers' liabilities for acceptances and guarantees	3,340	3,280
Allowance for loan losses	(19,305)	(19,339)
Total assets	4,471,725	4,444,436
Liabilities		
Deposits	4,095,509	4,062,337
Borrowed money	1,540	1,435
Foreign exchanges	40	31
Other liabilities	25,503	21,270
Provision for bonuses	715	29
Provision for directors' bonuses	173	—
Net defined benefit liability	279	254
Provision for directors' retirement benefits	3,280	3,317
Provision for reimbursement of deposits	287	256
Provision for contingent losses	169	200
Deferred tax liabilities	505	1,415
Acceptances and guarantees	3,340	3,280
Total liabilities	4,131,346	4,093,829
Net assets		
Capital stock	30,043	30,043
Capital surplus	4	4
Retained earnings	291,063	299,015
Treasury shares	(606)	(601)
Total shareholders' equity	320,504	328,462
Valuation difference on available-for-sale securities	17,153	19,087
Deferred gains or losses on hedges	(61)	(72)
Remeasurements of defined benefit plans	433	654
Total accumulated other comprehensive income	17,525	19,668
Subscription rights to shares	24	22
Non-controlling interests	2,325	2,453
Total net assets	340,379	350,607
Total liabilities and net assets	4,471,725	4,444,436

(2) Consolidated statements of income and
 Consolidated statements of comprehensive income
 Consolidated statements of income

(Millions of yen)

	For the three months ended June 30, 2016	For the three months ended June 30, 2017
Ordinary income	34,882	37,953
Interest income	30,172	32,273
Interest on loans and discounts	29,421	30,858
Interest and dividends on securities	507	1,082
Fees and commissions	3,319	3,368
Other ordinary income	954	946
Other income	436	1,363
Ordinary expenses	21,772	22,251
Interest expenses	1,095	1,005
Interest on deposits	1,056	948
Fees and commissions payments	3,652	3,771
Other ordinary expenses	999	814
General and administrative expenses	13,330	13,360
Other expenses	2,694	3,299
Ordinary profit	13,110	15,701
Extraordinary gains	2	1
Gains on disposal of non-current assets	2	1
Extraordinary losses	84	142
Losses on disposal of non-current assets	84	142
Income before income taxes	13,027	15,560
Income taxes	4,053	4,745
Profit	8,974	10,815
Profit attributable to non-controlling interests	72	84
Profit attributable to owners of parent	8,901	10,731

Consolidated statements of comprehensive income

(Millions of yen)

	For the three months ended June 30, 2016	For the three months ended June 30, 2017
Profit	8,974	10,815
Other comprehensive income		
Valuation difference on available-for-sale securities	(4,626)	1,977
Deferred gains or losses on hedges	37	(10)
Remeasurements of defined benefit plans, net of tax	(59)	220
Total other comprehensive income	(4,647)	2,187
Comprehensive income	4,326	13,002
(Breakdown)		
Comprehensive income attributable to owners of parent	4,280	12,874
Comprehensive income attributable to non-controlling interests	46	128

(3) Notes regarding consolidated financial statements

(Notes on going-concern assumption)

Not applicable.

(Notes for material changes in shareholders' equity)

Not applicable.

(Adoption of any particular accounting methods for quarterly consolidated financial statements)

(Calculation of income taxes)

Income taxes reported by the company and its subsidiaries are calculated by multiplying income before income taxes for the three months ended June 30, 2017 with the reasonably estimated effective tax rate after applying tax effect accounting to income before income taxes for the fiscal year ending March 31, 2018, including the current first quarter.

(Changes in accounting policies, changes in accounting estimates and restatements)

Not applicable.

Financial Results for the three months ended June 30, 2017 - Supplementary Information -

(1) Operating results for the three months ended June 30, 2017 (Non-consolidated)

	Three months ended		(A) - (B)	FY3/2017
	Jun. 30, 2017 (A)	Jun. 30, 2016 (B)		
Gross operating profit	28,239	26,543	1,696	110,852
Net interest income	29,062	27,348	1,714	112,940
Net fees and commissions	(842)	(684)	(158)	(2,324)
Net other operating income	19	(120)	139	236
(Gains (losses) on bonds)	4	(139)	143	165
Core gross operating profit (Note1)	28,235	26,682	1,553	110,686
Expenses	12,258	12,376	(118)	47,240
Personnel expenses	4,577	4,804	(227)	18,362
Non-personnel expenses	6,427	6,290	137	25,131
Core net operating profit (Note2)	15,976	14,306	1,670	63,445
Actual net operating profit (Note3)	15,980	14,167	1,813	63,611
Provision for general allowance for loan losses (Note4)	76	(74)	150	-
Net operating profit	15,904	14,241	1,663	63,611
Non-recurring gains (losses)	(978)	(1,458)	480	(6,450)
Gains (losses) on stocks	857	(61)	918	(506)
Ordinary profit	14,926	12,782	2,144	57,160
Extraordinary gains (losses)	(139)	(80)	(59)	1,853
Income before income taxes	14,787	12,702	2,085	59,013
Income taxes (Note5)	4,539	3,899	640	17,285
Net income	10,247	8,803	1,444	41,728

	(Millions of yen)			
Net credit costs (Note6)	1,644	1,612	32	6,575
Provision for general allowance for loan losses (Note4)	76	(74)	150	-
Disposal of non-performing loans	1,568	1,687	(119)	9,165
Reversal of allowance for loan losses (Note4)	-	-	-	2,590
Recoveries of written-off claims	263	300	(37)	1,004
Actual credit costs (Note7)	1,381	1,312	69	5,571

(Note1) Core gross operating profit = Gross operating profit - Gains (losses) on bonds

(Note2) Core net operating profit = Net operating profit + Provision for general allowance for loan losses - Gains (losses) on bonds

(Note3) Actual net operating profit = Net operating profit + Provision for general allowance for loan losses

(Note4) For the fiscal year ended March 31, 2017, the net amount of Reversal of general allowance for loan losses and Provision for specific allowance for loan losses is recorded in Reversal of allowance for loan losses, given that the former exceeded the latter during the period.

(Note5) Income taxes for the fiscal year ended March 31, 2017 are the amount of Total income taxes.

(Note6) Net credit costs = Provision for general allowance for loan losses + Disposal of non-performing loans - Reversal of allowance for loan losses

(Note7) Actual credit costs = Net credit costs - Recoveries of written-off claims

(2) Non-performing loans based on the Financial Reconstruction Law (Non-consolidated)

	Jun. 30, 2017	Jun. 30, 2016	(Millions of yen) Mar. 31, 2017
Claims against bankrupt and substantially bankrupt obligors	7,929	7,529	7,721
Claims with collection risk	12,595	15,051	12,724
Claims for special attention	8,681	13,347	8,512
Total (Non-performing loans based on the Financial Reconstruction Law)	29,205	35,928	28,957
The ratio of non-performing loans to total claims (Non-performing loan ratio)	0.89%	1.13%	0.88%

(Note1) Total claims = Loans and bills discounted + Foreign exchanges + Accrued interest + Customers' liabilities for acceptances and guarantees + Securities lent + Suspense payment ("Claims for special attention" include only "Loans and bills discounted")

(Note2) The figures above are based on the claim classification as defined in the Article 4 of the "Ordinance for Enforcement of the Act on Emergency Measures for the Revitalization of Financial Functions".

(Note3) The correspondence between classifications of obligors, etc.

- (a) "Claims against bankrupt and substantially bankrupt obligors" correspond to the claims against "Effectively bankrupt obligors" or "Bankrupt obligors" under self-assessment.
- (b) "Claims with collection risk" correspond to the claims against "Potentially bankrupt obligors" under self-assessment.
- (c) "Claims for special attention" correspond to the claims which are against "Obligors requiring caution" under self-assessment and classified as "Loans past due 3 months or more" or "Restructured loans".

(3) Capital adequacy ratio (domestic standard)

Non-consolidated

	Jun. 30, 2017	Jun. 30, 2016	(Millions of yen) Mar. 31, 2017
Capital adequacy ratio	12.49%	12.01%	11.96%
Own capital (Core capital)	317,567	288,021	307,293
Core capital: instruments and reserves	331,582	296,569	321,254
Core capital: regulatory adjustments (-)	14,014	8,548	13,960
Risk-weighted assets	2,541,520	2,396,562	2,567,492
Total required capital	101,660	95,862	102,699

Consolidated

	Jun. 30, 2017	Jun. 30, 2016	(Millions of yen) Mar. 31, 2017
Capital adequacy ratio	12.70%	12.15%	12.17%
Own capital (Core capital)	326,470	295,157	315,893
Core capital: instruments and reserves	343,231	306,453	332,238
Core capital: regulatory adjustments (-)	16,760	11,296	16,345
Risk-weighted assets	2,569,098	2,427,463	2,594,699
Total required capital	102,763	97,098	103,787

(Note) Total required capital = Risk-weighted assets × 4%

(4) Composition of own capital (domestic standard)

(Millions of yen)

	Jun. 30, 2017			
	Non-consolidated		Consolidated	
		Amounts excluded under transitional arrangements		Amounts excluded under transitional arrangements
Core capital: instruments and reserves (1)				
Directly issued qualifying common stock or preferred stock mandatorily convertible into common stock capital plus related capital surplus and retained earnings	322,578		328,462	
Capital and capital surplus	48,633		30,047	
Retained earnings	274,546		299,015	
Treasury shares (-)	601		601	
Earnings to be distributed (-)	-		-	
Accumulated other comprehensive income included in Core capital	-		392	
Remeasurements of defined benefit plans	-		392	
Subscription rights to acquire common stock or preferred stock mandatorily convertible into common stock	22		22	
Adjusted non-controlling interests (amount allowed to be included in Core capital)	-		-	
Reserves included in Core capital: instruments and reserves	8,981		12,636	
General reserve for possible loan losses	8,981		12,636	
Eligible non-cumulative perpetual preferred stock subject to transitional arrangement included in Core capital: instruments and reserves	-		-	
Eligible capital instrument subject to transitional arrangement included in Core capital: instruments and reserves	-		-	
Capital instrument issued through the measures for strengthening capital by public institutions included in Core capital: instruments and reserves	-		-	
45% of revaluation reserve for land included in Core capital: instruments and reserves	-		-	
Non-controlling interests included in Core capital subject to transitional arrangements	-		1,717	
Core capital: instruments and reserves (A)	331,582		343,231	
Core capital: regulatory adjustments (2)				
Total intangible fixed assets (net of related tax liability, excluding those relating to mortgage servicing rights)	10,884	7,256	12,970	7,373
Goodwill (including those equivalent)	-	-	1,909	-
Other intangible fixed assets other than goodwill and mortgage servicing rights	10,884	7,256	11,060	7,373
Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	-	-	267	-
Shortfall of eligible provisions to expected losses	-	-	-	-
Gains on sale related to securitization transactions	-	-	-	-
Gains and losses due to changes in own credit risk on fair valued liabilities	-	-	-	-
Prepaid pension cost	3,128	2,085	-	-
Net defined benefit asset	-	-	3,520	2,346
Investments in own shares (excluding those reported in the net assets)	2	-	2	-
Reciprocal cross-holdings in relevant capital instruments issued by other financial institutions	-	-	-	-
Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation ("Other financial institutions"), net of eligible short positions, where the bank does not own more than 10% of the issued share capital (amount above the 10% threshold)	-	-	-	-
Amount exceeding the 10% threshold on specified items	-	-	-	-
Amount exceeding the 15% threshold on specified items	-	-	-	-
Core capital: regulatory adjustments (B)	14,014		16,760	
Total capital				
Total capital (A-B) (C)	317,567		326,470	
Risk-weighted assets (3)				
Credit risk-weighted assets	2,332,444		2,336,460	
Total of items included in risk-weighted assets subject to transitional arrangements	13,402		14,752	
Intangible fixed assets other than goodwill and mortgage servicing rights (net of related tax liability)	10,410		10,578	
Deferred tax assets (net of related tax liability)	-		806	
Prepaid pension cost	2,991		-	
Net defined benefit asset	-		3,367	
Amount equivalent to market risk × 12.5	-		-	
Amount equivalent to operational risk × 12.5	209,075		232,638	
Credit risk-weighted assets adjustments	-		-	
Amount equivalent to operational risk adjustments	-		-	
Total amount of risk-weighted assets (D)	2,541,520		2,569,098	
Capital adequacy ratio (non-consolidated)				
Capital adequacy ratio (non-consolidated) (C/D)	12.49%		-	
Capital adequacy ratio (consolidated)				
Capital adequacy ratio (consolidated) (C/D)	-		12.70%	

(5) Unrealized gains (losses) on securities (Non-consolidated)

(Millions of yen)

	Jun. 30, 2017				Jun. 30, 2016				Mar. 31, 2017			
	Fair value	Unrealized gains (losses)		Fair value	Unrealized gains (losses)		Fair value	Unrealized gains (losses)				
		Gains	Losses		Gains	Losses		Gains	Losses			
Other securities	104,564	25,996	26,463	467	83,674	15,556	18,943	3,386	90,702	23,353	23,840	487
Stocks	45,151	24,434	24,521	87	41,956	16,379	17,714	1,334	47,380	21,955	22,088	132
Bonds	50,247	(215)	52	268	21,957	171	171	0	30,910	(115)	62	178
Others	9,165	1,777	1,889	111	19,760	(994)	1,057	2,052	12,411	1,512	1,689	176

(Note1) Not measured at fair value, the stocks of subsidiaries and affiliates are not included.

(Note2) Unrealized gains (losses) represent the difference between the fair value as of period-ends and acquisition costs.

(Note3) Unrealized gains (losses) on held-to-maturity bonds were as shown in the table below.

(Millions of yen)

	Jun. 30, 2017				Jun. 30, 2016				Mar. 31, 2017			
	Book value	Unrealized gains (losses)		Book value	Unrealized gains (losses)		Book value	Unrealized gains (losses)				
		Gains	Losses		Gains	Losses		Gains	Losses			
Held-to-maturity bonds	14,999	1	1	-	135,039	208	208	-	45,001	22	22	-

(6) Individual deposit assets (Non-consolidated)

(Millions of yen)

	Jun. 30, 2017 (A)	(A) - (B)	(A - B) / (B)	Jun. 30, 2016 (B)	Mar. 31, 2017
Individual deposit assets	3,399,017	82,781	2.4%	3,316,236	3,356,908
Yen deposits	3,222,011	105,065	3.3%	3,116,946	3,184,451
Investment products	177,006	(22,284)	(11.1)%	199,290	172,456
Foreign currency deposits	6,362	311	5.1%	6,051	6,386
Public bonds	9,629	(3,404)	(26.1)%	13,033	10
Mutual funds	106,280	(4,879)	(4.3)%	111,159	107,988
Personal pension plans	40,363	(13,893)	(25.6)%	54,256	43,781
Single premium life insurance	14,370	(420)	(2.8)%	14,790	14,290
The ratio of investment products to total individual deposit assets	5.2%		(0.8)%	6.0%	5.1%

(7) Deposits and loans (Non-consolidated)

					(Millions of yen)
	Jun. 30, 2017 (A)	(A) - (B)	(A - B) / (B)	Jun. 30, 2016 (B)	Mar. 31, 2017
Deposits (period-end balance)	4,071,808	(18,010)	(0.4)%	4,089,818	4,105,455
Individual deposits	3,228,373	105,376	3.3%	3,122,997	3,190,837
Loans and bills discounted (period-end balance)	3,244,003	110,115	3.5%	3,133,888	3,253,790
Consumer loans	2,931,858	131,610	4.6%	2,800,248	2,907,349
Housing loans	2,046,578	45,867	2.2%	2,000,711	2,040,621
					FY3/2017
	Three months ended Jun. 30, 2017 (A)	(A) - (B)	(A - B) / (B)	Three months ended Jun. 30, 2016 (B)	
Deposits (average balance)	4,059,635	31,133	0.7%	4,028,502	4,054,508
Loans and bills discounted (average balance)	3,215,393	116,148	3.7%	3,099,245	3,136,010

		(Billions of yen)
	Three months ended Jun. 30, 2017	FY3/2017
New consumer loans	109.0	470.0

(Reference) Business alliance with Japan Post Bank		(Billions of yen)
	Three months ended Jun. 30, 2017	FY3/2017
New housing loans	8.4	39.9

(8) Interest margins (Non-consolidated)

				(%)
Overall	Three months ended Jun. 30, 2017 (A)	(A) - (B)	Three months ended Jun. 30, 2016 (B)	FY3/2017
Yield on loans and bills discounted	3.57	(0.01)	3.58	3.62
Yield on deposits	0.09	(0.01)	0.10	0.10
Loan-deposit margin (after deduction of expenses)	2.27	0.03	2.24	2.35
Net interest margin	1.58	0.19	1.39	1.54

				(%)
Domestic	Three months ended Jun. 30, 2017 (A)	(A) - (B)	Three months ended Jun. 30, 2016 (B)	FY3/2017
Yield on loans and bills discounted	3.58	(0.01)	3.59	3.62
Yield on deposits	0.08	(0.02)	0.10	0.09
Loan-deposit margin (after deduction of expenses)	2.30	0.04	2.26	2.38
Net interest margin	1.62	0.19	1.43	1.58