

Profile

Suruga Bank is a regional bank, with eastern Shizuoka Prefecture and central/western Kanagawa Prefecture as its main base of operations. The Bank was founded in 1895 as the Negata Bank in Numazu, Shizuoka Prefecture. Following mergers and other changes, the Bank was given its present name in 1912. Since that time, the Suruga Bank has maintained sound management in accordance with its basic principles of independence and contributing to the communities it serves. Celebrating its 100th anniversary in 1995, the Bank is now looking forward to its next century, aiming to make a fresh start by establishing a new corporate culture and further developing its business.

As of March 31, 1997, the Bank had total assets of ¥3,080 billion (US\$24,821 million) and a capital adequacy ratio of 9.77% according to BIS standards.

At year-end the Bank's network consisted of 135 offices, including a main office, 123 domestic branches, nine sub-branches, and two overseas branches. In addition, the Bank had an overseas subsidiary in Brussels.

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Japan's symbol, Mt. Fuji is located in northern Shizuoka Prefecture, the Bank's base of operations.



Financial Highlights

The Suruga Bank, Ltd. Years ended March 31

	Millions of Yen					Thousands of U.S. Dollars
	1997	1996	1995	1994	1993	1997
For the year:						
Total income	¥ 115,433	¥ 117,208	¥ 118,397	¥ 132,103	¥ 146,107	\$ 930,161
Total expenses	104,994	102,482	107,995	122,900	136,379	846,044
Income before income taxes	10,439	14,726	10,402	9,202	9,728	84,118
Net income	1,274	3,696	3,931	3,521	4,842	10,266
Per share of common stock (in yen and dollars):						
Net income	¥4.73	¥13.74	¥14.61	¥13.09	¥18.00	\$0.038
Cash dividends applicable to the year	5.00	6.00	5.00	5.00	5.00	0.040
At year-end:						
Deposits	¥2,793,829	¥2,865,854	¥2,814,959	¥2,632,947	¥2,581,703	\$22,512,724
Loans and bills discounted	2,013,019	2,040,420	2,017,065	1,842,601	1,764,542	16,220,943
Securities	610,314	594,701	551,244	488,009	544,023	4,917,921
Shareholders' equity	125,203	125,602	123,320	120,803	118,696	1,008,888
Total assets	3,080,334	3,114,892	3,057,170	2,898,491	2,837,476	24,821,386
Capital adequacy ratio (%)	9.77	9.78	8.84	9.87	9.50	
Number of offices	135	139	137	141	141	
Number of employees	2,474	2,544	2,636	2,714	2,774	

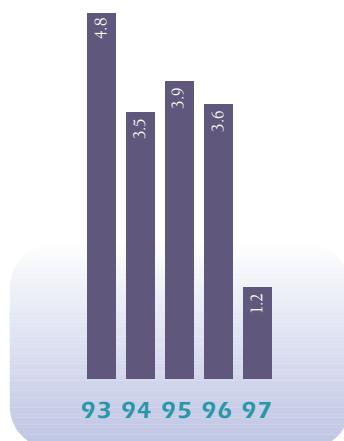
Notes: 1. Yen figures are rounded down to the nearest million yen.

2. U.S. dollar figures have been converted from Japanese yen, solely for convenience, at the rate of ¥124.10=US\$1, which prevailed at March 31, 1997.

3. Net income per share is calculated on the basis of the average number of common stock outstanding each year.

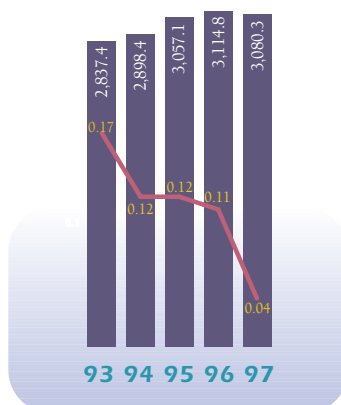
Net Income

¥ billion



Total Assets / ROA

¥ billion / %



Shareholders' Equity / ROE

¥ billion / %



Operating Environment and Performance

In fiscal 1996, ended March 31, 1997, private demand was solid, as housing investment and capital investment grew steadily, and consumer spending also increased for the most part. With production in mining and manufacturing growing, the economy continued its mild recovery. The economy of the Bank's main business base, Shizuoka and Kanagawa prefectures, mirrored that of the nation as a whole by continuing on a mild recovery path, supported by strong private demand. Housing investment was generally favorable, and consumer spending was firm, thanks mainly to a rise in demand for durable goods.

In the financial markets, with the official discount rate remaining at a historical low of 0.5% throughout the term, market interest rates likewise remained low, as did demand for funds from business.

In this operating environment, Suruga Bank worked to promote business with small and medium-sized companies and individuals, contribute to the community, widen its scope of business, and improve the efficiency of its operations. The Bank fully recognizes that ensuring the soundness of its assets as quickly as possible in preparation for the intensified competition that deregulation will usher in, stabilizing its marketing base, and improving its financial position are all issues of the utmost importance. The Bank has therefore made certain provisions well in advance, such as disposing of loans which are deemed highly likely to become uncollectable and providing support for affiliated companies.

As a result, the balance of deposits fell ¥72 billion to ¥2,793 billion (US\$22,513 million) at term-end, while the balance of loans fell ¥27 billion to ¥2,013 billion (US\$16,211 million).

Although interest rate margins shrank during the term, an increase in personal loans contributed to a 0.6% rise in net operating profit, which totaled ¥26,198 million (US\$211 million). However, because we wrote off as many non-performing loans as possible, net income for the term fell 65.5% to ¥1,274 million (US\$10 million).

The Bank paid an ordinary dividend of ¥5.0 (US\$0.04) per share, resulting in a ratio of dividend to shareholders' equity of 1.1% and a dividend payout ratio of 105.5%.

With no subordinated debt, the Bank's capital adequacy ratio according to BIS standards was 9.77%, roughly the same level as the previous term.

Outlook and Issues to be Addressed

With Japan's version of "Big Bang" just around the corner, the environment that Japan's financial institutions operate in is facing a period of wholesale reform.



Deregulation and reform of the financial system will create new business opportunities, but will also increase risk and greatly intensify competition.

Adhering to the principle of accountability, Suruga Bank is committed to further strengthening both the soundness of its assets and its risk management system. Working to create a resilient corporate structure and enhance its business base, the Bank endeavors to develop new products and services to meet the diverse needs of its customers.

In April 1996, Suruga Bank embarked on its fourth medium-term management plan. The basic philosophy behind the plan is awareness of the public nature of our business and ethical business practices. The plan spells out three goals the Bank must achieve to become the kind of comprehensive financial service provider that can deal with intensified competition in the wake of financial lib-

eralization, changing customer lifestyles, and all the other challenges of the changing post-bubble economic environment. These three goals are: a further improved financial condition; an organizational structure that aims for continual reform and growth, and services that ensure maximum customer satisfaction. The plan also calls for a capital adequacy ratio of 10.0% by BIS standards by the time the plan ends in March 2001. In addition to these goals, the Bank is committed to adequately dealing with new aspects of financial services, which we expect will change dramatically as information technology continues to develop.

A handwritten signature in black ink, appearing to read "Mitsuyoshi Okano". The signature is fluid and cursive, written on a white background.

Mitsuyoshi Okano
President

Aiming to Become a “New Age” Bank

Organizational Reform

To meet the challenges of deregulation and other changes in the management environment, Suruga Bank implemented organizational reform in fiscal 1996, aiming to improve productivity and increase efficiency through the streamlining of the head office organization. At the same time, with the creation of a smaller head office organization, we aim to increase the vitality of our branches. We have overhauled each of the most vital functions of our organizational structure, including marketing, planning, and routine operations. As a result, the previous structure of three head offices, nine divisions, and four specialized offices has been consolidated into one head office and six divisions. Furthermore, as a result of a restructuring of the risk management system, the Inspection Division and the Finance Management Office have been consolidated into a new Risk Administration Division.



Risk Management System

Financial liberalization and internationalization have increased profit opportunities, but they have also made the types of risk that banks must grapple with substantially more diverse and complex. Within the larger context of overall bank management, risk management is becoming more and more important. Suruga Bank is striving to enhance and improve its risk management system, adhering to its risk management principle of “precisely identifying risk, establishing vital risk management system, and introducing effective risk management methods.”

Suruga Bank has honed its capabilities in credit policy, screening, management, and monitoring to ensure the soundness of its loans and deal with credit risk. The Bank has also introduced a loan review system, in which the above-mentioned functions are fully integrated with each other.

The Credit Supervision Departments carry out inspection by region, and provide guidance to branches on loan inspection. We have also created units charged with improving industry and company surveys, in an attempt to back up the inspection system. On the loan management front, the Inspection Department closely cooperates with units in charge of management, assessment, and legal affairs. The Bank is striving to increase the skill levels of personnel in charge of finance through a training curriculum divided by job duty and job class.

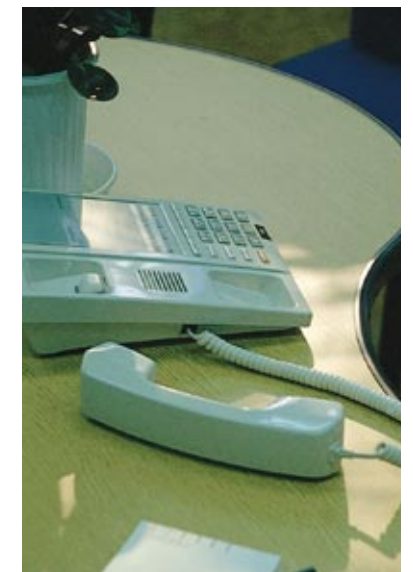
Meeting the Challenge of “Prompt Corrective Action”

Suruga Bank is hurrying to establish a system for the self-assessment of assets under management in advance of the April 1998 implementation of so-called “Prompt Corrective Action” measures. Beginning in 1998, every Japanese financial institution will have to carry out regular inspection of its assets for itself, an operation which has until now been carried out by the relevant financial supervisory authorities. Financial institutions will have to judge for themselves the degree to which their capital is insufficient, and after carrying out write-offs or transfers to reserves themselves, calculate their capital adequacy ratios. Suruga Bank is hurrying to create and implement a semi-annual self-inspection system. The Bank has been taking various measures, focusing on the Risk Administration Division, and in April 1997 carried out self-inspection on a trial basis. To create an even more efficient inspection system, the Bank is promoting the reduction of inspection operations at its branches and the concentration of such operations at the head office.



Towards One PC per Employee to Promote Information Sharing

To promote the joint use of information in the Bank's database and support the improvement of marketing capability and streamlining of operations, Suruga Bank plans to supply each employee with a personal computer. As of March 31, 1997, the Bank had approximately 1,000 desktop and notebook PCs. The Bank plans to supply one PC for every employee within the next few years. Once each employee has a PC, everyone will be able to directly access the customer and business information contained in the Bank's database through their own PC. This will make it possible to promote business activities, more effectively manage customers, and make the most practical use of fundamental marketing strategy data. At present, e-mail is being used in part of the Bank. When the e-mail network is widened to include all Bank employees, each of whom will have their own PC, we plan to streamline operations by “electrifying” reports, employee communication, and the like.



The Year in Review

Marketing

Financing for Small and Medium-Sized Companies

To contribute to the stability of regional small and medium-sized companies and to the development of the regional economy, Suruga Bank provides equipment investment funds and operating funds to local businesses on a regular basis. In addition, the Bank actively handles various other types of financing, such as national and regional government bonds. In fiscal 1996, loans to small and medium-sized companies (including loans to individuals) rose by ¥27,664 million, or 1.7%, to ¥1,653,242 million.

In addition, to meet a corporate customer's need for direct financing, the Bank acted as a trustee bank in the placement of a ¥100-million private bond.

Expansion of Loans to Individuals

In light of the increasing diversity of its individual customers' lifestyles, Suruga Bank is meeting its customers' needs by providing a range of consumer loans, beginning with housing loans. In fiscal 1996, the level of consumer loans rose ¥92,054 million, to ¥632,973 million. Among them, housing loans rose substantially, by 36.3%, or ¥134,233 million, to ¥504,404 million. This is in part due to housing demand brought forward in advance of the April 1, 1997 hike in the consumption tax.

Enhancing Banking Services

Improving ATM Services

In fiscal 1996, the Bank began taking deposits at its ATMs on Sundays and holidays from customers using an ATM card. In addition, service fees were eliminated for ATM deposits, including deposits on Saturdays, Sundays, and holidays. The Bank formed new business tie-ups with 10 credit companies, which brought about expansion of ATM and cash dispenser credit card cashing services for credit companies. As of the end of fiscal 1996, the Bank had tie-ups with 12 credit companies.

Mail Order Service

The Bank is working to expand and enhance its mail order services. As of the end of fiscal 1996, customers could open a number of accounts simply by mailing in an application. These included comprehensive, savings, time deposit, and integrated passbook accounts. In addition, it was possible to apply by mail to have utility bills paid by electronic transfer, and to mail in change of address forms. Furthermore, if an advance review is conducted of an application for a card loan, for which no collateral is necessary, the contract formalities at the Bank can be completed in around 15 minutes.



Branch and Off-Branch ATMs

The Hakone and Itoh branches each moved into newly constructed buildings, while four other branches, including the Fuji-Takaoka Branch, moved to new locations. Four branches were abolished and integrated into a "neighborhood network" in an effort to streamline operations. Off-branch ATMs were newly installed in 18 locations during the term, and shut down in three other locations. As a result, at the end of fiscal 1996 the Bank had ATMs in a total of 220 locations.

Website Launch

Suruga Bank Internet Website Launched

Suruga Bank has launched an Internet website. Besides the standard disclosure of information and loan simulation, the Bank's website has features unique among the websites of Japan's regional banks.

"Life Planning Service" is a simulation service that helps customers with their household financial planning. The user can directly enter data on the screen, or request a special form. The results of this easy-to-use simulation are mailed to the customer the following day. "Happy Message Board" is a page where anyone can post photographs of wedding ceremonies, births, and other joyous moments in their lives for transmission around the world. We will update the site regularly, and aim to make this site even friendlier.

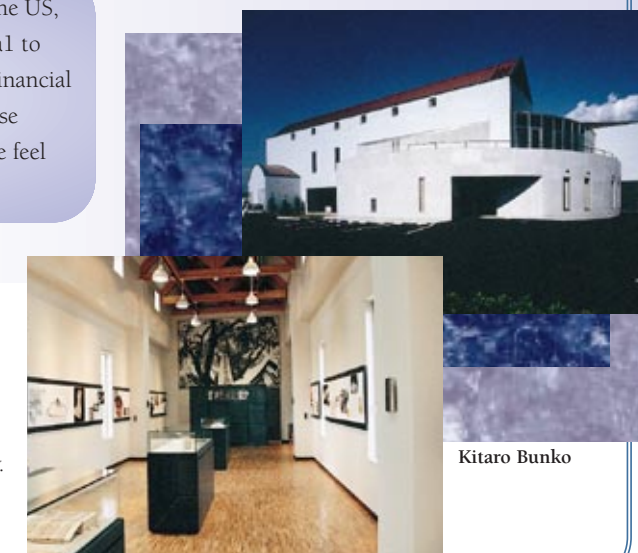
The website's URL is: <http://www.surugabank.co.jp>

Column

In May 1997, Moody's Investors Service, a rating organization based in the US, upgraded Suruga Bank's long-term deposit rating by two ranks, from Baa1 to A2, its short-term deposit rating from Prime 2 to Prime 1, and its bank financial rating, an evaluation of the Bank's financial soundness, from D to C. These ratings are the independent evaluation of a rating organization, which we feel serve as confirmation of the Bank's business efforts.

Kitaro Bunko, Along with the Numazu Ohno Branch, Named an Excellent Numazu City Building

In 1995, the Numazu Ohno Branch moved to a newly built building, where the "Kitaro Bunko" training facility is also housed. The building received a Numazu City "Excellent Building" award in fiscal 1996. Numazu's Excellent Buildings have become tourist attractions for the city. In fiscal 1996, three buildings were chosen for this award in the housing and general building category from among 313 candidates.

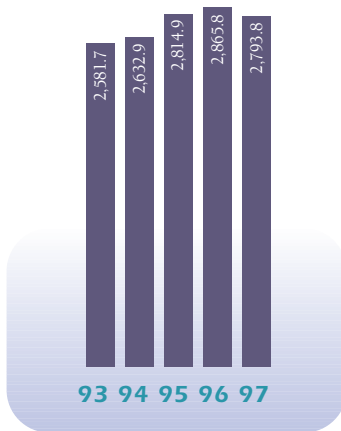


Kitaro Bunko

Financial Review

Deposits

¥ billion



Loans and Bills Discounted

¥ billion



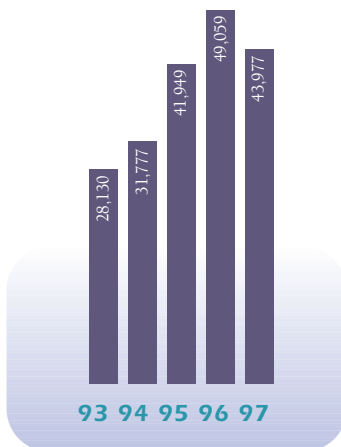
Securities

¥ billion



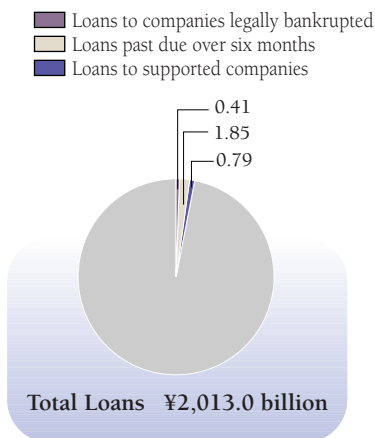
Foreign Exchange Transactions

US\$ million



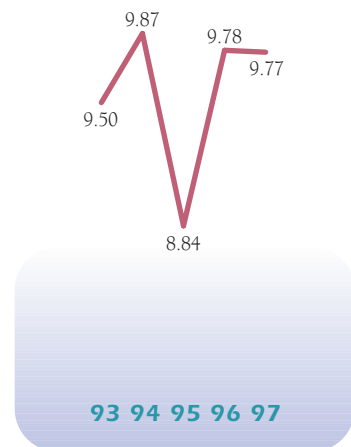
Non-Performing Loans

%



Capital Adequacy Ratio

%



Overview

The economies of Shizuoka and Kanagawa prefectures, the Bank's main business base, mirrored the economy of the nation as a whole by continuing on a mild recovery path, supported by private demand. Housing investment was generally favorable, and consumer spending was firm, centered on durable goods. Against a background of increased production, businesses continued to steadily step up capital investment. Exports showed signs of rallying in the second half of the term, thanks in part to the depreciation of the yen. There were some signs of movement toward a self-sustaining economic recovery, with firmness in industrial production indirectly causing an increase in household spending. Nevertheless, a feeling of true full-scale economic recovery remained lacking.

In financial markets, with the official discount rate remaining at a historical low 0.5%, market interest rates also remained at a low level. Demand for funds from business was weak, reflecting a feeling of caution in some quarters of the business community.

In the foreign exchange market, the dollar started the year at the ¥104 level and with the yen depreciating throughout the term, ended the year at the ¥120 level. On the stock market, the Nikkei average finished calendar 1996 at the ¥20,000 level, but thereafter plunged, finishing the fiscal year at the ¥18,000 level.

Deposits

Amid historically low interest rates on deposits, we strove to strengthen deposit-taking activities and improve services. While individual deposits rose substantially, liquidity in hand fell, centered on large companies. Consequently, deposits, including negotiable certificates of deposit, fell ¥72,025 million to ¥2,793,829 million (US\$22,513 million).

Loans and Bills Discounted

Amid generally low demand for funds from business, we worked to promote lending activities, focusing on individual customers. As a result, loans to individual customers rose ¥89,410 million. However, overall loans fell ¥27,401 million to ¥2,013,019 million (US\$16,221 million). Loans to small and medium-sized companies (including loans to individuals) rose by 1.70%, or ¥27,664 million, accounting for 82.39% of all loans. As of March 31, 1997, the ratio of loans to deposits was 72.05%.

Securities

The Bank strove to efficiently invest funds. As a result, total holding of investment securities amounted to ¥610,314 million (US\$4,918 million). Holdings of national government bonds rose ¥2,488 million, and holdings of regional government and corporate bonds fell ¥537 million. The balance of trading account securities fell by ¥20,128 million, amounting to ¥7 million (US\$0.06 million) at year-end. The ratio of securities to deposits stood at 21.84%.

Foreign Exchange Transactions

As a result of placing importance more on profitability than volume, foreign exchange transactions fell by US\$5,082 million from the previous term to US\$43,977 million. Trade-related foreign exchange transactions amounted to US\$491 million.

Earnings

Due to a fall in the yield on loans, interest margins on deposits and loans shrank 0.15 of a percentage point to 0.71%, while interest margins on total funds shrank 0.09 of a percentage point to 0.66%. However, an increase in loans to individuals contributed to a rise in net operating profit of 0.6% to ¥26,198 million (US\$211 million).

To increase fund soundness, the Bank disposed of non-performing loans to the greatest extent possible. As a result, net income fell 65.5% to ¥1,274 million (US\$10 million).

Non-Performing Loans

Loans to companies legally bankrupted totaled ¥8,256 million (US\$67 million), while loans past due over six months totaled ¥37,394 million (US\$301 million), for a total of ¥45,650 million (US\$368 million) in non-performing loans, representing 2.27% of all loans. There are currently no outstanding loans with interest reduced or exempted. As of March 31, 1997, loans to companies receiving management support totaled ¥16,080 million (US\$130 million).

Capital Adequacy Ratio

Without any subordinated debt, the Bank's capital adequacy ratio according to BIS standards remained approximately in line with the previous term at 9.77%.

Balance Sheets

The Suruga Bank, Ltd. March 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Assets			
Cash and cash equivalents	¥ 137,172	¥ 103,341	\$ 1,105,334
Due from banks	92,223	137,368	743,135
Call loans	110,086	112,259	887,075
Commercial paper and other debt purchased	15,543	10,025	125,246
Trading account securities	7	20,135	56
Money trusts	14,000	9,500	112,812
Investment securities (Note 3)	610,314	594,701	4,917,921
Loans and bills discounted (Note 4)	2,013,019	2,040,420	16,220,943
Foreign exchange (Note 5)	4,744	3,407	38,227
Other assets	11,881	11,698	95,737
Premises and equipment (Note 6)	42,918	43,163	345,834
Customers' liabilities for acceptances and guarantees (Note 8)	28,421	28,869	229,017
Total assets	¥3,080,334	¥3,114,892	\$24,821,386
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 7)	¥2,793,829	¥2,865,854	\$22,512,724
Call money	64,710	26,906	521,434
Borrowed money	507	541	4,085
Foreign exchange (Note 5)	31	30	250
Other liabilities	25,976	37,005	209,315
Reserve for possible loan losses	34,748	23,497	280,000
Reserve for retirement allowances	3,867	3,606	31,160
Other reserves	3,037	2,978	24,472
Acceptances and guarantees (Note 8)	28,421	28,869	229,017
Total liabilities	2,955,131	2,989,289	23,812,498
Shareholders' equity			
Common stock	30,043	30,043	242,087
Capital surplus	18,585	18,585	149,758
Legal reserve (Note 9)	24,580	22,846	198,066
Voluntary reserves	50,172	50,172	404,287
Retained earnings (Note 12)	1,821	3,954	14,674
Total shareholders' equity	125,203	125,602	1,008,888
Total liabilities and shareholders' equity	¥3,080,334	¥3,114,892	\$24,821,386

See notes to financial statements.

Statements of Income and Retained Earnings

The Suruga Bank, Ltd. Years ended March 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Income			
Interest income:			
Interest on loans and discounts	¥ 63,647	¥ 76,987	\$ 512,869
Interest and dividends on securities	24,126	25,832	194,408
Other	1,308	1,787	10,540
Fees and commissions	5,306	5,217	42,756
Other operating income	4,615	6,427	37,188
Other income (Note 10).....	16,429	956	132,385
Total income	115,433	117,208	930,161
Expenses			
Interest expenses:			
Interest on deposits	24,682	40,436	198,888
Interest on borrowings and rediscounts	2,757	2,131	22,216
Other	2,958	1,787	23,836
Fees and commissions	2,331	2,098	18,783
Other operating expenses	2,131	6,739	17,172
General and administrative expenses	39,428	37,130	317,712
Other expenses (Notes 10 and 11)	30,646	12,139	246,946
Provision for other reserves	58	17	467
Total expenses	104,994	102,482	846,044
Income before income taxes	10,439	14,726	84,118
Provision for income taxes (Note 11)	9,165	11,030	73,852
Net income	1,274	3,696	10,266
Retained earnings:			
Balance at beginning of the year	3,954	4,306	31,861
Deductions:			
Transfer to legal reserve	1,734	2,634	13,973
Dividends paid	1,613	1,344	12,998
Bonuses to directors and statutory auditors	60	70	483
Balance at end of the year	¥ 1,821	¥ 3,954	\$ 14,674

See notes to financial statements.

Statements of Cash Flows

The Suruga Bank, Ltd. Years ended March 31, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Cash flows from operating activities			
Net income	¥ 1,274	¥ 3,696	\$ 10,266
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Provision for loan losses	11,251	8,338	90,661
Provision for other reserves	59	18	475
Provision for depreciation and amortization	2,664	2,696	21,467
Provision for retirement allowances	261	231	2,103
Amortization of discounts on investment securities	1,370	6,572	11,039
Realized and unrealized (gain) loss on investment securities	(4,462)	254	(35,955)
(Gain)/loss on dispositions of premises and equipment	(7,656)	13	(61,692)
Changes in operating assets and liabilities:			
Trading and investment securities	30,388	(33,874)	244,867
Loans and bills discounted	27,401	(23,355)	220,798
Interest receivable	1,695	(784)	13,658
Interest payable	(4,119)	(6,677)	(33,191)
Income taxes payable	(5,502)	5,640	(44,335)
Foreign exchange, net	(1,336)	312	(10,766)
Net cash provided by (used in) operating activities	53,288	(36,920)	429,396
Cash flows from investing activities			
Purchases of stock and other securities	(14,275)	(1,830)	(115,028)
Purchases of premises and equipment	(5,380)	(3,163)	(43,352)
Proceed from sales of stock and other securities	12,015	138	96,817
Proceed from sales of premises and equipment	10,616	470	85,544
Net increase in money trusts	(4,500)	—	(36,261)
Decrease (increase) in other assets	17,995	(34,681)	145,004
Net cash provided by (used in) investing activities	16,471	(39,066)	132,724
Cash flows from financing activities			
Net (decrease) increase in deposits	(72,025)	50,895	(580,379)
Net increase (decrease) in borrowed money	37,770	(347)	304,351
Dividends paid and bonuses to directors and statutory auditors	(1,673)	(1,414)	(13,481)
Net cash (used in) provided by financing activities	(35,928)	49,134	(289,508)
Increase (decrease) in cash and cash equivalents	33,831	(26,852)	272,611
Cash and cash equivalents at beginning of year	103,341	130,193	832,724
Cash and cash equivalents at end of year	¥137,172	¥103,341	\$1,105,334

See notes to financial statements.

Notes to Financial Statements

The Suruga Bank, Ltd. Years ended March 31, 1997 and 1996

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The Suruga Bank, Ltd. (the "Bank") maintains its accounting records and prepares its financial statements in accordance with accounting principles and practices generally accepted in Japan, the Commercial Code of Japan and the Banking Law of Japan. The accompanying financial statements have been compiled from the financial statements filed with the Minister of Finance as required by the Banking Law of Japan and the Securities and Exchange Law of Japan. Statements of cash flows have been prepared for the purpose of inclusion in the accompanying financial statements, although such statements are not customarily prepared in Japan. For the purposes of reporting cash flows, cash and cash equivalents include cash and due from the Bank of Japan.

These statements do not include the accounts of subsidiaries as they are not deemed material.

(b) Trading Securities

Trading securities represent national government bonds. Bonds quoted on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Unlisted bonds are valued at cost by the moving average method.

(c) Investment Securities

Investment securities quoted on stock exchanges (convertible bonds and corporate stock) are valued at the lower of cost or market, cost being determined by the moving average method. Other securities are valued at cost by the moving average method.

(d) Premises and Equipment

In accordance with the Rules for Bank Accounting, depreciation of bank premises is calculated by the declining-balance method at 160% of the standard rate stipulated in the Corporation Tax Law; depreciation of equipment is determined by the declining-balance method at rates stipulated in the Corporation Tax Law; other assets are depreciated in accordance with the methods stipulated in the Corporation Tax Law.

(e) Reserve for Possible Loan Losses

The reserve for possible loan losses is composed of a general reserve which is based on a fixed percentage of certain outstanding loans as specified in the Corporation Tax Law and the Rules for Bank Accounting, and an additional reserve for special purposes which is provided at the maximum amount permitted.

(f) Reserve for Retirement Allowances

This reserve for retirement allowances is stated at 100% of the amount which would be required to be paid if all eligible employees voluntarily terminated their employment as of the balance sheet date, in accordance with the Rules for Bank Accounting. In addition, the Bank has contributory pension plans covering substantially all employees.

2. Japanese Yen and U.S. Dollar Amounts

The Japanese yen amounts in the accompanying financial statements are presented in millions, with fractions omitted.

Amounts stated in U.S. dollars are translated from Japanese yen, solely for convenience, at ¥124.10 = U.S.\$1.00, the exchange rate prevailing on March 31, 1997. The translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at the above or any other rate.

3. Investment Securities

Investment securities at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
National government bonds...	¥210,670	¥208,182	\$1,697,583
Local government bonds.....	45,063	71,163	363,118
Corporate bonds	188,435	162,872	1,518,413
Corporate stocks	66,331	58,848	534,496
Other securities	99,813	93,633	804,295
Total	¥610,314	¥594,701	\$4,917,921

4. Loans and Bills Discounted

Loans and bills discounted at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Bills discounted	¥ 39,664	¥ 51,270	\$ 319,613
Loans on bills	474,024	541,931	3,819,694
Loans on deeds	1,205,312	1,128,990	9,712,425
Overdrafts	294,017	318,228	2,369,194
Total	¥2,013,019	¥2,040,420	\$16,220,943

The balance of the Bank's loans and bills discounted includes loans currently under bankruptcy procedures, loans past due with respect to interest payments for a period of more than six months, and restructured loans on which interest rates have been reduced to below the official discount rate or on which interest has not been received. Effective April 1, 1996, the Bank disclosed its loans to borrowers under financial support programs which are classified as loans to supported companies. Under these financial support

programs, the Bank has waived the repayment of principal and charged off the loans for financial and tax purposes with the approval of the tax authorities. The balances of such loans at March 31, 1997 and 1996 was as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Loans in bankruptcy	¥ 8,256	¥ 6,421	\$ 66,527
Loans past due	37,394	31,882	301,322
Loans restructured	—	1,979	—
Loans to supported companies...	16,080	—	129,573
Total	¥61,731	¥40,282	\$497,429

5. Foreign Exchange

Foreign exchange assets and liabilities at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Assets:			
Due from foreign banks	¥ 367	¥ 382	\$ 2,957
Foreign bills of exchange bought	486	515	3,916
Foreign bills of exchange receivable	3,890	2,509	31,346
Total	¥4,744	¥3,407	\$38,227
Liabilities:			
Due to foreign banks	¥ 2	¥ 4	\$ 16
Foreign bills of exchange sold	29	25	234
Total	¥31	¥30	\$250

6. Premises and Equipment

Premises and equipment at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Land	¥17,888	¥19,107	\$144,142
Buildings	26,430	27,274	212,973
Furniture and equipment	19,564	17,764	157,647
Construction in progress	92	45	741
Guarantee money	4,626	3,837	37,276
	68,602	68,029	552,796
Less accumulated depreciation ..	(25,683)	(24,866)	(206,954)
Premises and equipment, net	¥42,918	¥43,163	\$345,834

7. Deposits

Deposits at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Current deposits	¥ 69,391	¥ 98,256	\$ 559,154
Ordinary deposits	391,842	410,203	3,157,470
Deposits at notice	72,586	42,619	584,899
Time deposits	1,912,384	1,933,976	15,410,024
Other deposits	338,317	374,417	2,726,164
Subtotal	2,784,522	2,859,473	22,437,728
Negotiable certificates of deposit	9,307	6,381	74,996
Total	¥2,793,829	¥2,865,854	\$22,512,724

8. Acceptances and Guarantees

The Bank provides guarantees for the liabilities of its customers for the payment of loans from other financial institutions. As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side of the balance sheets, indicating the Bank's right of indemnity from the customers.

9. Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20% of cash dividends paid and other cash outflows from retained earnings must be appropriated to the legal reserve until such reserve equals 100% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to common stock.

10. Other Income and Expenses

Other income and expenses at March 31, 1997 and 1996 were as follows:

	Millions of yen		Thousands of
	1997	1996	U.S. dollars
Other income:			
Gain on sales of stocks and other securities.....	¥6,838	¥ 1	\$ 55,101
Gain on dispositions of premises and equipment	8,071	251	65,036
Other	1,519	704	12,240
Total	¥16,429	¥956	\$132,385
Other expenses:			
Provision for possible loan losses.....	¥16,573	¥ 8,418	\$133,546
Enterprise tax	2,561	3,097	20,637
Loss on devaluation of stock and other securities.....	1,615	70	13,014
Loss on financial assistance to supported companies	8,181	—	65,923
Other.....	1,714	553	13,811
Total	¥30,646	¥12,139	\$246,946

11. Income Taxes

Income taxes applicable to the Bank comprise corporation, inhabitants' and enterprise taxes. Enterprise tax is included in "Other expenses" in the accompanying statements of income and retained earnings.

In accordance with accounting practices in Japan, deferred income taxes pertaining to timing differences between financial and tax reporting are not recognized.

12. Subsequent Event

At a shareholders' meeting held on June 27, 1997, the shareholders duly approved the following year-end appropriations of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥2.5 = U.S.\$0.020 per share)	¥672	\$5,415
Transfer to legal reserve	200	1,612

Report of Independent Certified Public Accountants



■ Certified Public Accountants
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■ Phone: 03 3503-1100
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The Board of Directors
The Suruga Bank, Ltd.

We have examined the balance sheets of The Suruga Bank, Ltd. as of March 31, 1997 and 1996, and the related statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements, expressed in Japanese yen, present fairly the financial position of The Suruga Bank, Ltd. at March 31, 1997 and 1996, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying financial statements with respect to the year ended March 31, 1997 are presented solely for convenience. Our examination also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the financial statements.

Showa Ota & Co.

June 27, 1997

Corporate Directory

Board of Directors and Corporate Auditors

President

Mitsuyoshi Okano

Deputy President

Kinosuke Okano

Senior Managing Director

Kakuma Horiuchi

Managing Directors

Seiji Inui

Hiroshi Miyazaki

Hamataro Hirano

Satoshi Ishikawa

Directors

Hiroo Goto

Yuzaburo Kamano

Yoshinori Sano

Toshiki Hoshino

Hirosuke Ogawa

Fumio Shumiya

Masataka Oiwa

Atsushi Okamura

Ryozo Kinoshita

Takehiko Katsumata

Standing Corporate Auditors

Eisaku Ohata

Masao Masuda

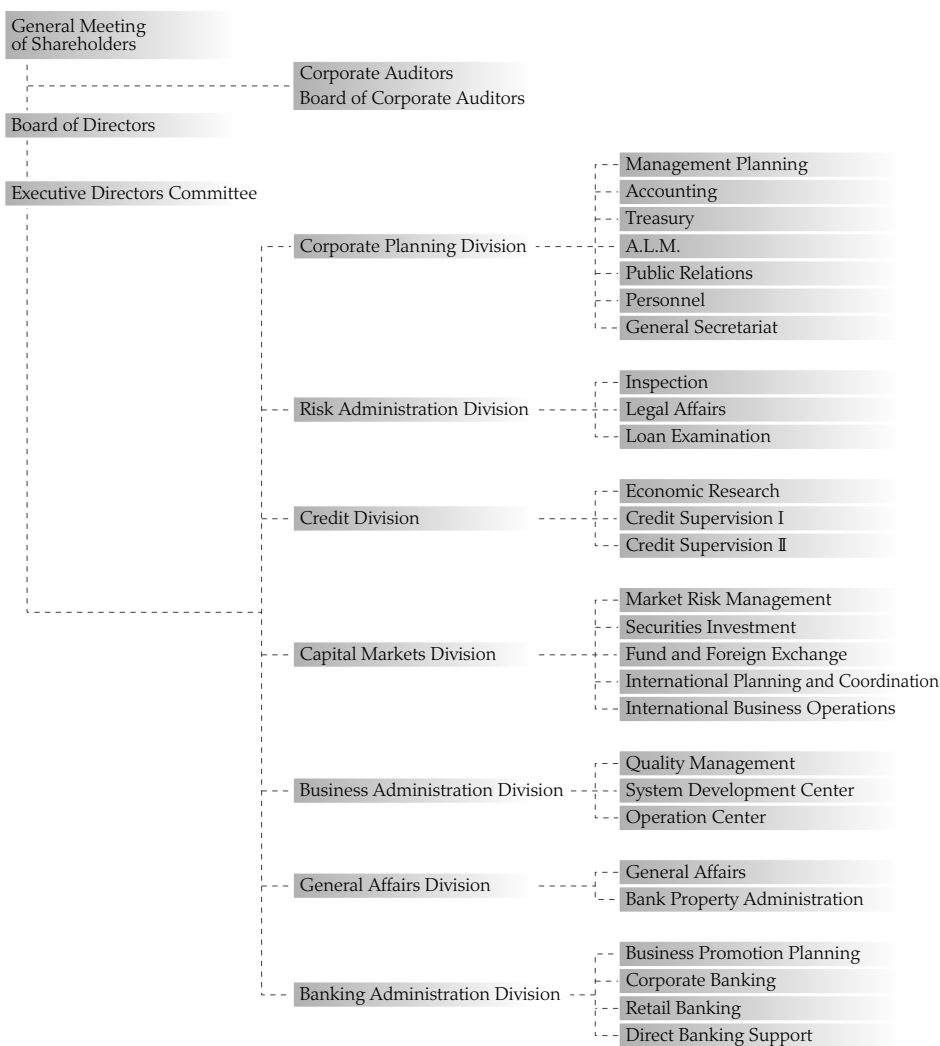
Corporate Auditors

Nobuhiko Mochizuki

Yutaka Goto

(as of June 27, 1997)

Organization



(as of April 1, 1997)

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