

A photograph of a modern bank lobby with a hexagonal tile floor, a glass elevator, and people in business attire. A dark rectangular box with a white border is centered over the image, containing the text 'SURUGA BANK' and 'ANNUAL REPORT'.

SURUGA BANK

ANNUAL REPORT

1998

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, 1998, the Bank had total assets of ¥2,976 billion (US\$22,532 million) and a capital adequacy ratio of 9.74% according to BIS standards.

At year-end the Bank's network consisted of 123 offices, including a main office, 116 domestic branches, six sub-branches. In addition, the Bank had an overseas subsidiary in Brussels.

Millions of Yen					Thousands of U.S. Dollars
1998	1997	1996	1995	1994	1998

For the year:

Total income	¥ 118,576	¥ 115,433	¥ 117,208	¥ 118,397	¥ 132,103	\$ 897,623
Total expenses	110,708	104,994	102,482	107,995	122,900	838,062
Income before income taxes	7,868	10,439	14,726	10,402	9,202	59,560
Net income.....	1,219	1,274	3,696	3,931	3,521	9,227

Per share of common stock (in yen and dollars):

Net income.....	¥4.53	¥4.73	¥13.74	¥14.61	¥13.09	\$0.034
Cash dividends applicable to the year	5.00	5.00	6.00	5.00	5.00	0.038

At year-end:

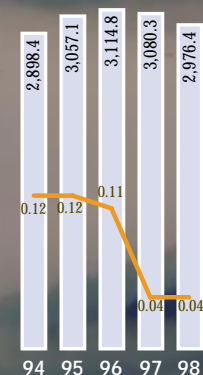
Deposits.....	¥2,702,079	¥2,793,829	¥2,865,854	¥2,814,959	¥2,632,947	\$20,454,799
Loans and bills discounted	2,014,085	2,013,019	2,040,420	2,017,065	1,842,601	15,246,669
Securities	490,930	610,314	594,701	551,244	488,009	3,716,351
Shareholders' equity.....	125,078	125,203	125,602	123,320	120,803	946,843
Total assets	2,976,435	3,080,334	3,114,892	3,057,170	2,898,491	22,531,680

Capital adequacy ratio (%)	9.74	9.77	9.78	8.84	9.87	
Number of offices	123	135	139	137	141	
Number of employees.....	2,353	2,474	2,544	2,636	2,714	

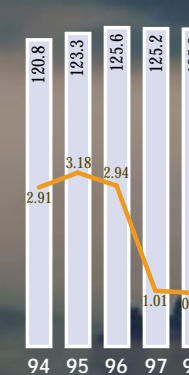
Notes: 1. Yen figures are rounded down to the nearest million yen.
 2. U.S. dollar figures have been converted from Japanese yen, solely for convenience, at the rate of ¥132.10=US\$1, which prevailed at March 31, 1998.
 3. Net income per share is calculated on the basis of the average number of common stock outstanding each year.

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Total Assets / ROA
¥ billion / %



Shareholders' Equity / ROE
¥ billion / %



Net Income
¥ billion



Message from the President

Operating Environment and Performance

Looking back at the Japanese economy during fiscal 1997, the term ended March 31, 1998, consumer spending and housing investment cooled off due to factors such as a hike in the consumption tax effective from April 1, 1997, leading to an overall decline in domestic demand. Furthermore, with unease over the financial system and the employment situation growing due to the collapse of number of large financial institutions, domestic demand was depressed. Likewise, the economies of Shizuoka and Kanagawa prefectures, the Bank's principal business base, saw sluggish consumer spending and housing investment, with private capital investment also reversing course toward a more cautious stance. As a result, the perception of an economy in full retreat gained further ground.

In the financial markets, against the backdrop of the official discount rate remaining at its historic low of 0.5% and the ensuing low interest rates, the exchange rate of the yen against the U.S. dollar reversed course and entered a downtrend, spurred by factors such as unease over the financial system starting in the second half of the term. Stock prices trended downward, after a temporary recovery had fizzled out.

In this kind of financial and economic environment, the Bank, in a bid to promote transactions with individuals and small and medium-sized regional enterprises, strove to expand the scope of business and increase efficiency, always with its contribution to regional society in mind. Furthermore, in response to the introduction of Prompt Corrective Action measures, the Bank, beginning with the term under review,

vigorously pushes ahead with improving the soundness of its assets based on self-assessment.

As a result, the balance of deposits declined ¥92 billion to a term-end total of ¥2,702 billion (US\$20,455 million), while the balance of loans and bills discounted increased ¥1 billion to ¥2,014 billion (US\$15,247 million), with consumer loans showing a rise of ¥39 billion thanks to our vigorous efforts to attract this segment of borrowers.

As a result of efficient fund procurement and fund usage and the streamlining of business, gross operating profit rose ¥5.3 billion from the previous term, to ¥69.5 billion (US\$526 million). Beginning with the term under review, however, we introduced asset self-assessment and therefore proceeded with the disposal of bad debt in order to improve the soundness of our assets. As a result, net profit after tax for the term decreased 4.32% to ¥1.2 billion (US\$9 million). Our capital adequacy ratio at term-end according to uniform international standards stood at 9.74%, practically unchanged from the previous term-end.

Outlook and Issues to Be Addressed

Against the background of Japanese economy increasingly perceived as being in recession, the environment for the financial industry is undergoing drastic change as a result of Japan's "Big Bang" financial reforms, with deregulation accelerating and competition intensifying across national borders and different industries.



introduced a corporate executive officer system, in addition to slimming down the Board of Directors. These measures were taken to speed up the corporate decision-making process, to increase management flexibility, and to clearly separate the functions of execution of duty and supervision of the execution of duty. We

In the future, the further upgrading of financial technology in response to customer needs, the creation of a firm management structure based on the principle of self-responsibility, and winning public trust on the basis of ethical corporate conduct will be more important than anything else. As for risk management, which is becoming increasingly complex, we are pursuing unified control through systemization, while treating this area with the utmost care and attention. We are thus striving to stabilize our management by avoiding losses and preserving adequate shareholders' equity, and to maximize earnings by optimally allocating management resources and controlling risk. Furthermore, in order to ensure ethical corporate conduct based on a compliance system, the Bank has set up an Corporate Superintendence Committee and

will continue our efforts to develop new financial products and services and pursue diversification of our sales channels by making good use of information and telecommunications technology, with the aim of being a bank that offers the best services which ensure maximum customer satisfaction.

Mitsuyoshi Okano
President

Aiming to Become a “New Age” Bank

Compliance System

With the start of Japan’s “Big Bang” financial reforms, the environment surrounding the financial industry is undergoing major changes. Making compliance a top management priority, Suruga Bank has established ethical standards as part of its Bank regulations, in order to improve the ethical awareness of all staff and directors. In addition, since March 1998 we have been holding weekly compliance training meetings for all our employees, from directors to part-time staff.

In December 1997 we established the position of compliance officer in the Corporate Planning Division as a position that unifies all compliance functions. Further, in March 1998 we

established an Corporate Superintendence Committee as a body to check the legality of management activities, in a bid to reform our inspection system, thereby strengthening our system of internal controls.

In addition, we have assigned members of staff in every division and at every branch to be responsible for compliance, who will clarify ethical issues in everyday business activities in every division and at every branch, allowing each and every member of staff to continually check their own activities and corporate activities, leading to the proper conduct of business. In this way we are working to further improve our compliance system.



Risk Management System

Credit Risk Management

In order to maintain or even improve the soundness of our loan assets amid this economic slump, we are working to further strengthen and enhance our credit policy, screening, loan examination, and monitoring capabilities, and, using an integrated system that performs these functions, to build a loan portfolio that is well balanced in terms of industry, geographical region, size, and other factors. In this way we are working to thoroughly take on Prompt Corrective Action with even stricter screening.

The credit division has been separated from operating divisions, in order to maintain their independence and objectivity.

Further, the Bank has established a corporate rating system that uses internal uniform standards to assess a borrower’s creditworthiness based on data accumulated during financing operations, creating a system that can maintain accurate credit screening for each individual loan, based on an analysis of

corporate studies, including financial information. We are also working to improve our credit risk management system by, for example, measuring lending risk, which affects fund management across the board, and employing adequate pricing based on ratings.

In loan examination, by assigning positions responsible for management, inspection, and legal affairs, and working in cooperation with the inspection divisions, we are working to further strengthen the management of operations with a view to increasing operational soundness. At the same time, in line with the introduction of the self-assessment of assets, we have created a system that accurately and strictly performs the self-assessment of loan assets by establishing a credit risk administration position within the Risk Administration Division.

Further, we are carrying out training, particularly for those responsible for lending at branches, based on curricula tailored to job type and level, in order to improve asset self-assessment and credit screening capabilities.

Operational Risk Management

Financial liberalization has increased both the diversity and the sophistication of financial products, increasing in turn the complexity of operations for financial institutions and increasing the risks involved in clerical processing. The Bank has established rigorous clerical processing standards for every kind of clerical work that it handles, and the Risk Administration Division carries out regular internal inspections based on these standards. In addition, the Business Administration Division also implements clerical work guidance.

Further, we are working for accurate and speedy clerical processing at the branches by strictly enforcing the basic rules of clerical work through branch self-inspections whenever necessary.

In market transactions, we have clearly separated front office from back office operations, thus establishing a system of mutual checks and balances.

As for EDP risk, which comes as a part of computer processing, we are working to maintain a strict systems operation system by continually carrying out systems inspections. The computer, which can process large amounts of clerical work accurately and quickly, has become a key instrument in Bank operations. We are striving to greatly reduce the burden of clerical work at the branches by vigorously pushing forward with the centralization and automation of clerical work, while being aware of and taking steps against risks.

The Bank is thus working to improve the accuracy of its clerical work and upgrade its clerical processing by raising its employees' awareness that trust starts with accurate clerical processing.

Further, in light of its geographical location, the Bank has constructed a backup system to guard against earthquakes and other disasters for a long period. It is a diverse backup system that uses not only the Bank's own high-speed fiber optic digital network but also satellite-based communications networks.



Market Risk Management

The Bank complements its support systems for market risk and liquidity risk management by accurately forecasting changes in the economic and financial environments, such as trends in the economy, and interest rate and exchange rate movements, in order to reinforce its risk analysis, identification, and avoidance capabilities. Assets/Liabilities Management (ALM) is a method of managing assets and liabilities comprehensively across the whole bank in this way. Suruga Bank has an ALM system that comprehensively

manages the whole Bank while maintaining a sound balance between risk and return.

The ALM committee maintains close contact with top-level management as a committee offering guidance on determining the Bank's funds, bond, foreign exchange, and other positions, based on trends in interest rates and exchange rates, and the sensitivity of deposits and loans to changes in interest rates, thereby enhancing risk control and profit management.

Reforming the Board of Directors and Introducing a System of Corporate Executive Officers

Effective from fiscal 1998, the Bank has slimmed down its Board of Directors in order to speed up the decision-making process and improve the flexibility of management. In addition, it has introduced a system of corporate executive officers in order to clearly define and separate the execution of duty and the supervision of the execution of duty.

Financial reforms to bring about global, free, and fair financial and capital markets are now in full swing. In line with this, there are vociferous calls for making the corporate structure of banks even more robust, in order to further improve the credibility of management.

Our reform of the Board of Directors and introduction of a system of corporate executive officers is designed to improve the vitality of management from the viewpoint of corporate governance by establishing management policies and clearly defining and separating the execution of duty and the supervision of the execution of duty.

Further, we will continue to reform our management systems and thoroughly rationalize and streamline our operations in order to give top priority to offering services that can satisfy our customers, with an eye to changing ourselves into a financial "service industry" company that develops along with the people of the region.

Reforming the Board of Directors

- The Bank's Board of Directors is an organ that sets basic management policies and supervises the execution of duty, in addition to the duties stipulated under the Commercial Code.
- The number of members of the Board of Directors has been reduced in order to facilitate lively and exhaustive discussion, and to accelerate the decision-making process.

We are proceeding with clearly separating the functions of those directors who set basic strategic management policies and supervise the execution of duty from those corporate executive officers who actually execute duties, in order to increase the transparency of management.

Introduction of a System of Corporate Executive Officers

- We have introduced a system of corporate executive officers in order to strengthen the executive functions of representative directors in the execution of their duties, based on supervision in accordance with the basic policies set by the Board of Directors.
- The corporate executive officers are elected by the Board of Directors. Their term of office is one year, and the representative directors transfer their authority to them so that they can execute their duties.
- The corporate executive officers form the Corporate Executive Officers Committee, and their brief is to implement speedy and appropriate operational management.



Suruga Bank's Ratings Upgraded

In May 1997 the major U.S. rating agency Moody's Investors Service upgraded our financial rating by two ranks to C, our long-term debt rating by two ranks to A 2, and our short-term debt rating to Prime-1, the highest rank. This was in appreciation of our favorable business profit, the sound level of shareholders' equity as compared with the amount of non-performing loans, and the large proportion of personal loans.

This improvement in the ratings recognizes the soundness of the Bank's asset portfolio and means that the Bank now ranks among the top-rated Japanese banks.

We will pursue the further upgrading of our ratings by building an even sounder financial structure.

Column

"Access Center" Opened

In August 1997 we opened Access Center, a large-scale call center, in a bid to further expand customer service. With developments such as an increase in double-income households, the points of contact between the Bank and its customers are diversifying. As a new point of contact with customers who are unable to visit the Bank during normal business hours, the role of call centers has further grown in importance. In addition to approximately 60 operators, our Access Center boasts specialist advisers such as social insurance and labor experts, which enables customers to call toll-free to seek advice on a variety of subjects from home, the workplace, "access plazas," and other places, without having to actually visit a Bank branch.

"Telenet" Telephone Banking

In November 1997 we introduced Telenet, a telephone banking service that allows customers to smoothly conduct banking transactions through a single telephone line from the comfort of their home or the

workplace. The service covers a variety of transactions such as remittances, account transfers, opening of an account, balance inquiries, home delivery of travelers' checks, and opening and closing of a foreign-currency account.

Furthermore, we have established a system of preferential interest rates for time deposits made through Telenet, which has been well received as a convenient and advantageous service.

Suruga JCB Card Launched

In January 1998 we launched the Suruga JCB card. As a token of our gratitude for using Suruga Bank for various transactions such as salary remittance, all kinds of installment savings accounts, and automatic payment of public utility fees, we offer an exclusive service to those customers of Suruga Bank by adding extra points to the JCB points that can be exchanged for presents, based on the volume of transactions with Suruga Bank. Card holders also enjoy privileges such as preferential interest rates on time deposits and various loan products.



Participation in Joint Electronic Commerce (EC) Trials for Regional Banks

From October 1997 to March 1998, 19 regional banks jointly operated a virtual shopping mall on the Internet and conducted electronic commerce trials involving the actual buying and selling of products, in a bid to accumulate the know-how necessary for the settlement of electronic commerce transactions via a bank account. With the impending advent of a "network society," electronic fund settlement for purchases is expected to gain further ground, and we remain committed to research and development by active participation in experiments in new business fields.

Expansion of Foreign Exchange Branches

Effective from April 1998, we increased the number of foreign exchange branches from 16 to 94, and the number of money exchange branches from the existing 85 to 109, out of a total network of 123 domestic

branches. In response to increasingly diversifying customer needs in areas such as foreign currency deposits, for which growth is predicted, we will continue to push forward with, for example, the introduction of new foreign exchange computer systems and the strengthening of our centralized processing system for the foreign exchange operations center at head office.

Meanwhile, with a revised Foreign Exchange and Foreign Trade Law now in force, it has become possible to conduct various kinds of foreign exchange transactions domestically. In addition, with a view to building a firm corporate structure capable of coping with Japan's "Big Bang," we have taken a fresh look at the Bank's overall operations in order to 1) further improve management efficiency and 2) better allocate the Bank's management resources. As a result, we closed both our overseas branches in New York and Hong Kong in March 1998.

Financial Review

Overview

Mirroring the national economy, the economies of Shizuoka and Kanagawa prefectures, the Bank's principal business base, saw a continued decline in consumer spending, centering on durable goods, sluggish housing investment, and a switch in corporations' stance on capital investment toward greater caution. Moreover, weak domestic demand led to increased inventory adjustment and production cuts, which in turn caused corporate earnings to drop and the employment situation to worsen, thus trapping the economy in a vicious circle. As a result, the perception of an economy in full retreat gained further ground.

Deposits

Against a background of the lowest deposit interest rates ever, we conducted vigorous deposit-taking activities and endeavored to enhance services. As a result, individual deposits rose steadily. However, liquidity in hand, centering on deposits from large corporations, fell. This and other factors led to a decline of ¥92 billion in deposits at term-end to ¥2,702 billion (US\$20,455 million).

Loans and Bills Discounted

With demand for funds from business remaining depressed, we actively strove to attract borrowers from among individuals and the region's small and medium-sized companies, with the focus of our efforts on individual customers. Consequently, consumer loans rose ¥39 billion, with overall loans increasing ¥1 billion to a term-end total of ¥2,014 billion (US\$15,247 million). The share of loans to small and medium-sized companies (including loans to individuals) remained virtually unchanged from the previous term at 82.1%. As of the end of the term, the ratio of loans to deposits stood at 74.53%.

Securities

The Bank endeavored to underwrite national and regional government bonds and to efficiently use funds. As a result, our total holdings of investment securities stood at ¥491 billion (US\$3,716 million), a decline of ¥96 billion from the previous term-end, with national government bonds accounting for ¥24.6 billion, regional government bonds for ¥17.2 billion, and corporate bonds for ¥54.2 billion of this decline.

The balance of trading account securities rose ¥41 million to ¥48 million (US\$0.36 million) at term-end.

The ratio of securities to deposits stood at 18.16%

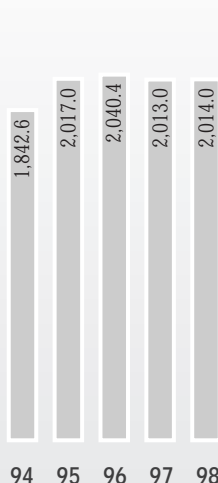
Deposits

¥ billion



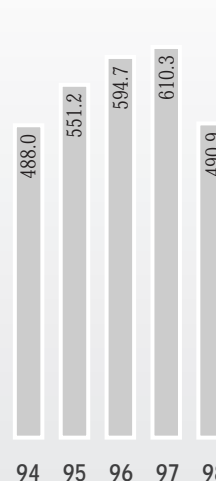
Loans and Bills Discounted

¥ billion



Securities

¥ billion



Foreign Exchange Transactions

The volume of foreign exchange transactions during the term dropped US\$10.3 billion from the previous term, to US\$33.7 billion.

Risk Management

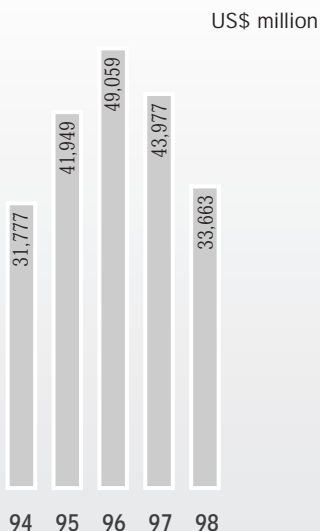
As of the end of the term, loans to legally bankrupt borrowers stood at ¥12.3 billion (US\$93 million), and loans past due six months or more at ¥41.2 billion (US\$312 million). Loans past due three months or more, which are required to be disclosed beginning with the term under review, stood at ¥6.5 billion (US\$50 million), while restructured loans, which were redefined, stood at ¥22.1 billion (US\$167 million). As of the end of the term, loans to borrowers under management support programs totaled ¥13.9 billion (US\$106 million).

Earnings

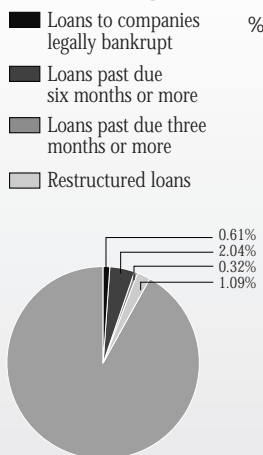
Aiming at efficient fund management, the Bank endeavored to increase its earning power by, for example, thoroughly streamlining and improving the efficiency of its operations. As a result, and thanks to an increase of ¥8 billion in net other income and expenses from, for example, the sale of Japanese government and other domestic bonds, gross operating profit from domestic operations rose 8.53%, or ¥5.3 billion, from the previous term, to ¥67.6 billion (US\$512 million). Gross operating profit from overseas operations fell 2.75%, or ¥54 million, to ¥1.9 billion (US\$14 million). Total gross operating profit for the term increased 8.18%, or ¥5.3 billion, to ¥69.5 billion (US\$526 million). Meanwhile, beginning with the term under review, we introduced asset self-assessment, and in order to boost the soundness of our asset portfolio, we continued with the disposal of non-performing loans. Consequently, net profit after tax for the term decreased 4.32% to ¥1.2 billion (US\$9 million).

The Bank's capital adequacy ratio according to uniform international standards remained practically unchanged from the previous term-end at 9.74%.

Foreign Exchange Transactions



Non-Performing Loans



Total Loans ¥82.1 billion

Capital Adequacy Ratio



Balance Sheets

The Suruga Bank, Ltd. March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Assets			
Cash and cash equivalents	¥ 60,403	¥ 137,172	\$ 457,252
Due from banks	130,441	92,223	987,441
Call loans	85,858	110,086	649,947
Commercial paper and other debt purchased	101,946	15,543	771,733
Trading account securities	48	7	363
Money trusts	9,500	14,000	71,915
Investment securities (Note 3)	490,930	610,314	3,716,351
Loans and bills discounted (Note 4)	2,014,085	2,013,019	15,246,669
Foreign exchange (Note 5)	2,266	4,744	17,153
Other assets	13,902	11,881	105,238
Premises and equipment (Note 6)	43,078	42,918	326,101
Customers' liabilities for acceptances and guarantees (Note 8)	23,971	28,421	181,461
Total assets	¥2,976,435	¥3,080,334	\$22,531,680
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 7)	¥2,702,079	¥2,793,829	\$20,454,799
Call money	58,551	64,710	443,232
Borrowed money	508	507	3,845
Foreign exchange (Note 5)	29	31	219
Other liabilities	17,660	25,976	133,686
Reserve for possible loan losses	44,640	34,748	337,925
Reserve for retirement allowances	3,916	3,867	29,644
Other reserves	0	3,037	0
Acceptances and guarantees (Note 8)	23,971	28,421	181,461
Total liabilities	2,851,356	2,955,131	21,584,829
Shareholders' equity			
Common stock	30,043	30,043	227,426
Capital surplus	18,585	18,585	140,688
Legal reserve (Note 9)	24,915	24,580	188,607
Voluntary reserves	50,172	50,172	379,803
Retained earnings (Note 12)	1,361	1,821	10,302
Total shareholders' equity	125,078	125,203	946,843
Total liabilities and shareholders' equity	¥2,976,435	¥3,080,334	\$22,531,680

See notes to financial statements.

Statements of Income and Retained Earnings

The Suruga Bank, Ltd. Years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Income			
Interest income:			
Interest on loans and discounts	¥ 59,948	¥ 63,647	\$ 453,807
Interest and dividends on securities	22,231	24,126	168,289
Other	6,567	1,308	49,712
Fees and commissions	5,231	5,306	39,598
Other operating income	11,825	4,615	89,515
Other income (Note 10)	9,735	16,429	73,694
Reversal of other reserves	3,037		22,990
Total income	118,576	115,433	897,623
Expenses			
Interest expense:			
Interest on deposits	20,173	24,682	152,710
Interest on borrowings and rediscounts	4,713	2,757	35,677
Other	7,270	2,958	55,034
Fees and commissions	2,269	2,331	17,176
Other operating expenses	1,941	2,131	14,693
General and administrative expenses	39,240	39,428	297,047
Other expenses (Notes 10 and 11)	35,100	30,646	265,707
Provision for other reserves	—	58	—
Total expenses	110,708	104,994	838,062
Income before income taxes	7,868	10,439	59,560
Provision for income taxes (Note 11)	6,648	9,165	50,325
Net income	1,219	1,274	9,227
Retained earnings:			
Balance at beginning of the year	1,821	3,954	13,785
Deductions:			
Transfer to legal reserve	334	1,734	2,528
Dividends paid	1,344	1,613	10,174
Bonuses to directors and statutory auditors	—	60	—
Balance at end of the year	¥ 1,361	¥ 1,821	\$ 10,302

See notes to financial statements.

Statements of Cash Flows

The Suruga Bank, Ltd. Years ended March 31, 1998 and 1997

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1998	1997	1998
Cash flows from operating activities			
Net income	¥ 1,219	¥ 1,274	\$ 9,227
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	9,887	11,251	74,844
(Reversal of) provision for other reserves	(3,037)	59	(22,990)
Provision for depreciation and amortization	2,817	2,664	21,324
Provision for retirement allowances	49	261	370
Amortization of discounts on investment securities	1,386	1,370	10,492
Write-off of loans	7,785	354	58,932
Losses on sales of loans	6,686		50,613
Realized and unrealized gain on investment securities	(2,655)	(4,462)	(20,098)
Gain on disposition of premises and equipment	(554)	(7,656)	(4,193)
Changes in operating assets and liabilities:			
Due from banks	(38,218)	45,145	(289,311)
Commercial paper and other debt purchased	(86,403)	(5,518)	(654,072)
Trading and investment securities	115,656	30,388	875,518
Loans and bills discounted	(1,066)	27,401	(8,069)
Interest receivable	2,263	1,695	17,130
Interest payable	(4,602)	(4,119)	(34,837)
Income taxes payable	(2,132)	(5,502)	(16,139)
Foreign exchange, net	2,478	(1,336)	18,758
Net cash provided by operating activities	11,559	93,269	87,501
Cash flows from investing activities			
Purchases of stock and other securities	(7,485)	(14,275)	(56,661)
Purchases of premises and equipment	(3,780)	(5,380)	(28,614)
Proceeds from sales of stock and other securities	12,441	12,015	94,178
Proceeds from sales of premises and equipment	1,449	10,616	10,968
Net decrease (increase) in money trusts	4,500	(4,500)	34,065
Decrease (increase) in other assets	3,799	(21,986)	28,758
Net cash provided by (used in) investing activities	10,924	(23,510)	82,694
Cash flows from financing activities			
Net decrease in deposits	(91,750)	(72,025)	(694,549)
Net (decrease) increase in borrowed money	(6,158)	37,770	(46,616)
Dividends paid and bonuses to directors and statutory auditors	(1,344)	(1,673)	(10,174)
Net cash used in financing activities	(99,252)	(35,928)	(751,339)
(Decrease) increase in cash and cash equivalents	(76,769)	33,831	(581,143)
Cash and cash equivalents at beginning of year	137,172	103,341	1,038,395
Cash and cash equivalents at end of year	¥ 60,403	¥137,172	\$ 457,252

See notes to financial statements.

Notes to Financial Statements

The Suruga Bank, Ltd. Years ended March 31, 1998 and 1997

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.

Certain amounts previously reported have been reclassified to conform to current year classifications.

(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 Company evaluates the collectibility of its loans based upon its loss experience. The reserve for possible loan losses is composed of a general reserve which is based on the Company's evaluation of its loans, and an additional reserve for special purposes which is provided against possible future losses after consideration of the value of the collateral of the loans.

(f) Reserve for Retirement Allowances

The 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 ¥132.10 = U.S.\$1.00, the exchange rate prevailing on March 31, 1998. 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, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
National government bonds...	¥186,081	¥210,670	\$1,408,637
Local government bonds.....	27,829	45,063	210,666
Corporate bonds	134,215	188,435	1,016,010
Corporate stocks	64,314	66,331	486,858
Other securities	78,488	99,813	594,155
Total	¥490,930	¥610,314	\$3,716,351

4. Loans and Bills Discounted

(1) Loans and bills discounted at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Bills discounted	¥ 34,135	¥ 39,664	\$ 258,402
Loans on bills	442,525	474,024	3,349,924
Loans on deeds	1,209,692	1,205,312	9,157,395
Overdrafts	327,732	294,017	2,480,938
Total	¥2,014,085	¥2,013,019	\$15,246,669

(2) 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, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Loans in bankruptcy	¥12,317	¥ 8,256	\$ 93,239
Loans past due	41,209	37,394	311,953
Loans restructured	—	—	—
Loans to supported companies...	13,948	16,080	105,586
Total	¥67,474	¥61,731	\$510,779

5. Foreign Exchange

Foreign exchange assets and liabilities at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Assets:			
Due from foreign banks	¥ 532	¥ 367	\$ 4,027
Foreign bills of exchange bought	451	486	3,414
Foreign bills of exchange receivable	1,282	3,890	9,704
Total	¥2,266	¥4,744	\$17,153
Liabilities:			
Due to foreign banks	¥ 2	¥ 2	\$ 15
Foreign bills of exchange sold	27	29	204
Total	¥29	¥31	\$219

6. Premises and Equipment

Premises and equipment at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Land	¥17,610	¥17,888	\$133,308
Buildings	26,587	26,430	201,264
Furniture and equipment	20,976	19,564	158,788
Construction in progress	38	92	287
Guarantee money	5,478	4,626	41,468
	70,691	68,602	535,132
Less accumulated depreciation	(27,163)	(25,683)	(209,031)
Premises and equipment, net	¥43,078	¥42,918	\$326,101

7. Deposits

Deposits at March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Current deposits	¥ 62,219	¥ 69,391	\$ 470,999
Ordinary deposits	422,900	391,842	3,201,362
Deposits at notice	56,104	72,586	424,708
Time deposits	1,865,457	1,912,384	14,121,551
Other deposits	295,396	338,317	2,236,154
Subtotal	2,702,079	2,784,522	20,454,799
Negotiable certificates of deposit	—	9,307	—
Total	¥2,702,079	¥2,793,829	\$20,454,799

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 for the year ended March 31, 1998 and 1997 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1998	1997	1998
Other income:			
Gain on sales of stocks and other securities	¥6,649	¥ 6,838	\$50,333
Gain on disposition of premises and equipment	1,291	8,071	9,772
Other	1,793	1,519	13,573
Total	¥9,735	¥16,429	\$73,694
Other expenses:			
Provision for possible loan losses	¥13,607	¥16,573	\$103,005
Enterprise tax	1,851	2,561	14,012
Loss on devaluation of stocks and other securities	3,682	1,615	27,872
Write-off of loans	7,785	354	58,932
Loss on sales of corporate mortgage loans to the Cooperative Credit Purchasing Company, Limited	6,686	—	50,613
Loss on financial assistance to supported companies	—	8,181	—
Other	1,487	1,360	11,256
Total	¥35,100	¥30,646	\$265,707

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 25, 1998, 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.\$0.018 per share)	¥672	\$5,087
Transfer to legal reserve	200	1,514

Report of Independent Certified Public Accountants



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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, 1998 and 1997, 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, 1998 and 1997, 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, 1998 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 25, 1998

Corporate Directory

Board of Directors and Auditors and Corporate Executive Officers

President

Mitsuyoshi Okano

Deputy President

Kinosuke Okano

Senior Managing Director

Kakuma Horiuchi

Managing Directors

Seiji Inui

Hiroshi Miyazaki

Hamataro Hirano

Yuzaburo Kamano

Directors

Hiroo Goto

Toshiki Hoshino

Standing Auditors

Yoshinori Sano

Masataka Oiwa

Auditors

Nobuhiko Mochizuki

Yutaka Goto

Corporate Executive Officers

Hirosuke Ogawa

Atsushi Okamura

Ryozo Kinoshita

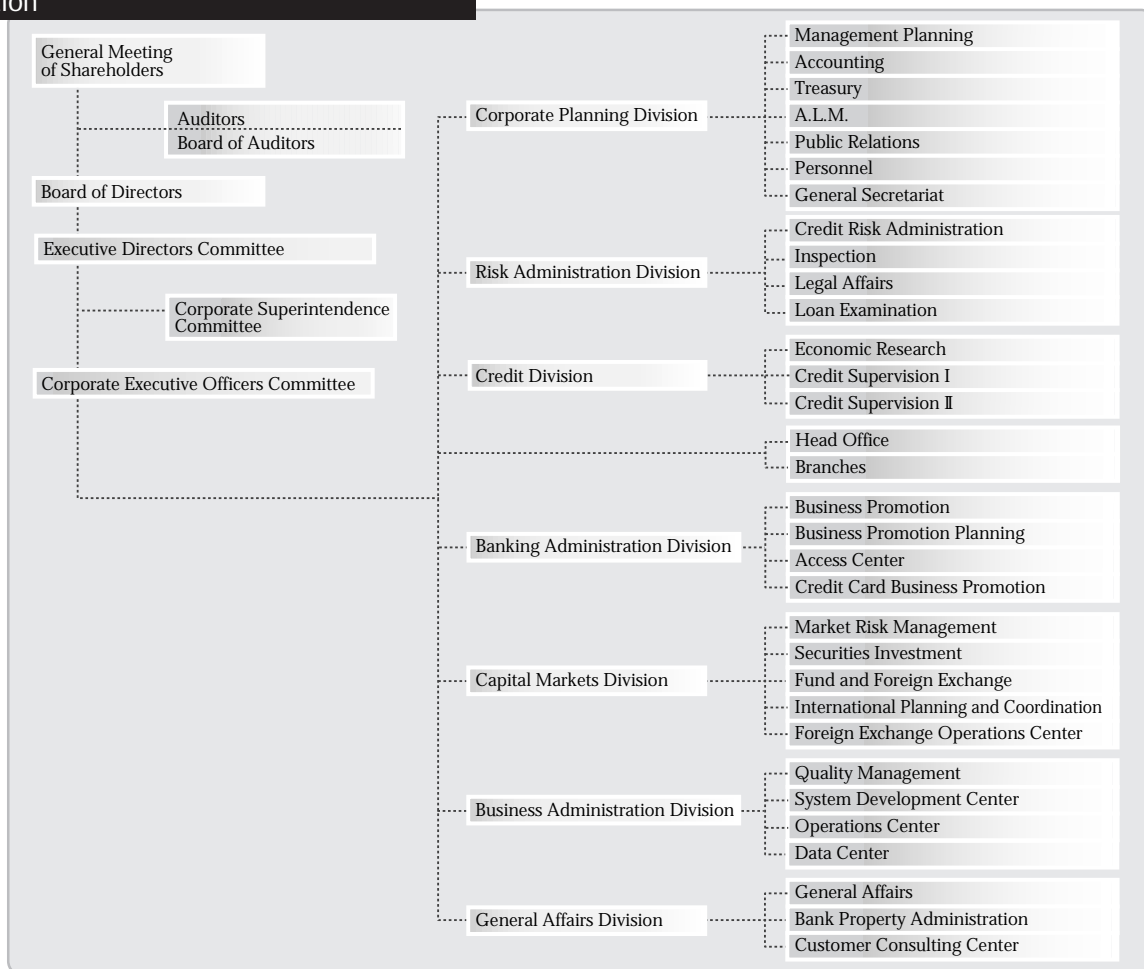
Takehiko Katsumata

Shinji Ihara

Yasuyuki Tanaka

(as of June 25, 1998)

Organization



(as of April 1, 1998)



Reference

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