



SURUGA

BANK



SURUGA BANK

Annual Report

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Profile

Suruga Bank is a regional bank whose main base of operations is eastern Shizuoka Prefecture and central and western Kanagawa Prefecture. The Bank was established in 1895 as the Negata Bank in Numazu, Shizuoka Prefecture. After mergers with other banks, the Bank was given its present name in 1912. Since then, the Suruga Bank has conducted sound management, while remaining true to its basic principles of independence and contributing to the region it serves.

On the verge of the 21st century, the Bank is making concerted efforts to establish a corporate culture appropriate to the new era and to further develop its business.

As of March 31, 1999, the Bank had total assets of ¥2,943 billion (US\$24,414 million), and a capital adequacy ratio according to domestic standards of 9.16%.

At term-end, the Bank's network comprised 121 offices, including a main office, 113 domestic branches, and 8 sub-branches.

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Message from the President

Operating Environment and Performance

During the term ended March 31, 1999, the government utilized public investment to prop up the economy by implementing two economic stimulus packages with a combined expenditure of ¥40 trillion. Corporate earnings, however, continued to decline,

while the employment and income situation worsened and the nation's financial

system was unstable. Against this background, the Japanese public remained as apprehensive as ever about the future. As a result of sluggish consumer spending and housing investment and a decline in capital investment, among other factors, private-sector demand continued to follow a weak trend, and the overall economic tone was slack. Amid these circumstances, major steps were taken

toward the restoration of stability

in the nation's financial system, which has been a structural factor behind the economy's weakness.

These steps comprised: the passing by the Diet of a number of finance-related laws in October 1998, including the Financial Reconstruction Law and the Law for the Prompt Restoration of Financial Soundness; the first-time placing under public ownership of two major banks, and drastic measures to make possible the disposal of bad loans by reinforcing the capital of financial institutions through the injection of public funds.

The economies of Shizuoka and Kanagawa prefectures faced as difficult situation as the whole nation. Although firm public investment helped to underpin the economies of



Mitsuyoshi Okano
President

the two prefectures, the trend in consumer spending was weak against the background of a severe employment and income environment. Companies in a wide range of industries continued to cut back on production, while capital investment was held down because of worsening corporate earnings.

In the financial field, the authorities maintained their easy credit policy, and short-term interest rates fell sharply as a result of still further credit easing measures. Long-term rates, meanwhile, rose on apprehension about the possible effects of the planned increase in government bond issuance from November 1998.

Amid these economic and financial circumstances, the Bank remained mindful of its responsibility to contribute to the welfare of regional society. With this in view, we promoted increased transactions with individuals as well as local small and medium-sized companies to strengthen our business base, and strove to expand the scope of our business and raise the efficiency of management. As a result, the balance of individual deposits during the term increased ¥56.7 billion, but the balance of total deposits decreased by ¥5.0 billion owing to a decline in corporations' perceived need for liquidity, particularly in the case of large companies. As a result, the term-end balance of deposits stood at ¥2,697 billion (US\$22,372 million). Meanwhile, despite an increase of ¥30.8 billion in the balance of consumer loans, demand for loans in general was weak, and as a result, the balance of loans and bills discounted declined by ¥124.5 billion during the term for a term-end balance of ¥1,889 billion (US\$15,674 million).

Securities holdings at term-end amounted to ¥603 billion (US\$5,003 million), while foreign exchange transactions during the term totaled US\$31.0 billion.

While taking thorough measures to improve the efficiency of fund raising and investment, and achieving further rationalization of business operations, we also worked to strengthen our marketing power and improve earnings. At the same time, we introduced an asset self-assessment system last term with a view to ensuring a sound financial standing, and in line with this, we boosted our levels of reserves for possible loan losses. In addition, in response to the Financial Supervisory Agency's financial inspection manual and the bad debt disposal policy put forward by the Financial Reconstruction Commission, we took the decision to implement write-offs and appropriations to reserves based on stricter in-house standards than have hitherto been employed. As a result, we posted a loss before income taxes of ¥19 billion (US\$157 million) and a net loss of ¥13.1 billion (US\$109 million). This net loss was more than offset by a tax refund resulting from the adoption of tax-effect accounting from the term under review. This tax refund even enabled us to secure a profit to be carried over to the next term, as well as preventing a decline in shareholders' equity. We also completed all bad debt write-offs as of the end of March 1999.

Shareholders' equity in its broadest sense, the principal factor in calculating capital adequacy, came to ¥170.1 billion (US\$1,411 million) as of the end of the term under review, giving a capital adequacy ratio according to BIS standards of 10.20% on a non-consolidated basis and

9.09% on a consolidated basis, while the ratios according to domestic standards were 9.16% and 8.10% respectively.

Issues to be Addressed

Amid the ongoing reforms under the Japanese "Big Bang," deregulation in the country's financial system is progressing ever-more rapidly, and the financial sector is entering a period of restructuring that will be characterized by the weeding out of weaker institutions. For Japan's regional banks, too, radical management reform is of vital importance, and they are also being required to demonstrate high standards of corporate ethics.

In these circumstances, Suruga Bank's goal is to conduct business under the motto of "Remaining Close to the Customer." We intend to develop products and services that precisely meet our customers' requirements and provide them with complete satisfaction. Simultaneously, we will be concentrating all our efforts on rationalizing clerical operations, stepping up centralization, and raising management efficiency.

In line with this policy, Suruga Bank has become the first Japanese bank to operate a Customer Relationship Management (CRM) system. This system allows us to provide each and every customer with the product that is perfectly suited to their needs, at precisely the right time. Moreover, in order to maintain a higher level of service and never let up on our efforts, to keep the uninterrupted trust of our customers, we have begun implementing measures aimed at the acquisition of ISO 9002 quality management certification.

We have assigned top management priority to the Year 2000 (Y2K) Problem and have set up a "Y2K Committee," which acts as the central supervisory body for anti-Y2K measures by all divisions and affiliated companies. Upgrading work on the Bank's core computer systems has already been completed, and we are currently drawing up a contingency plan to deal with the wide variety of malfunctions that may possibly occur.

We believe the current unpredictable operating environment presents us with unparalleled business opportunities. We are therefore completing the writing-off of all our bad debts and improving the soundness of our asset portfolio, while pursuing still further rationalization and still higher efficiency with the goal of strengthening our earning power.



Mitsuyoshi Okano
President

Review of Operations

Risk Management System

The ongoing liberalization and internationalization of the financial sector is providing financial institutions with increased opportunities to expand their earnings. At the same time, however, the risks to which they are exposed in their day-to-day business operations are becoming increasingly complex and perilous.

With the aim of maintaining sound management and stable earnings, the entire staff of Suruga Bank is working to set up a failsafe system of risk management, as detailed below, along the lines of establishing a system that allows prompt and accurate identification of risk, and the introduction of effective methods of risk management.

Credit Risk Management

To maintain and improve the soundness of loan assets amid the current economic stagnation, we are devoting our efforts to creating a balanced loan portfolio by clearly separating the Bank's credit supervising and credit management sections from its business section, and setting up a system of checks and balances whereby each section retains its own approach as well as its objectivity.

Based on the variety of data accumulated through deposit taking and lending operations, the credit supervising section has set up a corporate rating system enabling the assessment of a borrower's creditworthiness to be made in accordance with the Bank's uniform standards. The section analyzes information gleaned from investigations of companies, notably financial data, and is able to maintain accuracy in judging the viability of individual loans.

The credit management section is working to increase the sophistication of the Bank's credit risk management system, so as to maintain or improve the soundness of assets, and is reinforcing the functions of the Risk Management Division. Within this division, in addition to staff in charge of audit and inspection, credit administration, and legal affairs, staff have also been put in charge of credit examination as a result of the introduction of an asset self-assessment system.

Regarding loan asset audits, we have set up a system that ensures the accurate and strict performance of self-assessment, mainly of loan assets, so as to maintain and improve the soundness of the Bank's assets as a whole. By cooperation and constant liaison between the staff in charge within the same division, we are working to create a system providing even stricter and more accurate risk management and fund investment. Moreover, our staff training focuses on improving our employees' abilities in practical work and credit screening, starting with strict compliance with laws and regulations. We are carrying out an ongoing training program in which the curriculum is adjusted according to type of job and level of responsibility.

Operational Risk Management

We have drawn up strict regulations for the performance of all the various kinds of clerical work, and the Risk Management Division regularly carries out internal audits. In addition, the Operations



Division also provides guidance in clerical procedures.

At our branches, conformity with the basic principles of clerical work is ensured by frequent inspections carried out by the branch staff themselves, and we are working to achieve greater speed and precision in the processing of clerical work.

System Risk Management

To minimize risk associated with computer operations, we carry out regular system audits in line with our strict standards for computer system operation. The Bank is well aware of the potential risks arising from possible computer malfunctions, and while dealing with this problem, is actively promoting the centralization and automation of clerical work so as to sharply reduce the clerical work burden on the staff of our branches. We are thus working to improve the rigor of the Bank's clerical work processing in recognition of the fact that accuracy in this field is at the heart of confidence in a financial institution.

Additionally, in view of the fact that Suruga Bank's home base, the Tokai region, is said to be particularly threatened with a major earthquake, we have made preparations for such a contingency. Apart from high-level computer safety standards, we have provided ourselves with a wide variety of backup systems, including a high-speed, in-house optical fiber digital communications network, and a telecommunications network utilizing satellites.

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. Asset/Liability Management (ALM) is a method of comprehensively managing assets and liabilities. Suruga Bank's system comprehensively manages the whole bank while maintaining a sound balance between risk and return.

Comprehensive Risk Management

The Bank's risk management activities do not stop at measures directed at individual risk categories. We place great importance on obtaining a clear overall picture of all the types of risk to which the Bank is exposed through its various financial transactions, and to analyzing them from all possible angles so as to achieve integrated risk management. Acting on the principle of accountability, the Bank meticulously deals with the ever diversifying range of risks, utilizing sophisticated computer systems. By implementing integrated risk management, we are working to realize the maximum profit compatible with an acceptable level of risk by avoiding loss, assuring management stability through the maintenance of an appropriate capital adequacy ratio, and the most efficient allocation of management resources.



Year 2000 Problem Countermeasures

Positioning of the Issue within Management Strategy

The Bank has positioned measures to prevent or minimize the Year 2000 (Y2K) Problem as its most important management issue, and has included the issue in its “Together 2001” management plan. The Bank, its subsidiaries, and affiliated companies, are all exerting their utmost efforts in devising and implementing countermeasures against potential Y2K risks.

Structure of Anti-Y2K Organization

For the purpose of pushing forward with countermeasures against the Y2K problem, we have established the “Y2K Committee,” chaired by the Bank’s Senior Managing Director. The committee acts as a central planning and direction unit which integrates the anti-Y2K efforts of all the Bank’s divisions and subsidiaries. Additionally, reports on the state of progress of Y2K countermeasures are made to the Bank’s board of directors as and when necessary.

Upgrading of Systems, etc.

We have carried out investigations into the potential impact of the Y2K problem on all the computer systems used by Suruga Bank, adopted a Y2K compliance plan on the basis of our findings, and are now proceeding, in a systematic manner, with upgrading and modification of those systems that require such work.



1. Integrated Online System

Work to achieve Y2K compliance for the principal software used in the “Integrated Online System,” the Bank’s core computer system, was completed in November 1997. Following this, modification and testing was carried out on those other programs that required it, and this work was completed by December 1998.

2. External Interfacing Systems

Regarding the system of the Japanese Bankers Association (formerly known as the Federation of Bankers Associations of Japan), the regional banks’ nationwide cash dispenser network, and other such systems, we completed mutual testing of interfacing functions, after which we carried out the same sort of tests, this time focusing on the ability to handle leap year dates. All these tests were completed by June 1999. As far as data transmission is concerned, i.e., online systems connecting us to customers’ PCs or mainframes, we are currently carrying out connection and confirmation tests to ensure that malfunctions can be ruled out and operation can be performed safely.

3. Other Peripheral Systems

With respect to systems peripheral to the Integrated Online System, as well as equipment containing microchips, such as automated safety deposit boxes, night safety deposit boxes, and various indicator boards, we investigated problem areas and took all necessary countermeasures, including confirmation work by the developers of the equipment, by June 1999.

4. Anti-Y2K Measures Taken by Principal Customers

In March 1999, we sent a questionnaire to all our principal customers requesting information on the status of their progress in dealing with the Y2K problem. We are currently requesting urgent measures by those customers whose countermeasures are lagging behind, and are providing them with guidance in this matter.

5. Measures to Deal with Miscellaneous Risks

The Y2K problem may have a wider adverse impact on the conduct of business, apart from its effect on computer systems. In view of this possibility, in June 1999, we completed the drafting of a Contingency Plan that covers the whole spectrum of contingencies, including worst-case scenarios. On the basis of this plan, we aim to raise the level of precision of our specific anti-Y2K measures.

6. Cost of Y2K Countermeasures

As of the present moment, we estimate the total cost of countermeasures against the Y2K problem, including the costs of system upgrading, provision of the necessary skilled staff, and the drafting of the Contingency Plan, at approximately ¥1,300 million.

Note: The above text demonstrates that Suruga Bank is exerting its utmost efforts to minimize the various risks associated with the Year 2000 Problem, but does not in any way constitute a guarantee nor an assumption of responsibility by the Bank, in relation to matters associated with the Year 2000 Problem, whether specifically stated in the text or not, nor does it constitute a waiver of any of the Bank’s rights.

Topics

Access Vehicles

In July 1998, we introduced a new type of banking service, known as “Access Vehicles”—large trucks equipped with ATM booths and advice counters—which open for business at places where many people gather, such as shopping centers. We operate two such vehicles, one in Shizuoka Prefecture and one in Kanagawa Prefecture. The trucks are fitted with electric power generators and parabolic antennas, and can continue operations even in the event of a major earthquake. Since April 1999, these mobile banking units have been operating on Sundays and national holidays, too.

These Access Vehicles are a manifestation of our motto—“More Friendly, More Convenient.”

IR Orientation Meeting

As part of the Bank’s corporate disclosure activities, we held our first investor relations orientation meeting, entitled “Investors Presentation,” to which we invited analysts from think tanks affiliated with securities companies, and fund managers at life and casualty insurance companies, trust banks, and other institutional investors. Amid growing demands for financial institutions to practice fuller disclosure, it is necessary for us to provide the markets with clear information on which participants can base accurate judgments of the value of our stock. We believe that it is essential to steadily continue this kind of IR activity in order to win the confidence of investors, thereby helping to stabilize the Bank’s stock price and ensure a sufficient level of liquidity for its shares. We intend to hold these Investors Presentation meetings regularly every year in the form of accounts settlement explanatory meetings.

Major Increase in Number of Branches Conducting Foreign Exchange Operations

In April 1998, we increased the number of our branches handling foreign exchange operations from 16 to 91. Together with our 15 branches handling currency exchange, this gives us 106 branches handling currency exchange out of our total of 121 branches. We are pushing ahead with the reorganization of our operational system to cope with the growing diversification of customer needs, including an expected increase in foreign currency deposits.

In-Branch Stores

In March 1999, we became the first bank in Japan to offer an “in-branch store” when a coffee shop was opened within our Tokyo branch. This was made possible by a reduction in the space needed by the branch as a result of the rationalization of in-house clerical operations, and the idea of inviting a company from a completely different industry to set up shop in our premises was prompted by the twin aims of making effective use of space and providing greater convenience for our customers, thereby achieving a synergistic effect. The coffee shop itself contains an ATM corner, and provides customers with the added attraction of somewhere to enjoy a coffee break while visiting the bank. We will be continuing to streamline our clerical operations, and intend to make the most effective use of the resultant spare floor space by leasing it out, not only for coffee shops, but also for personal computer outlets, drugstores, mobile phone shops, and any other type of retail outlet that meets the particular needs of each location. The resulting synergy is expected to enhance the customer drawing power of our branches.



Access Vehicle



IR Orientation Meeting



In-Branch Store

Financial Review

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 ¥56,745 million during the term. However, the balance of total deposits decreased by ¥5,045 million owing to a decline in corporations' perceived need for liquidity, particularly in the case of large companies. As a result, the term-end balance of deposits stood at ¥2,697,034 million (US\$22,372 million).

Loans and Bills Discounted

With demand for funds from business remaining depressed, we actively strove to attract borrowers from among individuals and regional small and medium-sized companies, with the focus of our efforts on individual customers. However, despite an increase of ¥30,883 million in the balance of consumer loans, demand for loans in general was weak, and as a result, the balance of loans and bills discounted declined by ¥124,513 million during the term for a term-end balance of ¥1,889,572 million (US\$15,674 million).

Risk Management

As of the end of the term, loans to companies under bankruptcy procedures stood at ¥3,692 million (US\$30 million), while delinquent loans stood at ¥20,668 million (US\$171 million). Delinquent loans are non-accrual loans provided to support the restructuring of companies under bankruptcy procedures. Loans past due for 3 months or more amounted to ¥4,730 million (US\$39 million), while restructured loans came to ¥24,260 million (US\$201 million). As a result, the total balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due 3 months or more and restructured loans amounted to ¥53,351 million (US\$442 million) at the term-end. Due to direct deduction of claims, the balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due 3 months or more and restructured loans decreased by ¥7,017 million, ¥28,035 million and ¥22 million, respectively.

Securities

The Bank underwrote national and local government bonds and worked to make efficient use of funds. As a result, our total holdings of investment securities amounted to ¥603,141 million (US\$5,003 million).

Foreign Exchange Transactions

The volume of foreign exchange transactions during the term totaled US\$31,010 million, down US\$2,653 million from the previous term.

Earnings

The Bank worked to strengthen its marketing power and improve earnings through measures to improve the efficiency of fund raising and investment, and to achieve further rationalization of business operations. Total gross operating profit for the term increased 1.59%, or ¥1,108 million, from the previous term, to ¥70,606 million (US\$585 million). Gross operating profit from domestic operations rose 2.62%, or ¥1,775 million, to ¥69,360 million (US\$575 million), mainly due to a ¥5,844 million increase in other income resulting from profits on the sale of Japanese government bonds. Meanwhile, gross operating profit from overseas operations fell 34.91%, or ¥668 million, to ¥1,245 million (US\$10 million).

Total income rose 10.0%, or ¥11,950 million, to ¥130,526 million (US\$1,082 million), while total expenses rose a substantial 35.1%, or ¥38,856 million, to ¥149,564 million (US\$1,240 million).

The Bank boosted its levels of reserves for possible loan losses to ensure a sound financial standing. In line with the introduction of the Prompt Corrective Action measures in the previous term, the Bank implemented write-offs and appropriations to reserves based on stricter in-house standards than have hitherto been employed, thereby completing the disposal of bad loans.

As a result, the Bank posted a loss before income taxes of ¥19,037 million (US\$157 million) and a net loss of ¥13,169 million (US\$109 million). This net loss was more than offset by deferred taxes applicable to the previous year resulting from the adoption of tax-effect accounting from the term under review.

On a non-consolidated basis, the Bank's capital adequacy ratio according to domestic standards stood at 9.16%, and that according to BIS standards came to 10.20%. On a consolidated basis, the ratios stood at 8.10% and 9.09% respectively. Beginning with the term under review, the Bank adopted domestic standards, as it no longer had any overseas operational bases at term-end.

Non-Consolidated Balance Sheets

The Suruga Bank, Ltd. March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
Assets			
Cash and cash equivalents	¥ 139,764	¥ 60,403	\$ 1,159,393
Due from banks	80,593	130,441	668,547
Call loans	94,101	85,858	780,601
Commercial paper and other debt purchased	2,042	101,946	16,946
Trading account securities	10,025	48	83,161
Money trusts	5,500	9,500	45,624
Investment securities (Note 3)	603,141	490,930	5,003,249
Loans and bills discounted (Note 4)	1,889,572	2,014,085	15,674,593
Foreign exchange (Note 5)	3,052	2,266	25,320
Other assets	12,469	13,902	103,440
Premises and equipment (Note 6)	39,771	43,078	329,918
Deferred income taxes (Note 11)	41,917	—	347,714
Customers' liabilities for acceptances and guarantees (Note 8)	21,213	23,971	175,970
Total assets	¥2,943,165	¥2,976,435	\$24,414,481
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 7)	¥2,697,034	¥2,702,079	\$22,372,745
Call money	24,531	58,551	203,500
Borrowed money	368	508	3,054
Foreign exchange (Note 5)	16	29	134
Other liabilities	29,202	17,660	242,241
Reserve for possible loan losses	40,181	44,640	333,313
Reserve for retirement allowances	3,769	3,916	31,267
Reserve for possible losses on sales of loans	289	—	2,397
Acceptances and guarantees (Note 8)	21,213	23,971	175,970
Total liabilities	2,816,605	2,851,356	23,364,625
Shareholders' equity			
Common stock	30,043	30,043	249,218
Capital surplus	18,585	18,585	154,175
Legal reserve (Note 9)	25,249	24,915	209,454
Voluntary reserves	50,172	50,172	416,194
Retained earnings (Note 12)	2,509	1,361	20,814
Total shareholders' equity	126,560	125,078	1,049,856
Total liabilities and shareholders' equity	¥2,943,165	¥2,976,435	\$24,414,481

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations and Retained Earnings

The Suruga Bank, Ltd. Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
Income			
Interest income:			
Interest on loans and discounts	¥ 54,828	¥ 59,948	\$ 454,818
Interest and dividends on securities	16,650	22,231	138,121
Other	4,884	6,567	40,520
Fees and commissions	5,438	5,231	45,114
Other operating income	17,899	11,825	148,478
Other income (Note 10)	30,825	9,735	255,704
Reversal of other reserves	—	3,037	—
Total income	130,526	118,576	1,082,757
Expenses			
Interest expense:			
Interest on deposits	16,156	20,173	134,022
Interest on borrowings and rediscounts	2,356	4,713	19,549
Other	5,964	7,270	49,474
Fees and commissions	2,704	2,269	22,438
Other operating expenses	1,960	1,941	16,266
General and administrative expenses	38,262	39,240	317,399
Other expenses (Notes 10 and 11)	82,158	35,100	681,533
Total expenses	149,564	110,708	1,240,682
(Loss) income before income taxes	(19,037)	7,868	(157,924)
Income taxes (Note 11):			
Current	17,670	6,648	146,583
Deferred	(23,539)	—	(195,263)
Net (loss) income	(13,169)	1,219	(109,245)
Retained earnings:			
Balance at beginning of year	1,361	1,821	11,295
Deferred taxes applicable to prior years	18,378	—	152,451
Deductions:			
Transfer to legal reserve	334	334	2,774
Dividends paid	1,344	1,344	11,153
Retirement of treasury common stock	2,382	—	19,759
Balance at end of year	¥ 2,509	¥ 1,361	\$ 20,814

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Cash Flows

The Suruga Bank, Ltd. Years ended March 31, 1999 and 1998

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1999	1998	1999
Cash flows from operating activities			
Net (loss) income	¥ (13,169)	¥ 1,219	\$ (109,245)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Provision for loan losses	32,027	9,887	265,676
Provision for possible losses on sales of loans	289	—	2,397
Reversal of other reserves	—	(3,037)	—
Provision for depreciation and amortization	2,303	2,817	19,105
(Reversal of) provision for retirement allowances	(146)	49	(1,217)
Amortization of discounts on investment securities	1,595	1,386	13,232
Write-offs of loans	36,155	7,785	299,921
Losses on sales of loans	5,285	6,686	43,842
Realized and unrealized gain on investment securities	(17,571)	(2,655)	(145,763)
Gain on disposition of premises and equipment	(9,658)	(554)	(80,122)
Deferred income taxes	(23,539)	—	(195,263)
Changes in operating assets and liabilities:			
Due from banks	49,848	(38,218)	413,508
Commercial paper and other debt purchased	91,661	(86,403)	760,358
Trading and investment securities	(104,999)	115,656	(871,006)
Loans and bills discounted	46,586	(1,066)	386,448
Interest receivable	1,101	2,263	9,141
Interest payable	(1,551)	(4,602)	(12,868)
Income taxes payable	10,916	(2,132)	90,557
Foreign exchange, net	(799)	2,478	(6,630)
Net cash provided by operating activities	106,333	11,559	882,072
Cash flows from investing activities			
Purchases of stock and other securities	(54,477)	(7,485)	(451,910)
Purchases of premises and equipment	(3,598)	(3,780)	(29,852)
Proceeds from sales of stock and other securities	53,266	12,441	441,860
Proceeds from sales of premises and equipment	14,261	1,449	118,302
Net decrease in money trusts	4,000	4,500	33,181
Decrease in other assets	2,507	3,799	20,800
Net cash provided by investing activities	15,958	10,924	132,382
Cash flows from financing activities			
Net decrease in deposits	(5,045)	(91,750)	(41,852)
Net decrease in borrowed money	(34,158)	(6,158)	(283,359)
Dividends paid and bonuses to directors and statutory auditors	(1,344)	(1,344)	(11,153)
Acquisition of treasury common stock	(2,382)	—	(19,759)
Net cash used in financing activities	(42,930)	(99,252)	(356,124)
Increase (decrease) in cash and cash equivalents	79,361	(76,769)	658,329
Cash and cash equivalents at beginning of year	60,403	137,172	501,063
Cash and cash equivalents at end of year	¥139,764	¥ 60,403	\$1,159,393

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Suruga Bank, Ltd. March 31, 1999 and 1998

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 non-consolidated financial statements have been compiled from the non-consolidated financial statements filed with the Minister of Finance as required by the Banking Law of Japan and the Securities and Exchange Law of Japan. Accordingly, the accompanying non-consolidated financial statements are not intended to present the non-consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Non-consolidated statements of cash flows have been prepared for the purpose of inclusion in the accompanying non-consolidated financial statements, although such statements are not currently required in Japan. For the purposes of reporting cash flows, cash and cash equivalents include cash and due from the Bank of Japan.

Certain amounts previously reported have been reclassified to conform to the current year's presentation.

(b) Trading Account Securities

Trading account 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

Depreciation of premises and equipment is computed on an annual basis as stipulated in the Uniform Accounting Standards for Banks, established by the Federation of Bankers Associations of Japan as follows:

Buildings	By the declining-balance method at the standard rate stipulated in the Corporation Tax Law of Japan.
Equipment	By the declining-balance method at the standard rate stipulated in the Corporation Tax Law of Japan.
Others	By the method stipulated in the Corporation Tax Law of Japan.

The Bank previously computed depreciation for buildings at 160% of the standard rate as stipulated in the Corporation Tax Law and in accordance with the Accounting Standards for Banks. As this law has been amended to eliminate the requirement for additional depreciation, the Bank ceased providing such additional depreciation during the fiscal year ended March 31, 1999.

In addition, the estimated useful lives of the Bank's buildings have been shortened because of an amendment to the relevant tax legislation.

As a result of these changes, loss before income taxes decreased by ¥331 million (U.S.\$2,745 thousand).

(e) Reserve for Possible Loan Losses

The reserve for possible loan losses is provided in accordance with the policies regarding write-offs and reserve standards stipulated in the Uniform Accounting Standards for Banks. The reserve for loans to borrowers who are classified as substantially bankrupt or who are bankrupt in the formal legal sense is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees. In addition, a reserve is provided for loans to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure is imminent. In such cases, a portion of the reserve is provided based on the amount remaining after deduction of the amount of their collateral considered to be disposable and amounts recoverable under guarantees, and the balance of this reserve is provided after giving full consideration to the amount the borrower is capable of repaying. In the case of all other loans, the amount provided as a reserve is based on the ratio of actual defaults during a fixed period in the past.

For collateral or guaranteed claims of "substantial bankruptcy" and "legal bankruptcy," an amount exceeding the estimated value of collateral or guarantees is deducted, as deemed uncollectible, directly from those claims. For the year ended March 31, 1999, the amount deducted was ¥59,492 million (U.S.\$493,505 thousand).

(f) Reserve for Retirement Allowances

The reserve for retirement allowances is stated, in accordance with the Rules for Bank Accounting, 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 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 non-consolidated financial statements are presented in millions, with fractions omitted.

Amounts stated in U.S. dollars are translated from Japanese yen, solely for convenience, at ¥120.55 = U.S.\$1.00, the exchange rate prevailing on March 31, 1999. 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, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
National government bonds	¥327,284	¥186,081	\$2,714,925
Local government bonds	41,047	27,829	340,503
Corporate bonds	99,604	134,215	826,249
Corporate stocks	83,098	64,314	689,324
Other securities	52,107	78,488	432,245
Total	¥603,141	¥490,930	\$5,003,249

4. Loans and Bills Discounted

(1) Loans and bills discounted at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Bills discounted	¥ 19,202	¥ 34,135	\$ 159,288
Loans on bills	251,895	442,525	2,089,550
Loans on deeds	1,318,147	1,209,692	10,934,447
Overdrafts	300,327	327,732	2,491,306
Total	¥1,889,572	¥2,014,085	\$15,674,593

(2) Loans and bills discounted at March 31, 1999 included the following items:

Balance of loans to companies under bankruptcy procedures: ¥3,692 million (U.S.\$30,626 thousand)

Balance of delinquent loans: ¥20,668 million (U.S.\$171,447 thousand)

Loans to companies under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (the balance does not include the written-down portion of the loan). Such loans hereafter are referred to as "non-accrual loans." This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No.97 of 1965).

Delinquent loans are non-accrual loans provided to support the restructuring of companies under bankruptcy procedures. Such loans do not, however, extend a grace period to the borrower for the related interest payments.

Balance of loans past due for 3 months or more: ¥4,730 million (U.S.\$39,243 thousand)

Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to companies under bankruptcy procedures and the balance of delinquent loans are not included in this category.

Balance of restructured loans: ¥24,260 million (U.S.\$201,248 thousand)

Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to companies under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.

The total balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans: ¥53,351 million (U.S.\$442,566 thousand).

Due to the direct deduction of claims, balance of loans to companies under bankruptcy procedure, delinquent loans and the past

due for 3 months or more are decreased by ¥7,017 million (U.S.\$58,213 thousand), ¥28,035 million (U.S.\$232,567 thousand) and ¥22 million (U.S.\$185 thousand), respectively.

5. Foreign Exchange

Foreign exchange assets and liabilities at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Assets:			
Due from foreign banks	¥ 594	¥ 532	\$ 4,929
Foreign bills of exchange bought	164	451	1,368
Foreign bills of exchange receivable	2,293	1,282	19,022
Total	¥3,052	¥2,266	\$25,320
Liabilities:			
Due to foreign banks	¥ 5	¥ 2	\$ 45
Foreign bills of exchange sold	10	27	89
Total	¥ 16	¥ 29	\$ 134

6. Premises and Equipment

Premises and equipment at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Land	¥15,505	¥17,610	\$128,622
Buildings	24,355	26,587	202,036
Furniture and equipment	22,108	20,976	183,396
Construction in progress	462	38	3,832
Guarantee money, net	4,859	5,478	40,313
	67,291	70,691	558,200
Less accumulated depreciation	(27,519)	(27,613)	(228,282)
Premises and equipment, net	¥39,771	¥43,078	\$329,918

7. Deposits

Deposits at March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of U.S. dollars
	1999	1998	1999
Current deposits	¥ 62,153	¥ 62,219	\$ 515,579
Ordinary deposits	455,755	422,900	3,780,633
Deposits at notice	38,788	56,104	321,763
Time deposits	1,880,635	1,865,457	15,600,460
Other deposits	259,701	295,396	2,154,308
Total	¥2,697,034	¥2,702,079	\$22,372,745

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 years ended March 31, 1999 and 1998 were as follows:

	Millions of yen		Thousands of
	1999	1998	U.S. dollars
Other income:			
Gain on sales of stocks and other securities	¥20,038	¥ 6,649	\$166,221
Gain on disposition of premises and equipment	10,284	1,291	85,311
Other	502	1,793	4,171
Total	¥30,825	¥ 9,735	\$255,704
Other expenses:			
Provision for possible loan losses	¥32,027	¥13,607	\$265,676
Enterprise tax	—	1,851	—
Loss on devaluation of stocks and other securities	1,756	3,682	14,571
Write-off of loans	36,155	7,785	299,921
Loss on sales of corporate mortgage loans to the Cooperative Credit Purchasing Company, Limited	—	6,686	—
Loss on sales of loans to others	5,285	—	43,842
Loss on financial assistance to supported companies	4,451	—	36,929
Other	2,482	1,487	20,592
Total	¥82,158	¥35,100	\$681,533

11. Income Taxes

Income taxes applicable to the Bank comprise corporation, inhabitants' and enterprise taxes.

For the year ended March 31, 1999, enterprise tax is included in "Income taxes" in the accompanying non-consolidated statements of operations and retained earnings in accordance with a recent change in accounting practices in Japan. Until the year ended March 31, 1998, enterprise tax had been included in "Other expenses."

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Effective April 1, 1998, the Bank changed its method of accounting for income taxes to adopting tax allocation accounting following the liability method. Until the year ended March 31, 1998, income taxes were recorded on an accrual basis, but tax allocation accounting was not adopted.

12. Amounts Per Share

The computation of basic net (loss) income per share is based on the weighted average number of shares of common stock outstanding during each year.

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at each balance sheet date.

	Yen		U.S. dollars
	1999	1998	1999
Net (loss) income	¥ (49.14)	¥ 4.53	\$(0.407)
Net assets	477.69	465.13	3.962

13. Subsequent Event

At a shareholders' meeting held on June 25, 1999, 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)	¥662	\$5,494
Transfer to legal reserve	200	1,659

Report of Independent Certified Public Accountants



■ Certified Public Accountants ■ Phone: 03 3503-1100
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C.P.O. Box 1196, Tokyo 100-8641

The Board of Directors
The Suruga Bank, Ltd.

We have examined the non-consolidated balance sheets of The Suruga Bank, Ltd. as of March 31, 1999 and 1998, and the related non-consolidated statements of operations 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, procedures and practices generally accepted and applied 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 non-consolidated financial statements, expressed in Japanese yen, present fairly the financial position of The Suruga Bank, Ltd. at March 31, 1999 and 1998, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 1999 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 non-consolidated financial statements.

June 25, 1999

Showa Ota & Co.

Consolidated Balance Sheet

The Suruga Bank, Ltd. and Subsidiaries March 31, 1999

	Millions of yen	Thousands of U.S. dollars (Note 2)
	1999	1999
Assets		
Cash and due from banks	¥ 221,595	\$ 1,838,199
Call loans, commercial paper and other debt purchased	96,144	797,544
Trading account securities	10,025	83,160
Money trusts	5,500	45,624
Investment securities	604,196	5,011,995
Loans and bills discounted (Note 3)	1,874,531	15,549,821
Foreign exchange	3,052	25,317
Other assets	18,456	153,098
Premises and equipment	57,993	481,070
Deferred tax assets	42,321	351,065
Customers' liabilities for acceptances and guarantees	21,205	175,902
Total assets	¥2,955,022	\$24,512,832
Liabilities and shareholders' equity		
Liabilities		
Deposits	¥2,696,603	\$22,369,166
Call money	24,531	203,492
Borrowed money	14,726	122,156
Foreign exchange	16	132
Other liabilities	35,657	295,785
Reserve for possible loan losses	46,983	389,738
Reserve for retirement allowances	3,823	31,712
Reserve for possible losses on sales of loans	289	2,397
Acceptances and guarantees	21,205	175,902
Total liabilities	2,843,837	23,590,518
Minority interests	131	1,086
Shareholders' equity		
Common stock	30,043	249,216
Capital surplus	18,585	154,168
Retained earnings	78,285	649,398
Less treasury common stock, at cost	(2)	(16)
Less cost of common stock held by subsidiaries, at cost	(15,858)	(131,547)
Total shareholders' equity	111,053	921,219
Total liabilities and shareholders' equity	¥2,955,022	\$24,512,832

See notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

The Suruga Bank, Ltd. and Subsidiaries Year ended March 31, 1999

	Millions of yen	Thousands of U.S. dollars (Note 2)
	1999	1999
Income		
Interest income	¥ 76,874	\$ 637,693
Fees and commissions	6,009	49,846
Other operating income	26,884	223,011
Other income	30,974	256,939
Total income	140,742	1,167,498
Expenses		
Interest expense	24,521	203,409
Fees and commissions	2,697	22,372
Other operating expenses	9,380	77,810
General and administrative expenses	39,972	331,580
Other expenses	83,511	692,749
Total expenses	160,083	1,327,938
Loss before income taxes	(19,340)	(160,431)
Income taxes:		
Current	17,826	147,872
Deferred	(23,934)	(198,540)
	(6,107)	(50,659)
Minority interest in earnings of consolidated subsidiaries	3	24
Net loss	(13,236)	(109,796)
Retained earnings:		
Balance at beginning of year	76,775	636,872
Deferred taxes applicable to prior years	18,387	152,525
Deductions:		
Dividends paid	1,259	10,443
Retirement of treasury common stock	2,382	19,759
Balance at end of year	¥ 78,285	\$ 649,398

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Suruga Bank, Ltd. and Subsidiaries March 31, 1999

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements have been prepared on the basis of accounting principles and practices generally accepted in Japan and have been compiled from the consolidated financial statements of Suruga Bank, Ltd. (the "Bank") and its subsidiaries filed with the Minister of Finance as required by the Securities and Exchange Law of Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. For the convenience of readers outside Japan, certain items presented in the original statements have been reclassified and rearranged.

It has not been practicable to prepare detailed notes to the consolidated financial information for the year ended March 31, 1999. The accompanying consolidated financial statements should be read in conjunction with Notes to Non-Consolidated Financial Statements.

The consolidated financial statements of the Bank and its subsidiaries in Japanese, from which the accompanying consolidated financial statements were compiled, were audited by certified public accountants as required by the Securities and Exchange Law of Japan. The accompanying consolidated financial statements, however, are not audited by certified public accountants.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries, which are as follows:

Suruga Business Service Co., Ltd.
A.P.I. Co., Ltd.
Suruga General Lease Co., Ltd.
Suruga Capital Co., Ltd.
Suruga Computer Service Co., Ltd.
Suruga Investment Finance Co., Ltd.
Suruga Card Co., Ltd.
Suruga Credit Service Co., Ltd.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(c) Other Accounting Principles and Practices

Other significant accounting principles and practices adopted by the Bank are discussed in Note 1 of Notes to Non-Consolidated Financial Statements. Certain subsidiaries apply accounting policies which may differ from the Bank's policies in certain respects, such as the straight-line method for the depreciation of premises and equipment.

2. Japanese Yen and U.S. Dollar Amounts

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

Amounts stated in U.S. dollars are translated from Japanese yen, solely for convenience, at ¥120.55 = U.S.\$1.00, the exchange rate prevailing on March 31, 1999. 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. Loans and Bills Discounted

(1) Balance of loans to companies under bankruptcy procedures: ¥9,567 million (U.S.\$79,368 thousand)

Balance of delinquent loans: ¥23,298 million (U.S.\$193,272 thousand)

Loans to companies under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (the balance does not include the written-down portion of the loan). Such loans hereafter are referred to as "non-accrual loans." This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

Delinquent loans are non-accrual loans provided to support the restructuring of companies under bankruptcy procedures. Such loans do not, however, extend a grace period to the borrower for the related interest payments.

(2) Balance of loans past due for 3 months or more: ¥4,970 million (U.S.\$41,229 thousand)

Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to companies under bankruptcy procedures and the balance of delinquent loans are not included in this category.

(3) Balance of restructured loans: ¥24,487 million (U.S.\$203,129 thousand)

Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to companies under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.

(4) The total balance of loans to companies under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans: ¥62,324 million (U.S.\$516,999 thousand).

Due to the direct deduction of claims, the balance of loans to companies under bankruptcy procedures, delinquent loans and past due for 3 months or more decreased by ¥7,017 million (U.S.\$58,213 thousand), ¥28,035 million (U.S.\$232,567 thousand) and ¥22 million (U.S.\$185 thousand), respectively.

4. Amounts Per Share

The computation of basic net loss per share is based on the weighted average number of shares of common stock outstanding during the year, less treasury common stock and common stock held by subsidiaries.

Amounts per share of net assets are computed based on the outstanding shares of common stock at the balance sheet date less treasury common stock and common stock held by subsidiaries.

1999	Yen	U.S. dollars
Net loss	¥ 49.14	\$0.407
Net assets	477.69	3.962

Corporate Directory

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Board of Directors and Auditors and Corporate Executive Officers

President
 Mitsuyoshi Okano

Deputy President
 Kinosuke Okano

Senior Managing Director
 Seiji Inui

Managing Directors
 Yuzaburo Kamano
 Hiroo Goto
 Toshiki Hoshino

Directors
 Atsushi Okamura
 Takehiko Katsumata
 Yasuyuki Tanaka

Standing Auditors
 Yoshinori Sano
 Masataka Oiwa

Auditors
 Nobuhiko Mochizuki
 Yutaka Goto

Corporate Executive Officers
 Ryoza Kinoshita
 Shinji Ihara
 Kazuyuki Kokubo
 Seiichiro Wakita

(as of June 25, 1999)



Organization

