



Annual Report 2000

Driven by the same spirit that led to the founding of Suruga Bank, in hopes of meeting our customers' expectations and earning their trust, we have made consistent efforts to maintain a sound business structure. We have proceeded with self-reliance and rugged independence with regard to capital, personnel, and sales policies. We readily recognize the public responsibilities we bear as a financial institution. We have worked to ensure the smooth flow of funds and the fostering of strong industrial enterprises.

We intend to continue fulfilling our mission to contribute to the public good. Focusing exclusively on sound banking operations, we aim to build a corporate structure that will endure through change. Moreover, we desire to provide good quality financial services, as we stay close to our community, and quickly learn of our customers' needs.

As we face the 21st century, the environment that surrounds us is rapidly changing. In our company, we have adopted strategies for innovation in each of four areas : marketing, administration, information technology, and corporate organization. We have devoted ourselves to the developing of new technological skills not yet found in other banks. Only through changing ourselves will we be able to keep up with the environment that is constantly changing around us. If we fear change, we will not be able to give birth to a bright future. By building a flexible organization that adjusts quickly to our customers' needs, we will strive to become a chosen bank in the financial services industry.

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Financial Highlights (Non-Consolidated)

The Suruga Bank, Ltd. Years ended March 31

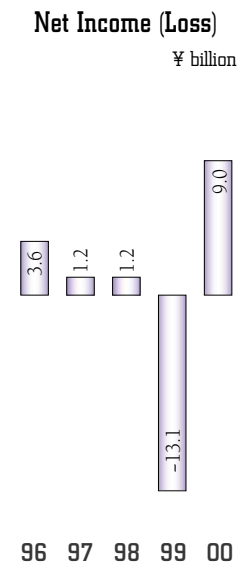
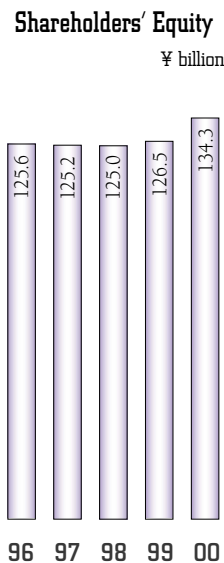
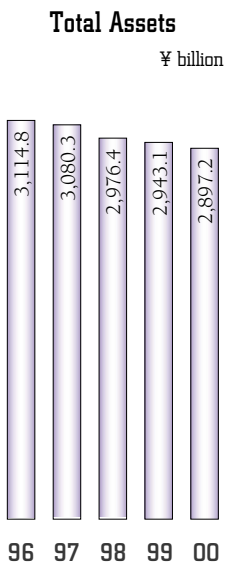
	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
For the year:						
Total income	¥ 101,113	¥ 130,526	¥ 118,576	¥ 115,433	¥ 117,208	\$ 952,553
Total expenses	84,809	149,564	110,708	104,994	102,482	798,955
Income before income taxes	16,304	(19,037)	7,868	10,439	14,726	153,598
Net income (loss)	9,077	(13,169)	1,219	1,274	3,696	85,519
Per share of common stock (in yen and dollars):						
Net income (loss)	¥34.26	¥(49.14)	¥4.53	¥4.73	¥13.74	\$3.22
Cash dividends applicable to the year	5.00	5.00	5.00	5.00	6.00	0.47
At year-end:						
Deposits	¥2,712,506	¥2,697,034	¥2,702,079	¥2,793,829	¥2,865,854	\$25,553,524
Loans and bills discounted	1,870,906	1,889,572	2,014,085	2,013,019	2,040,420	17,625,121
Securities	470,215	603,141	490,930	610,314	594,701	4,429,727
Shareholders' equity	134,314	126,560	125,078	125,203	125,602	1,265,331
Total assets	2,897,270	2,943,165	2,976,435	3,080,334	3,114,892	27,294,112
Capital adequacy ratio (%)	9.54	9.16	9.74	9.77	9.78	
Number of offices	121	121	123	135	139	
Number of employees	2,156	2,254	2,353	2,474	2,544	

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 ¥106.15=US\$1, which prevailed at March 31, 2000.

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

4. The capital adequacy ratio has been computed based on domestic standards since 1999.



Message from the President

● Major Performance Benchmarks

In the term under review, against a background of low overall corporate demand for funds, the Bank reduced its volume of loans at low-interest rates to large corporations, while simultaneously making active efforts to open up new markets for consumer loans and mortgage loans. As a result, the Bank achieved its target of raising to 45% the ratio of total loans to individual customers.

On a non-consolidated basis, total income was down 22.5% from the previous term due to a decrease in gains from the sale of equities as well as Japan government bonds and other bonds. Income before income taxes improved to ¥16,304 million from the previous term's loss of ¥19,037 million, as a result of fewer write-offs of bad debts, which led to a decrease in other expenses in the term under review.

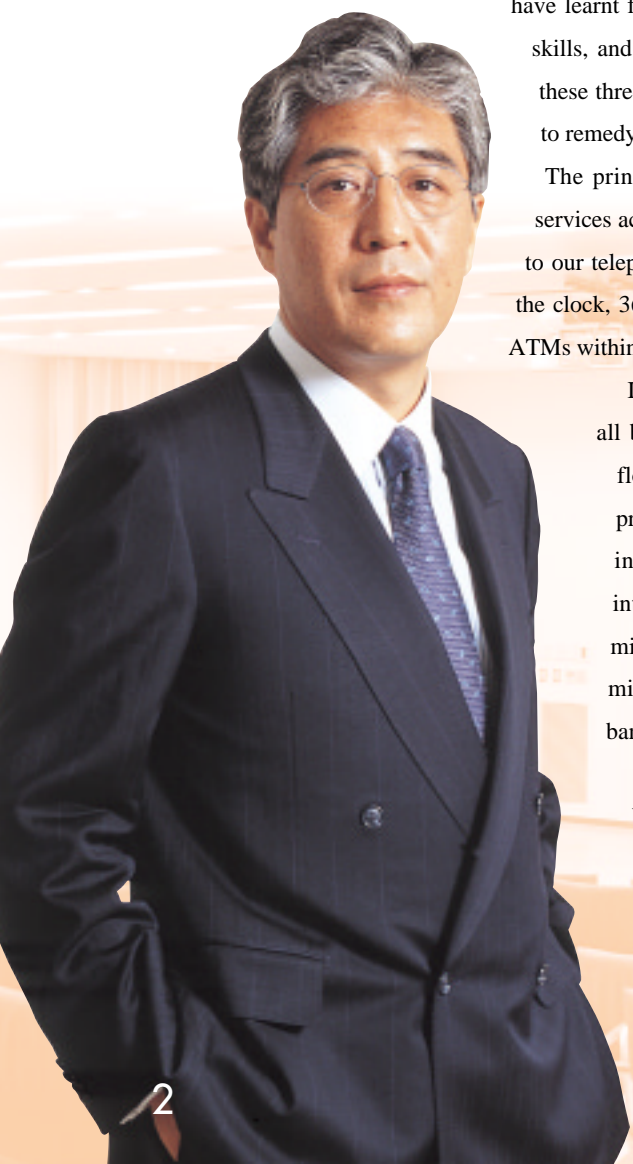
● Business Strategy and Steps Taken During the Past Years

For the past 10 years Suruga Bank has used leading U.S. and European financial institutions as benchmarks, and we have learnt from this that Japanese banks tend to be lacking in three areas: business culture, business skills, and database-centered computer systems aimed at the retail market. With our eyes fixed on these three factors, over the past decade we have been steadily implementing the requisite measures to remedy this situation.

The principal measure during fiscal 1999 was to expand delivery channels so as to make our services accessible to customers at any time or place. We realized this by, among other things, adding to our telephone banking capabilities, making Internet banking and mobile banking available around the clock, 365 days a year, forming an on-line link with the Postal Saving System, and installing 234 ATMs within convenience stores.

In addition, by the introduction of CRM (Customer Relationship Management) systems in all branches, we established a structure that enables us to centrally manage the information flowing through all channels, such as our branches and our Call Center, and to provide the products and services that customers need, at the times they need them. Also, by bringing into full operation our automated system of screening individual customers that was introduced in 1997, we have become able to complete credit screenings in as little as 30 minutes and develop subprime products and services, while at the same time keeping risk to a minimum. As a result, we have expanded our loan lineup to an extent unrivaled by other banks.

The expansion of our delivery channels and our measures using IT have been quick to bear fruit, an example being an increase in the customer cross-sell rate of 0.4 of a percentage point. In September 1999 we established our Dream Direct virtual branch, an automated facility that uses phone, fax, and the Internet, and in which there is no face-to-face contact with customers. Then, in December, we inaugurated DirectOne, which uses the same direct channels to provide loan products.



In the current climate of rapid change for financial institutions, banks that lack strategic direction and individuality will be deselected. For us, the road to survival and success is to focus our endeavors on the fields in which we excel, while constantly enhancing the soundness of our assets. The ability to adapt to changes in the operating environment is a major factor in this, and so it is essential to take steps such as simplifying our organization and improving the soundness of assets to create an organization that is always able to respond to change, and is constantly studying and learning. Distaste for change and adherence to the status quo would make the creation of a bright future a total impossibility. I am certain that the kind of future we want can only be created by adopting a bold approach to change and through unflagging efforts directed at ambitious goals.

“Together 2001” Medium-Term Management Plan— Achievements and Remaining Tasks

Suruga Bank has now entered the final year of its Together 2001 five-year management plan, which commenced in April 1996. This plan sets three main goals: further strengthening the Bank’s financial position, effecting a reorganization to facilitate constant innovation and growth, and providing services that offer the maximum customer satisfaction. The Bank stands united in working to attain these goals by pursuing the four innovation strategies that we have mapped out—innovation in marketing, in administration, in the use of information technology, and in corporate organization.

To cite specific examples of successes achieved under the Together 2001 plan, firstly, in the field of marketing innovation, Suruga Bank issued the first credit card by itself, as part of its retail financial services strategy; developed new deposit and loan products; and established a call center to bolster its direct-banking business.

In the field of administrative innovation, we took the first steps towards eliminating back office work at branches with the aim of reorganizing our loans operations, transferring some of these operations to head office and promoting the automation of work processes. Thanks to this, we have been able to substantially reduce the number of staff assigned to clerical work at our branches, and have thus been able to transfer a number of staff to marketing duties.

Turning to innovation in the use of information technology (IT), we have put considerable effort into the development of marketing support systems—such as a Customer Relationship Management (CRM) system and automated credit screening—which are indispensable to the success of our retail banking strategy. We have also introduced the “Palette” electronic compendium of regulations, which contains clerical work procedures and allows even inexperienced employees to speedily carry out day-to-day processing. We have provided every staff member with a PC, and are well on the way to achieving much more efficient marketing and administrative management through the use of advanced information systems.

Suruga Bank’s innovation in its corporate organization centers on re-engineering the Bank into a horizontal organization so as to achieve faster execution of operations. For this purpose, the Bank’s organizational setup has been simplified from 12 divisions in 1996 to 6 divisions in March 2000. An executive officer system has also been established in order to speed up decision making and clarify the responsibilities of individual sections. In addition, we

have instituted a performance-linked pay system to introduce a competitive element into employee compensation, and a stock options system for directors and executive staff.

These various innovations have no fixed goals. The Bank must be ever-ready to change itself in response to changes in the business environment, which is in a state of constant flux. We will not rest on our laurels: instead, we will review the results of our innovation strategies in the final year of our medium-term plan, which we will treat as a run-up to the start of the next management plan. This year will be a period of decisive long-term significance for Suruga Bank.

Dividend Policy

In view of the public nature of the banking business, Suruga Bank's fundamental policy is to maintain a healthy financial position and a firm business base, while continuing to pay stable dividends to our shareholders.

Despite the severity of the business environment in the financial sector during the term under review, the Bank intends to maintain its fundamental policy by paying a cash dividend for the year of ¥5 (US\$0.05) per share of common stock, divided into a ¥2.5 per share interim dividend and a term-end dividend in the same amount. We intend to actively employ our internal reserves in efficient investments geared to new measures related to IT and the creation of a network bank in order to increase the sophistication of our financial services. The management and staff of Suruga Bank will work together to further rationalize our business operations, thus achieving greater efficiency and building a resilient earnings base and financial strength to benefit our credit standing. This will enable us to satisfy our shareholders' expectations by maintaining stable dividend payments.

Enhancing Profitability

In the term under review, we achieved our target of raising to 45% the ratio of total loans and bills discounted accounted for by individual customers; the balance increased by more than ¥150 billion. Simultaneously, we increased our yield on lending by reducing the volume of loans at low interest rates to large corporations, while there was substantial growth in small personal deposits such as the time deposits with a jumbo lottery scheme offered through the Dream Direct "Branch." In consequence, the Bank's net interest margin deriving from lending and deposits was widened. Overall, it was a year in which the results of our efforts directed at the consumer-oriented retail field were manifested in concrete figures. Our target for the term ending March 2001 is to push the ratio of loans to individual customers up further to 50%, by making full use of our CRM system and automated credit-screening system. An important factor in achieving this goal will be whether we can develop products that really meet the needs of our customers.

In addition, because of our bold write-off of bad debts in the previous year, write-offs in the term under review fell sharply, enabling us to post a strong increase in income before income taxes.

Looking ahead, we will be making every effort to increase loans to individual customers still further, and also small loans to small businesses. We will also be refining our low-cost marketing by using the Internet and mobile phones.

The Suruga Bank of the Future

We hold the view that the 21st century will not simply be a continuation of the 20th. As a result of rapid changes in the environment, notably characterized by the IT revolution, we will be engulfed in a full-scale torrent of competition of a kind never before experienced. The barriers dividing financial industries are clattering to the ground, and overseas institutions are also making inroads, with the result that the map of our industry is being significantly redrawn. It is no longer possible to portray the future by using the definitions and experience of the past.

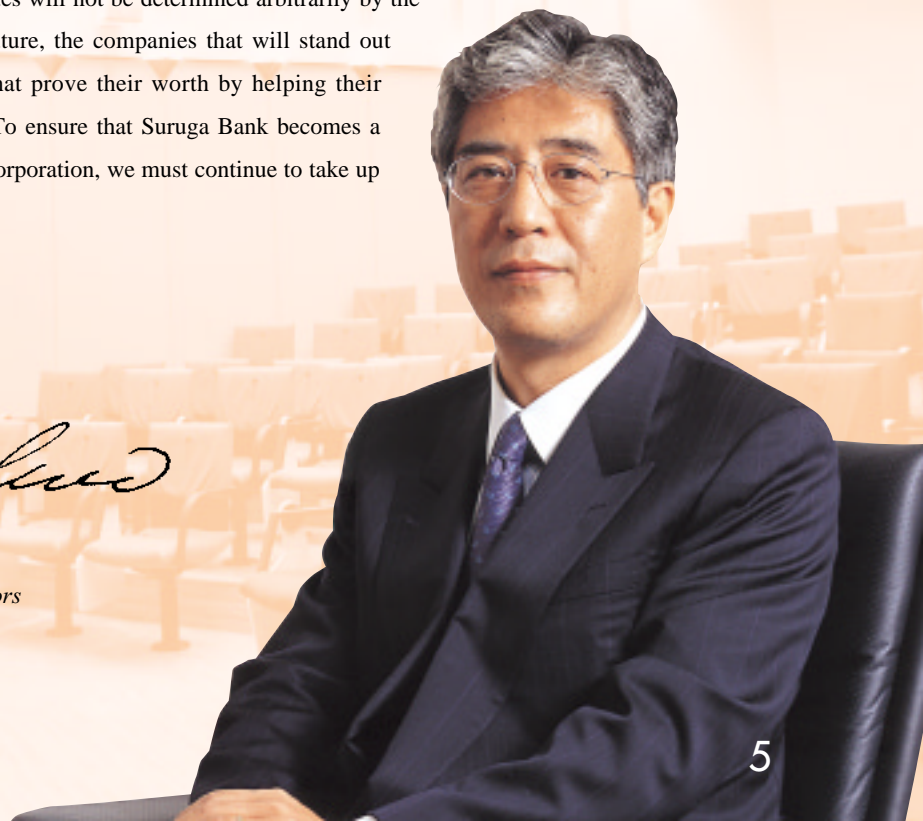
To pass successfully through this major period of change, we must create a new corporate image quite different from that we have known hitherto. To do this, I believe that we must become an organization that creates, learns, and changes. By using our individual abilities to the fullest extent possible, we can enhance our ability as an organization and acquire the capacity to cope flexibly with the changing times. If we do so, this period of change will turn into a golden opportunity.

I believe that the role we should play in the 21st century is that of a “life and business a ‘concierger’,” helping to map out a more certain future for customers who, in these uncertain times, are filled with unease as they ponder what lies ahead but dare to stand up to the future. Our duties as a “concierger bank” will be to develop and provide familiar, cordial and trustworthy new products and services in a caring manner, and to be a place where customers always feel free to drop in for any kind of advice. As we enter the 21st century, we will begin to progress towards becoming more than simply a bank: It is our obligation to create an organization that is truly worthy to be called a “concierger”.

From now on, the kind of values that a company can provide to the society will become important, but those values will not be determined arbitrarily by the companies themselves. In the future, the companies that will stand out from the crowd will be those that prove their worth by helping their customers realize their dreams. To ensure that Suruga Bank becomes a shining example of this kind of corporation, we must continue to take up the changes and the challenges.



Mitsuyoshi Okano
*Chairman of the Board of Directors
& Chief Executive Officer*



In recent years, the Internet and the mobile phone have spread rapidly as personal communication tools. Estimates indicate that the number of people using the Internet in Japan totaled 17 million in December 1999, representing 28.5% of all households, while the number of mobile-phone subscribers numbered some 54.77 million. Comparing the times taken to reach a diffusion ratio of 10% of all households, it took 76 years to reach that level in the case of telephones, 15 years for mobile phones, and a mere five years in the case of the Internet, illustrating the blinding speed with which use of the latter two has spread.

In line with this trend, Suruga Bank has categorized these new communication tools as important delivery channels, prompting it to start its Internet banking service in January 1999 and its mobile banking service in February. And the Bank has remained very active in developing products and services tailored to user needs, for example through the start in October that year of 24-hour, 365-day service, and the expansion of the service menu.

These channels, in which there is no face-to-face contact with customers, offer a number of

advantages. They make it possible to provide services at low cost, enabling us to reward customers by reducing or eliminating bank charges, offering preferential interest rates, and providing value-added products, and they also mean that busy customers can access products and services quickly, at the pace they desire, anytime and anywhere.

These channels are used not only for routine transactions such as transfers, remittances, and balance inquiries: they also open up a diverse array of other possibilities.

For example, in September 1999 the Bank opened its Dream Direct Branch, a virtual branch dedicated to the use of channels such as the Internet and telephones that require no face-to-face contact with customers. At that time we also launched a value-added product in the form of a time deposit—the Jumbo Lottery Time Deposit—that presents the customer with entry into a big-prize lottery in addition to the normal deposit interest. Because branch-opening and running costs are substantially reduced, customers can be rewarded by adding value in the form of the lottery. The fact that more than half the customers for this product are outside Shizuoka and Kanagawa prefectures, which constitute our traditional business base, attests to the fact that if a product is good, it can gain

customers nationwide. Also, around 15% of all transactions come through the Internet, which we expect to use as a valuable new tool.

In December 1999, we inaugurated DirectOne service, which uses the same electronic channels to provide loans to individual customers. By making maximum use of its automated credit-screening system, while reducing risk the Bank can also undertake screenings in as little as 30 minutes, and cater to new requirements for loans on the part of customers. This was followed by the establishment, in March 2000, of DirectOne Branch, the Bank's second direct-channel "branch."

The Bank continues to develop new financial services using the Internet, and to fulfill customer needs to the maximum extent possible. This includes a business tie-up with Orient Corporation as part of its small business strategy, and tie-ups with Softbank Finance and SE Bank to inaugurate new services for individuals.

In order to assess how best to use the Internet and mobile phones for financial services, and how to use these channels to maximize customer satisfaction, Suruga Bank—together with European and



nel Banking



U.S. companies—has become a founding sponsor of the Center for eBusiness@MIT at the MIT Sloan School of Management, and has begun research activity. The Bank has assigned one member of staff to MIT Sloan School, and is researching the kinds of service it can provide as a member of the financial-services industry.

The Internet and mobile phones will continue to spread, becoming a firmly established part of our social infrastructure, and the IT revolution and the increased sophistication of this communications infrastructure will surely bring it extremely close to being a face-to-face channel. Also, use of the CRM (Customer Relationship Management) systems installed in 1999, and close links with databases, will make possible the rapid provision of comprehensive financial services. The Bank is pledged to continue its efforts to forge ties with other industries to cater to the increasing diversity of customer needs at low cost by providing state-of-the-art financial services that incorporate IT technologies in an organic way.

Mobile Banking

Eclipsing the spread of the Internet itself is the spread of mobile phones capable of accessing the Internet, the main example being NTT DoCoMo's i-mode. The i-mode was launched in February 1999, and more than 5 million phones were sold in only one year. Forecasts indicate that in five years' time more people will be accessing the Net through mobile phones than through personal computers. In parallel with this increase in the number of users, the number of companies providing i-mode accessible contents is also growing, ensuring that in terms of convenience this channel will surpass all others.

Suruga Bank also regards the mobile phone as being the pivotal channel for Web finance. In February 1999 we inaugurated our mobile banking service, and since October our services for fund transfers and remittances has been made available on a 24-hour, 365-day basis. These steps were followed in March 2000 by the launch of e-Cash Mini, through which customers can use their mobile phones to make applications for bank card loans and borrow money. In April, the fees for using the mobile banking service were abolished, which has prompted still further its use by customers.

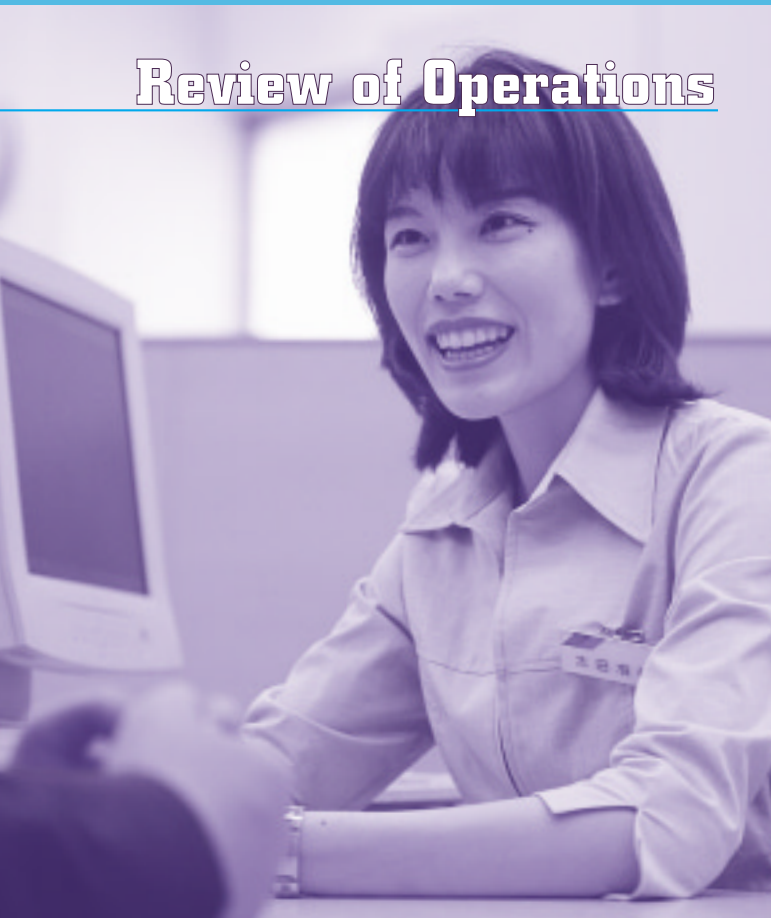


NTT DoCoMo's next-generation mobile phone service is scheduled to start in the spring of 2001. This will make it possible to provide still more agreeable and convenient financial services—all part of our constant desire to offer customers better-value-added products and services.

Because they do not require the medium of conventional branch offices, Internet banking and mobile banking enable us to provide products and services beyond the boundaries of our geographical marketing area. Through the vigorous development of products and services of this kind that are available nationwide, the Bank's aim is to create new financial services employing the Internet and mobile phones.



Review of Operations



Risk Management System

Throughout the Bank, we are working toward the establishment of a failsafe risk management system, as detailed below, with the objective of maintaining sound management and assuring stability of earnings. The principal emphasis is on prompt and accurate identification of risk and the introduction of appropriate structures and effective methods for 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 screening 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

screening sections have 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 sections analyze information gleaned from investigations of companies, notably financial data, and are able to maintain accuracy in judging the viability of individual loans.

The credit management sections are working to increase the sophistication of the Bank's credit risk management system, so as to maintain or improve the soundness of assets, and are reinforcing the functions of the Risk Management Division. Within this division, in addition to staff in charge of inspection, loan management, and legal matters, staff have also been put in charge of loan audits 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 inspections. 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 inspections 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.



● Compliance System

Observing laws and other social standards is the natural duty of every corporate citizen, but the importance of compliance is greater for banks than for ordinary companies, given their public-service mission and social responsibilities. In addition, amid the ever-increasing speed of liberalization and globalization generated by the Big Bang in the financial sector, there is a strong requirement for bank managements to adhere thoroughly to the principle of accountability, and to ensure transparency.

For its part, Suruga Bank categorizes compliance as an important management issue. It has formulated a compliance program, based on which it is working continuously on the establishment of its compliance system from a variety of angles, including the conduct of in-house and group training for all officers and staff, including part-time personnel and the staff of subsidiaries; the laying-down of rules and regulations; and the distribution of compliance manuals.

● Compliance Hitherto

To create conditions for the establishment of its compliance system, Suruga Bank has instituted ethical standards to serve as in-house rules, and given all staff, including part-time personnel and the staff of subsidiaries, its “Business Guideline,” which sets out—in an easy-to-understand form—case studies of laws and regulations that staff must observe in the conduct of their business activities. What is more, in-house training and self-diagnosis tests are implemented in accordance with an annual schedule. The compliance program has also been incorporated into the training given to staff of different grades; recurrent training; new employee training, training for staff joining the



Bank in mid-career; new junior managers and newly appointed branch general managers. These ongoing efforts that the Bank has made for the establishment of its compliance system also include the showing of in-house videos that include dramatizations designed to give instruction on the subject of compliance.

● Direct Banking

Amid the major changes that are under way in people's living environment, the types of banking services that customers consider convenient are becoming increasingly varied. Suruga Bank has taken a range of steps to enhance customer convenience, including extending the operating hours of its ATMs—channels that can be used outside business hours. The Bank also has a range of direct channels through which customers can access the same services as those they obtain when they actually visit a branch. Specific examples are Telephone Banking, through which customers can carry out transactions over the phone, Internet Banking using PCs, and Mobile Banking using mobile phones. All of these reflect the Bank's commitment to creating an atmosphere in which banking services can be accessed anytime, anywhere.

In addition, the Bank's information service call center—known as the Access Center—has dedicated operators standing by to answer questions and give advice about our entire range of deposits, loans, pensions, foreign exchange services, mutual funds, and others. The telephone banking and telemarketing business conducted by the Access Center received ISO 9002 certification in March 2000.



● CDs/ATMs Linked to the Postal Saving System

Effective October 25, 1999, the Bank linked its network of CDs and ATMs to those of the Postal Saving System. This link enables customers to make deposits, withdrawals, and balance inquiries with a Suruga Bank card via the Postal Saving System's nationwide network of roughly 21,000 CDs and ATMs. Nationwide access to CDs and ATMs made possible by this link will make banking more convenient for customers in areas where the Bank has few branches.

● Suruga Bank's Website Now Accessible from Mobile Phones

Effective March 1, 2000, the Bank's website was made accessible from mobile phones via Internet connection services set up by mobile phone carriers.



The website is listed under the service menus of EZaccess (IDO) and EZWeb (8 firms belonging to the DDI Cellular Group and 3 firms belonging to the Tu-Ka Group), from where the website is easily accessible. The contents of the website include guides to telephone banking and local branches, as well as loan consulting. Inquiries about products and services, as well as requests for the Bank's publications, may also be placed online. Suruga Bank plans to follow the lead of NTT DoCoMo's i-mode service by successively launching mobile banking and loan application services from here on.

Operational Highlights

● Dream Direct Branch

In September 1999, we launched the Dream Direct Branch, the nation's first virtual branch dedicated to telephone banking. This delivery channel allows us to offer higher value-added services. Because face-to-face contact with customers is not required, nationwide access to products and services is now available.



● ATMs Installed at 234 Convenience Stores

The Bank has installed 234 ATMs within convenience stores affiliated with 5 chain stores, including FamilyMart and Circle K, located in Shizuoka, Kanagawa and Tokyo. To meet customers' needs for convenient access to our products and services, we are extending our range of access channels. Concurrently, we will continue to improve the quality of our services to maximize customer satisfaction.



● DirectOne—The Latest in the Series of "Direct" Services

Following the launch of the Dream Direct Branch, the Bank inaugurated the DirectOne service on December 1, 1999. DirectOne will encompass a wide range of new products centered on loans and credit cards, and will utilize direct channels such as the Internet and telephone, thus eliminating bothersome procedures and speeding up processing. This service is expected to meet diversifying customer needs in a society increasingly dependent on advancing information networks.



WACON WACON
DIRECT ONE
スルガ銀行のダイレクトワン



● Announcement of Fully-Fledged Entry into Net Banking Business

Following the conclusion of a tie-up between Suruga Bank and Softbank Finance Corporation, operation of an Internet “branch” was commenced on April 17, 2000 under the name “Softbank Branch.” Through this tie-up with Softbank Finance Corporation, one of the pioneers in financial business over the Internet, Suruga Bank is able to offer a sophisticated and speedy service combining finance and information, allowing us to develop low-cost financial services that fully meet customer needs.



● Suruga Bank Announces Entry into Small Business Market

The constant advance of information technology is making it important for banks to devise ways of tapping the market for financial services to SOHO (small office, home office) businesses. Against this background, Suruga Bank has entered into a tie-up with Orient Corporation through which it will offer services tailored to the needs of this new small business category. The e-Business Direct Branch was started on May 8, 2000, and the Bank intends to actively provide funding for SOHO businesses.

● Acquisition of the ISO 9002 Certification

The Bank’s Call Center was awarded the ISO 9002 certification for meeting international standards of quality assurance. Customers can rely on the Call Center to provide a consistently high quality of service through strict adherence to its Quality Manual. The Center aims to maintain this level of service by making regular inspections including semi-annual external inspections and renewal inspections carried out every three years.

The ISO certification assures our customers that all Call Center representatives will provide a level of service that meets their expectations.



Contributing to the Community

Suruga Bank's Role as a Member of the Local Community

The Bank carries out its business operations in a manner fitting for a responsible corporate citizen. Specifically, we have set up the Suruga Foundation to award scholarships to high school entrants with excellent academic records and outstanding personal qualities. We have also established API Co., Ltd., a printing company, with the aim of providing a substantial number of employment opportunities for the severely disabled. The Bank makes active efforts to strengthen its ties with the community through these endeavors.

The Suruga Foundation

The Foundation was set up in 1963 in celebration of the 100th birthday of our founder, Kitaro Okano. The Foundation awards scholarships for the following periods of study: 3 years at the high school level, 4 years at the university level for Japanese students, and 2 years at the university level for overseas students.

In fiscal 1999, 186 students were awarded scholarships. As of the end of March, 2000, 4,418 scholarship recipients have graduated.



The Suruga Foundation



API Co., Ltd.

API Co., Ltd.

In 1990, Suruga Bank, the Shizuoka prefectural government, and the Numazu municipal government jointly invested ¥50 million for the purpose of establishing API Co., Ltd., a printing company, with the aim of providing employment for the severely disabled. We hold a 51% equity interest in the Company.

The Suruga Cup

To promote sports in the regional community, the Bank sponsors the following tournaments: 1) the Suruga Cup Junior Youth Soccer Tournament (participants: junior high school students); 2) the Suruga Cup Shizuoka Soccer Tournament (winner to represent Shizuoka prefecture in the Emperor's Cup National Soccer Tournament; participants: high school students, college students and adults). We also sponsor the Suruga Cup Youth Soccer League (participants: high school and university students under the age of 21).

We will continue to support the rising generation's interest in soccer.



The Suruga Cup

Tackling Environmental Issues

We have made active efforts to respond to the growing social concern over the protection of the environment and the conservation of limited natural resources. In addition to using forms made from recycled paper, Suruga Bank has actively promoted paperless information processing by setting up a computer network (LAN & WAN, linking Head Office sections to branches) over which notices, manuals, and application forms can be posted and processed electronically.

Supporting the Development of the Regional Community

Suruga Bank was founded to contribute to the prosperity of its home region, and today, we still position service to the community as our primary mission. We believe that the *raison d'être* of business enterprises is to provide socially beneficial products or services, thereby helping to improve people's standard of living. The management of a bank, which has a major impact on regional economies and society, must thus be conducted with a strong sense of public responsibility.

Ever since the Bank's establishment, while upholding the principles of thrift, diligence, and sincerity, its staff have worked to provide comprehensive financial services to help promote the development of the local community. From here onward, we will continue to keep the social responsibility borne by banks at the forefront of our minds, and by providing customer-centric banking services, to contribute to the development of our local region.

The Suruga Institute

The Suruga Institute, a corporate management research institute, was set up in 1982 to provide support for local companies and help foster the healthy development of the regional community. The Suruga Institute carries out a range of management consulting services, including analyses of management practices, investment consultation, and comprehensive corporate audits and "health checks," as well as conducting surveys and research on the local industrial economy and corporate management, and providing support for international exchange activities.

The Institute also holds various lectures and seminars, including Management Strategy Seminars utilizing the case study method.



A Management Strategy Seminar

The Bernard Buffet Art Museum

(Suruga-Daira, Nagaizumicho, Shizuoka Prefecture Tel: +81-(0)559-86-1300 Closed on Wednesdays)

In 1973 Suruga Bank opened a museum devoted to the works of the French painter Bernard Buffet (1928-1999). To introduce more of the museum's collection of approximately 1,800 works to the public, a new display gallery was opened in 1988. This was followed by the construction of a second annex dedicated to Buffet's engravings and lithographs in 1996. The whole museum complex now offers a comprehensive display of oil paintings, watercolors, engravings, lithographs, and sculptures.

The Buffet Children's Museum, which offers art classes and related activities for children, was opened in August 1999.



The Bernard Buffet Art Museum

Overseas Trainee Program

Suruga Bank has been participating in the Intern Program organized by the Utah Asian Studies Consortium (UCON) since 1990, and has been accepting one or two American university students every year as trainees. The Bank helps the trainees by providing assistance for living in Japan. The trainees learn about Japan in the actual working environment of a Japanese bank, and at the same time the experience fosters cross-cultural understanding on both sides: these are the objectives of the program.

Board of Directors and Auditors and Executive Officers



Chairman of the Board of Directors & Chief Executive Officer

Mitsuyoshi Okano

Chairman of the Board of Officers & Chief Operating Officer

Kinosuke Okano

Senior Managing Director & Chief Financial Officer

Seiji Inui

Managing Director Senior Executive Advisors

Yuzaburo Kamano
Hiroo Goto
Toshiki Hoshino
Atsushi Okamura

Directors

Tatsuya Tamura
Makoto Naruke
Tsuneo Yahagi

Standing Auditors

Yoshinori Sano
Masataka Oiwa

Auditors

Yasumi Mochizuki
Takashi Mimura

Senior Executive Officers

Takehiko Katsumata
Yasuyuki Tanaka
Ryozo Kinoshita

Executive Officers

Shinji Ihara
Seiichiro Wakita

Sachio Takahata
Tetsu Ito
Kihachiro Nomura
Kiyokazu Masuda
Kazuya Mochizuki
Hideki Maruyama

Officers

Kazuyuki Kokubo
Toshinaga Suzuki
Fumiaki Toyama
Osamu Kobayashi
Toru Fukada
Takashi Tsuchiya
Toshihisa Kubozono
Nobuo Mori
Yoshihiro Okazaki
Takahiro Aoki

(As of June 23, 2000)

* Auditors Yasumi Mochizuki and Takashi Mimura have been appointed external auditors in compliance with the law pertaining to the special ordinance to the Commercial Code concerning auditors of public limited companies as regulated in article 18, clause 1.

FINANCIAL SECTION**CONSOLIDATED FINANCIAL STATEMENTS**

Financial Review

The Suruga Bank, Ltd. and Subsidiaries March 31, 2000

During the term under review, industrial production enjoyed an upturn and corporate profits improved, primarily on account of government-initiated economic stimulus measures and the revival of the Asian economies. Despite the visible recovery in predominantly IT-related corporate capital expenditures, rising unemployment and shrinking disposable income prevented personal consumption from fulfilling its vital function in guiding the business cycle higher. Amid these developments, however, compelling signs of economic strengthening have yet to emerge.

In the regional economies of Shizuoka and Kanagawa Prefectures, an overall picture of weakness prevailed, even though corporate earnings started to trend upwards, and despite robust consumer spending in areas such as personal computers and mobile phones.

Against this economic backdrop, we worked towards broadening the scope of transactions handled by the Bank and its 9 consolidated subsidiaries with retail customers and with small and medium-sized corporate clients. While continuing our efforts to contribute to the regional community, we also seized the business opportunities offered by the far-reaching implications of new technological developments, and concentrated on building a novel channel network involving the Internet and mobile telecommunications. Our activities yielded the following business performance.

With reference to the principal consolidated accounts, the term-end balance of deposits rose ¥13,347 million from the corresponding prior-year amount to ¥2,709,951 million (US\$25,529 million), while the loan balance at the term-end reflected a decline of ¥21,079 million on the year to ¥1,853,451 million (US\$17,460 million). The term-end balance of securities holdings was ¥470,912 million (US\$4,436 million), down ¥133,284 million from that of the previous year.

Consolidated net income amounted to ¥8,897 million (US\$83 million), compared with the loss of ¥13,236 million recorded in the previous term. The Bank's capital ratio was calculated at 9.97% based on international standards, and at 8.77% based on domestic standards.

The net outflow in cash from operations during the term was ¥65,807 million (US\$619 million). This reflected the increase in amounts due from other banks and call loans, outweighing the effects of the decline in loans advanced and the rise in deposits received. Cash flows from investing activities accounted to ¥136,395 million (US\$1,284 million), which is attributable to higher sales of securities in order to structurally enhance the Bank's securities portfolio. Cash flows from financing activities resulted in a net outflow of ¥1,780 million (US\$16 million), which was caused by the outlay associated with the acquisition of the Bank's own stock following the introduction of an employee stock option plan. Dividend payments were yet another factor, contributing to this cash out flow.

Cash and cash equivalents at the term-end totaled ¥208,560 million (US\$1,964 million), up ¥68,792 million from a year earlier. Cash and cash equivalents, presented as "Cash and Due from Banks" in the consolidated balance sheets, include cash and deposits with the Bank of Japan.

Consolidated Balance Sheets

The Suruga Bank, Ltd. and Subsidiaries As of March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Assets			
Cash and cash equivalents	¥ 208,560	¥ 139,768	\$ 1,964,775
Due from banks	105,755	81,826	996,281
Call loans, commercial paper and other debt purchased	138,024	96,144	1,300,276
Trading account securities	22,996	10,025	216,642
Money trusts	3,000	5,500	28,263
Investment securities	470,912	604,196	4,436,291
Loans and bills discounted	1,853,451	1,874,531	17,460,686
Foreign exchange	3,287	3,052	30,971
Other assets	17,889	18,456	168,526
Premises and equipment	60,026	57,993	565,491
Deferred tax assets	40,997	42,321	386,225
Customers' liabilities for acceptances and guarantees	19,359	21,205	182,378
Less reserve for possible loan losses	(40,469)	—	(381,249)
Total assets	¥2,903,792	¥2,955,022	\$27,355,562
Liabilities, minority interests and shareholders' equity			
Liabilities			
Deposits	¥2,709,951	¥2,696,603	\$25,529,449
Call money	12,504	24,531	117,800
Borrowed money	13,896	14,726	130,913
Foreign exchange	28	16	269
Other liabilities	21,163	35,657	199,371
Reserve for possible loan losses	—	46,983	—
Reserve for retirement allowances	3,874	3,823	36,498
Reserve for possible losses on sales of loans	477	289	4,493
Acceptances and guarantees	19,359	21,205	182,378
Total liabilities	2,781,254	2,843,837	26,201,176
Minority interests	350	131	3,306
Shareholders' equity			
Common stock	30,043	30,043	283,026
Capital surplus	18,585	18,585	175,090
Retained earnings	85,936	78,285	809,579
Less treasury common stock, at cost	(536)	(2)	(5,058)
Less cost of common stock held by subsidiaries, at cost	(11,841)	(15,858)	(111,558)
Total shareholders' equity	122,187	111,053	1,151,080
Total liabilities, minority interests and shareholders' equity	¥2,903,792	¥2,955,022	\$27,355,562

See notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

The Suruga Bank, Ltd. and Subsidiaries Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Income			
Interest income	¥ 72,504	¥ 76,874	\$ 683,034
Fees and commissions	6,174	6,009	58,170
Other operating income	20,797	26,884	195,930
Other income	11,228	30,974	105,779
Total income	110,705	140,742	1,042,915
Expenses			
Interest expense	16,698	24,521	157,311
Fees and commissions	3,017	2,697	28,424
Other operating expenses	17,932	9,380	168,935
General and administrative expenses	41,841	39,972	394,172
Other expenses	14,605	83,511	137,593
Total expenses	94,095	160,083	886,437
Income (loss) before income taxes	16,610	(19,340)	156,478
Income taxes:			
Current	6,168	17,826	58,114
Deferred	1,308	(23,934)	12,330
	7,477	(6,107)	70,444
Minority interests in earnings of consolidated subsidiaries	234	3	2,209
Net income (loss)	8,897	(13,236)	83,823
Retained earnings:			
Balance at beginning of year	78,285	76,775	737,497
Deferred taxes applicable to prior years	—	18,387	—
Deductions:			
Dividends paid	(1,246)	(1,259)	(11,740)
Retirement of treasury common stock	—	(2,382)	—
Balance at end of year	¥ 85,936	¥ 78,285	\$ 809,579

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

The Suruga Bank, Ltd. and Subsidiaries Year ended March 31, 2000

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2000	2000
Cash flows from operating activities		
Income before income taxes and other adjustments	¥ 16,610	\$ 156,478
Depreciation and amortization	9,049	85,248
Decrease in reserve for possible loan losses (net)	(6,513)	(61,363)
Increase in reserve for possible losses on sales of loans (net)	188	1,771
Increase in reserve for retirement allowances (net)	50	480
Income from investments	(72,504)	(683,034)
Expenses for procurement of funds	16,698	157,311
Securities-related gain (net)	(6,646)	(62,617)
Gain on money trust investments (net)	(16)	(153)
Loss on sale of premises and equipment (net)	800	7,539
Increase in trading securities (net)	(12,971)	(122,199)
Decrease in loans (net)	21,079	198,583
Increase in deposits (net)	13,347	125,743
Decrease in borrowings excluding subordinated debt	(829)	(7,816)
Increase in due from banks other than BOJ (net)	(23,928)	(225,425)
Increase in call loans (net)	(41,879)	(394,535)
Decrease in call money (net)	(12,027)	(113,306)
Increase in foreign exchange assets (net)	(235)	(2,216)
Increase in foreign exchange liabilities (net)	12	117
Interest received	73,346	690,967
Interest paid	(18,607)	(175,298)
Others	(4,314)	(40,640)
Subtotal	(49,292)	(464,367)
Income taxes payable	(16,514)	(155,580)
Net cash used in operating activities	(65,807)	(619,947)
Cash flows from investing activities		
Purchases of stock and other securities	(315,744)	(2,974,508)
Proceeds from sales of stock and other securities	353,486	3,330,070
Proceeds from redemption of bonds	106,189	1,000,371
Increase in money trusts	(1,011)	(9,524)
Decrease in money trusts	3,527	33,226
Purchases of premises and equipment	(11,302)	(106,477)
Proceeds from sales of premises and equipment	1,249	11,774
Net cash provided by investing activities	136,395	1,284,931
Cash flows from financing activities		
Dividends paid	(1,246)	(11,740)
Dividends paid to minority interests	(0)	(2)
Purchases of treasury stock	(1,272)	(11,988)
Proceeds from sales of treasury stock	738	6,956
Net cash used in financing activities	(1,780)	(16,775)
Effect of exchange rate changes in cash and cash equivalents	(15)	(141)
Net increase in cash and cash equivalents	68,792	648,066
Cash and cash equivalents at beginning of year	139,768	1,316,709
Cash and cash equivalents at end of year	¥208,560	\$1,964,775

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Suruga Bank, Ltd. and Subsidiaries March 31, 2000 and 1999

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of The Suruga Bank, Ltd. (the "Bank") and its subsidiaries have been prepared on the basis of accounting principles and practices generally accepted and applied in Japan and have been compiled from the consolidated financial statements 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, results of operations and cash flows in accordance with accounting principles and practices generally accepted and applied 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.

(b) Principles of Consolidation

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

Suruga Business Service Co., Ltd.

Suruga Staff 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.

Suruga Staff Service Co., Ltd. was established on November 11, 1999.

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

(c) Trading Account Securities

Trading account securities represent Japanese 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.

(d) Investment Securities

Investment securities and securities held in money trusts 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.

(e) Premises and Equipment

Depreciation of premises and equipment of the Bank is computed on an annual basis 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.

Software: By the straight-line method over 5 years.

Others: By the method stipulated in the Corporation Tax Law of Japan.

Certain subsidiaries apply the straight-line method for the depreciation of premises and equipment.

(f) Foreign Currency Items

Assets and liabilities which are payable or receivable in foreign currencies are converted into Japanese yen at the rates prevailing at each balance sheet date.

(g) Reserve for Possible Loan Losses

The reserve for possible loan losses of the Bank is provided in accordance with the policies regarding write-offs and reserve standards stipulated in "Auditing of Write-offs and Loan Loss Provisions" issued as part of the "Fourth Report of the Auditing Subcommittee for Banks and Other Financial Institutions" of the Japanese Institute of Certified Public Accountants. 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 of the 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 of the 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 over a fixed period in the past.

For 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 years ended March 31, 2000 and 1999, the amounts deducted were ¥11,627 million (US\$109,534 thousand) and ¥59,492 million, respectively.

Provisions for the consolidated subsidiaries have been made as deemed necessary with reference to the previous loan loss experience of these companies.

Due to a recent revision to the Enforcement Regulations of the Banking Law, a reserve for possible loan losses, which were previously included in liabilities, is now presented as a deduction from assets as a separate line item. As a result, total assets and total liabilities each decreased by ¥40,469 million (US\$381,249 thousand).

(h) Reserve for Possible Losses on Sales of Loans

The reserve for possible losses on sales of loans provides for contingent losses arising from any decline in the market value of the collateral posted on corporate mortgage loans sold to the Cooperative Credit Purchasing Company, Ltd.

(i) Reserve for Retirement Allowances

The reserve for retirement allowances is stated at 100 per cent. 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 and certain subsidiaries have contributory pension plans covering substantially all employees.

(j) Equipment Used under Finance Lease Agreements

Equipment of the Bank and its domestic consolidated subsidiaries used under finance lease agreements is accounted for as equipment leased under operating leases, except for those leases which transfer the ownership of the leased equipment to the lessee, in which case the equipment is capitalized.

(k) Consumption Taxes

The consumption tax and the local consumption tax of the Bank and its domestic consolidated subsidiaries are excluded from the transaction amounts. The portion of the consumption tax and the local consumption tax which were paid on purchase of premises and equipment and which are not deductible as tax credits are included in other assets and amortized over a five-year period.

(l) New Accounting Standard

Effective April 1, 1999, development costs for software intended for internal use are required to be capitalized if it is considered certain that such software would have the effect of increasing income or decreasing expenses in the future in accordance with "Accounting Standards for Research and Development Costs, etc." (issued by the Business Accounting Deliberation Council of Japan on March 31, 1998) and Statement No. 12, "Practical Guidance for Accounting for Research and Development and Software Costs" (issued by the Accounting Committee of the JICPA on March 31, 1999).

The adoption of this Standard and this Statement by the Bank at March 31, 2000 and for the year then ended resulted in an increase in premises and equipment of ¥2,458 million (US\$23,155 thousand) and in income before income taxes of the same amount, over the corresponding results which would have been recorded if the method of accounting referred to above had not been adopted.

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 ¥106.15 = U.S.\$1.00, the exchange rate prevailing on March 31, 2000. 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

Loans and bills discounted at March 31, 2000 and 1999 included the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loans to companies under bankruptcy procedures	¥10,200	¥ 9,567	\$ 96,098
Delinquent loans	44,217	23,298	416,553
Loans past due 3 months or more	1,355	4,970	12,770
Restructured loans	23,007	24,487	216,740
Total	¥78,780	¥62,324	\$ 742,162

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 portions of such loans). These 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 defined as loans which are past due and not accruing interest, but are categorised neither as "Loans to companies under bankruptcy procedures" nor as "Restructured loans" whose definition is given below.

Effective April 1, 1999, the Bank has classified loans made to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure

is imminent, as delinquent non-accrual loans regardless of the length of the overdue period. The effect of this revised policy increased delinquent loans by ¥21,721 million (US\$204,627 thousand).

Loans past due for 3 months or more are classified as such 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.

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 the 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. Accumulated Depreciation

Accumulated depreciation on premises and equipment at March 31, 2000 and 1999 totaled ¥53,233 million (US\$501,495 thousand) and ¥53,695 million, respectively.

5. Assets Pledged

	Millions of yen 2000	Thousands of U.S. dollars 2000
Assets pledged as collateral at March 31, 2000 were as follows:		
Investment securities	¥2,993	\$28,204
Due from banks	360	3,391
Common stock held by subsidiaries	1,788	16,844
Customers' notes and others	459	4,329
Liabilities related to the above pledged assets were as follows:		
Call money	2,123	20,000
Borrowed money	2,820	26,566

In addition, investment securities totaling ¥131,115 million (US\$1,235,190 thousand) were pledged as collateral for the settlement of exchange and short money transactions or as variation margin at March 31, 2000.

6. Amounts per Share

The computation of basic net income (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 number of shares of common stock outstanding at the balance sheet date less treasury common stock and common stock held by subsidiaries.

March 31	Yen		U.S. dollars
	2000	1999	2000
Net income (loss)	¥ 35.57	¥ (52.75)	\$0.335
Net assets	484.77	448.04	4.566

7. Interest Income and Expenses

Interest income and expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Interest income:			
Interest on loans and discounts	¥53,745	¥54,883	\$506,313
Interest and dividends on securities	16,895	16,664	159,170
Interest on deposited money	53	368	502
Other	1,809	4,957	17,047
Total	¥72,504	¥76,874	\$683,034
Interest expenses:			
Interest on deposits	¥ 8,198	¥16,155	\$ 77,232
Interest on borrowings and other	1,433	2,409	13,500
Other	7,067	5,956	66,578
Total	¥16,698	¥24,521	\$157,311

8. Other Income and Expenses

Other income and expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Other income:			
Gain on sales of stocks and other securities	¥10,086	¥20,119	\$ 95,024
Gain on disposition of premises and equipment	178	10,284	1,680
Other	963	570	9,074
Total	¥11,228	¥30,974	\$105,779
Other expenses:			
Provision for possible loan losses	¥ 2,029	¥33,407	\$ 19,122
Loss on devaluation of stock and other securities	3,887	1,833	36,622
Write-offs of loans	4,636	36,504	43,677
Loss on disposition of premises and equipment	978	677	9,219
Loss on sales of stocks and other securities	54	4,535	513
Loss on sales of corporate mortgage loans to the Resolution and Collection Company, Ltd.	2,103	—	19,814
Loss on sales of loans to others	—	5,285	—
Other	915	1,268	8,622
Total	¥14,605	¥83,511	\$137,593

9. Income Taxes

The tax effects of significant temporary differences and loss carry-forwards which resulted in deferred tax assets and liabilities at March 31, 2000 and 1999 are summarized as follows:

	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Deferred tax assets:			2000
Reserve for possible loan losses	¥37,290	¥37,585	\$351,299
Accrued enterprise tax	334	1,255	3,148
Depreciation	891	1,017	8,402
Reserve for retirement allowances	1,103	997	10,391
Other	1,378	1,465	12,982
Deferred tax assets	40,997	42,321	386,225
Deferred tax liabilities	—	—	—
Net deferred tax assets	¥40,997	¥42,321	\$386,225

10. Leases (Lessor)

The pro forma information of leased property such as acquisition costs, accumulated depreciation and obligations under finance leases which do not transfer the ownership of leased property to the lessee on an "as if capitalized" basis were as follows:

March 31	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Equipment:			2000
Acquisition costs	¥39,190	¥40,840	\$369,194
Less accumulated depreciation	25,272	25,822	238,083
Leased property, net	¥13,917	¥15,018	\$131,111
Obligations under finance leases:			
Due within one year	¥ 5,527	¥ 6,862	\$ 52,075
Due after one year	11,398	10,370	107,377
Total	¥16,925	¥17,232	\$159,452
Lease revenues	¥ 6,534	¥ 6,958	\$ 61,558
Depreciation expense	5,402	5,595	50,893

11. Book Value and Market Value Information

(a) Securities

The book value and market value of listed securities were as follows:

March 31, 2000	Millions of yen			Thousands of U.S. dollars		
	Book value	Market value	Difference between market value and book value	Book value	Market value	Difference between market value and book value
Listed securities						
Trading account securities:						
Bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Investment securities:						
Bonds	131,268	123,290	(7,977)	1,236,627	1,161,472	(75,155)
Corporate stock	63,175	93,896	30,721	595,151	884,567	289,415
Other	4,920	4,861	(59)	46,357	45,794	(562)
Total (investment securities)	199,364	222,048	22,683	1,878,136	2,091,834	213,697
Total	¥199,364	¥222,048	¥22,683	\$1,878,136	\$2,091,834	\$213,697

The approximate book value and market value of unlisted securities were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Market value	Difference between market value and book value	Book value	Market value	Difference between market value and book value
March 31, 2000						
Unlisted securities (for which equivalent market prices can be calculated)						
Trading account securities:						
Bonds	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Investment securities:						
Bonds	138,981	141,344	2,363	1,309,290	1,331,551	22,261
Corporate stock	1,896	1,699	(196)	17,868	16,014	(1,853)
Other	46,057	42,599	(3,458)	433,890	401,312	(32,578)
Total (investment securities)	186,935	185,643	(1,291)	1,761,049	1,748,878	(12,170)
Total	¥186,935	¥185,643	¥(1,291)	\$1,761,049	\$1,748,878	\$(12,170)

Securities excluded from the above information are, primarily, summarized as follows:

	Millions of yen	Thousands of U.S. dollars
March 31, 2000	2000	2000
Trading account securities:		
Unlisted bonds — public issues due in one year or less	¥22,996	\$216,642
Investment securities:		
Unlisted domestic bonds other than public issues	22,012	207,373
Unlisted bonds — public issues due in one year or less	12,254	115,448
Unlisted bonds other than domestic issues	12,891	121,444
Beneficiary certificates held in investment trusts before the enactment of legislation allowing banks to participate in the securities business	33,016	311,032

(b) Derivatives

The contract or notional amount and the market value of derivatives were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Contract or notional amount	Market value	Unrealized gain (loss)	Contract or notional amount	Market value	Unrealized gain (loss)
March 31, 2000						
Listed:	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Over-the-counter:						
Interest-rate swaps	70,264	(2,461)	(2,461)	661,933	(23,188)	(23,188)
Currency swaps	235,105	971	971	2,214,838	9,150	9,150

12. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2000 and 1999 is summarized as follows:

(a) Business segment information

Business segment information has not been presented for the year ended March 31, 1999 as the income from and the assets used in banking operations exceeded 90% of the total consolidated income and assets.

Year ended March 31, 2000	Millions of yen				
	Bank operations	Other operations	Total	Eliminations	Consolidated
Total income and recurring profits:					
Total income from outside customers	¥ 99,131	¥11,573	¥ 110,705	¥ —	¥ 110,705
Total income from intersegment transactions	726	2,429	3,156	(3,156)	—
Total	99,858	14,003	113,861	(3,156)	110,705
Total expenses	83,508	12,915	96,424	(2,328)	94,095
Income before income taxes	¥ 16,349	¥ 1,088	¥ 17,437	¥ (827)	¥ 16,610
Total assets	¥2,893,455	¥46,985	¥2,940,441	¥(36,648)	¥2,903,792
Depreciation and amortization	2,804	6,244	9,049	—	9,049
Capital expenditure	5,020	6,281	11,302	—	11,302

Year ended March 31, 2000	Thousands of U.S. dollars				
	Bank operations	Other operations	Total	Eliminations	Consolidated
Total income and recurring profits:					
Total income from outside customers	\$ 933,885	\$109,029	\$ 1,042,915	\$ —	\$ 1,042,915
Total income from intersegment transactions	6,844	22,890	29,734	(29,734)	—
Total	940,730	131,919	1,072,649	(29,734)	1,042,915
Total expenses	786,706	121,669	908,376	(21,939)	886,437
Income before income taxes	\$ 154,023	\$ 10,250	\$ 164,273	\$ (7,795)	\$ 156,478
Total assets	\$27,258,179	\$442,632	\$27,700,812	\$(345,249)	\$27,355,562
Depreciation and amortization	26,419	58,829	85,248	—	85,248
Capital expenditure	47,300	59,176	106,477	—	106,477

(b) Income from international operations

Period:	Millions of yen			Thousands of U.S. dollars	
	Income from international operations	Total consolidated income	Percentage of total consolidated income	Income from international operations	Total consolidated income
Year ended March 31, 1999	¥13,593	¥140,742	9.6%	—	—
Year ended March 31, 2000	12,178	110,705	11.0%	\$114,725	\$1,042,915

Report of Independent Certified Public Accountants



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The Board of Directors
The Suruga Bank, Ltd.

We have examined the consolidated balance sheets of The Suruga Bank, Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of operations and retained earnings for the years then ended, and cash flows for the year ended March 31, 2000 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 consolidated financial statements, expressed in Japanese yen, present fairly the consolidated financial position of The Suruga Bank, Ltd. and consolidated subsidiaries at March 31, 2000 and 1999, and the consolidated results of their operations for the years then ended and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, The Suruga Bank, Ltd. has adopted new accounting standard for research and development costs in the preparation of its consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 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 consolidated financial statements.

June 23, 2000

A handwritten signature in cursive script that reads 'Century Ota Showa & Co.'.

FINANCIAL SECTION**NON-CONSOLIDATED FINANCIAL STATEMENTS**

Non-Consolidated Balance Sheets

The Suruga Bank, Ltd. As of March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Assets			
Cash and cash equivalents	¥ 208,551	¥ 139,764	\$ 1,964,685
Due from banks	100,984	80,593	951,337
Call loans	88,783	94,101	836,396
Commercial paper and other debt purchased	49,240	2,042	463,879
Trading account securities	22,996	10,025	216,642
Money trusts	3,000	5,500	28,263
Investment securities	470,215	603,141	4,429,727
Loans and bills discounted	1,870,906	1,889,572	17,625,121
Foreign exchange	3,287	3,052	30,971
Other assets	10,451	12,469	98,458
Premises and equipment	42,423	39,771	399,659
Deferred income taxes	40,340	41,917	380,028
Customers' liabilities for acceptances and guarantees	19,368	21,213	182,458
Less reserve for possible loan losses	(33,280)	—	(313,518)
Total assets	¥2,897,270	¥2,943,165	\$27,294,112
Liabilities and shareholders' equity			
Liabilities			
Deposits	¥2,712,506	¥2,697,034	\$25,553,524
Call money	12,504	24,531	117,800
Borrowed money	147	368	1,390
Foreign exchange	28	16	269
Other liabilities	14,142	29,202	133,230
Reserve for possible loan losses	—	40,181	—
Reserve for retirement allowances	3,780	3,769	35,612
Reserve for possible losses on sales of loans	477	289	4,493
Acceptances and guarantees	19,368	21,213	182,458
Total liabilities	2,762,955	2,816,605	26,028,781
Shareholders' equity			
Common stock	30,043	30,043	283,026
Capital surplus	18,585	18,585	175,090
Legal reserve	25,581	25,249	240,997
Voluntary reserves	50,172	50,172	472,653
Retained earnings	9,931	2,509	93,563
Total shareholders' equity	134,314	126,560	1,265,331
Total liabilities and shareholders' equity	¥2,897,270	¥2,943,165	\$27,294,112

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations and Retained Earnings

The Suruga Bank, Ltd. Years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Income			
Interest income:			
Interest on loans and discounts	¥ 54,819	¥ 54,828	\$516,431
Interest and dividends on securities	16,886	16,650	159,085
Other	1,410	4,884	13,283
Fees and commissions	5,889	5,438	55,482
Other operating income	12,243	17,899	115,341
Other income	9,864	30,825	92,929
Total income	101,113	130,526	952,553
Expenses			
Interest expense:			
Interest on deposits	8,200	16,156	77,249
Interest on borrowings and rediscounts	1,075	2,356	10,133
Other	8,025	5,964	75,606
Fees and commissions	3,249	2,704	30,612
Other operating expenses	11,510	1,960	108,435
General and administrative expenses	40,190	38,262	378,621
Other expenses	12,557	82,158	118,297
Total expenses	84,809	149,564	798,955
Income (loss) before income taxes	16,304	(19,037)	153,598
Income taxes:			
Current	5,649	17,670	53,222
Deferred	1,577	(23,539)	14,856
	7,226	(5,868)	68,078
Net income (loss)	9,077	(13,169)	85,519
Retained earnings:			
Balance at beginning of year	2,509	1,361	23,638
Deferred taxes applicable to prior years	—	18,378	—
Deductions:			
Transfer to legal reserve	(332)	(334)	(3,129)
Dividends paid	(1,323)	(1,344)	(12,465)
Retirement of treasury common stock	—	(2,382)	—
Balance at end of year	¥ 9,931	¥ 2,509	\$ 93,563

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Suruga Bank, Ltd. March 31, 2000 and 1999

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 and applied 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 and results of operations in accordance with accounting principles and practices generally accepted and applied in countries and jurisdictions other than Japan.

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

(b) Accounting Principles and Practices

Notes concerning the accounting principles and practices followed in the preparation of the accompanying non-consolidated financial information for the years ended March 31, 2000 and 1999 have not been prepared for all items. The accompanying non-consolidated financial statements should be read in conjunction with Notes to Consolidated Financial Statements.

(c) New Accounting Standard

Effective April 1, 1999, development costs for software intended for internal use are required to be capitalized if it is considered certain that such software would have the effect of increasing income or decreasing expenses in the future in accordance with "Accounting Standards for Research and Development Costs, etc." (issued by the Business Accounting Deliberation Council of Japan on March 31, 1998) and Statement No. 12, "Practical Guidance for Accounting for Research and Development and Software Costs" (issued by the Accounting Committee of the JICPA on March 31, 1999).

The adoption of this Standard and this Statement by the Bank at March 31, 2000 and for the year then ended resulted in an increase in premises and equipment of ¥2,447 million (US\$23,059 thousand) and in income before income taxes of the same amount, over the corresponding results which would have been recorded if the method of accounting referred to above had not been adopted.

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 ¥106.15 = U.S.\$1.00, the exchange rate prevailing on March 31, 2000. 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, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Japanese government bonds	¥216,540	¥327,284	\$ 2,039,943
Local government bonds	10,210	41,047	96,186
Corporate bonds	67,753	99,604	638,281
Corporate stock	67,420	83,098	635,147
Other securities	108,290	52,107	1,020,168
Total	¥470,215	¥603,141	\$ 4,429,727
Shares of subsidiaries			
included in corporate stock	¥ 98	¥ 78	\$ 927
Treasury common stock			
included in corporate stock	¥ 536	¥ 2	\$ 5,058

4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bills discounted	¥ 15,682	¥ 19,202	\$ 147,738
Loans on bills	232,189	251,895	2,187,366
Loans on deeds	1,393,598	1,318,147	13,128,573
Overdrafts	229,437	300,327	2,161,442
Total	¥1,870,906	¥1,889,572	\$17,625,121

(b) Loans and bills discounted at March 31, 2000 and 1999 included the following items:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Loans to companies under bankruptcy procedures	¥ 4,683	¥ 3,692	\$ 44,126
Delinquent loans	41,295	20,668	389,025
Loans past due			
3 months or more	1,290	4,730	12,161
Restructured loans	22,927	24,260	215,991
Total	¥70,197	¥53,351	\$661,304

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 portions of the loans). These 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 defined as loans which are past due and not accruing interest, but are categorised neither as "Loans to companies under bankruptcy procedures" nor as "Restructured loans" whose definition is given below.

Effective April 1, 1999, the Bank has classified loans made to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure is imminent, as delinquent non-accrual loans regardless of the length of the overdue period. The effect of this revised policy increased delinquent loans by ¥21,721 million (US\$204,627 thousand).

Loans past due for 3 months or more are classified as such 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.

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 the 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.

5. Foreign Exchange

Foreign exchange assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousand of U.S. dollars
	2000	1999	2000
Assets:			
Due from foreign banks	¥ 296	¥ 594	\$ 2,796
Foreign bills of exchange bought	199	164	1,881
Foreign bills of exchange receivable	2,791	2,293	26,293
Total	¥3,287	¥3,052	\$30,971
Liabilities:			
Due to foreign banks	¥ 5	¥ 5	\$ 49
Foreign bills of exchange sold	14	10	133
Foreign bills of exchange payable	9	—	86
Total	¥ 28	¥ 16	\$ 269

6. Other Assets

Other assets at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousand of U.S. dollars
	2000	1999	2000
Prepaid expenses	¥ —	¥ 0	\$ —
Accrued income	4,089	5,036	38,527
Other	6,361	7,433	59,930
Total	¥10,451	¥12,469	\$98,458

7. Premises and Equipment

Premises and equipment at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Land	¥15,110	¥15,505	\$142,354
Buildings	24,761	24,355	233,267
Furniture and equipment	21,714	22,108	204,562
Construction in progress	279	462	2,632
Guarantee money, net	5,060	4,859	47,675
Software, net	2,447	—	23,059
	69,374	67,291	653,551
Less accumulated depreciation	(26,950)	(27,519)	(253,891)
Premises and equipment, net	¥42,423	¥39,771	\$399,659

8. Reserve for Possible Loan Losses

Due to a recent revision to the Enforcement Regulations of the Banking Law, a reserve for possible loan losses, which were previously included in liabilities, is now presented as a deduction from assets as a separate line item. As a result, total assets and total liabilities each decreased by ¥33,280 million (US\$313,518 thousand).

9. Deposits

Deposits at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Current deposits	¥ 55,189	¥ 62,153	\$ 519,922
Ordinary deposits	502,891	455,755	4,737,552
Deposits at notice	36,708	38,788	345,819
Time deposits	1,930,014	1,880,635	18,181,958
Other deposits	187,702	259,701	1,768,272
Subtotal	2,712,506	2,697,034	25,553,524
Negotiable certificates of deposit	—	—	—
Total	¥2,712,506	¥2,697,034	\$25,553,524

10. Other Liabilities

Other liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Income taxes payable	¥ 2,619	¥13,484	\$ 24,678
Accrued expenses	6,415	7,956	60,438
Unearned income	1,003	1,141	9,451
Deposits from employees	1,424	1,628	13,421
Other	2,679	4,990	25,239
Total	¥14,142	¥29,202	\$133,230

11. 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 presented on the assets side of the balance sheet, indicating the Bank's right of indemnity from the customers.

12. Common Stock

Common stock was as follows:

- (1) Par value: ¥50 per share
- (2) Authorized: 396,029,983 shares at March 31, 2000 and 1999
- (3) Issued and outstanding: 264,939,248 shares at March 31, 2000 and 1999

During fiscal year ended March 31, 1999, 3,970,017 shares of the Bank's common stock were retired.

13. Legal Reserve

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

14. Amounts per Share

The computation of basic net income (loss) 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.

March 31	Yen		U.S. dollars
	2000	1999	2000
Net income (loss)	¥ 34.26	¥ (49.14)	\$0.322
Net assets	506.96	477.69	4.775

15. Other Interest Income and Expense

Other interest income and expense for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Other interest income:			
Interest on deposited money	¥ 52	¥ 367	\$ 491
Interest on interest-rate swaps	13	52	130
Other	1,343	4,465	12,661
Total	¥1,410	¥4,884	\$13,283
Other interest expense:			
Interest on interest-rate swaps	¥1,405	¥1,094	\$13,244
Other	6,619	4,869	62,362
Total	¥8,025	¥5,964	\$75,606

16. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Other operating income:			
Gain on foreign exchange transactions	¥ 182	¥ —	\$ 1,722
Gain on trading account securities	48	126	454
Gain on sales of bonds	10,144	17,765	95,563
Gain on redemption of bonds	1,868	7	17,600
Other	—	0	—
Total	¥12,243	¥17,899	\$115,341
Other operating expenses:			
Loss on foreign exchange transactions	¥ —	¥ 228	\$ —
Loss on sales of bonds	8,293	137	78,125
Loss on redemption of bonds	3,217	1,595	30,309
Total	¥11,510	¥ 1,960	\$108,435

17. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Salaries and allowances	¥17,662	¥17,463	\$166,391
Depreciation	2,797	2,303	26,357
Taxes	2,124	2,144	20,010
Other	17,606	16,351	165,862
Total	¥40,190	¥38,262	\$378,621

18. Other Income and Expenses

Other income and expenses for the years ended March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Other income:			
Gain on sales of stock and other securities	¥ 8,787	¥20,038	\$ 82,786
Gain on disposition of premises and equipment	178	10,284	1,680
Other	898	502	8,462
Total	¥ 9,864	¥30,825	\$ 92,929
Other expenses:			
Provision for possible loan losses	¥ 730	¥32,027	\$ 6,882
Loss on devaluation of stock and other securities	3,899	1,756	36,737
Write-offs of loans	4,250	36,155	40,039
Loss on disposition of premises and equipment	771	625	7,263
Loss on sales of corporate mortgage loans to the Resolution and Collection Company, Ltd.	2,103	—	19,814
Loss on sales of loans to others	—	5,285	—
Loss on financial assistance to supported companies	—	4,451	—
Other	802	1,856	7,559
Total	¥12,557	¥82,158	\$118,297

19. Income Taxes

The tax effects of significant temporary differences and loss carry-forwards which resulted in deferred tax assets and liabilities at March 31, 2000 and 1999 were as follows:

	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Deferred tax assets:			
Reserve for possible loan losses	¥36,732	¥37,350	\$346,038
Accrued enterprise tax	299	1,253	2,816
Depreciation	890	1,013	8,384
Reserve for retirement allowances	1,075	988	10,127
Other	1,344	1,313	12,661
Deferred tax assets	40,340	41,917	380,028
Deferred tax liabilities	—	—	—
Net deferred tax assets	¥40,340	¥41,917	\$380,028

20. Leases (Lessee)

The pro forma information of leased property of finance leases which do not transfer ownership of the leased property to the lessee on an “as if capitalized” basis is summarized as follows:

	Millions of yen		Thousands of
	2000	1999	U.S. dollars
Equipment:			
Acquisition costs	¥3,937	¥3,220	\$37,093
Less accumulated depreciation	1,513	1,171	14,257
Leased property, net	¥2,424	¥2,049	\$22,836
Due within one year	¥ 658	¥ 542	\$ 6,204
Due after one year	1,765	1,506	16,631
Total	¥2,424	¥2,049	\$22,836
Lease payments	¥ 613	¥ 417	\$ 5,774
Depreciation expense	613	417	5,774

Depreciation expenses which have not been reflected in the accompanying non-consolidated statements of operations were computed by the straight-line method over the periods of the respective lease agreements.

21. Subsequent Event

At a shareholders' meeting held on June 23, 2000, the Bank's shareholders duly approved the following year-end appropriations of retained earnings, which have not been reflected in the accompanying non-consolidated financial statements for the year ended March 31, 2000:

	Millions of yen	Thousands of
		U.S. dollars
Year-end cash dividends (¥2.5 = US\$0.023 per share)	¥ 660	\$ 6,225
Transfer to legal reserve	4,461	42,029
Bonuses to directors and corporate auditors	60	565

Report of Independent Certified Public Accountants



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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, 2000 and 1999, and the related non-consolidated statements of operations and retained earnings 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, 2000 and 1999, and the results of its operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the non-consolidated financial statements, The Suruga Bank, Ltd. has adopted new accounting standard for research and development costs in the preparation of its non-consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2000 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 23, 2000

A handwritten signature in cursive script that reads 'Century Ota Showa & Co.'.

Corporate Directory

(as of May 23, 2000)

Reference

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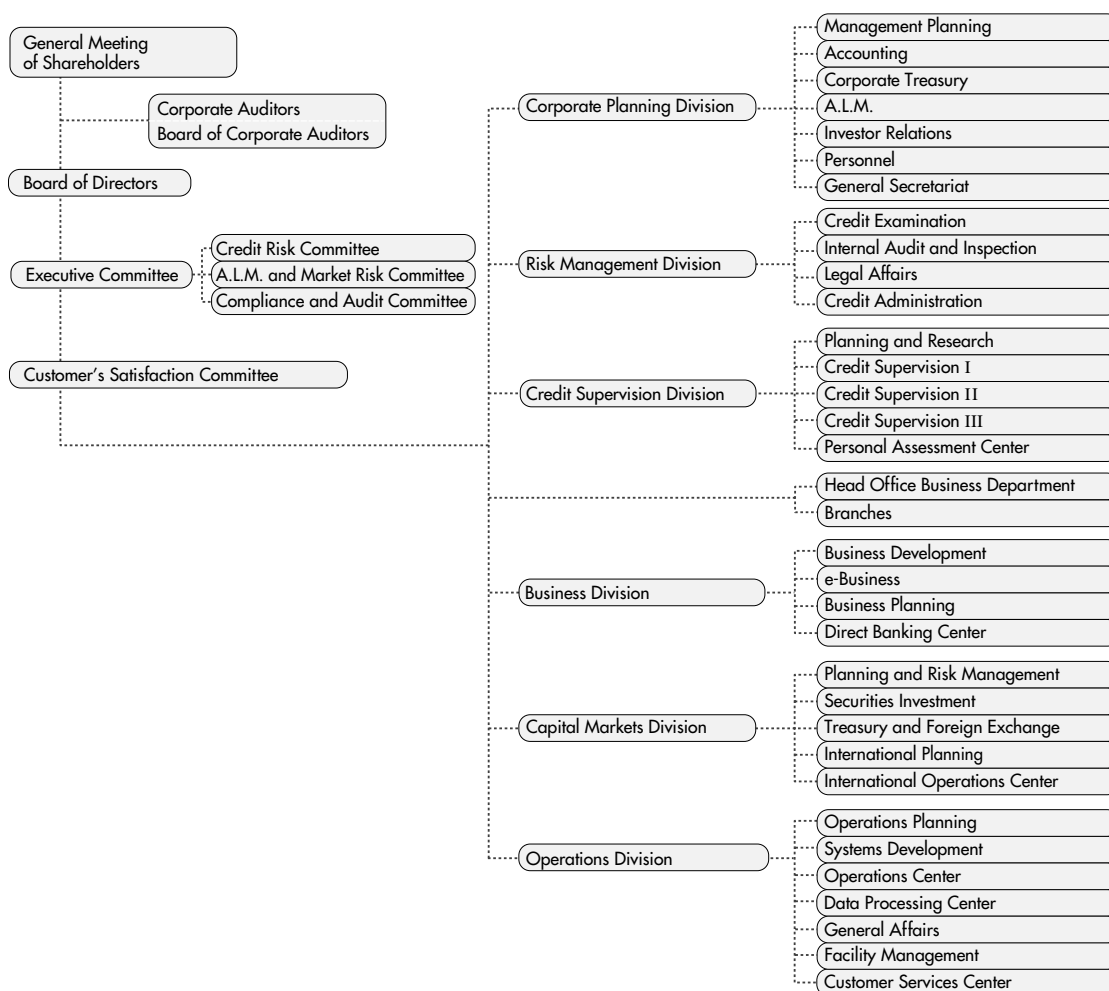
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