



SURUGA BANK

ANNUAL REPORT 2002



Profile

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 of March 31, 2002, the Bank had total assets of ¥2,812 billion (US\$21,103 million), and a capital adequacy ratio according to domestic standards of 8.32%.

At term-end, the Bank's network comprised 122 offices, including a main office, 116 domestic branches, and 5 sub-branches.

Financial Highlights (Consolidated)

The Suruga Bank, Ltd. and consolidated subsidiaries

Years ended March 31	Millions of Yen			Thousands of U.S. Dollars
	2002	2001	2000	2002
For the year:				
Total income	¥ 91,828	¥ 120,680	¥ 110,705	\$ 689,144
Total expenses.....	130,357	104,736	94,095	978,279
(Loss) income before income taxes	(38,528)	15,943	16,610	(289,144)
Net (loss) income	(23,641)	9,571	8,897	(177,418)
Per share of common stock (in yen and dollars):				
Net (loss) income	¥(91.34)	¥38.03	¥35.57	\$(0.685)
At the year end:				
Deposits.....	¥2,664,068	¥2,720,425	¥2,709,951	\$19,993,010
Loans and bills discounted.....	2,001,081	1,938,745	1,853,451	15,017,495
Securities.....	489,694	381,319	470,912	3,675,003
Shareholders' equity	112,401	127,633	122,187	843,537
Total assets.....	2,381,681	2,914,972	2,903,792	21,248,679
Capital adequacy ratio (%)	8.10	8.86	8.77	

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

2. U.S. dollar amounts have been converted from Japanese yen, solely for convenience, at ¥133.25=US\$1.00, the approximate rate of exchange prevailing on March 31, 2002.

3. Net (loss) income per share is calculated on the basis of the average number of shares of common stock outstanding during each year.

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

Forward-Looking Statements:

Statements contained in this report concerning plans, predictions, and strategies to improve future performance ("Forward-Looking Statements") are based information currently available to the Bank's management, and inevitably involve a certain element of risk and uncertainty.

コンシエールジュ流、
風姿花伝。

Suruga Bank – a “concierge” for our customers

“Fushi-Kaden”
The Book of the Flower



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秘すれば花 “Hisureba Hana”

Customer satisfaction through backstage support

In the world of the Noh theater, the main character in the story is called the *shi-te*, and supporting roles are called the *waki*. Zeami, the foremost authority on Noh, explained the key issues of Noh in his book, *Fushi-Kaden* (The Book of the Flower), saying, “The flower, or the most precious thing, is the heartfelt appreciation of the audience.” We at Suruga Bank have inscribed these words in our hearts, in the hope of playing the roles of *waki* in all our customers’ life stages, and provide reliable “concierge” services to our customers. We place the greatest importance on satisfying the wishes of each and every customer. We believe it is our duty to help our customers make their dreams a reality by supporting them in setting goals and drawing up concrete plans to achieve these ends. Suruga Bank aims to provide dependable professional services for all aspects of our customers’ lives and businesses.



A handwritten signature in black ink, which appears to read "Mitsuyoshi Okano".

Mitsuyoshi Okano,
Chairman &
Chief Executive Officer



Noh drama "Hagoromo" by the Kanze school (Actor: Shozo Nakamori);
photo by Toshiro Morita; copyright reserved by Haga Library

人々心々の花 “*Nin-nin kokoro-gokoro no hana*”

Customer satisfaction through reliable services tailored to individual needs

We believe that the premier stage for Suruga Bank is retail business. Just as the concierge provides vital advice and direction to travelers, we guide each retail, corporate and entrepreneurial customer to the assistance they need to succeed. We at Suruga Bank aim to become a familiar face to our customers by being sympathetic to their needs and providing reliable services. Our Personal Concierges are on hand, at the Concierge Desk in our Access Center, to handle all kinds of consultations concerning financial planning for the various stages of our customers' lives and businesses. In order to assist with an even wider variety of financial planning consultations, we also employ the quality services of the Head Office Customer Services Center at all our branch offices. We treasure every opportunity to assist our customers and support them in their personal and business needs.

年来稽古条々 “*Nenrai keiko jojo*”

Customer satisfaction through systematic expertise

Noh actors are always polishing their skills. They have different ways of studying to suit each stage of their professional lives. In a similar way, we at Suruga Bank have drawn up a three-step plan to become an ideal services concierge.

In Step 1, we will become a “concierge bank,” providing essential banking services to realize the highest possible customer satisfaction. In Step 2, we will evolve into a “financial concierge,” becoming well-versed not only in conventional banking functions, but also in the entire spectrum of financial services. At this stage, we will offer products and services best suited to each customer from a long-term perspective. In the final step, we will be transformed into a “life and business concierge,” offering not only financial-planning but also lifestyle-planning and business-planning support services. We will continue to carry out reforms of our management and corporate activities in order to better assist our customers in mapping out successful plans for their futures.



Noh drama "Okina" by the Kanze school (Actor: Reijiro Tsumura);
photo by Toshiro Morita; copyright reserved by Haga Library

見所同心の見 “*Kenjo doshin no ken*”

Customer satisfaction through services planned according to customers’ needs

Kenjo means the perspective of the audience, which, according to Zeami, is vital for actors to understand. We at Suruga Bank believe that we need to have a thorough understanding of our customers. For this purpose, we have not only enhanced our customer relationship management (CRM) function but also moved onto the stage of optimizing our use of this function, in order to offer services that meet, and perhaps even exceed, customer expectations. Placing importance on the customer’s perspective is our top priority. Customer information gleaned from our branch offices, Access Center, and Email inquiries becomes a part of the Bank’s common data pool. By utilizing this information throughout our banking service mix of “clicks and bricks,” in our headquarters and branches, we aim to take the lead in offering customer-focused financial services and at the same time enhance profitability and maximize our corporate value.

時節当感 “*Jisetsu kan ni ataru*”

Customer satisfaction through offering the right services at the right time

In the first scene of a Noh play, it is essential for the actors to time their first utterance so as to maximize its effect on the audience. In a similar way, we are eager to meet the expectations of our customers by upgrading our financial services and estimating their potential needs in advance. We were the first in Japan to offer many pioneering financial products and services including a mortgage loan with a cancer insurance rider, a new cash advance service called “Direct Ace,” and television banking. We were also the first Japanese bank to open up a series of 8 dedicated online branches, under the brand name “Dream Direct,” which can be accessed from anywhere and at any time. We have made remarkable progress in offering ATM services through post offices and “e-Net” ATMs located in convenience stores nationwide. We will continue to actively pursue e-alliances as we work to develop services for our customers’ convenience.



Noh masks; owned by the Komparu family; photo by
Katsumi Tanaka; copyright reserved by Haga Library

Board of Directors and Auditors and Executive Officers



Mitsuyoshi Okano



Kinosuke Okano



Seiji Inui



Hiroo Goto



Toshiki Hoshino



Atsushi Okamura



Yoshiro Uchiyama



Tatsuya Tamura



Tsuneo Yahagi



Makoto Naruke

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

Hiroo Goto
Toshiki Hoshino
Atsushi Okamura

Directors

Yoshiro Uchiyama
Tatsuya Tamura
Tsuneo Yahagi
Makoto Naruke

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Masataka Oiwa
Yasushi Sakuramoto

Auditors

Yasumi Mochizuki
Takashi Mimura

Senior Executive Officers

Takehiko Katsumata
Ryozo Kinoshita

Executive Officers

Shinji Ihara
Sachio Takahata
Tetsu Ito
Kihachiro Nomura
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Toru Fukada
Takashi Tsuchiya
Toshihisa Kubozono
Nobuo Mori
Yoshihiro Okazaki
Takahiro Aoki
Takahiro Sawanishi
Haruo Asou

* 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.

(As of June 25, 2002)

初心忘るべからず “*Shoshin wasuru-bekarazu*”

Customer satisfaction through offering consistent services since our foundation

Suruga Bank is located in an area that has a strong association with Noh, being the place where Zeami's father, Kan-ami, performed his final Noh play at the Sengen Shrine. Suruga is also the setting for the famous Noh play, “*Hagoromo*” [The Feather Mantle].

“*Shoshin wasuru-bekarazu*” is a famous quote by Zeami, meaning “never forget your roots or your original purpose.” We at Suruga Bank will always remember our roots and the importance of offering our services as a concierge bank.

Story of “*Hagoromo*”

A fisherman named Hakuryo sees the garment (feather mantle) of a *tennyo*, a female aerial spirit or celestial dancer, hanging from the bough of a pine tree in an area called Miho-no-ura. He takes it, but the *tennyo* pleads for its return, saying that without it she cannot return to Heaven. The fisherman feels sorry for her, and offers to return it if she will dance for him. She replies that she cannot dance without the mantle, but he suspects that she will leave without dancing once she has the garment. She declares that a *tennin*, or celestial spirit, cannot lie. He believes her and returns the mantle. She performs a beautiful dance for him and then fades beyond Mt. Fuji.

References: Zeami's “*Fushi-kaden*” (“The Book of the Flower”) and “*Hanakagami*” (“The Book of the Mirror”)

Review of Operations

Business Environment

In response to the global economic slowdown, particularly in the United States, sharp declines were seen in Japanese exports and production in fiscal 2001, the business term ended March 31, 2002. With the existing weakness of the economy being exacerbated by the aftereffects of September 11, the future became still more unclear.

In the Bank's business base of Shizuoka and Kanagawa prefectures, production levels remained low, and consumer spending remained generally weak due to worsening employment and income conditions.

Developments During the Term

Suruga Bank initiated its "Aim 15" management plan from fiscal 2001, the term under review. Under this plan, the Bank's first goal is to become a "concierge bank" that will guide its customers in building a bright future. To this end, we took a number of measures during the term.

In the area of corporate organization, to centralize our risk management, we set up a dedicated organization for Integral risk management within the Corporate Planning Division, thereby further strengthening our risk management system. Moreover, in pursuit of the improved customer satisfaction that only a concierge bank can provide, we established a new Customer Service Desk within the Business Division.

During the term under review, to improve the operational efficiency of our branches we

carried out a number of amalgamations, and as of March 31, 2002 the Bank's network of outlets consisted of the Main Office, 116 branches and 5 sub-branches, for a total of 122 customer service outlets. The geographical breakdown of these outlets was 79 in Shizuoka Prefecture, 39 in Kanagawa Prefecture, 2 in Tokyo, and 1 in Aichi Prefecture, in addition to our Main office in Numazu, Shizuoka Prefecture. In addition, we operated 22 specialist mortgage loan centers during the term. We have also taken various steps to improve the convenience of our services and make visiting a Suruga Bank a truly pleasurable experience. Thus, four of our branches feature "in-branch stores."

During the term, we started an online banking service for companies and sole proprietors, a television banking service using digital satellite broadcasting, and online banking services via the "L-Mode" landline Internet-enabled phones operated by NTT West Japan.

We also negotiated business tie-ups aimed at widening the range of services offered over the Internet. In a tie-up with AXA Casualty Insurance, we began offering the AXA Direct Plaza; with eWoman, Inc. we have begun offering the "eWoman Bank" online service; and through a tie-up with Usen Broad Networks we offer the "Club Usen" service within the eBusiness Direct website. The online banking service operated by Softbank Finance Corporation in collaboration with Suruga Bank has been authorized as a payment channel by the Yahoo!Japan Auctions service,

the first service operated by a Japanese regional bank to be so authorized.

In special products, in our DirectOne online service, we introduced the Direct Ace Card, a card for receiving ATM loans. The cards can be applied for 24 hours a day, 365 days a year, and the borrower does not need to set up a dedicated account for repayment. We also launched a new mortgage loan for individuals with specific illness insurance and group life insurance riders.

In these ways, we worked to effectively meet the varied needs of our customers by actively expanding our lineup of financial products and services.

Future Tasks

The process of deregulation in the financial sector is causing the traditional walls between different lines of business to crumble:

companies from other industries are offering financial services, and in addition, the market is rapidly becoming borderless and globalized. With the emergence of megabanks and dedicated Internet banking companies and the entry of players from other industries, we face competition of unprecedented severity. In addition, from April this year a new factor came into operation with the imposition of a ¥10 million cap on government-backed guarantees of individual bank time deposits.

Against this background, the Bank aims to further ensure the soundness of its loan assets so as to strengthen its financial position. We

will also focus our management resources on operational divisions that will enhance our profitability.

Under Suruga Bank's "Aim 15" long-term management plan, we will become a "life and business concierge" for our customers, helping them make their dreams into material reality through the provision of friendly, reliable and thoroughly professional services. In this way, Suruga Bank will evolve into a completely new type of financial services company. To make this possible, we are providing our staff with thorough training in financial consulting and communication skills to enable them to recommend the products that best suit each customer, just when they need them.

Suruga Bank has been a pioneer among Japanese regional banks in its active employment of information technology, and in its vigorous pursuit of rationalization and greater efficiency in clerical operations. Among IT features we have adopted are a CRM system, an automatic credit screening system, and a personal assessment system. All these have helped to raise the level of skills of our staff.

We plan to utilize the advantage over our rivals that the early adoption of these IT tools has given us by providing services that surpass the expectations of our customers. We will continue to think in an innovative manner and constantly question our assumptions, with the goal of establishing a new business model for financial service companies.

Financial Review

For the year under review, the Bank's performance on a consolidated and a non-consolidated basis is summarized as follows.

Business Performance (On a consolidated basis)

Against the background described above, the Suruga Bank and its seven consolidated subsidiaries posted the following results for the year under review.

•Earnings

As a result of the increased provision of reserves for possible loan losses, losses on the sale of securities holdings, and the application of impairment accounting to available-for-sale securities with unrealized losses, the Bank recorded a net loss of ¥23,641 million (US\$177 million) as opposed to the net income of ¥9,571 million posted for the previous year.

•Deposits

In the principal consolidated accounts, the year-end balance of deposits declined by ¥56.3 billion from that of the previous year, to ¥2,664.0 billion (US\$19,993 million).

•Loans and bills discounted

The loan balance at the year end rose ¥45.5 billion to ¥2,001.0 billion (US\$15,017 million).

•Investments in securities

The year-end balance of securities came to ¥489.6 billion (US\$3,675 million), a year-on-year increase of ¥108.3 billion.

•Capital adequacy ratio

The Bank's capital adequacy ratio for the year was 8.70% on the basis of international standards and 8.10% on the basis of domestic standards.

•Cash flows

Net cash provided by operating activities amounted to ¥155.6 billion (US\$1,168 million) principally reflecting a decrease in call loans, which was offset by an increase in loans and bills discounted.

Net cash used in investing activities totaled ¥134.8 billion (US\$1,011 million) principally due to the acquisition of securities.

Net cash used in financing activities came to ¥1.9 billion (US\$14 million) due to the Bank's acquisition of its own shares under a stock option plan and as a result of dividend payments.

Cash and cash equivalents at the year-end increased by ¥18.8 billion (US\$141 million) over those of the previous year end, to ¥82.3 billion (US\$618 million). The term "cash and cash equivalents" refers to cash deposits with the Bank of Japan.

Business Performance (On a non-consolidated basis)

•Earnings

Amid the prolonged economic slump and the deepening deflationary trend in Japan, the Bank carried out a self-assessment of its assets applying even stricter criteria, and increased its provision of reserves for possible loan losses. In addition, the Bank provided specific reserves for loans deemed uncollectible which were recognized as a result of its reclassification of borrowers. At the same time, the Bank wrote down available-for-sale securities under a strict impairment accounting standard, which was applied to all securities whose market prices had fallen 30% or more during the year and had not recovered as of the year end. The Bank also sold off a substantial portion of its available-for-sale securities whose market prices had fallen below their corresponding book value in order to improve the soundness of its asset portfolio. As a result, the Bank posted a loss before income taxes of ¥38,499 million (US\$288 million) and a net loss of ¥22,878 million (US\$171 million).

• **Deposits**

During the year, deposits decreased by ¥60.5 billion mainly due to steps taken to reduce the amount of high-cost deposits. The balance of deposits stood at ¥2,664.8 billion (US\$19,999 million) at the year end. In spite of the lowest-ever level of interest, deposits from individuals increased ¥139.7 billion to ¥1,748.8 billion, and these centered around original products offered through the Bank's well-received dedicated on-line banking services.

• **Loans and bills discounted**

Loans and bills discounted increased ¥49.3 billion to ¥2,004.9 billion (US\$15,046 million), thanks to aggressive marketing to individuals and to small and medium-sized companies. Loans extended to individuals increased ¥178.7 billion to ¥1,180.2 billion. The percentage of loans to individuals as a percentage of total loans increased 7.6 percentage points, to 58.8% at the year end.

• **Securities**

Securities of ¥488.2 billion (US\$3,663 million) were recorded at March 31, 2002. During the year, the Bank was more conscious of market risk, aggressively selling off available-for-sale securities with unrealized losses and strictly applying impairment accounting policies to securities whose prices had declined in excess of 30% at the year end.

• **Capital adequacy ratio**

The Bank's capital adequacy ratio for the year on a non-consolidated basis was 8.92% calculated using the BIS criteria and 8.32% in accordance with the corresponding domestic standards.

Five-year Summary (Non-Consolidated)

The Suruga Bank, Ltd. Years ended March 31	Millions of yen					Thousands of U.S. dollars
	2002	2001	2000	1999	1998	2002
For the year:						
Total income	¥ 83,353	¥ 112,936	¥ 101,113	¥ 130,526	¥ 118,576	\$ 625,538
Total expenses	121,852	97,515	84,809	149,564	110,708	914,468
(Loss) income before income taxes	(38,499)	15,421	16,304	(19,037)	7,868	(288,929)
Net (loss) income	(22,878)	9,472	9,077	(13,169)	1,219	(171,692)
Per share of common stock (in yen and dollars):						
Net (loss) income	¥ (86.82)	¥ 35.75	¥ 34.26	¥ (49.14)	¥ 4.53	\$ (0.651)
Cash dividends applicable to the year	5.00	5.00	5.00	5.00	5.00	0.037
At the year end:						
Deposits	¥2,664,870	¥2,725,467	¥2,712,506	¥2,697,034	¥2,702,079	\$19,999,031
Loans and bills discounted	2,004,953	1,955,564	1,870,906	1,889,572	2,014,085	15,046,558
Investment securities	488,215	380,589	470,215	603,141	490,930	3,663,907
Shareholders' equity	115,185	140,480	134,314	126,560	125,078	864,432
Total assets	2,812,099	2,910,809	2,897,270	2,943,165	2,976,435	21,103,937
Capital adequacy ratio (%)	8.32	9.60	9.54	9.16	9.74	
Number of offices	122	126	121	121	123	
Number of employees	1,926	2,068	2,156	2,254	2,353	

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

2. U.S. dollar amounts have been converted from Japanese yen, solely for convenience, at ¥133.25=US\$1.00, the approximate rate of exchange prevailing on March 31, 2002.

3. Net (loss) income per share is calculated on the basis of the average number of shares of common stock outstanding during each year.

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

Consolidated Balance Sheets

The Suruga Bank, Ltd. and Subsidiaries

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
Assets			
Cash and cash equivalents	¥ 82,387	¥ 63,514	\$ 618,289
Due from banks	4,570	89,172	34,297
Call loans, commercial paper and other debt purchased	160,886	316,560	1,207,404
Trading account securities	329	19,997	2,474
Money trusts	2,002	2,794	15,025
Investment securities	489,694	381,319	3,675,003
Loans and bills discounted (Note 3)	2,001,081	1,938,745	15,017,495
Foreign exchange	556	634	4,178
Other assets	23,376	19,832	175,432
Premises and equipment (Note 4)	55,187	57,989	414,166
Deferred tax assets (Note 11)	54,129	39,023	406,227
Customers' liabilities for acceptances and guarantees	15,866	18,179	119,072
Less reserve for possible loan losses	(58,681)	(32,792)	(440,387)
Total assets	¥2,831,386	¥2,914,972	\$21,248,679
Liabilities, minority interests and shareholders' equity			
Liabilities			
Deposits	¥2,664,068	¥2,720,425	\$19,993,010
Call money	666	4,212	5,000
Borrowed money	14,259	14,737	107,010
Foreign exchange	15	14	120
Other liabilities	21,178	23,511	158,941
Reserve for employees' bonuses	727	759	5,458
Accrued pension and severance costs (Note 7)	1,032	4,711	7,748
Reserve for possible losses on sales of loans	262	296	1,966
Acceptances and guarantees	15,866	18,179	119,072
Total liabilities	2,718,077	2,786,847	20,398,327
Minority interests	907	490	6,813
Shareholders' equity			
Common stock	30,043	30,043	225,465
Capital surplus	18,585	18,585	139,480
Retained earnings	69,245	94,188	519,665
Net unrealized losses on securities, net of taxes	(1,141)	(1,931)	(8,565)
Less treasury stock, at cost	(1,883)	(1,222)	(14,133)
Less shares of common stock held by subsidiaries, at cost	(2,448)	(12,029)	(18,375)
Total shareholders' equity	112,401	127,633	843,537
Total liabilities, minority interests and shareholders' equity	¥2,831,386	¥2,914,972	\$21,248,679

See notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

The Suruga Bank, Ltd. and Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
Income			
Interest income (Note 9)	¥ 67,268	¥ 70,206	\$ 504,825
Fees and commissions	8,188	7,028	61,448
Other operating income	9,373	17,393	70,345
Other income (Note 10)	6,998	26,051	52,525
Total income	91,828	120,680	689,144
Expenses			
Interest expense (Note 9)	11,640	18,111	87,361
Fees and commissions	5,049	4,103	37,893
Other operating expenses	7,147	15,254	53,641
General and administrative expenses	40,682	43,656	305,308
Other expenses (Note 10)	65,836	23,611	494,083
Total expenses	130,357	104,736	978,289
(Loss) income before income taxes	(38,528)	15,943	(289,144)
Income taxes (Note 11):			
Current	595	2,881	4,470
Deferred	(15,667)	3,350	(117,582)
	(15,072)	6,232	(113,111)
Minority interests in earnings of consolidated subsidiaries	184	139	1,385
Net (loss) income	(23,641)	9,571	(177,418)
Retained earnings			
Balance at beginning of year	94,188	85,936	706,859
Deductions:			
Dividends paid	(1,302)	(1,258)	(9,775)
Bonuses to directors and corporate auditors	—	(60)	—
Balance at end of year	¥ 69,245	¥ 94,188	\$ 519,665

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Suruga Bank, Ltd. and Subsidiaries

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
Cash flows from operating activities			
(Loss) income before income taxes and other adjustments	¥ (38,528)	¥ 15,943	\$ (289,144)
Depreciation and amortization	8,617	9,302	64,672
Change in reserve for possible loan losses	25,889	(7,676)	194,289
Change in reserve for possible losses on sales of loans	(34)	(181)	(255)
Change in reserve for employees' bonuses	(32)	32	(242)
Decrease in reserve for retirement allowances	—	(3,874)	—
Increase in accrued pension and severance costs	1,861	4,711	13,969
Gain on contribution of securities to employees' retirement benefit trust	(2,636)	(3,347)	(19,788)
Loss on establishment of employees' retirement benefit trust	—	5,624	—
Bonuses to directors and corporate auditors	—	(60)	—
Interest income	(67,268)	(70,206)	(504,825)
Interest expense	11,640	18,111	87,361
Loss (gain) on investment securities, net	19,046	(9,746)	142,935
Gain (loss) on money trust investments, net	(1)	203	(9)
Loss (gain) on sales of premises and equipment, net	1,038	(5,955)	7,796
Changes in operating assets and liabilities:			
Trading securities	19,668	2,998	147,604
Loans	(52,857)	(85,293)	(396,677)
Deposits	(56,357)	10,474	(422,942)
Borrowings excluding subordinated debt	(478)	840	(3,589)
Due from banks other than BOJ	84,602	16,582	634,917
Call loans	155,674	(178,536)	1,168,286
Call money	(3,546)	(8,291)	(26,614)
Foreign exchange assets	77	2,653	583
Foreign exchange liabilities	1	(14)	14
Interest received	66,463	69,203	498,791
Interest paid	(12,899)	(18,682)	(96,803)
Other, net	(2,783)	3,542	(20,891)
Subtotal	157,160	(231,642)	1,179,438
Income taxes paid	(1,498)	(4,586)	(11,248)
Net cash provided by (used in) operating activities	155,661	(236,228)	1,168,189
Cash flows from investing activities			
Purchases of investment securities	(603,796)	(974,482)	(4,531,303)
Proceeds from sales of investment securities	177,467	847,823	1,331,837
Proceeds from redemption of bonds	297,552	221,075	2,233,037
Increase in money trusts	(41)	(14)	(308)
Decrease in money trusts	834	16	6,264
Purchases of premises and equipment	(7,388)	(9,997)	(55,448)
Proceeds from sales of premises and equipment	533	8,687	4,006
Net cash (used in) provided by investing activities	(134,837)	93,108	(1,011,915)
Cash flows from financing activities			
Dividends paid	(1,302)	(1,258)	(9,775)
Dividends paid to minority interests	—	(0)	—
Purchases of treasury stock	(689)	(950)	(5,171)
Proceeds from sales of treasury stock	28	264	216
Net cash used in financing activities	(1,962)	(1,945)	(14,730)
Effect of exchange rate changes on cash and cash equivalents	11	19	87
Net increase (decrease) in cash and cash equivalents	18,872	(145,046)	141,631
Cash and cash equivalents at beginning of year	63,514	208,560	476,658
Cash and cash equivalents at end of year	¥ 82,387	¥ 63,514	\$ 618,289

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Suruga Bank, Ltd. and Subsidiaries

1. Summary of Significant Accounting Policies

(a) Basis of Preparation

The accompanying consolidated financial statements of 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 Financial Services Agency as required by the Banking Law of Japan and 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. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

For the convenience of readers outside Japan, certain items presented in the original statements have been reclassified and rearranged.

Certain reclassifications of the prior year's consolidated financial statements and the related footnote amounts have been made to conform with the presentation in the current year.

(b) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its significant 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 Capital Co., Ltd. (previously Suruga General Lease Co., Ltd.)

Suruga Computer Service Co., Ltd.

Suruga Card Co., Ltd.

Suruga Credit Service Co., Ltd.

On June 1, 2001, Suruga Capital Co., Ltd. (changed its company name to S.G. Capital Co., Ltd.) and Suruga Investment Finance Co., Ltd. transferred their business assets to Suruga General Lease Co., Ltd. Simultaneously, the Bank sold all its equity ownerships in these companies to others and these companies have thus been excluded from the scope of consolidation.

In addition, Suruga General Lease Co., Ltd. changed its company name to Suruga Capital Co., Ltd. also on June 1, 2001.

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

(c) Trading Account Securities

Trading account securities are stated at their market value as of the fiscal year end.

(d) Investment Securities

Debt securities being held to maturity are stated at amortized cost computed by the moving-average method.

Other securities (available-for-sale securities) whose current value can be estimated are stated at their market value as of the fiscal year end and other non-marketable securities are stated at cost or amortized cost computed by the moving-average method.

Unrealized gain or loss on securities available-for-sale are included in shareholders' equity, net of income taxes.

(e) Securities in Money Trusts

Securities included in money trusts are stated by the same method as those described in (c). and (d). above.

(f) Derivatives

Derivatives positions are stated at their market value as of the fiscal year-end.

(g) Premises and Equipment

Depreciation of premises and equipment of the Bank is computed by the declining-balance method at rates principally based on the following estimated useful lives:

Buildings	15 years to 50 years
Equipment and furniture	5 years to 20 years

Costs of software developed or obtained for internal use are amortized by the straight-line method over an estimated useful life of 5 years.

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

(h) 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 fiscal year-end.

(i) 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 by the Auditing Subcommittee for Banks and Other Financial Institutions" by 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 amount 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 disposed and of the amount 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 reserve is based on the percentage of actual defaults over a fixed period.

For claims of “substantial bankruptcy” and “legal bankruptcy,” an amount exceeding the estimated value of the collateral or of the guarantees deemed uncollectible is deducted directly from those claims. For the years ended March 31, 2002 and 2001, the amounts deducted were ¥10,882 million (US\$81,669 thousand) and ¥9,510 million, respectively.

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

(j) Reserve for Employees’ Bonuses

The reserve for employees’ bonuses is provided for the payment of bonuses to employees, an estimate of which is determined as of the balance sheet date.

(k) 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.

(l) Pension and Severance Costs

Accrued pension and severance costs is provided for the future payment of employees’ retirement benefits based on estimated amounts of the actuarially calculated retirement benefit obligation and the pension plan assets. Prior service cost is amortized by the straight-line method over 5 years. Net actuarial gain (loss) is amortized by the declining-balance method over 13 years commencing the year following the year in which the gain or loss is incurred. The unrecognized net retirement benefit obligation was ¥11,221 million at April 1, 2000, the date on which the new accounting standard was adopted. Of this difference, ¥5,001 million has been treated as a lump-sum expense which is covered through the establishment of an employees’ retirement benefit trust and the remainder (¥6,220 million) is being amortized by the straight-line method over a period of 5 years.

(m) Equipment Held under Finance Leases

Equipment held under finance leases at the Bank and its domestic consolidated subsidiaries 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.

(n) Hedge Accounting

The Bank has adopted “macro hedge” accounting under which the Bank manages its interest rate risk arising from various assets and liabilities with derivatives. The Bank applies the risk adjustment approach based on a report issued by the Japanese Institute of Certified Public Accountants entitled “Tentative Treatments in Accounting and Auditing for Banks on the Application of Accounting Standard for Financial Instruments.”

The effectiveness of each macro hedge is reviewed for a reduction in interest rate risk exposure and for the actual risk on derivatives within the permitted limits established under the Bank’s risk control policies.

In addition to macro hedge accounting, the Bank and its consolidated subsidiaries have adopted deferral hedge accounting or certain exceptional treatments permitted under interest rate swaps for a portion of their assets and liabilities.

(o) Consumption Tax

Consumption tax and local consumption tax of the Bank and its domestic consolidated subsidiaries are excluded from the transaction amounts presented. The portions of consumption tax and local consumption tax paid on the purchases of premises and equipment which are not deductible as tax credits have been included in other assets and are being amortized over a five-year period.

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 amounts, solely for convenience, at ¥133.25 = U.S.\$1.00, the exchange rate prevailing on March 31, 2002. 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, 2002 and 2001 included the following:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Loans to companies under bankruptcy procedures	¥ 5,512	¥ 8,976	\$ 41,365
Delinquent loans	110,402	46,948	828,532
Loans past due 3 months or more	943	831	7,076
Restructured loans	70,414	22,150	528,435
Total	¥187,271	¥78,906	\$1,405,410

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 any written-down portion of the loan). These loans hereafter are referred to as “non-accrual loans.” This category also includes the loans cited in Article 96-1-3 and 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 which are categorized neither as “Loans to companies under bankruptcy procedures” nor as “Restructured loans” as defined below.

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. Loans to companies under bankruptcy procedures and delinquent loans are not included in this category.

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

4. Accumulated Depreciation

Accumulated depreciation on premises and equipment at March 31, 2002 and 2001 totaled ¥54,496 million (US\$408,980 thousand) and ¥55,187 million, respectively.

5. Assets Pledged

Assets pledged as collateral at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Investment securities	¥ 3,042	¥ 3,002	\$22,829
Due from banks	—	100	—
Common stock held by subsidiaries	1,788	1,788	13,418
Customers' notes and others	12,396	11,605	93,030

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Call money	¥ —	¥ 1,115	\$ —
Borrowed money	11,260	13,175	84,502
Deposits	2,398	619	18,000

In addition, investment securities totaling ¥154,451 million (US\$1,159,112 thousand) and ¥148,803 million at March 31, 2002 and 2001, respectively, were pledged as collateral for the settlement of exchange and short-selling transactions or as margin.

6. Loan Commitments

Contracts for overdraft facilities and loan commitments refer to contracts under which the Bank and its consolidated subsidiaries lend to their customers funds up to certain prescribed limits in response to their customers' loan applications as long as there is no violation of any of the conditions stipulated in the contracts. The unused portion within the set limits of such contracts totaled ¥840,440 million (US\$6,307,248 thousand) and ¥727,256 million at March 31, 2002 and 2001, respectively.

Since many of these commitments expire without the available line of credit being fully utilized, the unused amount does not necessarily represent a future commitment. Most of these contracts specify terms and conditions permitting the Bank and its consolidated subsidiaries to refuse customers' loan applications or decrease their credit limits for appropriate reasons (e.g., a change in their financial situation, a deterioration in their creditworthiness, etc.). At the inception of the contracts, the Bank and its consolidated subsidiaries obtain real estate and securities, etc. as collateral if deemed necessary. Subsequently, the Bank and its consolidated subsidiaries perform periodic reviews of the customers' business results based on their internal rules, and take the necessary measures to reconsider the conditions stipulated in the contracts and/or require additional collateral and guarantees.

7. Employees' Retirement Benefits

The funded status and amounts recognized in the consolidated balance sheets as of March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Projected benefit obligation	¥(39,958)	¥(33,896)	\$ (299,875)
Fair value of plan assets	27,009	23,266	202,697
Projected benefit obligation			
in excess of plan assets	(12,949)	(10,630)	(97,178)
Unrecognized net obligation at transition	3,732	4,976	28,007
Unrecognized net actuarial loss	8,831	1,806	66,279
Unrecognized prior service cost	(647)	(862)	(4,856)
Net liability recognized	(1,032)	(4,711)	(7,748)
Prepaid pension cost	—	—	—
Accrued pension and severance costs	¥ (1,032)	¥ (4,711)	\$ (7,748)

8. Amounts per Share

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

March 31	Yen		U.S. dollars
	2002	2001	2002
Net (loss) income	¥ (91.34)	¥ 38.03	\$ (0.685)
Net assets	432.00	507.41	3.242

9. Interest Income and Expense

Interest income and expense for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Interest income:			
Interest on loans and discounts	¥63,263	¥60,918	\$474,773
Interest and dividends on securities	3,685	8,400	27,656
Interest on deposited money	36	208	276
Other	282	679	2,119
Total	¥67,268	¥70,206	\$504,825
Interest expense:			
Interest on deposits	¥ 4,293	¥ 7,005	\$ 32,218
Interest on borrowings and other	348	984	2,615
Other	6,999	10,121	52,527
Total	¥11,640	¥18,111	\$ 87,361

10. Other Income and Expenses

Other income and expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Other income:			
Gain on sales of stocks and other securities	¥2,416	¥13,427	\$18,133
Gain on disposition of premises and equipment	32	6,385	241
Gain on securities contributed to employees' retirement benefit trust	2,636	3,347	19,788
Gain on sales of investments in a consolidated subsidiary	120	—	903
Collection of claims written-off	764	1,510	5,739
Other	1,028	1,380	7,717
Total	¥6,998	¥26,051	\$52,525
Other expenses:			
Provision for possible loan losses	¥31,381	¥ 490	\$235,507
Loss on devaluation of stocks and other securities	1,903	3,821	14,287
Write-offs of loans	8,715	4,787	65,408
Loss on sales of corporate mortgage loans to the Resolution and Collection Company, Ltd. and others	—	556	—
Loss on disposition of premises and equipment	1,071	430	8,038
Loss on sales of stocks and other securities	2,207	39	16,563
Loss on financial assistance to supported companies	—	6,405	—
Loss on redemption of beneficiary certificates of securities investment trust	17,723	—	133,010
Loss on sales of investments in consolidated subsidiaries	420	—	3,154
Cost of amortization of differences resulting from changes in accounting standards	1,244	6,245	9,335
Other	1,169	834	8,776
Total	¥65,836	¥23,611	\$494,083

11. Income Taxes

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Deferred tax assets:			
Reserve for possible loan losses	¥43,446	¥32,035	\$326,054
Accrued enterprise tax	8	150	63
Depreciation	678	716	5,093
Accrued pension and severance costs and other	4,492	2,589	33,715
Loss on write-offs of securities	887	1,036	6,657
Net unrealized losses on securities	812	1,376	6,097
Other	4,233	1,263	31,773
Deferred tax assets	54,560	39,167	409,456
Less: valuation allowance	(430)	(144)	(3,228)
Deferred tax liabilities	—	—	—
Net deferred tax assets	¥54,129	¥39,023	\$406,227

12. Leases

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

March 31	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Equipment:			
Acquisition costs	¥38,114	¥38,626	\$286,041
Less accumulated depreciation	25,501	25,466	191,379
Leased property, net	¥12,613	¥13,159	\$ 94,661
Obligations under finance leases:			
Due within one year	¥ 5,816	¥ 5,734	\$ 43,654
Due after one year	8,757	9,566	65,721
Total	¥14,574	¥15,300	\$109,376
Lease revenue	¥ 5,789	¥ 6,169	\$ 43,444
Depreciation expense	4,674	5,022	35,081

13. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2002 and 2001 is summarized as follows:

(a) Business segment information

Year ended March 31, 2002	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 81,679	¥10,149	¥ 91,828	¥ —	¥ 91,828
Total income from intersegment transactions	177	3,726	3,903	(3,903)	—
Total	81,856	13,875	95,731	(3,903)	91,828
Total expenses	120,452	13,677	134,129	(3,772)	130,357
Loss (income) before income taxes	¥ (38,596)	¥ 198	¥ (38,397)	¥ (130)	¥ (38,528)
Total assets	¥2,804,332	¥37,195	¥2,841,528	¥(10,141)	¥2,831,386
Depreciation and amortization	3,531	5,086	8,617	—	8,617
Capital expenditures	3,034	4,354	7,388	—	7,388

Year ended March 31, 2001	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 110,440	¥10,239	¥ 120,680	¥ —	¥ 120,680
Total income from intersegment transactions	1,226	2,640	3,866	(3,866)	—
Total	111,666	12,879	124,546	(3,866)	120,680
Total expenses	96,037	12,470	108,507	(3,771)	104,736
Income before income taxes	¥ 15,628	¥ 409	¥ 16,038	¥ (95)	¥ 15,943
Total assets	¥2,904,455	¥52,099	¥2,956,555	¥(41,583)	¥2,914,972
Depreciation and amortization	3,320	5,981	9,302	—	9,302
Capital expenditures	5,770	4,226	9,997	—	9,997

Year ended March 31, 2002	Thousands of U.S. dollars				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	\$ 612,975	\$ 76,168	\$ 689,144	\$ —	\$ 689,144
Total income from intersegment transactions	1,328	27,963	29,291	(29,291)	—
Total	614,304	104,131	718,436	(29,291)	689,144
Total expenses	903,955	102,643	1,006,598	(28,309)	978,289
(Loss) income before income taxes	\$ (289,651)	\$ 1,488	\$ (288,162)	\$ (981)	\$ (289,144)
Total assets	\$21,045,647	\$279,144	\$21,324,791	\$(76,112)	\$21,248,679
Depreciation and amortization	26,501	38,170	64,672	—	64,672
Capital expenditures	22,769	32,679	55,448	—	55,448

(b) Income from international operations

Years ended March 31,	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Income from international operations	¥10,250	¥ 14,231	\$ 76,929
Total consolidated income	91,828	120,680	689,144
Income from international operations as a percentage of total consolidated income	11.2%	11.8%	

14. Market Value of Securities

(a) The market value of, and the valuation difference on, available-for-sale marketable securities at March 31, 2002 and 2001 are summarized as follows:

March 31, 2002	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 39,219	¥ 40,107	¥ 888	¥3,218	¥2,329
Bonds:	388,604	389,057	453	814	360
Government bonds	352,117	352,300	182	419	237
Municipal bonds	14,911	14,929	17	74	56
Corporate bonds	21,575	21,828	253	320	67
Other	52,729	49,431	(3,298)	264	3,562
Total	¥480,553	¥478,596	¥(1,956)	¥4,296	¥6,252

March 31, 2002	Thousands of U.S. dollars				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	\$ 294,328	\$ 300,993	\$ 6,665	\$24,150	\$17,485
Bonds:	2,916,354	2,919,758	3,404	6,110	2,706
Government bonds	2,642,532	2,643,903	1,371	3,150	1,779
Municipal bonds	111,906	112,038	131	555	423
Corporate bonds	161,914	163,816	1,901	2,404	503
Other	395,720	370,968	(24,751)	1,981	26,733
Total	\$3,606,403	\$3,591,721	\$ (14,682)	\$32,242	\$46,924

The valuation difference, net of ¥813 million (US\$6,107 thousand) of related tax assets, resulted in a loss of ¥1,142 million (US\$8,574 thousand). The net valuation difference excluding minority interests resulted in a loss of ¥1,141 million (US\$8,565 thousand), which has been included in "Net unrealized losses on securities available for sale."

March 31, 2001	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 45,355	¥ 53,547	¥ 8,191	¥ 9,581	¥ 1,390
Bonds:	216,745	218,119	1,373	1,425	51
Government bonds	189,444	190,213	769	810	41
Municipal bonds	7,205	7,272	67	75	7
Corporate bonds	20,096	20,633	537	539	2
Other	106,634	93,760	(12,873)	654	13,528
Total	¥368,735	¥365,427	¥ (3,308)	¥11,661	¥14,970

The valuation difference, net of ¥1,376 million of related tax assets, resulted in a loss of ¥1,932 million. The net valuation difference excluding minority interests resulted in a loss of ¥1,931 million, which has been included in "Net unrealized losses on securities available for sale."

(b) Available-for-sale securities sold during the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Proceeds from sales	¥177,467	¥847,679	\$1,331,836
Gain	4,367	22,666	32,776
Loss	3,148	6,990	23,628

15. Repayment Schedule for Bonds Held to Maturity

The repayment schedule for bonds classified as available-for-sale securities which are being held to maturity is summarized as follows:

March 31, 2002	Millions of yen			
	Due within 1 year or less	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Bonds	¥132,962	¥125,911	¥30,875	¥99,998
Government bonds	127,448	103,485	21,367	99,998
Municipal bonds	3,211	3,891	7,826	—
Corporate bonds	2,302	18,534	1,681	—
Other	9,303	28,173	12,730	—
Total	¥142,265	¥154,085	¥43,606	¥99,998

March 31, 2002	Thousands of U.S. dollars			
	Due within 1 year or less	Due in 1 to 5 years	Due in 5 to 10 years	Due after 10 years
Bonds	\$ 997,842	\$ 944,929	\$231,711	\$750,454
Government bonds	956,462	776,628	160,358	750,454
Municipal bonds	24,098	29,201	58,738	—
Corporate bonds	17,280	139,098	12,615	—
Other	69,816	211,431	95,538	—
Total	\$1,067,659	\$1,156,360	\$327,250	\$750,454

16. Money Trusts

A classification of money trusts by purpose at March 31, 2002 and 2001 is summarized as follows:

March 31, 2002	Millions of yen		Thousands of U.S. dollars	
	Amount in the balance sheet	Valuation difference	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥1,001	¥ 1	\$7,512	\$ 7
Other money trusts	1,001	—	7,513	—

March 31, 2001	Millions of yen	
	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥1,793	¥(206)
Other money trusts	1,000	—

The net valuation loss on money trusts for trading purposes has been included in "Income before income taxes and other."

17. Derivatives

The contract or notional amount and the market value of derivatives at March 31, 2002 and 2001 were as follows:

March 31, 2002	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)
Listed	¥ —	¥ —	¥ —	\$ —	\$ —	\$ —
Over the counter:						
Interest rate swaps	¥ 666	¥ (18)	¥ (18)	\$ 5,000	\$ (135)	\$ (135)
Currency swaps	287,070	(2,359)	(2,359)	2,154,375	(17,704)	(17,704)

March 31, 2001	Millions of yen		
	Contract or notional amount	Market value	Unrealized gain (loss)
Listed	¥ —	¥ —	¥ —
Over the counter:			
Interest rate swaps	¥ 1,239	¥ (19)	¥ (19)
Currency swaps	357,385	(3,451)	(3,451)

Derivatives to which hedge accounting has been applied are excluded from the above tables.

18. Subsequent Events

(1) Appropriations of retained earnings

At a shareholders' meeting held on June 25, 2002, the Bank's shareholders duly approved the following year-end appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2002:

	Millions of yen	Thousands of U.S. dollars
Reversal of voluntary reserve	¥20,000	\$150,093
Year-end cash dividends (¥2.5 = US\$0.018 per share)	658	4,940

(2) On April 26, 2002, the Bank was given the approval of the Ministry of Health, Labor & Welfare to resign as agent for a portion of the employees' pension plan with the coming into effect of the Defined-Benefit Enterprise Pension Plan Law. The Bank recognized the extinguishment of the entrusted portion of the retirement benefit obligation of approximately ¥21.6 billion (US\$162 million) on the date on which the approval was granted in accordance with Statement No. 13, "Practical Guidelines for Accounting for Retirement Benefits (Interim Report)" issued by the Accounting Committee of the JICPA. The required capital for a substitute payment (minimum liability reserve) which is estimated at approximately ¥12.0 billion (US\$90 million) should be returned for government, and the Bank will record an extraordinary profit of approximately ¥3.5 billion (US\$26 million) for the fiscal year ending March 31, 2003.



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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, 2002 and 2001, and the related consolidated statements of operations and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in Japanese yen, present fairly the consolidated financial position of The Suruga Bank, Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 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.

June 25, 2002

A handwritten signature in cursive script that reads "Shin Nihon & Co." followed by a period.

See Note 1 which explains the basis of preparation of the consolidated financial statements of The Suruga Bank, Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Non-Consolidated Balance Sheets

The Suruga Bank, Ltd.

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
Assets			
Cash and cash equivalents	¥ 82,384	¥ 63,499	\$ 618,267
Due from banks	3,435	87,492	25,780
Call loans	160,879	166,553	1,207,350
Commercial paper and other debt purchased	7	150,007	53
Trading account securities	329	19,997	2,474
Money trusts	2,002	2,794	15,025
Investment securities (Note 3)	488,215	380,589	3,663,907
Loans and bills discounted (Note 4)	2,004,953	1,955,564	15,046,558
Foreign exchange	556	634	4,178
Other assets	15,699	12,858	117,820
Premises and equipment (Note 5)	40,747	42,402	305,799
Deferred tax assets	53,630	38,491	402,483
Customers' liabilities for acceptances and guarantees	15,876	18,188	119,144
Less reserve for possible loan losses	(56,619)	(28,266)	(424,908)
Total assets	¥2,812,099	¥2,910,809	\$21,103,937
Liabilities and shareholders' equity			
Liabilities			
Deposits (Note 6)	¥2,664,870	¥2,725,467	\$19,999,031
Call money	666	4,212	5,000
Borrowed money	29	54	219
Foreign exchange	15	14	120
Other liabilities	13,573	16,757	101,866
Reserve for employees' bonuses	679	710	5,099
Accrued pension and severance costs	940	4,628	7,058
Reserve for possible losses on sales of loans	262	296	1,966
Acceptances and guarantees	15,876	18,188	119,144
Total liabilities	2,696,914	2,770,329	20,239,505
Shareholders' equity			
Common stock (Note 8)	30,043	30,043	225,465
Capital surplus	18,585	18,585	139,480
Legal reserve	30,043	30,043	225,465
Voluntary reserves	58,172	50,172	436,564
(Deficit) retained earnings	(18,634)	13,561	(139,846)
Net unrealized losses on securities, net of taxes	(1,141)	(1,925)	(8,565)
Less treasury stock, at cost	(1,883)	—	(14,133)
Total shareholders' equity	115,185	140,480	864,432
Total liabilities and shareholders' equity	¥2,812,099	¥2,910,809	\$21,103,937

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Operations and Retained-Earnings Deficit

The Suruga Bank, Ltd.

Years ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 2)
	2002	2001	2002
Income			
Interest income:			
Interest on loans and discounts	¥ 62,939	¥ 61,772	\$ 472,341
Interest and dividends on securities	3,662	8,392	27,486
Other	317	885	2,385
Fees and commissions	7,662	6,235	57,505
Other operating income (Note 11)	2,094	9,682	15,719
Other income	6,675	25,968	50,099
Total income	83,353	112,936	625,538
Expenses			
Interest expense:			
Interest on deposits	4,293	7,005	32,221
Interest on borrowings and rediscounts	82	624	620
Other	7,346	11,297	55,131
Fees and commissions	5,135	4,496	38,542
Other operating expenses (Note 11)	1,288	9,339	9,670
General and administrative expenses (Note 12)	39,676	41,998	297,757
Other expenses	64,029	22,753	480,523
Total expenses	121,852	97,515	914,468
(Loss) income before income taxes	(38,499)	15,421	(288,929)
Income taxes:			
Current	76	2,728	572
Deferred	(15,698)	3,220	(117,808)
	(15,621)	5,948	(117,236)
Net (loss) income	(22,878)	9,472	(171,692)
Retained earnings			
Balance at beginning of year	13,561	9,931	101,777
Deductions:			
Transfer to legal reserve	—	(4,461)	—
Dividends paid	(1,318)	(1,320)	(9,893)
Bonuses to directors and corporate auditors	—	(60)	—
Transfer to voluntary reserve	(8,000)	—	(60,037)
Balance at end of year	¥(18,634)	¥ 13,561	\$(139,846)

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

The Suruga Bank, Ltd.

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 Financial Services Agency 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. In addition, the notes to the non-consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The non-consolidated financial statements have been prepared on the same basis as the accounting policies discussed in Note 1 to the consolidated financial statements except that the accompanying financial statements relate to the Bank only, with investments in subsidiaries and affiliates being substantially stated at cost.

Certain reclassifications of the prior year's non-consolidated financial statements and the related footnote amounts have been made to conform with the presentation in the current year.

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 amounts, solely for convenience, at ¥133.25 = U.S.\$1.00, the exchange rate prevailing on March 31, 2002. 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, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Japanese government bonds	¥352,300	¥190,213	\$2,643,903
Local government bonds	14,929	7,272	112,038
Corporate bonds	22,437	21,242	168,384
Corporate stock	42,573	57,573	319,501
Other securities	55,975	104,288	420,077
Total	¥488,215	¥380,589	\$3,663,907
Shares of subsidiaries			
included in corporate stock	¥ 90	¥ 98	\$ 677
Treasury stock included in corporate stock	¥ —	¥ 1,222	\$ —

Due to a recent revision to the Enforcement Regulations of the Banking Law, treasury stock, previously included in investment securities, is now presented as a component of shareholders' equity as

a separate line item. As a result, both total assets and shareholders' equity decreased by ¥1,883 million (US\$14,133 thousand) at March 31, 2002.

4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Bills discounted	¥ 11,340	¥ 13,848	\$ 85,109
Loans on bills	262,321	281,732	1,968,642
Loans on deeds	1,547,066	1,450,620	11,610,253
Overdrafts	184,225	209,363	1,382,552
Total	¥2,004,953	¥1,955,564	\$15,046,558

(b) Loans and bills discounted at March 31, 2002 and 2001 included the following items:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Loans to companies under bankruptcy procedures	¥ 5,186	¥ 5,611	\$ 38,919
Delinquent loans	107,794	44,670	808,960
Loans past due			
3 months or more	889	767	6,671
Restructured loans	70,414	22,029	528,435
Total	¥184,283	¥73,079	\$1,382,986

5. Premises and Equipment

Premises and equipment at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Land	¥14,006	¥14,668	\$105,114
Buildings	23,028	23,029	172,821
Furniture and equipment	22,483	22,445	168,732
Guarantee money, net	5,442	5,543	40,843
Software, net	4,105	3,946	30,806
	69,065	69,633	518,318
Less: accumulated depreciation	(28,318)	(27,230)	(212,519)
Premises and equipment, net	¥40,747	¥42,402	\$305,799

6. Deposits

Deposits at March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of
	2002	2001	U.S. dollars
Current deposits	¥ 65,353	¥ 62,187	\$ 490,455
Ordinary deposits	895,522	546,573	6,720,620
Deposits at notice	34,551	44,966	259,295
Time deposits	1,496,854	1,829,432	11,233,431
Other deposits	172,589	242,307	1,295,228
Subtotal	2,664,870	2,725,467	19,999,031
Negotiable certificates of deposit	—	—	—
Total	¥2,664,870	¥2,725,467	\$19,999,031

7. 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.

8. Common Stock

Common stock was as follows:

- (1) Authorized: 396,029,983 shares at March 31, 2002 and 2001
- (2) Issued and outstanding: 264,939,248 shares at March 31, 2002 and 2001

An amendment to the Commercial Code of Japan eliminates the stated par value of the outstanding shares, which results in all outstanding shares having no par value as of October 1, 2001. Before the amendment, the Bank's share had par value of ¥50 per share.

9. Capital Surplus and Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20 percent of cash dividends paid and other cash outflows from retained earnings must be appropriated to the legal reserve until such reserve and the capital surplus account equal 100 percent of the Bank's stated capital.

In the case that the sum of the capital surplus account and the legal reserve exceed 100 percent of the common stock account, then the amount of the excess is available for appropriation by resolution of the shareholders.

10. Amounts per Share

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

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

For the fiscal year ended March 31, 2002, the computation of amounts per share is based on the number of shares of common stock outstanding, less treasury stock.

March 31	Yen		U.S. dollars
	2002	2001	2002
Net (loss) income	¥(86.82)	¥ 35.75	\$(0.651)
Net assets	437.44	530.24	3.282

11. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Other operating income:			
Gain on foreign exchange transactions	¥ 120	¥ 171	\$ 901
Gain on trading account securities	13	81	102
Gain on sales of bonds	1,951	9,301	14,643
Gain on redemption of bonds	9	128	72
Total	¥2,094	¥9,682	\$15,719
Other operating expenses:			
Loss on sales of bonds	¥ 941	¥6,951	\$ 7,064
Loss on redemption of bonds	328	2,297	2,465
Other	18	90	140
Total	¥1,288	¥9,339	\$ 9,670

12. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	2002
Salaries and allowances	¥15,764	¥17,351	\$118,306
Depreciation	3,530	3,314	26,497
Taxes	1,923	2,038	14,438
Other	18,457	19,294	138,514
Total	¥39,676	¥41,998	\$297,757



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, 2002 and 2001, and the related non-consolidated statements of operations and retained-earnings deficit 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, 2002 and 2001, 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.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2002 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.

June 25, 2002

See Note 1 which explains the basis of preparation of the non-consolidated financial statements of The Suruga Bank, Ltd. under Japanese accounting principles and practices.

Certified Public Accountants

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(as of April 1, 2002)

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