

**SURUGA  
BANK  
ANNUAL  
REPORT  
2004**

SURUGA BANK



## Message from the President

---

At Suruga Bank, we have always pursued value in which we can provide to our various stakeholders, because we believe companies are corporate members of society, as well as “social systems” that contribute to the happiness of all people. The role we are expected to play varies among our stakeholders, as does the value we create for them. While shareholders might look at how well we perform as a system for the efficient management of capital, customers look at the value we provide — in keeping with our motto of “concierge” banking — as an organization that assists people to realize their dreams, just as society at large looks at our valuable and continuous contribution to it.

Especially in recent years, the relationship between the corporate community and the wider society in which it operates has become even deeper. In addition to the conventional principle of “quality management,” companies are now required to place greater focus on socially and environmentally responsible management, thereby adding



new dimensions to their role as social and public institutions by providing a greater range of value to a broader array of stakeholders. We believe that our continuous growth as a “value-providing system” based on the principles of reciprocity and gratitude will help realize a better society.

Our growth as such a “value-providing system” will never end. Naturally, as society changes, so too will the role that companies are expected to play within it, and this will lead to further diversification in the types of value that companies provide. Suruga Bank continues to enhance its contributions to the betterment of society by being flexible to societal changes and by providing unique value that is clearly different from that provided by our competitors. As regards to our service, quality matters more than quantity. Make no mistake, there are big things yet to come from Suruga Bank.

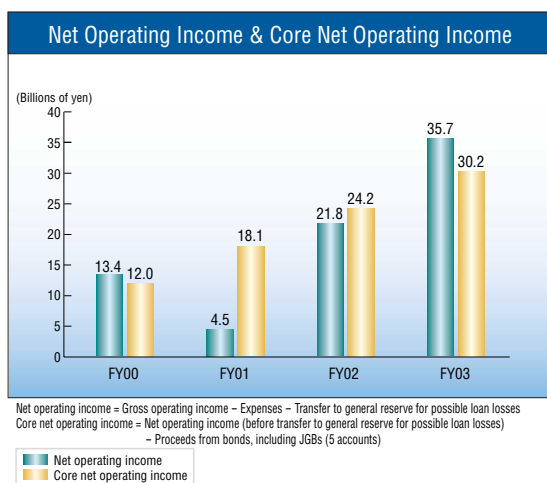
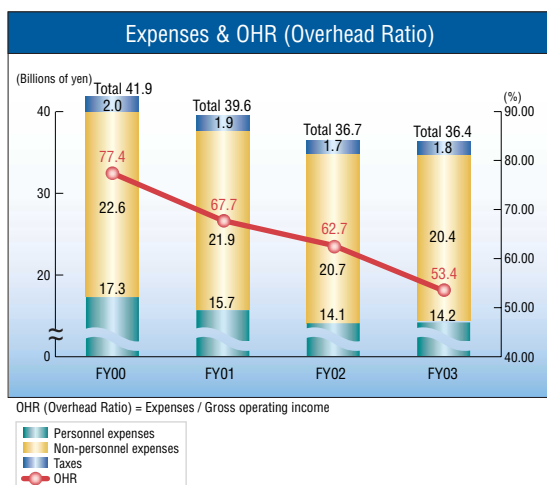
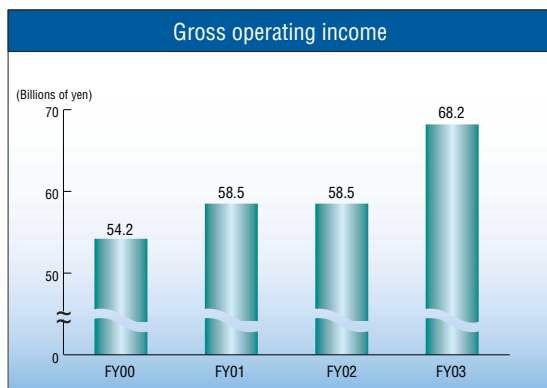
May 21, 2004

A handwritten signature in black ink, appearing to read 'Mitsuyoshi Okano', written in a cursive style.

**Mitsuyoshi Okano,**  
*President & Chief Executive Officer*

## Review of Operations (Non-consolidated)

The Company's results for this period are shown below.



### Gross operating income

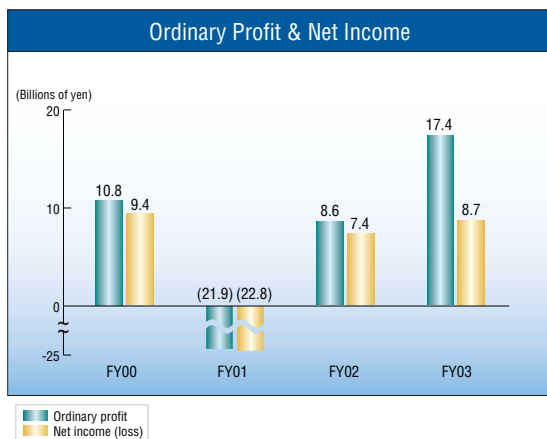
The gross operating income indicates the Bank's earnings from basic banking operations. This figure comprises three elements: "Net Interest Income," which is based on interest payments on loans, marketable securities, and deposits; "Net Fees and Commissions"; and "Other Operating Income," which includes proceeds from foreign transactions and the sale of bonds, etc. With the steady growth in consumer loans, Suruga Bank has seen an increase in net interest income, which, combined with an increase in other banking profit, took the gross operating income to 68.2 billion yen this period, representing a year-on-year increase of 9.7 billion yen.

### Expenses & OHR (Overhead Ratio)

The OHR, also used as an indicator for efficiency, improved 9.2 percentage points year-on-year, to stand at 53.4% for the reporting period. This increase was largely due to the increase in gross operating income and a reduction in expenses.

### Net Operating Income & Core Net Operating Income

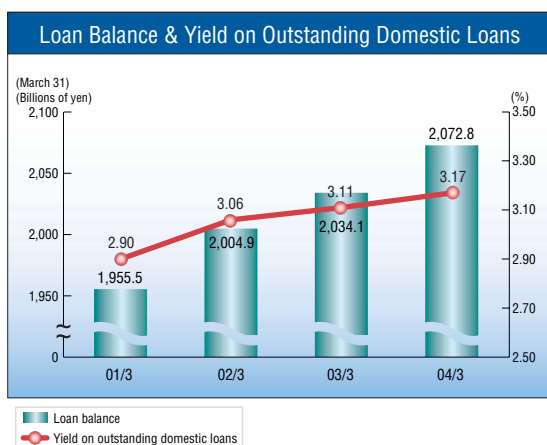
Net operating income refers to what is referred to "Operating profit" in the financial statements of ordinary companies, and is a measure of the profit earned through basic banking operations. The general reserve for possible loan losses is added to this profit earned and net proceeds from transaction in bonds (including JGBs) are subtracted from the net operating income. The period under review saw a year-on-year increase of 13.8 billion yen in net operating income to 35.7 billion yen, while core net operating income rose 6.0 billion yen over last year's figure to 30.2 billion yen.



## Ordinary Profit & Net Income

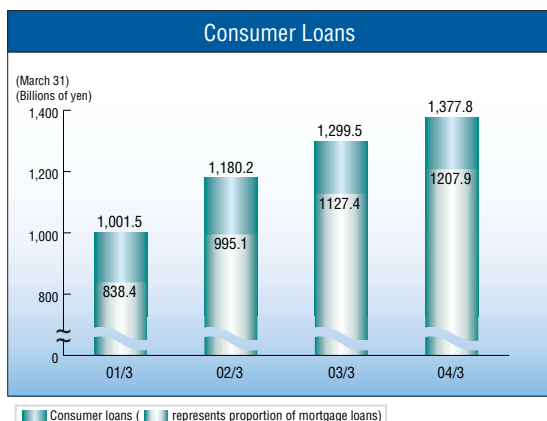
The increase in net operating income of 13.8 billion yen outweighed the 5 billion yen increase in non-recurring loss generated through the increase in the amount of non-performing loans disposed of, leaving ordinary profit 8.8 billion up from previous year at 17.4 billion yen.

The increase in ordinary profit was considerably offset by the 7.3 billion yen fall in extraordinary income, while net income for the period was up 1.3 billion yen, standing at 8.7 billion yen.



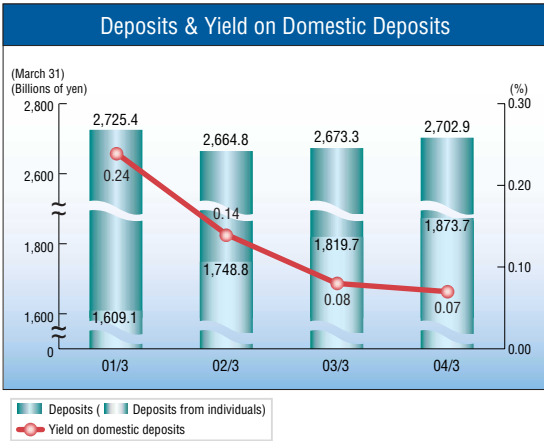
## Loan Balance & Yield on Outstanding Domestic Loans

As a result of our sales push targeted at individuals and small-to-medium-sized enterprises, the Bank's term-end loan balance increased by 38.7 billion yen to 2,072.8 billion yen. Likewise, the yield on outstanding domestic loans also increased 0.06% over the previous year, to 3.17%.



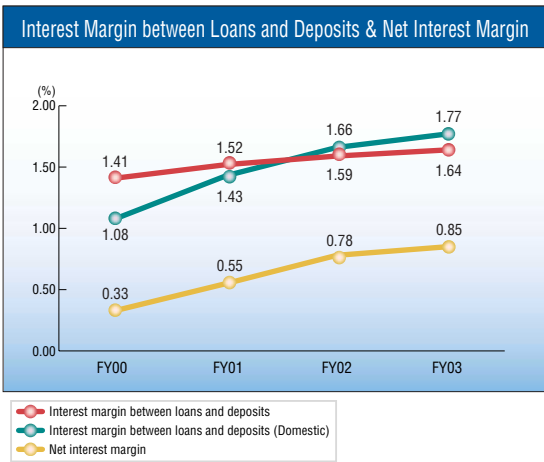
## Consumer Loans

The term-end balance of consumer loans saw a net increase of 109.4 billion yen year-on-year, but with the offloading of 31.2 billion yen worth of mortgage loan assets, the final increase was 78.2 billion yen compared to the end of the previous year. The proportion of consumer loans as a percentage of all loans was up 2.6 percentage points at 66.4%.



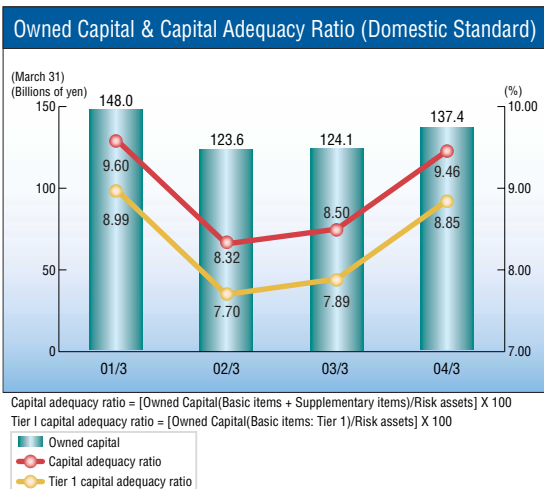
### Deposits & Yield on Domestic Deposits

While interest rates for deposit accounts remain at an all-time low, deposits increased steadily. The balance of deposits from individuals at the end of this period was 53.9 billion yen up on the figure at the same time last year to 1,873.7 billion yen. The total deposit balance at the end of the period was up 29.6 billion yen to 2,702.9 billion yen this year.



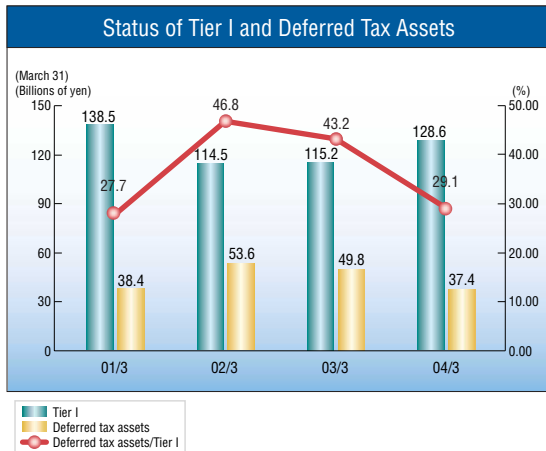
### Interest Margin between Loans and Deposits & Net Interest Margin

The interest margin between loans and deposits is calculated by subtracting the yield on deposits and the expense ratio from the yield on outstanding loans. The net interest margin indicates the difference between the yield on total managed funds and total procured funds. Due to our promotion of loans to the retail sector where there is a high interest margin, especially on consumer loans, the interest margin between loans and deposits (domestic) saw a year-on-year increase of 0.11% this period to 1.77%.



### Owned Capital & Capital Adequacy Ratio (Domestic Standard)

The Bank's owned capital comprises the Tier I capital (including its capital stock, surpluses, and reserves) and Tier II capital (including the general reserve for possible loan losses). With an increase in internal reserves, the Bank's capital adequacy ratio at the end of this period increased 0.96% over the previous period to 9.46%. The Tier I capital adequacy ratio was up 0.96% year - on - year to 8.85%. Only the maximum amount for the reserve for possible loan losses is recorded as a Tier II item in our statements, with qualifying capital and gains on the revaluation of land not recorded.

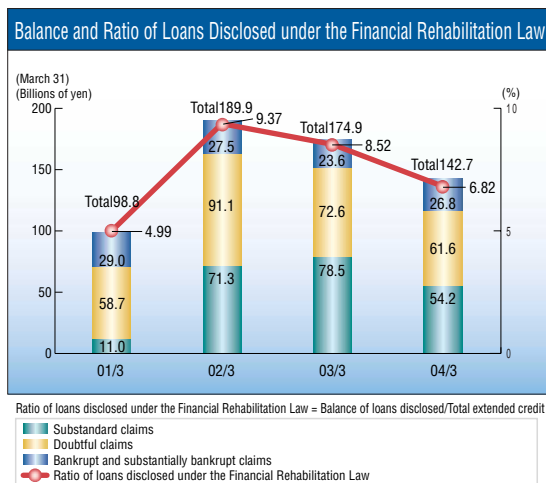


## Status of Tier I and Deferred Tax Assets

The ratio of deferred tax assets to Tier I items at the end of March 31, 2004, saw a 14.11% improvement to 29.12% from last year, due to an increase in Tier I items and a reduction in deferred tax assets.

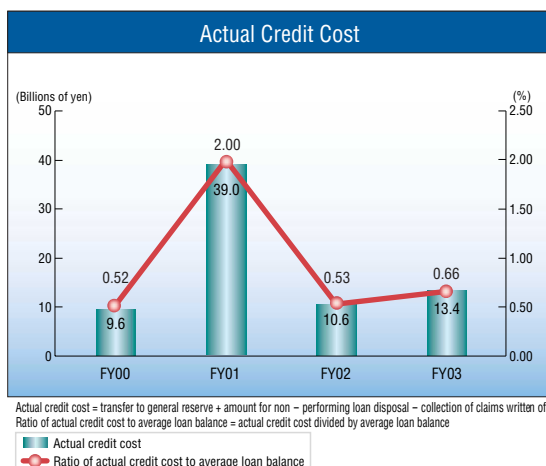
A figure is recorded for deferred tax assets that represents anticipated future returns on taxes already paid.

## Status of Non-Performing Loans



## Balance and Ratio of Loans Disclosed under the Financial Rehabilitation Law

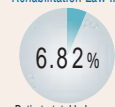

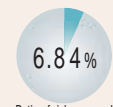
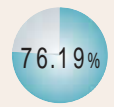
Compared to the same time last year, the non-consolidated balance of loans disclosed in accordance with the disclosure standards provided for under the Financial Rehabilitation Law was down 32.2 billion yen at the end of this year to 142.7 billion yen. Of this total, Bankrupt and substantially bankrupt claims accounted for 26.8 billion yen, Doubtful claims accounted for 61.6 billion yen, and Substandard claims amounted to 54.2 billion yen of the total. Also, the ratio of problem loans which need to be disclosed to total extended credit was down 1.70% at the end of this year to 6.82%.



## Actual Credit Cost

Actual credit cost for fiscal 2003 increased 2.8 billion yen over the previous term, to stand at 13.4 billion yen, as a result of accelerated non-performing loan disposal. The ratio of actual credit cost to average loan balance rose 0.13 percentage points to 0.66% for fiscal 2003.

(As of March 31, 2004)

Disclosure of Problem Assets							(Billions of yen)	
Classification under Self-Assessment		Problem Assets Based on the Financial Rehabilitation Law				Risk-Managed Loans		
Target: Total balance of extended credit		Target: Total balance of extended credit, except substandard claims(only loans are counted in.)				Target: Loans		
			Covered by collateral and guarantees	Covered by reserves	Coverage ratio			
Legally bankrupt borrowers	4.5	Bankrupt and Substantially Bankrupt Claims	26.8	22.7	4.1	100%	Loans to bankrupt borrowers	4.1
Substantially bankrupt borrowers	22.3						Loans past due	83.5
Potentially bankrupt borrowers	61.6	Doubtful Claims	61.6	35.6	16.7	84.94%		
Borrowers requiring caution	Borrowers under supervision	Substandard Claims	54.2	16.9	12.4	54.18%	Past due for 3 months or longer	1.3
	Other borrowers requiring caution						146.5	Restructured loans
Sub-total		142.7	75.3	33.2	76.09%	Total	141.9	
Normal borrowers	1,777.9	Normal assets	1,947.9	Loans disclosed in accordance with the Financial Rehabilitation Law ... 142.7 billion yen  6.82% Ratio to total balance of extended credit		Risk-managed loans to total loans ... 141.9 billion yen  76.19% Coverage ratio		
Total	2,090.6	Total	2,090.6	 6.84% Ratio of risk-managed loans to total loans		 76.09% Coverage ratio		

Total balance of extended credit: Loans, Acceptance and Guarantees, Foreign exchange, Securities loaned, Suspense payments on loans, Accrued loan interests.

**Classifications of Borrowers under Self-Assessment**

<b>Legally bankrupt borrowers:</b>	Borrowers who have been legally or formally declared bankrupt.
<b>Substantially bankrupt borrowers:</b>	Borrowers who have not been legally or formally declared bankrupt, but who are suffering from serious management difficulties with no prospect of revitalization, and are therefore substantially bankrupt.
<b>Potentially bankrupt borrowers:</b>	Borrowers who are not bankrupt, but who are suffering from management difficulties, who have not made progress with business improvement plans, and who are found to have a rather high risk of bankruptcy in the future.
<b>Borrowers requiring caution:</b>	Borrowers with problematic lending conditions such as interest waivers and the like, borrowers who are having problems fulfilling their obligations and who are already in arrears for repayments of principal or interest, borrowers facing poor or unstable business conditions, and borrowers with a problematic financial status are those that require future caution.
<b>Borrowers under supervision:</b>	Those borrowers - within the category of borrowers requiring caution - who are three or more months in arrears or have had loans restructured (Borrowers whose loans in part or in full constitute loans requiring supervision under the Financial Rehabilitation Law.)
<b>Other borrowers requiring caution:</b>	Borrowers requiring caution other than those classified as substandard.
<b>Normal borrowers:</b>	Borrowers whose business results are favorable and who are found not to have any particular problems in terms of their financial status.

**Overview of write-offs and reserves under self-assessment**

<b>Legally bankrupt borrowers and substantially bankrupt borrowers:</b>	The amount remaining after the deduction of the amount of collateral considered to be disposable and the amount recoverable under guarantees from the loan balance is either written off or is recorded as a reserve for bad debt.
<b>Potentially bankrupt borrowers:</b>	A portion of the reserve as deemed necessary is provided based on the amount remaining after deduction of the amount of collateral considered to be disposable and the amount recoverable under guarantees after giving full consideration to the percentage of actual defaults over a fixed period in the past.
<b>Borrowers requiring caution (Borrowers under supervision and other borrowers requiring caution):</b>	Based on the predicted loss ratio where any necessary adjustments for future expectations have been incorporated into an appropriate loan loss ratio calculated for the average remaining period, the anticipated loss over the next three years in the case of substandard borrowers, and over the next one year in the case of other borrowers, are recorded as a general reserve for possible loan losses.
<b>Normal borrowers:</b>	Based on the predicted loss ratio where any necessary adjustments for future expectations have been incorporated into an appropriate loan loss ratio calculated for the average remaining period, the anticipated loss over the next one year is recorded as a general reserve for possible loan losses.



### Jumbo Lottery-Linked Term Deposits yield our third millionaire!

One of our many customers who hold Jumbo Lottery-Linked Term Deposits through our net branches “Dream Direct Branch” and “So-net Branch” has won a second-division prize worth 100 million yen (worth roughly \$1 million) in a jackpot draw (“Dream Jumbo Lottery” Draw No. 457, drawn on June 17, 2003).



Another customer had previously won 300 million yen (a first-division prize worth 200 million and two adjacent-number prizes) in the Dream Jumbo Lottery Draw No. 440 held during 2002, and yet another customer won the second-division prize of 100 million yen in the “Year-End Jumbo Lottery” Draw No. 449. Thus, this is the third customer of ours who has become a millionaire. To be eligible to take part, customers need to hold a three-year variable interest term deposit, whereby Jumbo Lottery entries are sent to them automatically, depending on their deposit balance.

### Another customer wins millions in “LOTO 6” through the Suruga ATM Lottery Service.



Another one of our customers won the first division prize valued at 103,964,400 yen in “LOTO 6” through Suruga’s ATM-based number-selection type lottery.

(“LOTO 6” Draw No. 137 drawn on May 29, 2003) Customers can use the Suruga ATM Lottery Service to easily purchase “LOTO 6,” “MiniLOTO,” and “Numbers” lottery tickets at ATMs. Then if they win, their winnings are directly deposited into their bank accounts so that they don’t have to worry about checking their numbers or missing out on their winnings.

\*Lottery tickets are not available from some models of ATM in some locations.

### Now customers can use Internet banking to make contributions to “Make-A-Wish of Japan.”

From August 25, 2003, Suruga Bank launched an Internet banking facility through which people can make contributions to “Make-A-Wish of Japan.” “Make-A-Wish of Japan” is a non-profit, volunteer organization



that was established with the hope of being able to make the dreams of seriously ill children and youngsters (aged 3 to 18) come true and to give them the will to live and the courage to fight their illnesses.

As part of Suruga Bank’s ongoing contributions to society, we have introduced this feature so that customers who use our Internet banking services can make contributions from their nominated account to this worthy organization free of all handling and transaction fees.

### Opening of the refurbished Shizuoka-Minami Branch



On September 8, 2003 our Shizuoka Station Southern Exit Branch moved into their new premises and the refurbished Shizuoka-Minami Branch was opened. The Shizuoka Housing Loan Center was simultaneously opened at the new branch, and here customers can access advice on mortgage loans.

### Business revitalization fund set up for the age-old Ochiai-Rou Inn

Together with the Development Bank of Japan, on September 29, 2003 Suruga Bank established the Ochiai-Rou Business Revitalization Fund. The fund

was established with the aim of providing assistance for the rebuilding of the age-old Ochiai-Rou ryokan (traditional-style inn), one of the oldest inns in the Amagi-Yugashima Onsen area.

The Ochiai-Rou inn lodged a petition under the Civil Revitalization Law on May 29, 2002, and now there is a business revitalization scheme in place under



which operations will be transferred to Orion K.K. We believe that it is very important to assist in the rebuilding of this business given that the history and tradition of this inn is deeply tied to this region, and the significant economic impact its closure would have on the local economy, due to a likely drop in the number of sightseers.

### **Finance system for “Proton Therapy” – A cutting-edge, advanced medical treatment**

#### **Introduction of the Shizuoka Cancer Center Advanced Medical Treatment Plan**



Shizuoka Prefecture Shizuoka Cancer Center

Following in the footsteps of the Fuji Pharma Valley Project, a prefectural government project which involves the concentration of advanced medical and health industries around the base of Mount Fuji, on October 15, 2003, Suruga Bank introduced a new finance product – the first of its type in Japan – which offers unsecured finance for advanced medical treatments for which patients are liable for the cost.

This credit service, dubbed the Shizuoka Cancer Center Advanced Medical Treatment Plan, will make finance available to patients who have been diagnosed with cancer and who require advanced medical treatment such as proton therapy (a treatment that targets only cancer cells). This finance scheme aims to alleviate the financial concerns of

patients so that they can concentrate on getting the very latest cancer therapy, and involves speed screening and the provision of unsecured finance in conjunction with public medical institutions.

### **Launch of our Web Business Concierge Service**

On December 1, 2003, Suruga Bank launched the all-new Web Business Concierge Service, which is designed to provide Internet-based business assistance to enterprises.



This service is available for business operators who have signed up to use our Business Banking online banking service, and gives them timely access to quality information including the latest industry news, management and IT-related information, finance-related information, information on the regional economy, international trade information and more. Also with “Business Matching” – another feature of this service – customers can register information under “Company PR,” “New product information,” and “Search for sales outlets” sections, and in doing so are able to send out information to members of other regional banking sites around Japan. In this way, we are assisting our customers by matching them up with optimally suited business partners.

### **First bank to be awarded the Porter Prize**

On December 4, 2003, Suruga Bank became the first Japanese bank to be awarded the Porter Prize, which was founded for the purpose of raising the competitiveness of Japanese corporations and looks at the unique strategies of companies. The Porter Prize was named after Professor Michael E. Porter, a Harvard University Professor and the leading international expert in competition strategy. It was



established, and is now run, by Hitotsubashi University's Graduate School of International Corporate Strategy.

In winning the award, Suruga Bank was recognized for the fact that we maintain a higher profitability than the average level for Japanese



banks; that we have been continuously developing new unique products and services unavailable at other banks; that we successfully provide unique customer values; and that we have constantly focused on the retail consumer market.

### Launch of Pay-Easy - Multi-Payment Network Service



From January 19, 2004, Suruga Bank introduced Pay-Easy, a multi-payment network service that enables the payment of

taxes and other charges via Internet banking, mobile banking, and business banking.

This very convenient service allows users to pay their taxes and other charges at any time of the day or night, even outside banking business hours, over the Internet using their PC or mobile phone.

### Announcement of plans to introduce accounts that make exclusive use of palm vein pattern authentication technology

On January 13, 2004, Suruga Bank made the announcement that we hope to commence sales from June 2004 of our new Bio-Security Account, which is an ordinary savings account that makes use of palm vein pattern authentication technology. This is the first such finance product in the world.

The vein pattern on the palm of your hand is a form of biometric information and is therefore very



difficult to falsify. This form of authentication is extremely accurate (99.9%). This product was developed in response to persistent

calls from customers wanting better personal authentication systems for account holders as unauthorized withdrawals through the use of fake seals or identity fraud become increasingly common. This product offers the ultimate in security, and while it may put constraints on convenience, it ensures that absolutely no person other than the account-holder has access to funds.

### Announcement of a new service to be offered in partnership with ANA

On March 16, 2004, All Nippon Airways Co., Ltd. (ANA) together with Suruga Bank announced that the two companies had entered into a partnership



agreement aimed at enhancing the added value provided to the customers of both companies. Under this agreement, an Internet-based "Suruga Bank ANA Branch" will be established, and an ANA Mileage Club Financial Pass card will be issued, the first such card in the world. The card integrates the following three features into a single card - 1. a bank cash card feature, 2. an ANA Mileage Club feature, and 3. the prepaid "electronic money" feature, "Edy" (no card issuing fee).

In addition to being able to covert mileage (accrued by using the ANA Group or partner company services) into products, those customers that open an account with the ANA branch will also have access to Japan's first mileage-linked mortgage loan product, offered exclusively through the ANA branch, and to special mileage gift-linked term deposits. This service will also allow users to accrue even more mileage points.



An all-new mileage + banking service that lets users accrue mileage points through bank transactions.

## ANA Branch

<http://www.surugabank.co.jp/ana/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-029-589

(From overseas: 055-98-02988)

Telephone reception hours 9:30 am - 5:00 pm Monday - Friday  
(excluding holidays)



Providing access to leading Internet-based financial services

## Softbank Branch

<http://www.surugabank.co.jp/softbank/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-708-807

Telephone reception hours 9:00 am - 7:00 pm Monday - Friday  
(excluding holidays) 9:00 am - 5:00 pm Saturday



Branch exclusively for system engineers (SEs)

## SE Bank Branch

<http://www.surugabank.co.jp/sebank/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-727-828

Telephone reception hours 9:00 am - 7:00 pm Monday - Friday  
(excluding holidays) 9:00 am - 5:00 pm Saturday



A banking site tailored to women

## So-net Branch

<http://www.surugabank.co.jp/so-net/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-50-2189

Telephone reception hours 9:00 am - 7:00 pm Monday - Friday  
(excluding holidays) 9:00 am - 5:00 pm Saturday



Japan's first Direct branch

## Dream Direct Branch

<http://www.surugabank.co.jp/dream/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-86-1689

Telephone reception hours 9:00 am - 7:00 pm Monday - Friday  
(excluding holidays) 9:00 am - 5:00 pm Saturday



Direct banking specializing in loans

## Direct One Branch

<http://www.surugabank.co.jp/directone/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-60-1616

Telephone reception hours 10:00 am - 8:00 pm Monday - Friday  
(excluding holidays) 10:00 am - 5:00 pm Saturday



Providing access to high value-added business loan services

## e-Business Direct Branch

<http://www.surugabank.co.jp/ebusinessdirect/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-185-285

Telephone reception hours 10:00 am - 8:00 pm Monday - Friday  
(excluding holidays)



Catering to B-to-B and B-to-C needs

## NetBank Branch

<http://www.surugabank.co.jp/sofmap/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-89-5189

Telephone reception hours 9:00 am - 5:00 pm Monday - Friday  
(excluding holidays)



<http://www.surugabank.co.jp/axa-direct/> (24 hours a day, 365 days a year)

Toll free (from within Japan only): 0120-788-017

Telephone reception hours 9:00 am - 7:00 pm Monday - Friday  
(excluding holidays) 9:00 am - 5:00 pm Saturday





## **Financial Section**

Consolidated Balance Sheets	12
Consolidated Statements of Income	13
Consolidated Statements of Shareholders' Equity	14
Consolidated Statements of Cash Flows	15
Non-Consolidated Balance Sheets	16
Non-Consolidated Statements of Operations	17

# Consolidated Balance Sheets

Suruga Bank Ltd. and consolidated subsidiaries

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>ASSETS:</b>				
Cash and Due from Banks	66,577	84,247	(17,670)	629,927
Call Loans and Bills Purchased	141,006	190,274	(49,268)	1,334,153
Commercial Paper and Other Debt Purchased	9	12	(3)	90
Trading Account Securities	43	489	(446)	409
Money Held in Trust	1,028	990	38	9,728
Investment Securities	513,662	430,074	83,588	4,860,090
Loans and Bills Discounted (Note 3)	2,066,868	2,026,918	39,950	19,555,948
Foreign Exchanges	677	759	(82)	6,405
Other Assets	29,005	23,770	5,235	274,439
Premises and Equipment (Note 4)	51,539	52,423	(884)	487,652
Deferred Tax Assets (Note 10)	38,153	50,320	(12,167)	360,997
Customers' Liabilities for Acceptances and Guarantees	10,036	11,370	(1,334)	94,961
Reserve for Possible Loan Losses	(41,918)	(44,731)	2,813	(396,618)
<b>Total Assets</b>	<b>2,876,690</b>	<b>2,826,918</b>	<b>49,772</b>	<b>27,218,188</b>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY:</b>				
<b>Liabilities</b>				
Deposits	2,702,336	2,672,629	29,707	25,568,520
Negotiable Certificates of Deposit	6,000	—	6,000	56,769
Borrowed Money	9,166	10,858	(1,692)	86,727
Foreign Exchanges	15	7	8	148
Other Liabilities	18,893	16,622	2,271	178,766
Reserve for Employees' Bonuses	579	619	(40)	5,481
Reserve for Employees' Retirement Benefits	331	227	104	3,138
Reserve for Possible Losses on Sales of Loans	—	220	(220)	—
Reserve under Special Laws	0	0	—	0
Acceptance and Guarantees	10,036	11,370	(1,334)	94,961
<b>Total Liabilities</b>	<b>2,747,360</b>	<b>2,712,554</b>	<b>34,806</b>	<b>25,994,513</b>
<b>Minority Interests</b>	<b>238</b>	<b>387</b>	<b>(149)</b>	<b>2,254</b>
<b>Stockholders' Equity</b>				
Common Stock	30,043	30,043	—	284,258
Capital Surplus	18,586	18,585	1	175,854
Retained Earnings	83,735	75,867	7,868	792,271
Net Unrealized Gains (Losses) on Securities, Net of Taxes	1,354	(6,134)	7,488	12,818
Treasury Stock	(4,627)	(4,385)	(242)	(43,782)
<b>Total Stockholders' Equity</b>	<b>129,091</b>	<b>113,976</b>	<b>15,115</b>	<b>1,221,420</b>
<b>Total Liabilities, Minority Interests and Stockholders' Equity</b>	<b>2,876,690</b>	<b>2,826,918</b>	<b>49,772</b>	<b>27,218,188</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

Suruga Bank Ltd. and consolidated subsidiaries

For the Year Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>Ordinary Income</b>	<b>89,546</b>	84,346	5,200	<b>847,254</b>
Interest Income	<b>66,325</b>	65,663	662	<b>627,543</b>
Interest on Loans and Discounts	<b>64,457</b>	63,354	1,103	<b>609,877</b>
Interest and Dividends on Securities	<b>1,776</b>	2,236	(460)	<b>16,807</b>
Interest on Call Loans and Bills Purchased	<b>35</b>	19	16	<b>335</b>
Interest on Receivables Under Resell Agreements	<b>1</b>	1	(0)	<b>12</b>
Interest on Due from Banks	<b>0</b>	1	(1)	<b>4</b>
Other Interest income	<b>53</b>	49	4	<b>505</b>
Fees and Commissions	<b>10,325</b>	9,512	813	<b>97,697</b>
Other Operating Income	<b>11,688</b>	7,759	3,929	<b>110,587</b>
Other Ordinary Income (Note 9)	<b>1,207</b>	1,411	(204)	<b>11,425</b>
<b>Ordinary Expenses</b>	<b>71,580</b>	74,609	(3,029)	<b>677,266</b>
Interest Expenses	<b>4,362</b>	6,592	(2,230)	<b>41,275</b>
Interest on Deposits	<b>1,953</b>	2,364	(411)	<b>18,483</b>
Interest on Negotiable Certificates Deposit	<b>5</b>	—	5	<b>49</b>
Interest on Call Money and Bills Sold	<b>0</b>	9	(9)	<b>0</b>
Interest on Borrowed Money	<b>190</b>	257	(67)	<b>1,797</b>
Other Interest expenses	<b>2,213</b>	3,961	(1,748)	<b>20,944</b>
Fees and Commissions	<b>6,098</b>	5,513	585	<b>57,700</b>
Other Operating Expenses	<b>5,687</b>	8,890	(3,203)	<b>53,813</b>
General and Administrative Expenses	<b>37,548</b>	38,012	(464)	<b>355,266</b>
Other Expenses (Note 9)	<b>17,883</b>	15,600	2,283	<b>169,211</b>
Provision of Reserve for Possible Loan Losses	<b>1,533</b>	—	1,533	<b>14,506</b>
Losses on Write-offs of Loans	<b>13,549</b>	12,968	581	<b>128,196</b>
Others	<b>2,801</b>	2,632	169	<b>26,508</b>
<b>Ordinary Profit</b>	<b>17,965</b>	9,737	8,228	<b>169,987</b>
Extraordinary Income (Note 9)	<b>1,251</b>	7,122	(5,871)	<b>11,845</b>
Gain on Disposal of Premises and Equipment	<b>244</b>	52	192	<b>2,309</b>
Collection of Claims Written off	<b>686</b>	294	392	<b>6,498</b>
Other Extraordinary Gains	<b>321</b>	6,775	(6,454)	<b>3,038</b>
Extraordinary Expenses (Note 9)	<b>2,227</b>	1,216	1,011	<b>21,077</b>
Losses on Disposal of Premises and Equipment	<b>1,386</b>	343	1,043	<b>13,122</b>
Other Extraordinary Losses	<b>840</b>	873	(33)	<b>7,955</b>
<b>Income before Income Taxes</b>	<b>16,990</b>	15,643	1,347	<b>160,755</b>
Income Taxes (Note 10)				
Current	<b>523</b>	330	193	<b>4,954</b>
Deferred	<b>7,134</b>	7,119	15	<b>67,503</b>
Minority Interests in Net Income of Consolidated Subsidiaries	<b>137</b>	271	(134)	<b>1,300</b>
<b>Net Income</b>	<b>9,194</b>	7,921	1,273	<b>86,996</b>

See notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

Suruga Bank Ltd. and consolidated subsidiaries

For the Year Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>Capital Surplus</b>				
Balance at Beginning of Year	18,585	18,585	—	175,852
Increase in Capital Surplus	0	—	0	2
Gain on Disposal of Treasury stock	0	—	0	2
<b>Balance at End of Period</b>	<b>18,586</b>	<b>18,585</b>	<b>1</b>	<b>175,854</b>
<b>Retained Earnings</b>				
Balance at Beginning of Year	75,867	69,245	6,622	717,829
Increase in Retained Earnings	9,194	7,921	1,273	86,996
Net Income	9,194	7,921	1,273	86,996
Decrease in Retained Earnings	1,326	1,299	27	12,554
Cash Dividends Paid	1,296	1,299	(3)	12,270
Bonuses to Directors and Corporate Auditors	30	—	30	283
<b>Balance at End of Period</b>	<b>83,735</b>	<b>75,867</b>	<b>7,868</b>	<b>792,271</b>

See notes to consolidated financial statements.



# Consolidated Statements of Cash flows

Suruga Bank Ltd. and consolidated subsidiaries

For the Year Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>Cash Flows from Operating Activities</b>				
Income before Taxes and Minority Interests	16,990	15,643	1,347	160,755
Depreciation and Amortization	8,084	8,366	(282)	76,494
Increase in Reserve for Possible Loan Losses	(2,813)	(13,949)	11,136	(26,617)
Increase in Reserve for Possible Losses on Sales of Loans	(220)	(42)	(178)	(2,081)
Increase in Reserve for Employees' Bonuses	(40)	(107)	67	(380)
Increase in Reserve for Employees' Retirement Benefits	1,595	1,062	533	15,094
Gain on Contribution of Securities to Employee Retirement Benefit Trusts	—	(727)	727	—
Gain on Return of Substitutional Portion of Welfare Pension Fund Plan	—	(3,503)	3,503	—
Bonuses to Directors and Corporate Auditors	(30)	—	(30)	(283)
Interest and Dividend Income	(66,325)	(65,663)	(662)	(627,543)
Interest Expenses	4,362	6,592	(2,230)	41,275
Loss (Gain) on Investment Securities, Net	(2,355)	1,895	(4,250)	(22,284)
Loss (Gain) on Money Trusts, Net	(54)	11	(65)	(514)
Loss (Gain) on Sales of Premises and Equipment	1,142	290	852	10,813
Changes in Operating Assets and Liabilities:				
Trading Securities	445	(159)	604	4,218
Loans	(39,950)	(25,836)	(14,114)	(377,994)
Deposits	29,707	8,560	21,147	281,083
Negotiable Certificates of Deposit	6,000	—	6,000	56,769
Borrowings Excluding Subordinated Debt	(1,692)	(3,400)	1,708	(16,010)
Due from Banks Other Than BOJ	(2,467)	(3,093)	626	(23,347)
Call Loans	49,270	(29,400)	78,670	466,181
Call Money	—	(666)	666	—
Foreign Exchange Assets	82	(202)	284	778
Foreign Exchange Liabilities	7	(8)	15	72
Interest and Dividend Received	66,118	67,437	(1,319)	625,586
Interest Paid	(4,611)	(7,141)	2,530	(43,629)
Other, Net	(4,044)	(2,118)	(1,926)	(38,265)
Subtotal	59,204	(46,159)	105,363	560,169
Income Taxes Paid	(104)	(681)	577	(990)
Net Cash Provided by (Used in) Operating Activities	59,099	(46,841)	105,940	559,178
<b>Cash Flows from Investing Activities</b>				
Purchase of Securities	(852,488)	(738,155)	(114,333)	(8,065,936)
Proceeds from Sales of Securities	32,577	210,215	(177,638)	308,239
Proceeds from Redemption of Securities	750,539	575,570	174,969	7,101,330
Increase in Money Trusts	—	(4)	4	—
Decrease in Money Trusts	16	1,004	(988)	156
Purchase of Premises and Equipment	(9,243)	(6,174)	(3,069)	(87,458)
Proceeds from Sales of Premises and Equipment	899	280	619	8,514
Net Cash Provided by (Used in) Investing Activities	(77,698)	42,737	(120,435)	(735,154)
<b>Cash Flows from Financing Activities</b>				
Dividends Paid	(1,296)	(1,299)	3	(12,270)
Purchase of Treasury Stock	(229)	(384)	155	(2,172)
Proceeds from Sales of Treasury Stock	2	—	2	21
Net Cash Used in Financing Activities	(1,524)	(1,683)	159	(14,421)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<b>(15)</b>	<b>(15)</b>	<b>0</b>	<b>(142)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(20,138)</b>	<b>(5,802)</b>	<b>(14,336)</b>	<b>(190,539)</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>76,584</b>	<b>82,387</b>	<b>(5,803)</b>	<b>724,613</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>56,446</b>	<b>76,584</b>	<b>(20,138)</b>	<b>534,074</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Suruga Bank Ltd. and consolidated subsidiaries

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

The accompanying consolidated financial statements of Suruga Bank Ltd. (the "Bank") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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 affiliates, 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.

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 available-for-sale securities 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	4 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

Foreign-currency-denominated assets and liabilities are translated into yen equivalents at the exchange rates prevailing at the balance sheet date.

In the year ended March 31, 2003, the transitional treatment permitted by "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No.25) was applied to foreign currency transactions.

However, effective the year ended March 31, 2004, in accordance with the principle provisions of JICPA Industry Audit Committee Report No.25, hedge accounting is applied to currency-swap transactions, exchange swap transactions and similar transactions intended to hedge risks of borrowing and lending in different currencies by swapping the borrowing currency for the lending currency. A summary of the hedge accounting applied in these transactions is described in (m).

As a result of the application of hedge accounting, currency-swap transactions and exchange swap transactions, which were accounted for on an accrual basis, are valued at fair value and the net amount of the credit balance and the debt balance are recorded on the balance sheet in Other Assets and Other Liabilities which resulted in an increase of ¥3,041 million respectively, compared with the corresponding amounts under the previous methods.

In the year ended March 31, 2003, the net fair value of forward foreign exchange transactions other than those for the above hedging purpose was recorded in Other Assets or Other Liabilities on the balance sheet. However, effective this consolidated fiscal year, in accordance with JICPA Industry Audit Committee Report No.25, the gross of fair value amounts are presented in Other Assets and Other Liabilities as Derivatives other than for Trading on the balance sheet. As a result, Other Assets, and Other Liabilities increased by ¥264 million, respectively, compared with the corresponding amounts under the previous methods.

### **(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 charged off. For the years ended March 31, 2004 and 2003, the amounts charged off were ¥16,885 million (US\$159,762 thousand) and ¥12,620 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 at April 1, 2000, the date on which the new accounting standard was adopted is being amortized by the straight-line method over a period of 5 years.

### **(m) Hedge accounting**

The Bank applies the deferred method as a hedge accounting for the interest rate risk accompanying various financial assets and liabilities. In the previous consolidated fiscal years, as permitted by the transitional treatment in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No.24), hedge accounting was applied on a macro-hedge basis under which overall interest rate risks inherent in loans, deposits and other instruments were considered controlled on a macro basis using derivatives.

Effective the year ended March 31, 2004, the general provisions of JICPA Industry Audit Committee Report No.24 are applied. Under the general provisions, the effectiveness of a fair value hedge is assessed for each of (i) identified group of hedge deposits, loans and similar instruments and (ii) corresponding group of hedging instruments such as interest rate swaps in the same maturity bucket. Also, under the general provisions, the effectiveness of a cash flow hedge is assessed based on the correlation between a base interest rate index of the hedged cash flow and that of the hedging instrument.

Deferred hedge gains/losses recognized in previous years under the macro-hedge method are amortized as interest income or interest expenses over the average remaining maturity (5 years) of the respective hedging instruments.

The unamortized amounts of Gross Deferred Hedge Losses and Gains under the macro-hedge method at the end of the year ended March 31, 2004 were ¥578 million and ¥134 million, respectively.

### **(n) 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 ¥105.69 = U.S.\$1.00, the exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that Japanese yen could be converted into U.S. dollars at the above or any other rate.

### 3. Loans and Bills Discounted

(1) Loans and bills discounted at March 31, 2004 and 2003 included the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Loans to companies under bankruptcy procedures	¥ 4,441	¥ 5,731	\$ 42,019
Delinquent loans	84,863	91,550	802,942
Loans past due 3 months or more	1,453	1,048	13,747
Restructured loans	52,855	77,628	500,094
<b>Total</b>	<b>¥143,612</b>	<b>¥175,957</b>	<b>\$1,358,804</b>

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.

(2) Bills discounted is accounted for as financial transactions on the basis of “Accounting and Auditing Treatment of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge certain commercial bills and foreign exchange bills discounted. The principal amount of these bills amounted to ¥6,819 million (US\$64,520 thousand).

### 4. Accumulated Depreciation

Accumulated depreciation on premises and equipment at March 31, 2004 and 2003 totaled ¥53,173 million (US\$503,106 thousand) and ¥54,801 million, respectively.

### 5. Assets Pledged

Assets pledged as collateral at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Investment securities	¥ 8,117	¥8,090	\$ 76,808
Treasury stock (common stock held by subsidiaries)	1,788	1,788	16,918
Customers’ notes and others	11,967	8,959	113,232

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Borrowed money	¥8,406	¥8,981	\$79,536

In addition, investment securities totaling ¥142,556 million (US\$1,348,818 thousand) and ¥141,326 million at March 31, 2004 and 2003, respectively, were pledged as collateral for the settlement of exchange, treasury transactions or in lieu of margin money.

### 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 ¥887,310 million (US\$8,395,408 thousand) and ¥870,209 million at March 31, 2004 and 2003, 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars 2004
Projected benefit obligation	¥(18,389)	¥(17,511)	\$(173,996)
Fair value of plan assets	16,039	12,909	151,755
Projected benefit obligation in excess of plan assets	(2,350)	(4,602)	(22,240)
Unrecognized net obligation at transition	839	1,679	7,943
Unrecognized net actuarial loss	3,365	5,688	31,838
Unrecognized plan assets	(684)	—	(6,474)
Net liability recognized	1,169	2,764	11,066
Prepaid pension cost	1,501	2,992	14,205
Accrued pension and severance costs	¥ (331)	¥ (227)	\$ (3,138)

## 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.

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.

	Yen		U.S. dollars
	2004	2003	2004
Net income	¥ 35.28	¥ 30.31	\$0.333
Net assets	497.15	438.31	4.703
Diluted net income	35.28	—	0.333

Diluted net income per share is not presented for the year ended March 31, 2003, since the Bank did not have any potentially dilutive stock.

## 9. Other Income and Expenses

Other income and expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars 2004
<b>Other income:</b>			
Gain on sales of stocks and other securities	¥ 708	¥ 312	\$ 6,707
Gain on disposition of premises and equipment	244	52	2,309
Gain on securities contributed to employees' retirement benefit trust	—	727	—
Gain on sales of investments in a consolidated subsidiary	—	464	—
Gain on return of the substitutional portion of Welfare Pension Fund plan	—	3,503	—
Collection of claims written-off	686	294	6,498
Reversal for possible loan losses	—	2,071	—
Gain on change in interest in subsidiaries	282	—	2,671
Other	537	1,107	5,085
<b>Total</b>	<b>¥ 2,459</b>	<b>¥ 8,534</b>	<b>\$ 23,271</b>
<b>Other expenses:</b>			
Provision for possible loan losses	¥ 1,533	¥ —	\$ 14,506
Loss on devaluation of stocks and other securities	115	255	1,090
Write-offs of loans	13,549	12,968	128,196
Loss on disposition of premises and equipment	1,386	343	13,122
Loss on sales of stocks and other securities	0	0	0
Cost of amortization of differences resulting from changes in accounting standards	839	873	7,943
Other	2,687	2,376	25,430
<b>Total</b>	<b>¥20,111</b>	<b>¥16,817</b>	<b>\$190,289</b>

## 10. Income Taxes

(1) Major components of deferred tax assets and liabilities at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
<b>Deferred tax assets:</b>			
Reserve for possible loan losses	¥34,421	¥35,534	\$325,684
Depreciation	557	608	5,278
Accrued pension and severance costs and other	4,504	3,699	42,621
Loss on write-offs of securities	565	2,043	5,349
Net unrealized losses on securities	—	4,122	—
Tax loss carryforwards	1,190	6,056	11,261
Other	1,349	1,366	12,764
<b>Deferred tax assets</b>	<b>42,588</b>	<b>53,431</b>	<b>402,959</b>
Less: valuation allowance	(827)	(413)	(7,826)
<b>Deferred tax liabilities:</b>			
Gain on Establishment of Retirement Benefit Trusts	2,698	2,698	25,527
Net Unrealized Gains on Securities	909	—	8,607
<b>Net deferred tax assets</b>	<b>¥38,153</b>	<b>¥50,320</b>	<b>\$360,997</b>

(2) Income taxes applicable to the Bank comprises corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of approximately 41.6% for the years ended March 31, 2004 and 2003. The difference between the statutory tax rate and the effective tax rates for the year ended March 31, 2004 was as follows:

	March 31, 2004
Statutory tax rate	41.6%
<b>Adjustments:</b>	
Non-deductible expenses	0.2
Non-taxable dividend income	(0.8)
Inhabitants' per capital taxes	0.4
Other	3.7
<b>Effective tax rate</b>	<b>45.1%</b>

## 11. Leases

The pro forma information such as acquisition costs, accumulated depreciation and obligations on property leased under finance leases currently accounted for as operating leases is summarized as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
<b>Equipment:</b>			
Acquisition costs	¥34,025	¥35,581	\$321,940
Less accumulated depreciation	23,108	24,125	218,642
<b>Leased property, net</b>	<b>¥10,917</b>	<b>¥11,455</b>	<b>\$103,298</b>
<b>Minimum lease payment under finance leases:</b>			
Due within one year	¥ 4,492	¥ 4,787	\$ 42,510
Due after one year	8,217	8,839	77,752
<b>Total</b>	<b>¥12,710</b>	<b>¥13,627</b>	<b>\$120,262</b>
Lease revenue	¥ 4,943	¥ 5,232	\$ 46,773
Depreciation expense	4,052	4,215	38,346



## 12. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is summarized as follows:

### (a) Business segment information

Year ended March 31, 2004	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 79,407	¥11,390	¥ 90,798	¥ —	¥ 90,798
Total income from intersegment transactions	328	3,097	3,426	(3,426)	—
Total	79,736	14,488	94,224	(3,426)	90,798
Total expenses	63,797	13,337	77,134	(3,326)	73,808
Income before income taxes	¥ 15,938	¥ 1,150	¥ 17,089	¥ (99)	¥ 16,990
Total assets	¥2,852,343	¥35,508	¥2,887,852	¥(11,161)	¥2,876,690
Depreciation and amortization	3,207	4,877	8,084	—	8,084
Capital expenditures	5,229	4,014	9,243	—	9,243

Year ended March 31, 2003	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 81,110	¥10,359	¥ 91,469	¥ —	¥ 91,469
Total income from intersegment transactions	336	2,874	3,211	(3,211)	—
Total	81,447	13,234	94,681	(3,211)	91,469
Total expenses	66,995	12,604	79,599	(3,773)	75,826
Income before income taxes	¥ 14,451	¥ 629	¥ 15,081	¥ 561	¥ 15,643
Total assets	¥2,801,922	¥37,481	¥2,839,404	¥(12,485)	¥2,826,918
Depreciation and amortization	3,277	5,089	8,366	—	8,366
Capital expenditures	2,117	4,057	6,174	—	6,174

Year ended March 31, 2004	Thousands of U.S. dollars				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	\$ 751,325	\$107,774	\$ 859,099	\$ —	\$ 859,099
Total income from intersegment transactions	3,111	29,305	32,417	(32,417)	—
Total	754,437	137,080	891,517	(32,417)	859,099
Total expenses	603,628	126,192	729,821	(31,477)	698,344
Income before income taxes	\$ 150,808	\$ 10,887	\$ 161,695	\$ (940)	\$ 160,755
Total assets	\$26,987,828	\$335,969	\$27,323,797	\$(105,609)	\$27,218,188
Depreciation and amortization	30,346	46,147	76,494	—	76,494
Capital expenditures	49,478	37,979	87,458	—	87,458

### 13. Market Value of Securities

(a) The market value of, and the valuation difference on, available-for-sale marketable securities at March 31, 2004 and 2003 are summarized as follows:

March 31, 2004	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 37,289	¥ 42,486	¥5,197	¥6,938	¥1,741
Bonds:	411,779	407,588	(4,190)	250	4,440
Government bonds	382,642	378,761	(3,881)	113	3,994
Municipal bonds	21,786	21,369	(416)	26	443
Corporate bonds	7,350	7,458	107	110	3
Other	52,974	54,229	1,255	2,581	1,325
<b>Total</b>	<b>¥502,042</b>	<b>¥504,305</b>	<b>¥2,262</b>	<b>¥9,770</b>	<b>¥7,507</b>

March 31, 2003	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 38,118	¥ 34,423	¥ (3,695)	¥2,072	¥ 5,768
Bonds:	330,855	327,488	(3,367)	417	3,785
Government bonds	318,106	314,512	(3,593)	190	3,784
Municipal bonds	3,731	3,768	36	37	0
Corporate bonds	9,018	9,208	189	189	—
Other	60,684	57,490	(3,194)	498	3,692
<b>Total</b>	<b>¥429,659</b>	<b>¥419,402</b>	<b>¥(10,257)</b>	<b>¥2,989</b>	<b>¥13,246</b>

March 31, 2004	Thousands of U.S. dollars				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	\$ 352,816	\$ 401,995	\$49,178	\$65,653	\$ 16,474
Bonds:	3,896,104	3,856,453	(39,650)	2,366	42,017
Government bonds	3,620,419	3,583,698	(36,721)	1,070	37,792
Municipal bonds	206,132	202,189	(3,943)	248	4,192
Corporate bonds	69,551	70,565	1,014	1,047	33
Other	501,221	513,103	11,882	24,423	12,541
<b>Total</b>	<b>\$4,750,141</b>	<b>\$4,771,552</b>	<b>\$21,410</b>	<b>\$92,444</b>	<b>\$71,033</b>

(b) Available-for-sale securities sold during the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds from sales	¥32,577	¥210,215	\$308,239
Gain	1,802	1,218	17,056
Loss	164	253	1,560



## 14. Repayment Schedule for Bonds

The repayment schedule for bonds classified as available-for-sale securities which have definite maturities are summarized as follows:

March 31, 2004	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	¥207,680	¥34,076	¥15,916	¥156,048
Government bonds	205,112	16,895	704	156,048
Municipal bonds	100	9,551	11,717	—
Corporate bonds	2,467	7,629	3,495	—
Other	11,304	12,572	4,618	23,558
<b>Total</b>	<b>¥218,985</b>	<b>¥46,649</b>	<b>¥20,535</b>	<b>¥179,606</b>

March 31, 2004	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	\$1,964,997	\$322,420	\$150,599	\$1,476,468
Government bonds	1,940,699	159,860	6,669	1,476,468
Municipal bonds	952	90,374	110,862	—
Corporate bonds	23,346	72,184	33,068	—
Other	106,961	118,958	43,702	222,902
<b>Total</b>	<b>\$2,071,959</b>	<b>\$441,378</b>	<b>\$194,301</b>	<b>\$1,699,371</b>

## 15. Money Trusts

A classification of money trusts by purpose at March 31, 2004 and 2003 is summarized as follows:

March 31, 2004	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	¥1,028	¥28	\$9,728	\$267

March 31, 2003	Millions of yen	
	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥990	¥(9)

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

## 16. Subsequent Events

### Appropriations of retained earnings

At a shareholders’ meeting held on June 25, 2004, 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, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥2.5 = US\$0.023 per share)	¥ 655	\$ 6,205
Bonuses to directors and corporate auditors	30	283
Transfer to voluntary reserve	7,400	70,016

## 17. Cash and Cash Equivalents

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2004 and 2003 and cash and cash equivalents in the consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash and due from banks	¥66,577	¥84,247	\$629,927
Time deposits	(850)	(892)	(8,050)
Ordinary deposits	(2,073)	(2,246)	(19,622)
Other deposits	(7,206)	(4,524)	(68,181)
<b>Cash and cash equivalents</b>	<b>¥56,446</b>	<b>¥76,584</b>	<b>\$534,074</b>

## Report of Independent Auditors

The Board of Directors  
Suruga Bank Ltd.

We have audited the accompanying consolidated balance sheets of Suruga Bank Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Suruga Bank Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Shin Nihon & Co.*

June 25, 2004

## Non-Consolidated Balance Sheets

Suruga Bank Ltd.

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>ASSETS:</b>				
Cash and Due from Banks	65,662	83,143	(17,481)	621,277
Call Loans	128,006	190,274	(62,268)	1,211,152
Bills Purchased	13,000	—	13,000	123,001
Commercial Paper and Other Debt Purchased	9	12	(3)	90
Trading Account Securities	43	489	(446)	409
Money Held in Trust	1,028	990	38	9,728
Investment Securities (Note 3)	512,856	428,728	84,128	4,852,462
Loans and Bills Discounted (Note 4)	2,072,830	2,034,104	38,726	19,612,360
Foreign Exchanges	677	759	(82)	6,405
Other Assets	21,876	16,100	5,776	206,984
Premises and Equipment (Note 5)	39,397	39,269	128	372,768
Deferred Tax Assets	37,457	49,819	(12,362)	354,408
Customers' Liabilities for Acceptances and Guarantees	10,042	11,376	(1,334)	95,019
Reserve for Possible Loan Losses	(40,527)	(43,590)	3,063	(383,451)
<b>Total Assets</b>	<b>2,862,361</b>	<b>2,811,477</b>	<b>50,884</b>	<b>27,082,617</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>				
<b>Liabilities</b>				
Deposits (Note 6)	2,702,918	2,673,317	29,601	25,574,021
Negotiable Certificates of Deposit	6,000	—	6,000	56,769
Borrowed Money	10	17	(7)	94
Foreign Exchanges	15	7	8	148
Other Liabilities	11,996	9,926	2,070	113,508
Reserve for Employees' Bonuses	535	572	(37)	5,066
Reserve for Employees' Retirement Benefits	192	112	80	1,816
Reserve for Possible Losses on Sales of Loans	—	220	(220)	—
Reserve under Special Laws	0	0	—	0
Acceptance and Guarantees	10,042	11,376	(1,334)	95,019
<b>Total Liabilities</b>	<b>2,731,710</b>	<b>2,695,549</b>	<b>36,161</b>	<b>25,846,444</b>
<b>Stockholders' Equity</b>				
Common Stock (Note 8)	30,043	30,043	—	284,258
Capital Surplus	18,586	18,585	1	175,854
Capital Surplus	18,585	18,585	—	175,852
Other Capital Surplus	0	—	0	2
Retained Earnings	83,159	75,702	7,457	786,822
Legal Reserve	30,043	30,043	0	284,258
Voluntary Reserves	43,672	38,172	5,500	413,210
Unappropriated Profits at End of Period	9,443	7,487	1,956	89,353
Net Unrealized Gains (Losses) on Securities, Net of Taxes	1,357	(6,136)	7,493	12,844
Treasury Stock	(2,494)	(2,267)	(227)	(23,606)
<b>Total Stockholders' Equity</b>	<b>130,651</b>	<b>115,927</b>	<b>14,724</b>	<b>1,236,173</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>2,862,361</b>	<b>2,811,477</b>	<b>50,884</b>	<b>27,082,617</b>

See notes to non-consolidated financial statements.

## Non-Consolidated Statements of Income

Suruga Bank Ltd.

For the Year Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	Change from 2003	2004
<b>Ordinary Income</b>	<b>80,814</b>	75,942	4,872	<b>764,638</b>
Interest Income	<b>64,694</b>	64,566	128	<b>612,114</b>
Interest on Loans and Discounts	<b>62,829</b>	62,239	590	<b>594,473</b>
Interest and Dividends on Securities	<b>1,774</b>	2,254	(480)	<b>16,787</b>
Fees and Commissions	<b>9,517</b>	8,877	640	<b>90,049</b>
Other Operating Income (Note 11)	<b>5,389</b>	1,069	4,320	<b>50,990</b>
Other Income	<b>1,213</b>	1,429	(216)	<b>11,483</b>
<b>Ordinary Expenses</b>	<b>63,332</b>	67,326	(3,994)	<b>599,229</b>
Interest Expenses	<b>4,220</b>	6,404	(2,184)	<b>39,936</b>
Interest on Deposits	<b>1,953</b>	2,364	(411)	<b>18,483</b>
Fees and Commissions	<b>6,942</b>	6,239	703	<b>65,684</b>
Other Operating Expenses (Note 11)	<b>192</b>	3,340	(3,148)	<b>1,825</b>
General and Administrative Expenses (Note 12)	<b>36,497</b>	36,784	(287)	<b>345,325</b>
Other Expenses	<b>15,479</b>	14,558	921	<b>146,457</b>
<b>Ordinary Profit</b>	<b>17,481</b>	8,616	8,865	<b>165,408</b>
Extraordinary Income	<b>884</b>	7,234	(6,350)	<b>8,371</b>
Extraordinary Expenses	<b>2,182</b>	1,214	968	<b>20,651</b>
<b>Income before Income Taxes</b>	<b>16,184</b>	14,636	1,548	<b>153,128</b>
Income Taxes				
Current	<b>61</b>	75	(14)	<b>577</b>
Deferred	<b>7,324</b>	7,124	200	<b>69,297</b>
<b>Net Income</b>	<b>8,799</b>	7,436	1,363	<b>83,253</b>
<b>Unappropriated Profits Brought Forward from Previous Year</b>	<b>1,300</b>	707	593	<b>12,306</b>
<b>Interim Cash Dividends</b>	<b>655</b>	656	(1)	<b>6,205</b>
<b>Unappropriated Profits at End of Period</b>	<b>9,443</b>	7,487	1,956	<b>89,354</b>

See notes to non-consolidated financial statements.

## Non-Consolidated Statements of Shareholders' Equity

Suruga Bank Ltd.

	Thousand	Millions of yen						
	Number of shares	Common stock	Capital surplus	Legal reserve	Voluntary reserve	Retained earnings (deficit)	Net unrealized gains (losses) on securities, net of taxes	Treasury stock, at cost
<b>Balance at March 31, 2002</b>	264,939	¥30,043	¥18,586	¥30,043	¥58,172	¥(18,634)	¥(1,141)	¥(1,883)
Net income for the year ended March 31, 2003						7,436		
Cash dividends paid						(1,315)		
Reversal of voluntary reserve					(20,000)	20,000		
Net change during the year							(4,995)	(384)
<b>Balance at March 31, 2003</b>	264,939	30,043	18,586	30,043	38,172	7,487	(6,136)	(2,267)
Net income for the year ended March 31, 2004						<b>8,799</b>		
Cash dividends paid						<b>(1,312)</b>		
Reversal of voluntary reserve					<b>5,500</b>	<b>(5,500)</b>		
Bonuses to directors and corporate auditors						<b>(30)</b>		
Net change during the year			<b>0</b>				<b>7,493</b>	<b>(227)</b>
<b>Balance at March 31, 2004</b>	<b>264,939</b>	<b>¥30,043</b>	<b>¥18,586</b>	<b>¥30,043</b>	<b>¥43,672</b>	<b>¥ 9,443</b>	<b>¥ 1,357</b>	<b>¥(2,494)</b>

	Thousands of U.S. dollars (Note 2)							
	Common stock	Capital surplus	Legal reserve	Voluntary reserve	Retained earnings (deficit)	Net unrealized gains (losses) on securities, net of taxes	Treasury stock, at cost	
<b>Balance at March 31, 2003</b>	\$284,258	\$175,852	\$284,258	\$361,171	\$70,842	\$(58,063)	\$(21,453)	
Net income for the year ended March 31, 2004					<b>83,253</b>			
Cash dividends paid					<b>(12,419)</b>			
Reversal of voluntary reserve				<b>52,038</b>	<b>(52,038)</b>			
Bonuses to directors and corporate auditors					<b>(283)</b>			
Net change during the year			<b>2</b>			<b>70,907</b>	<b>(2,153)</b>	
<b>Balance at March 31, 2004</b>	<b>\$284,258</b>	<b>\$175,854</b>	<b>\$284,258</b>	<b>\$413,210</b>	<b>\$89,353</b>	<b>\$12,844</b>	<b>\$(23,606)</b>	

See notes to non-consolidated financial statements.

# Notes to Non-Consolidated Financial Statements

Suruga Bank Ltd.

## 1. Summary of Significant Accounting Policies

### (a) Basis of Preparation

The accompanying non-consolidated financial statements of Suruga Bank Ltd. (the "Bank") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the non-consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

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 ¥105.69 = U.S.\$1.00, the exchange rate prevailing on March 31, 2004. 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, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Japanese government bonds	¥378,761	¥314,512	\$3,583,698
Local government bonds	26,813	10,330	253,698
Corporate bonds	8,088	9,768	76,526
Corporate stock	45,425	37,151	429,795
Other securities	53,769	56,966	508,743
<b>Total</b>	<b>¥512,856</b>	<b>¥428,728</b>	<b>\$4,852,462</b>
Shares of subsidiaries included in corporate stock	¥ 712	¥ 297	\$ 6,744

## 4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Bills discounted	¥ 6,805	¥ 9,458	\$ 64,391
Loans on bills	216,596	244,488	2,049,359
Loans on deeds	1,671,058	1,603,007	15,810,944
Overdrafts	178,369	177,149	1,687,664
<b>Total</b>	<b>¥2,072,830</b>	<b>¥2,034,104</b>	<b>\$19,612,360</b>

(b) Loans and bills discounted at March 31, 2004 and 2003 included the following items:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Loans to companies under bankruptcy procedures	¥ 4,184	¥ 5,403	\$ 39,587
Delinquent loans	83,538	90,220	790,405
Loans past due 3 months or more	1,377	960	13,028
Restructured loans	52,825	77,628	499,810
<b>Total</b>	<b>¥141,924</b>	<b>¥174,211</b>	<b>\$1,342,832</b>

## 5. Premises and Equipment

Premises and equipment at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Land	¥14,899	¥14,211	\$140,978
Buildings	22,229	23,036	210,323
Furniture and equipment	23,213	22,864	219,638
Guarantee money, net	5,367	5,693	50,788
Software, net	2,551	3,162	24,139
	68,261	68,967	645,867
Less: accumulated depreciation	(28,863)	(29,697)	(273,099)
<b>Premises and equipment, net</b>	<b>¥39,397</b>	<b>¥39,269</b>	<b>\$372,768</b>

## 6. Deposits

Deposits at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of
	2004	2003	U.S. dollars
Current deposits	¥ 72,889	¥ 51,625	\$ 689,657
Ordinary deposits	1,051,351	975,300	9,947,500
Deposits at notice	9,641	25,390	91,220
Time deposits	1,455,456	1,490,247	13,770,994
Other deposits	113,579	130,752	1,074,647
Subtotal	2,702,918	2,673,317	25,574,021
Negotiable certificates of deposit	6,000	—	56,769
<b>Total</b>	<b>¥2,702,918</b>	<b>¥2,673,317</b>	<b>\$25,574,021</b>

## 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 no par value at March 31, 2004 and 2003
- (2) Issued and outstanding: 264,939,248 shares at March 31, 2004 and 2003
- (3) Treasury stock: 2,614,197 shares at March 31, 2004

## 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 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, less treasury stock.

	Yen		U.S. dollars
	2004	2003	2004
Net income	¥ 33.41	¥ 28.17	\$0.316
Net assets	497.93	441.22	4.711
Diluted net income	33.40	—	0.316

Diluted net income per share is not presented for the year ended March 31, 2003, since the Bank did not have any potentially dilutive stock.

## 11. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Other operating income:			
Gain on foreign exchange transactions	¥ 148	¥ 131	\$ 1,409
Gain on trading account securities	—	31	—
Gain on sales of bonds	1,093	905	10,349
Gain on redemption of bonds	553	—	5,239
Other	3,592	1	33,991
<b>Total</b>	<b>¥5,389</b>	<b>¥1,069</b>	<b>\$50,990</b>
Other operating expenses:			
Loss on sales of bonds	¥ 159	¥ 253	\$ 1,507
Loss on redemption of bonds	3	374	33
Loss on devaluation of bonds	—	2,711	—
Other	30	—	284
<b>Total</b>	<b>¥ 192</b>	<b>¥3,340</b>	<b>\$ 1,825</b>

## 12. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Salaries and allowances	¥ 14,227	¥14,215	\$134,614
Depreciation	3,210	3,278	30,374
Taxes	1,838	1,778	17,394
Other	17,221	17,511	162,942
<b>Total</b>	<b>¥ 36,497</b>	<b>¥36,784</b>	<b>\$345,325</b>



Shin Nihon & Co.

Certified Public Accountants  
Hibiya Kokusai Bldg.  
2-2-3, Uchisawa ch.  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-5641

Phone 03 3503-1100  
Fax 03 3503-1197

## Report of Independent Auditors

The Board of Directors  
Suruga Bank Ltd.

We have audited the accompanying non-consolidated balance sheets of Suruga Bank Ltd. as of March 31, 2004 and 2003, and the related non-consolidated statements of operations and shareholders' equity for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Suruga Bank Ltd. at March 31, 2004 and 2003, and the non-consolidated results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Shin Nihon & Co.*

June 25, 2004





A familiar, sympathetic, and completely  
reliable life and business partner

**CONCIERGE**  
**ri**

CONCIERGE BANK