

SURUGA bank Annual Report 2005

Corporate Data

As of March 31, 2005

Date of Establishment	October 19, 1895
Head office	23, Tohriyoko-cho, Numazu, Shizuoka, Japan
Number of Branches and offices	Domestic: 119
Paid-in Capital	30,043 million yen



Throughout our history, now, and into the future, keeping pace with the times, Suruga Bank pursues originality in its “concierge” services for life and business.



Suruga Bank celebrates its 110th anniversary this year. During the past 110 years since the bank was founded, we have placed the highest priority on contributing to the community and meeting the needs of our customers.

Social demands on corporations change over time, and in the future, we believe it will be necessary to take a broader perspective in fulfilling our social responsibilities, above and beyond the needs of the community.

Our most basic social responsibility is to continuously provide high-quality, uniquely valuable services. If Suruga Bank cannot provide anything unique that is unavailable anywhere else, we will lose our *raison d'être* in the eyes of society.

In order to provide unique value, our first task is to meet the social demands which apply to any bank. These include compliance, ethical standards of conduct, accountability, and corporate governance. We believe that another vital task is to benefit society by contributing to the community and practicing corporate philanthropy.

We are confident that we can fulfill our social responsibilities and meet the expectations of all our stakeholders, including customers, shareholders and the community, by continuing to provide customer values and remaining in existence as a company while meeting those conditions.

We will continue to sustain an innovative approach, developing our corporate activities around the core goal of creating real differences, not just incremental distinctions. In all of our “concierge” services for life and business, our mission is to help our customers to make their dreams a reality and draw up clear timelines for attaining their goals. Suruga Bank continues to pour every effort into the creation of value in society.

May 19, 2005

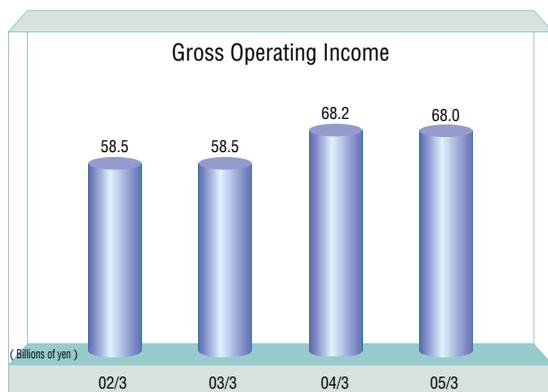
A handwritten signature in black ink, appearing to read 'Mitsuyoshi Okano'. The signature is fluid and cursive, written over a white background.

Mitsuyoshi Okano

President and Chief Executive Officer

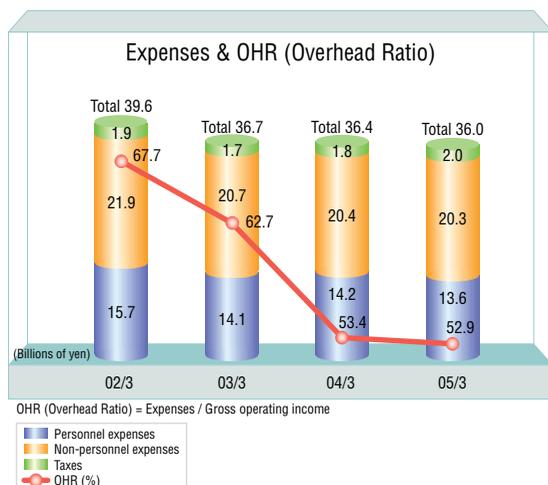
Review of Operations (Non-consolidated)

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



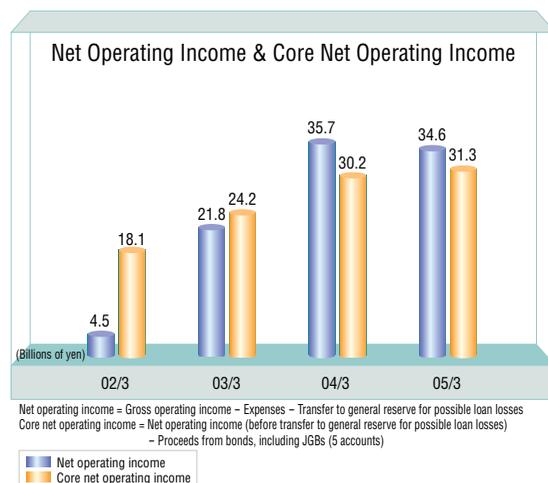
Gross Operating Income

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; "Net Fees and Commissions"; and "Other Operating Income," which includes proceeds from foreign transactions. Net interest income and net fees and commissions both rose year on year on strong growth in consumer loans and sales of mutual funds and other products. Overall, gross operating income decreased ¥0.1 billion to ¥68.0 billion, reflecting the non-repetition of a ¥3.5 billion gain on the sale of housing loans in the previous term.



Expenses & OHR (Overhead Ratio)

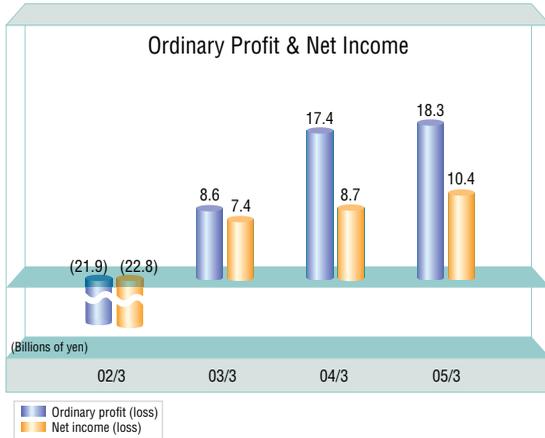
The OHR (overhead ratio), an efficiency indicator, improved 0.5 point year on year to 52.9%, on the increase in gross operating income and the reduction in expenses.



Net Operating Income & Core Net Operating Income

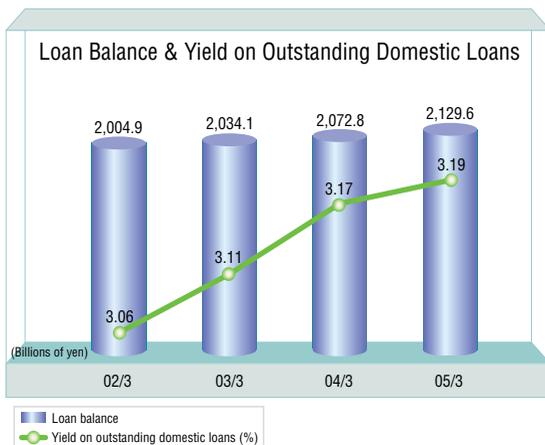
Net operating income refers to what is referred to "Operating profit" in the financial statements of ordinary companies. Core net operating income is net operating income plus the general reserve for possible loan losses, after deduction of net proceeds from bond-related transactions.

Core net operating income rose ¥1.1 billion year on year on a ¥700 million increase in core gross operating income and a ¥400 million decrease in expenses. The core net operating income increased. Net operating income decreased ¥1.0 billion year on year due to a fall in reversal of the general reserve for loan losses and a decline in proceeds from bond transactions.



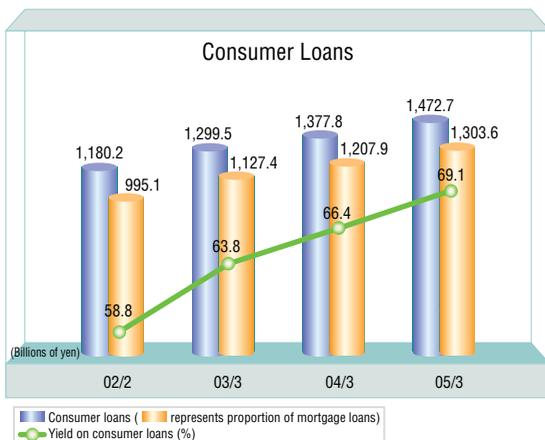
Ordinary Profit & Net Income

Ordinary profit increased ¥800 million year on year, as a ¥1.0 billion decline in net operating income was offset by a ¥1.8 billion fall in the costs of disposal of non-performing loans. Net income for the period increased ¥1.6 billion, reflecting a ¥800 million increase in ordinary profit and ¥1.2 billion in extraordinary loss.



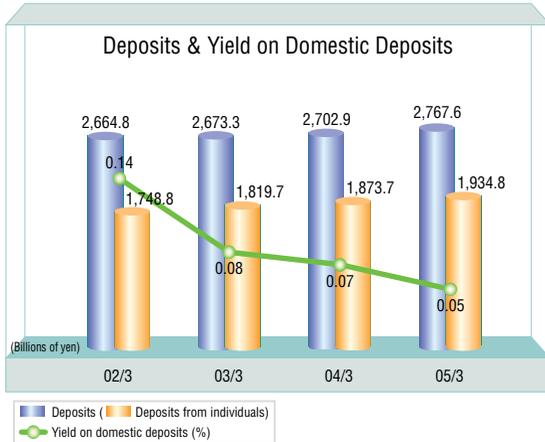
Loan Balance & Yield on Outstanding Domestic Loans

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 56.8 billion yen to 2,129.6 billion yen. Likewise, the yield on outstanding domestic loans also increased 0.02% over the previous year, to 3.19%.



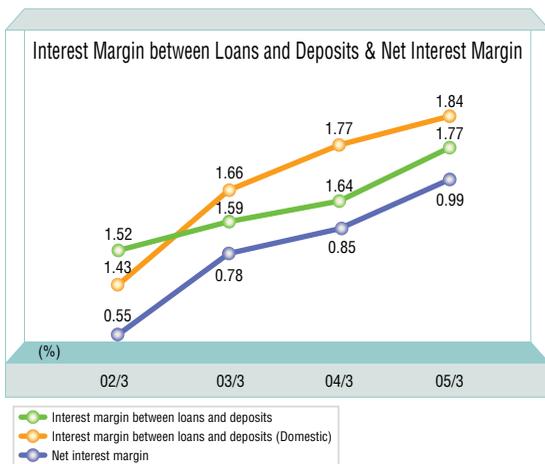
Consumer Loans

The term-end balance of consumer loans increased by 94.8 billion yen to 1,472.7 billion yen. The proportion of consumer loans as a percentage of all loans was up 2.7 percentage points at 69.1%.



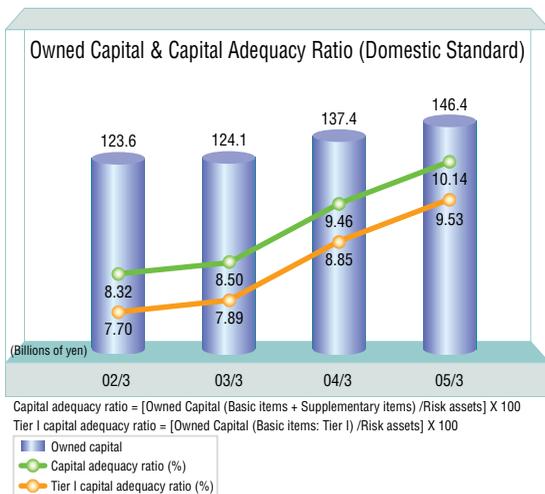
Deposits & Yield on Domestic Deposits

The balance of deposits rose ¥64.7 billion year on year to ¥2,767.6 billion, due chiefly to an increase in deposits from individuals. The balance of deposits from individuals rose ¥61.1 billion to ¥1,934.8 billion. The increase was posted despite unfavorable business conditions ahead of the official lifting of remaining unlimited deposit guarantees.



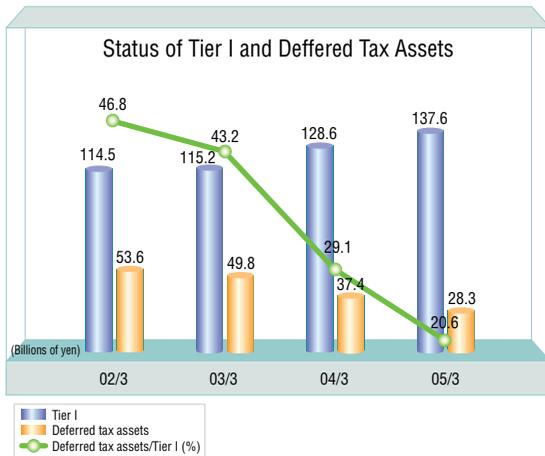
Interest Margin between Loans and Deposits & Net Interest Margin

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 0.07% this period to 1.84%.



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 0.68% over the previous period to 10.14%. 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.

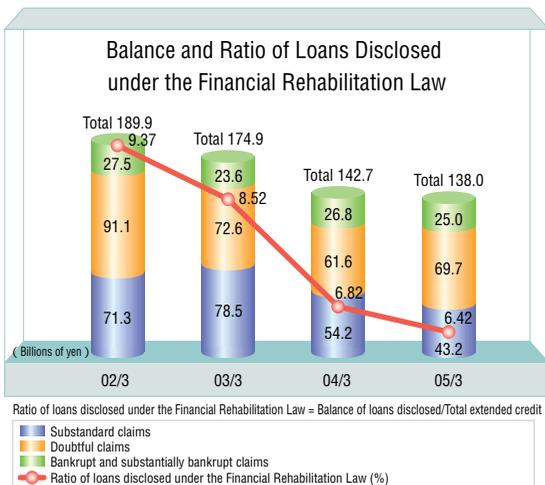


Status of Tier I and Deferred Tax Assets

The ratio of deferred tax assets to Tier I capital fell 8.5 points to 20.6%, showing qualitative improvement in capital adequacy. Tier I capital increased, and deferred tax assets declined.

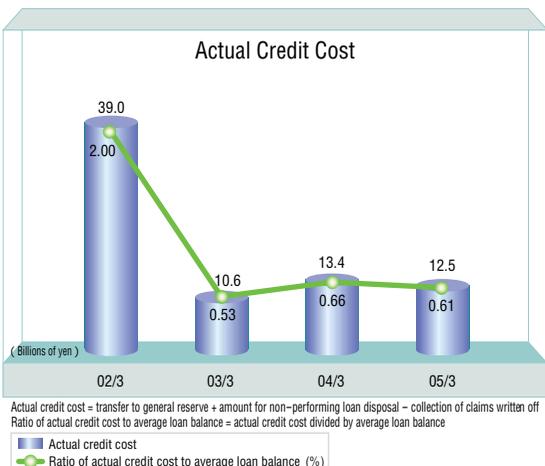
A figure is recorded for deferred tax assets that represents anticipated future returns on taxes already paid.

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 138.0 billion yen at the end of this year. Of this total, Bankrupt and substantially bankrupt claims accounted for 25.0 billion yen, Doubtful claims accounted for 69.7 billion yen, and Substandard claims amounted to 43.2 billion yen of the total.



Actual Credit Cost

As a result of the decrease in disposal amounts for non-performing loans, actual credit costs decreased ¥900 million year on year to ¥12.5 billion. The ratio of actual credit costs to the average balance of loans fell 0.05 point to 0.61%.

(As of March 31, 2005)

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	2.6	Bankrupt and Substantially Bankrupt Claims	19.7	5.3	100%	Loans to bankrupt borrowers	2.3	
Substantially bankrupt borrowers	22.3					Loans past due	89.8	
Potentially bankrupt borrowers	69.7	Doubtful Claims	34.7	19.8	78.23%	Past due for 3 months or longer	1.3	
Borrowers requiring caution	Borrowers under supervision	Substandard Claims	18.4	7.3	59.61%	Restructured	41.9	
	Other borrowers requiring caution					185.6	Total	135.3
Sub-total		138.0	72.9	32.4	76.35%	Total		
Normal borrowers	1,811.3	Normal assets	2,010.4		Loans disclosed in accordance with the Financial Rehabilitation Law ... 138.0 billion yen  6.42% Ratio to total balance of extended credit			
Total	2,148.4	Total	2,148.4		 76.35% Coverage ratio			
						Risk-managed loans to total loans ... 135.3 billion yen  6.35% Ratio of risk-managed loans to total loans		
						 77.29% Coverage ratio		

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

Classifications of Borrowers under Self-Assessment

Legally bankrupt borrowers:	Borrowers who have been legally or formally declared bankrupt.
Substantially bankrupt borrowers:	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.
Potentially bankrupt borrowers:	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.
Borrowers requiring caution:	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.
Borrowers under supervision:	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.)
Other borrowers requiring caution:	Borrowers requiring caution other than those classified as substandard.
Normal borrowers:	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

Legally bankrupt borrowers and substantially bankrupt borrowers:	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.
Potentially bankrupt borrowers:	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.
Borrowers requiring caution (Borrowers under supervision and other borrowers requiring caution):	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.
Normal borrowers:	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.

Suruga Bank becomes a member of the Visa network

In November 2004, Suruga Bank joined Visa International Service Association as a principal member, with the right to issue the full range of Visa Card products and offer Visa services at its branches. For example, holders of our supplementary (family-use) cash card can enjoy Visa services, and our cash card offers a debit service, as well as a credit function covered by Visa. Our customers have access to over 22,000,000 retail and other outlets worldwide under the Visa umbrella. This enables us to offer a broader range of services to depositors and borrowers than was possible before.



Launch of zero-interest ordinary deposit accounts, ahead of the capping of deposit guarantees at ¥10 million

In March 2005, we launched a zero-interest ordinary deposit account in which the full sum is protected within the Japanese deposit insurance system even after the capping of remaining deposit guarantees in April, 2005. This deposit meets the three conditions under the Deposit Insurance Law stating that such products must 1. have zero-interest rates, 2. offer pay on demand features, and 3. be used for settlements. The product also features an original biosecurity protection option for cautious customers, with palm vein-recognition (vascular “bar” code reading) technology for maximum security.

“Balance Package”

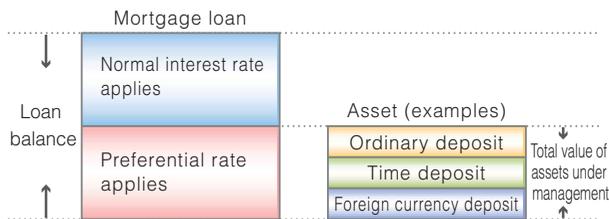
In October 2004, we began offering our “Balance Package” product that combines a mortgage loan with deposits (yen and foreign-currency deposits).

We offer preferential loan rates linked to the value of deposits held by the customer or their relatives and friends (within certain limits). The greater the value of deposits customers have at the Bank in this way, the better the interest rate on the loan. While building up assets, the customer’s loan repayment sums decline.



Mortgage Loans for Foreigners

In February 2005, we launched a mortgage loan product for foreigners. We have prepared information documents in English, Chinese, Portuguese, Spanish and Korean, and offer carefully tailored support with funding issues for foreigners living in Japan who wish to buy property.



Development of our Biosecurity Protection Option



On March 1, 2005 we began offering time deposits, mutual funds, government bonds for individuals and individual pension insurance plans with biosecurity protection technology based on palm-vein recognition. We first launched the biosecurity deposit service in July 2004, to respond to customer needs for safer and more secure longer-term asset management. We have now enhanced the functionality of this technology, making it focus on vein patterns in both hands (dual-recognition). We have also included unlimited loss compensation provisions in the event of unlawful withdrawals by third parties.

(Note 1)

Full-sum compensation is compensation payable when somebody other than the asset holder illegally makes withdrawals from the account. It is not a guarantee of principal in asset management products.

“Salon de Concierge” branches open in Shinjuku and Yokohama

In December 2004, we launched “salon de concierge” services at our Shinjuku branch and at the Yokohama branch in January 2005. As at the “salon de concierge” space opened in July 2004 in Shibuya, Tokyo, our premium customers received personalized specialist advice on life-plan and financial management after asset formation (real estate and other asset management).



Salon de Concierge Shinjuku



Salon de Concierge Yokohama

Suruga Bank wins “CRM Best Practice Prize”

In November, Suruga Bank was the only financial institution to win a “CRM Best Practice Prize” for 2004, organized by the CRM Conference. (CRM stands for Customer Relationship Management)

The CRM Conference is a private, non-profit organization with membership drawn from CRM professionals, vendors, academics and others. The awards are made for achievements in use of IT-based CRM. The Conference invites companies, groups and public bodies to submit CRM models as case studies, and picks the best.

The CRM system at Suruga Bank, the only financial institution to be so honored, enables the details of transactions and dialogs with customers to be shared throughout the Bank. Instead of repeatedly asking the same questions, we can provide services closely tailored to the customer’s wishes. Through this fusion of technology and service philosophy, we are determined to further develop our CRM system to enable us to fulfill our “concierge” role in providing the best products and services to the customer.



Corporate Governance

Basic Policy

To hasten and clarify management strategy-making, Suruga Bank considers more effective corporate governance to be a priority. By improving our record in compliance, disclosure, accountability and risk management, we are creating a management model that puts customers, shareholders and other stakeholders first.

Auditing System

Suruga Bank has a traditional corporate governance system based on corporate auditors. We have established an internal audit department separate from the headquarters organization to further strengthen internal controls. As of March 31, 2005, three of our ten directors, and two of our four corporate auditors, were external.

Compliance

Basic Policy

As a bank with a public mission and social responsibilities, we take compliance very seriously. In a financial environment of hastening liberalization and globalization, banks are expected to operate on a basis of maximum accountability and transparency. In response, we have positioned compliance as a top management priority and are continuously engaged in efforts to firm up and refine our compliance posture. Our in-house compliance procedures include an ethical code, a code of conduct and compliance regulations. In addition we have made available our manual of business guidelines in digital format, which feature case studies to offer an easy-to-understand approach to rules and regulations that must be observed by all employees, regardless of rank, in the course of their work. These rules can be accessed by all staff through their computer terminals.

Enhancing Corporate Ethics and Compliance

Basic compliance policies are drawn up at the Board of Directors and Executive Committee level, and we have set up a compliance committee as an advisory body. To strengthen compliance, we have drawn up an annual compliance program featuring e-learning, e-newsletters and group training sessions, with progress reviews. Based on the compliance program and under the supervision of the management planning department's compliance framework, all compliance managers and internal officers have been deployed in all of the Bank's offices and branches, enabling us to respond swiftly and appropriately to compliance issues as they arise.

Ethical Code (abstract)

- 1. Be aware of the Bank's public role**
Always be aware of the Bank's public nature and social mission
- 2. Observe the law**
Observation of all laws and regulations
- 3. Accountability**
Sound management based on accountability of individual employees
- 4. Corporate conduct**
Behave in a rigorously correct and fair way

Environmental Initiatives

We are committed to developing financial products that considering the environment, and to engaging in environment protection activities.

Suruga Bank Environmental Policy

- 1. By providing environment-friendly financial products and services, we support those of our customers who are involved in environmental protection activities and contribute to improvement of the local environment**
- 2. We work to continuously upgrade environment management systems and prevent environmental pollution**
- 3. We will abide by environmental laws and regulations, and comply with other environmental requirements which Suruga Bank accepts**
- 4. We have set environmental goals and targets, and regularly review progress**
- 5. We take every measure to familiarize all our employees, and others working at the Bank, with these basic policies, and to operate in an environment-friendly way**
- 6. We publicly disclose details of these policies**

(compiled June 1, 2005)

Environmental Management System (EMS)

Suruga Bank is proactively engaged in environmental protection. In 2000, the Bank's Suruga Daira headquarters acquired ISO14001 certification. To effectively harness the benefits of this standards, we have set up an environmental management system headed by the CEO and operated under the guidance of the ISO office. Environmental measures undertaken under this program include reduction of volumes of copying paper used and cuts in electricity consumption.

Customer Relationships Based on Reliable Service

To contribute to the rehabilitation of struggling smaller firms and the revitalization of the region, we offer startup support, management consultation, and corporate rehabilitation services to SMEs and customers who are sole proprietors. We have also improved our asset assessment and risk management systems, to create a more stable operating base and raise profitability. By providing high-quality comprehensive financial services, we are determined to meet our obligations as a regional financial institution to fulfill our social mission and responsibilities.



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): 0120-803-689

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): 0120-89-1016

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



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Consolidated Balance Sheets

Suruga Bank Ltd. and consolidated subsidiaries

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
ASSETS:				
Cash and Due from Banks	71,620	66,577	5,043	666,915
Call Loans and Bills Bought	217,982	141,006	76,976	2,029,818
Monetary Claims Bought	404	9	395	3,768
Trading Account Securities	500	43	457	4,655
Money Held in Trust	1,868	1,028	840	17,401
Securities	464,330	513,662	(49,332)	4,323,773
Loans and Bills Discounted	2,123,505	2,066,868	56,637	19,773,772
Foreign Exchanges	705	677	28	6,571
Other Assets	27,336	29,005	(1,669)	254,555
Premises and Equipment	51,599	51,539	60	480,490
Deferred Tax Assets	28,979	38,153	(9,174)	269,850
Customers' Liabilities for Acceptances and Guarantees	9,002	10,036	(1,034)	83,833
Reserve for Possible Loan Losses	(43,686)	(41,918)	(1,768)	(406,806)
Total Assets	2,954,148	2,876,690	77,458	27,508,600
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY:				
Liabilities				
Deposits	2,766,312	2,702,336	63,976	25,759,497
Negotiable Certificates of Deposit	—	6,000	(6,000)	—
Borrowed Money	9,248	9,166	82	86,124
Foreign Exchanges	7	15	(8)	66
Other Liabilities	26,171	18,893	7,278	243,705
Reserve for Employees' Bonus	518	579	(61)	4,824
Reserve for Employee Retirement Benefits	487	331	156	4,539
Reserves under Special Laws	0	0	—	0
Acceptances and Guarantees	9,002	10,036	(1,034)	83,833
Total Liabilities	2,811,748	2,747,360	64,388	26,182,592
Minority Interest	287	238	49	2,674
Stockholders' Equity				
Common Stock	30,043	30,043	—	279,758
Capital Surplus	18,585	18,586	(1)	173,068
Retained Earnings	93,136	83,735	9,401	867,271
Net Unrealized Gains (Losses) on Securities, Net of Taxes	4,935	1,354	3,581	45,954
Treasury Stock	(4,587)	(4,627)	40	(42,719)
Total Stockholders' Equity	142,112	129,091	13,021	1,323,334
Total Liabilities, Minority Interest and Stockholders' Equity	2,954,148	2,876,690	77,458	27,508,600

See notes to consolidated financial statements.

Consolidated Statements of Income

Suruga Bank Ltd. and consolidated subsidiaries

For the Years Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
Ordinary Income	90,390	89,546	844	841,701
Interest Income	69,931	66,325	3,606	651,194
Interest on Loans and Discounts	66,718	64,457	2,261	621,275
Interest and Dividends on Securities	3,076	1,776	1,300	28,643
Interest on Call Loans and Bills Bought	49	35	14	462
Interest on Receivables Under Resale Agreements	0	1	(1)	5
Interest on Deposits with Banks	1	0	1	9
Other Interest Income	85	53	32	796
Fees and Commissions	11,025	10,325	700	102,666
Other Operating Income	7,605	11,688	(4,083)	70,818
Other Income	1,828	1,207	621	17,022
Ordinary Expenses	71,353	71,580	(227)	664,429
Interest Expenses	4,400	4,362	38	40,977
Interest on Deposits	1,461	1,953	(492)	13,606
Interest on Negotiable Certificates of Deposit	1	5	(4)	12
Interest on Call Money and Bills Sold	0	0	0	0
Interest on Borrowings and Rediscount	157	190	(33)	1,467
Other Interest Expenses	2,780	2,213	567	25,890
Fees and Commissions	6,511	6,098	413	60,637
Other Operating Expenses	5,659	5,687	(28)	52,702
General and Administrative Expenses	37,273	37,548	(275)	347,087
Other Expenses	17,507	17,883	(376)	163,025
Transfer to Reserve for Possible Loan Losses	7,638	1,533	6,105	71,131
Losses on Write-offs of Loans	6,750	13,549	(6,799)	62,856
Others	3,118	2,801	317	29,037
Ordinary Profits	19,037	17,965	1,072	177,272
Extraordinary Profits	1,403	1,251	152	13,066
Gains on Dispositions of Premises and Equipment	337	244	93	3,144
Recoveries of Written-off Claims	1,044	686	358	9,728
Other Extraordinary Profits	20	321	(301)	193
Extraordinary Losses	1,469	2,227	(758)	13,685
Losses on Dispositions of Premises and Equipment	630	1,386	(756)	5,867
Other Extraordinary Losses	839	840	(1)	7,817
Income before Income Taxes and Others	18,970	16,990	1,980	176,653
Provision for Income Taxes and Others	1,369	523	846	12,748
Deferred Income Taxes	6,740	7,134	(394)	62,762
Minority Interest	125	137	(12)	1,172
Net Income	10,735	9,194	1,541	99,970

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Suruga Bank Ltd. and consolidated subsidiaries

For the Years Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
Capital Surplus				
Balance of Capital Surplus at Beginning of Year	18,586	18,585	1	173,070
Increase	—	0	(0)	—
Gains on Sales of Treasury Stock	—	0	(0)	—
Decrease	0	—	0	2
Losses on Sales of Treasury Stock	0	—	0	2
Balance of Capital Surplus at End of Year	18,585	18,586	(1)	173,068
Retained Earnings				
Balance of Retained Earnings at Beginning of Year	83,735	75,867	7,868	779,729
Increase	10,735	9,194	1,541	99,970
Net Income	10,735	9,194	1,541	99,970
Decrease	1,334	1,326	8	12,427
Dividends	1,295	1,296	(1)	12,066
Bonus for Directors and Corporate Auditors	30	30	—	279
Losses on Sales of Treasury Stock	8	—	8	81
Balance of Retained Earnings at End of Year	93,136	83,735	9,401	867,271

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Suruga Bank Ltd. and consolidated subsidiaries

For the Years Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
Cash Flows from Operating Activities				
Income before Income Taxes and Others	18,970	16,990	1,980	176,653
Depreciation and Amortization	7,282	8,084	(802)	67,812
Increase (Decrease) in Reserve for Possible Loan Losses	1,768	(2,813)	4,581	16,467
Increase in Reserve for Possible Losses on Sales of Loans	—	(220)	220	—
Increase in Reserve for Employees' Bonus	(61)	(40)	(21)	(570)
Increase in Reserve for Employee Retirement Benefits	972	1,595	(623)	9,057
Gain on Contribution of Securities to Employee Retirement Benefit Trusts	(20)	—	(20)	(193)
Bonus for Directors and Corporate Auditors	(30)	(30)	—	(279)
Interest Income	(69,931)	(66,325)	(3,606)	(651,194)
Interest Expenses	4,400	4,362	38	40,977
Loss (Gain) on Investment Securities, Net	(911)	(2,355)	1,444	(8,486)
Loss (Gain) on Money Trusts, Net	(66)	(54)	(12)	(621)
Loss (Gain) on Sales of Premises and Equipment	292	1,142	(850)	2,722
Changes in Operating Assets and Liabilities:				
Trading Securities	(456)	445	(901)	(4,252)
Loans	(56,637)	(39,950)	(16,687)	(527,397)
Deposits	63,975	29,707	34,268	595,730
Negotiable Certificates of Deposit	(6,000)	6,000	(12,000)	(55,871)
Borrowings Excluding Subordinated Debt	82	(1,692)	1,774	770
Due from Banks Other Than BOJ	(1,668)	(2,467)	799	(15,536)
Call Loans	(77,370)	49,270	(126,640)	(720,464)
Foreign Exchange Assets	(28)	82	(110)	(266)
Foreign Exchange Liabilities	(8)	7	(15)	(79)
Interest Received	69,690	66,118	3,572	648,949
Interest Paid	(3,984)	(4,611)	627	(37,106)
Other, Net	7,892	(4,044)	11,936	73,496
Subtotal	(41,848)	59,204	(101,052)	(389,684)
Income Taxes Paid	(893)	(104)	(789)	(8,321)
Net Cash Provided by (Used in) Operating Activities	(42,741)	59,099	(101,840)	(398,005)
Cash Flows from Investing Activities				
Purchase of Securities	(768,256)	(852,488)	84,232	(7,153,892)
Proceeds from Sales of Securities	81,013	32,577	48,436	754,387
Proceeds from Redemption of Securities	743,473	750,539	(7,066)	6,923,115
Increase in Money Trusts	(773)	—	(773)	(7,204)
Decrease in Money Trusts	—	16	(16)	—
Purchase of Premises and Equipment	(8,621)	(9,243)	622	(80,279)
Proceeds from Sales of Premises and Equipment	644	899	(255)	6,002
Net Cash Provided by (Used in) Investing Activities	47,480	(77,698)	125,178	442,129
Cash Flows from Financing Activities				
Dividends Paid	(1,295)	(1,296)	1	(12,066)
Purchase of Treasury Stock	(173)	(229)	56	(1,620)
Proceeds from Sales of Treasury Stock	104	2	102	970
Net Cash Used in Financing Activities	(1,365)	(1,524)	159	(12,716)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	1	(15)	16	15
Net Increase in Cash and Cash Equivalents	3,374	(20,138)	23,512	31,423
Cash and Cash Equivalents at Beginning of Year	56,446	76,584	(20,138)	525,619
Cash and Cash Equivalents at End of Period	59,820	56,446	3,374	557,042

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.

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) 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, 2005 and 2004, the amounts deducted were ¥11,331 million (US\$105,513 thousand) and ¥16,885 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.

(i) 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.

(j) 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.

(k) 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.

Based on the approval received from the Ministry of Health, Labor and Welfare on March 1, 2004 with respect to its application for an exemption from the obligation for retirement benefits related to past employee services, the Bank paid an amount equivalent to the minimum pension liabilities to the Government on August 27, 2004 to be released from paying the remaining substitutional portion of the benefits to the pension plan beneficiaries.

(Changes in accounting policies)

Until the fiscal year ended March 31, 2004, the excess fair value of the plan assets over the benefit liabilities of the pension plan ("Unrecognized plan assets"), which resulted from actuarial gains such as an excess of actual return over expected return on plan assets or a gain on plan amendment due to reduction of plan benefits, had not been recognized as an asset or a gain in accordance with Note 1 (1) to the "Accounting Standards for Retirement Benefits" (Business Accounting Deliberation Council dated June 16, 1998). On March 16, 2005, the Accounting Standards for Retirement Benefits was amended and recognition of the former unrecognized plan assets as an asset or a gain was permitted effective the fiscal year ended March 31, 2005 as an early adoption. Effective the year ended March 31, 2005, "Guidelines on Interpretation of Amendment of Accounting Standards for Retirement Benefits"(ASBJ Guidelines No.7, dated March 16, 2005) was adopted, and the former unrecognized plan assets allocated to actuarial gains were recognized as reduction from expenses. As a result, the reserve for employee retirement benefits decreased by ¥111 million and income before income taxes increased by ¥111 million.

(l) Hedge accounting

The Bank applies the deferred method to account for its derivative instruments which hedge the interest rate risk on various financial assets and liabilities in accordance with the general provisions of "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No.24). Effective the year ended March, 2005, 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 by each of identified (i) 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.

In addition, deferred hedge gains and losses on the macro hedges recognized in the previous periods are amortized as interest income or expenses over the remaining maturity (5 years of the hedging instruments in accordance with the regulations set out in the "Accounting and Auditing Treatment of Preliminary Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 15).

"Macro hedge" refers to the management of interest rate risk in which overall interest rate risks inherent in loans, deposits, and other interest earning assets and interest-bearing liabilities are managed on a net basis using derivatives. The unamortized amounts of Gross Deferred Hedge Losses and Gains on the macro-hedge method at March 31, 2005 were ¥409 million and ¥218 million, respectively.

The deferred method of hedge accounting is applied to transactions to hedge against the foreign exchange fluctuation risks associated with monetary claims and liabilities denominated in foreign currencies, in accordance with the regulations set out in the "Accounting and Auditing Treatment of Accounting Standards for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25). The effectiveness of currency swap and foreign exchange swap transactions is assessed by comparing foreign currency position of the hedged assets or liabilities with that of the hedging instruments.

(m) 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.

(n) External-based taxation

Effective the year ended March 31, 2005, with the implementation of “Revised local taxes” (March 2003, Law No. 9) on March 31, 2003, corporate enterprise taxes, which were previously levied solely on the basis of earnings, are now also levied partially on the basis of value-added and capital amount. Accordingly, the value-added input and capital input portions of enterprise tax for the year ended March 31, 2005 were treated as general and administrative expenses in accordance with Practical Guidance Report No.12, “Practical Treatment for Presentation of External Based-Corporate Enterprise Taxes in the Statement of Operations” issued by the Accounting Standard Board of Japan. The related enterprise taxes for the year ended March 31, 2005 were ¥218 million.

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 ¥107.39 = U.S.\$1.00, the exchange rate prevailing on March 31, 2005. 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, 2005 and 2004 included the following:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
			2005
Loans to companies under bankruptcy procedures	¥ 2,493	¥ 4,441	\$ 23,214
Delinquent loans	90,970	84,863	847,099
Loans past due 3 months or more	1,390	1,453	12,943
Restructured loans	41,900	52,855	390,166
Total	¥136,753	¥143,612	\$1,273,423

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 ¥5,897 million (US\$54,919 thousand).

4. Accumulated Depreciation

Accumulated depreciation on premises and equipment at March 31, 2005 and 2004 totaled ¥51,475 million (US\$479,335 thousand) and ¥53,173 million, respectively.

5. Assets Pledged

Assets pledged as collateral at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
			2005
Investment securities	¥28,046	¥ 8,117	\$261,161
Treasury stock (common stock held by subsidiaries)	1,788	1,788	16,650
Customers' notes and others	10,395	11,967	96,801

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
			2005
Borrowed money	¥1,612	¥8,406	\$15,010

In addition, investment securities totaling ¥147,149 million (US\$1,370,232 thousand) and ¥142,556 million at March 31, 2005 and 2004, 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 ¥924,721 million (US\$8,610,875 thousand) and ¥887,310 million at March 31, 2005 and 2004, 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
			2005
Projected benefit obligation	¥(17,813)	¥(18,389)	\$(165,880)
Fair value of plan assets	15,478	16,039	144,132
Projected benefit obligation			
in excess of plan assets	(2,335)	(2,350)	(21,747)
Unrecognized net obligation at transition	—	839	—
Unrecognized net actuarial loss	2,553	3,365	23,774
Unrecognized plan assets	—	(684)	—
Net liability recognized	217	1,169	2,027
Prepaid pension cost	705	1,501	6,567
Accrued pension and severance costs	¥ (487)	¥ (331)	\$ (4,539)

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.

March 31	Yen		U.S. dollars
	2005	2004	2005
Net income	¥ 41.24	¥ 35.28	\$0.384
Net assets	547.16	497.15	5.095
Diluted net income	41.21	35.28	0.383

Diluted net income per share is not presented for the year ended March 31, 2004, 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
			2005
Other income:			
Gain on sales of stocks and other securities	¥ 931	¥ 708	\$ 8,676
Gain on disposition of premises and equipment	337	244	3,144
Collection of claims written-off	1,044	686	9,728
Gain on change in interest in subsidiaries	—	282	—
Other	917	537	8,539
Total	¥ 3,231	¥ 2,459	\$ 30,089
Other expenses:			
Provision for possible loan losses	¥ 7,638	¥ 1,533	\$ 71,131
Loss on devaluation of stocks and other securities	640	115	5,961
Write-offs of loans	6,750	13,549	62,856
Loss on disposition of premises and equipment	630	1,386	5,867
Loss on sales of stocks and other securities	0	0	0
Cost of amortization of differences resulting from changes in accounting standards	839	839	7,817
Other	2,478	2,687	23,076
Total	¥18,976	¥20,111	\$176,710

10. Income Taxes

(1) Major components of deferred tax assets and liabilities at March 31, 2005 and 2004 are summarized as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Deferred tax assets:			
Reserve for possible loan losses	¥28,973	¥34,421	\$269,797
Depreciation	533	557	4,965
Accrued pension and severance costs and other	5,006	4,504	46,621
Loss on write-offs of securities	496	565	4,625
Tax loss carryforwards	—	1,190	—
Other	1,374	1,349	12,794
Deferred tax assets	36,384	42,588	338,804
Less: valuation allowance	(1,365)	(827)	(12,719)
Deferred tax liabilities:			
Gain on Establishment of Retirement Benefit Trusts	2,707	2,698	25,207
Net Unrealized Gains on Securities	3,331	909	31,026
Net deferred tax assets	¥28,979	¥38,153	\$269,850

(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 40.2% for the years ended March 31, 2005. The difference between the statutory tax rate and the effective tax rates for the year ended March 31, 2005 was as follows:

	March 31, 2005
Statutory tax rate	40.2%
Adjustments:	
Non-deductible expenses	0.9
Non-taxable dividend income	(1.0)
Inhabitants' per capital taxes	0.3
Other	2.3
Effective tax rate	42.7%

11. Leases

(Lessor side)

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
	2005	2004	U.S. dollars
Acquisition cost			
Movables	¥25,539	¥30,545	\$237,815
Others	2,957	3,480	27,544
Total	¥28,496	¥34,025	\$265,359
Accumulated depreciation expenses			
Movables	¥17,649	¥20,744	\$164,353
Others	2,044	2,363	19,035
Total	¥19,694	¥23,108	\$183,389
Net book value			
Movables	¥ 7,889	¥ 9,800	\$ 73,462
Others	913	1,116	8,508
Total	¥ 8,802	¥10,917	\$ 81,970

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Minimum lease payment under finance leases			
Due within one year	¥ 4,157	¥ 4,492	\$ 38,714
Due after one year	7,290	8,217	67,884
Total	¥11,447	¥12,710	\$106,598

(Note) Interest income is added to calculate future lease payment receivables due to the small ratio of the balance of future lease payment receivables to trade receivables at the term-end.

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Lease revenue and depreciation expense for the term			
Lease revenue	¥4,652	¥4,943	\$43,321
Depreciation expense	3,801	4,052	35,397

(Lessee side)

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
	2005	2004	U.S. dollars
Acquisition cost			
Movables	¥114	—	\$1,064
Others	—	—	—
Total	¥114	—	\$1,064
Accumulated depreciation expenses			
Movables	¥ 2	—	\$ 27
Others	—	—	—
Total	¥ 2	—	\$ 27
Net book value			
Movables	¥111	—	\$1,036
Others	—	—	—
Total	¥111	—	\$1,036

(Note) Amounts corresponding to interest expenses are added to calculate the assumed amount of acquisition costs due to the small ratio of the balance of future minimum lease payments to the net book value of premises and equipment at the term-end.

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Minimum lease payment under finance leases			
Due within one year	¥ 22	—	\$ 212
Due after one year	88	—	823
Total	¥111	—	\$1,036

(Note) Interest expenses are added to calculate future minimum lease payments due to the small ratio of the balance of future minimum lease payments to net book value of premises and equipment at the term-end.

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Total lease payments and assumed depreciation expenses for the term			
Total lease payments	¥2	—	\$27
Assumed depreciation expenses	2	—	27

Method utilized for calculation of assumed depreciation expenses: straight-line method assuming the lease period as useful lives of assets and a residual value of zero.

12. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is summarized as follows:

(a) Business segment information

Year ended March 31, 2005	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 80,798	¥10,994	¥ 91,793	¥ —	¥ 91,793
Total income from intersegment transactions	343	2,514	2,857	(2,857)	—
Total	81,141	13,509	94,651	(2,857)	91,793
Total expenses	63,251	12,359	75,610	(2,787)	72,822
Income before income taxes	¥ 17,890	¥ 1,149	¥ 19,040	¥ (69)	¥ 18,970
Total assets	¥2,930,459	¥35,416	¥2,965,875	¥(11,726)	¥2,954,148
Depreciation and amortization	3,181	4,100	7,282	—	7,282
Capital expenditures	4,960	3,660	8,621	—	8,621

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, 2005	Thousands of U.S. dollars				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	\$ 752,385	\$102,382	\$ 854,768	\$ —	\$ 854,768
Total income from intersegment transactions	3,196	23,412	26,608	(26,608)	—
Total	755,582	125,795	881,377	(26,608)	854,768
Total expenses	588,984	115,089	704,073	(25,959)	678,114
Income before income taxes	\$ 166,597	\$ 10,705	\$ 177,303	\$ (649)	\$ 176,653
Total assets	\$27,288,008	\$329,789	\$27,617,797	\$(109,196)	\$27,508,600
Depreciation and amortization	29,629	38,182	67,812	—	67,812
Capital expenditures	46,189	34,090	80,279	—	80,279

13. Market Value of Securities

(a) The market value of, and the valuation difference on, available-for-sale marketable securities at March 31, 2005 and 2004 are summarized as follows:

March 31, 2005	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 37,051	¥ 45,086	¥8,035	¥ 9,296	¥1,260
Bonds:	365,441	366,579	1,137	1,161	23
Government bonds	343,924	344,913	989	1,012	23
Municipal bonds	16,400	16,492	91	91	0
Corporate bonds	5,116	5,173	57	57	0
Other	44,891	44,006	(884)	723	1,608
Total	¥447,384	¥455,673	¥8,288	¥11,181	¥2,892

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
Total	¥502,042	¥504,305	¥2,262	¥9,770	¥7,507

March 31, 2005	Thousands of U.S. dollars				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	\$ 345,014	\$ 419,842	\$74,828	\$ 86,564	\$11,735
Bonds:	3,402,940	3,413,536	10,596	10,819	222
Government bonds	3,202,572	3,211,782	9,210	9,426	216
Municipal bonds	152,723	153,575	852	853	1
Corporate bonds	47,644	48,178	534	539	5
Other	418,022	409,781	(8,240)	6,739	14,980
Total	\$4,165,976	\$4,243,161	\$77,185	\$104,123	\$26,938

(b) Available-for-sale securities sold during the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Proceeds from sales	¥81,013	¥32,577	\$754,387
Gain	2,090	1,802	19,469
Loss	514	164	4,788

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, 2005	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	¥201,470	¥20,379	¥ 4,675	¥145,938
Government bonds	196,673	54	2,247	145,938
Municipal bonds	2,357	14,134	—	—
Corporate bonds	2,439	6,190	2,428	—
Other	1,530	14,247	9,932	16,339
Total	¥203,001	¥34,626	¥14,608	¥162,277

March 31, 2005	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	\$1,876,066	\$189,767	\$ 43,540	\$1,358,953
Government bonds	1,831,393	505	20,930	1,358,953
Municipal bonds	21,956	131,618	—	—
Corporate bonds	22,716	57,643	22,610	—
Other	14,253	132,672	92,492	152,152
Total	\$1,890,319	\$322,440	\$136,032	\$1,511,105

15. Money Trusts

A classification of money trusts by purpose at March 31, 2005 and 2004 is summarized as follows:

March 31, 2005	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	¥1,072	¥72	\$9,989	\$677

March 31, 2004	Millions of yen	
	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥1,028	¥28

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 24, 2005, 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, 2005:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥2.5 = US\$0.023 per share)	¥ 655	\$ 6,105
Bonuses to directors and corporate auditors	30	279
Transfer to voluntary reserve	8,800	81,944

17. Cash and Cash Equivalents

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2005 and 2004 and cash and cash equivalents in the consolidated statements of cash flows for the year then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and due from banks	¥71,620	¥66,577	\$666,915
Time deposits	(550)	(850)	(5,123)
Ordinary deposits	(2,664)	(2,073)	(24,807)
Other deposits	(8,584)	(7,206)	(79,941)
Cash and cash equivalents	¥59,820	¥56,446	\$557,042

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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.

Ernst & Young ShinNihon

June 24, 2005

Non-Consolidated Balance Sheets

Suruga Bank Ltd.

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
ASSETS:				
Cash and Due from Banks	70,406	65,662	4,744	655,616
Call Loans	191,282	128,006	63,276	1,781,191
Bills Bought	26,700	13,000	13,700	248,626
Monetary Claims Bought	404	9	395	3,768
Trading Account Securities	500	43	457	4,655
Money Held in Trust	1,868	1,028	840	17,401
Securities	463,522	512,856	(49,334)	4,316,255
Loans and Bills Discounted	2,129,649	2,072,830	56,819	19,830,985
Foreign Exchanges	705	677	28	6,571
Other Assets	20,420	21,876	(1,456)	190,157
Premises and Equipment	40,315	39,397	918	375,410
Deferred Tax Assets	28,365	37,457	(9,092)	264,132
Customers' Liabilities for Acceptances and Guarantees	9,008	10,042	(1,034)	83,890
Reserve for Possible Loan Losses	(42,189)	(40,527)	(1,662)	(392,857)
Total Assets	2,940,961	2,862,361	78,600	27,385,805
LIABILITIES AND STOCKHOLDERS' EQUITY:				
Liabilities				
Deposits	2,767,671	2,702,918	64,753	25,772,154
Negotiable Certificates of Deposit	—	6,000	(6,000)	—
Borrowed Money	5	10	(5)	46
Foreign Exchanges	7	15	(8)	66
Other Liabilities	20,240	11,996	8,244	188,473
Reserve for Employees' Bonus	477	535	(58)	4,443
Reserve for Employee Retirement Benefits	328	192	136	3,054
Reserves under Special Laws	0	0	—	0
Acceptances and Guarantees	9,008	10,042	(1,034)	83,890
Total Liabilities	2,797,738	2,731,710	66,028	26,052,129
Stockholders' Equity				
Common Stock	30,043	30,043	—	279,758
Capital Surplus	18,585	18,586	(1)	173,068
Capital Surplus Reserve	18,585	18,585	—	173,068
Other Capital Surplus	—	0	(0)	—
Retained Earnings	92,253	83,159	9,094	859,049
Earned Surplus Reserve	30,043	30,043	—	279,758
Voluntary Reserves	51,072	43,672	7,400	475,576
Unappropriated Profits at the End of the Term	11,137	9,443	1,694	103,714
Net Unrealized Gains (Losses) on Securities, Net of Taxes	4,896	1,357	3,539	45,597
Treasury Stock	(2,555)	(2,494)	(61)	(23,798)
Total Stockholders' Equity	143,223	130,651	12,572	1,333,675
Total Liabilities and Stockholders' Equity	2,940,961	2,862,361	78,600	27,385,805

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Suruga Bank Ltd.

For the Years Ended March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2005	2004	Change from 2004	2005
Ordinary Income	81,820	80,814	1,006	761,900
Interest Income	68,277	64,694	3,583	635,786
Interest on Loans and Discounts	65,067	62,829	2,238	605,899
Interest and Dividends on Securities	3,073	1,774	1,299	28,616
Trust Fees	0	0	(0)	0
Fees and Commissions	10,404	9,517	887	96,887
Other Operating Income	1,328	5,389	(4,061)	12,375
Other Income	1,809	1,213	596	16,851
Operating Expenses	63,519	63,332	187	591,483
Interest Expenses	4,322	4,220	102	40,253
Interest on Deposits	1,461	1,953	(492)	13,606
Fees and Commissions	7,065	6,942	123	65,790
Other Operating Expenses	538	192	346	5,015
General and Administrative Expenses	36,368	36,497	(129)	338,660
Other Expenses	15,223	15,479	(256)	141,763
Ordinary Profits	18,301	17,481	820	170,416
Extraordinary Profits	1,382	884	498	12,871
Extraordinary Losses	1,467	2,182	(715)	13,661
Income before Income Taxes and Others	18,216	16,184	2,032	169,627
Provision for Income Taxes and Others	1,058	61	997	9,860
Deferred Income Taxes	6,713	7,324	(611)	62,510
Net Income	10,444	8,799	1,645	97,256
Unappropriated Profits at the Beginning of the Term	1,357	1,300	57	12,645
Interim Dividends	655	655	(0)	6,105
Losses on Sales of Treasury Stock	8	—	8	81
Unappropriated Profits at the End of the Term	11,137	9,443	1,694	103,714

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Stockholders' 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
Balance at March 31, 2003	264,939	¥30,043	¥18,585	¥30,043	¥38,172	¥ 7,487	¥(6,136)	¥(2,267)
Net income for the year ended March 31, 2004						8,799		
Cash dividends paid						(1,312)		
Reversal of voluntary reserve					5,500	(5,500)		
Bonuses to directors and corporate auditors						(30)		
Net change during the year			0				7,494	(227)
Balance at March 31, 2004	264,939	30,043	18,586	30,043	43,672	9,443	1,357	(2,494)
Net income for the year ended March 31, 2005						10,444		
Cash dividends paid						(1,311)		
Reversal of voluntary reserve					7,400	(7,400)		
Bonuses to directors and corporate auditors						(30)		
Losses on sales of treasury stock			(0)			(8)		
Net change during the year							3,539	(60)
Balance at March 31, 2005	264,939	¥30,043	¥18,585	¥30,043	¥51,072	¥11,137	¥ 4,896	¥(2,555)

Thousands of U.S. dollars (Note 2)

	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	
Balance at March 31, 2004	\$279,758	\$173,070	\$279,758	\$406,669	\$ 87,938	\$12,641	\$(23,232)	
Net income for the year ended March 31, 2005					97,256			
Cash dividends paid					(12,212)			
Reversal of voluntary reserve				68,907	(68,907)			
Bonuses to directors and corporate auditors					(279)			
Losses on sales of treasury stock			(2)		(81)			
Net change during the year						32,956	(566)	
Balance at March 31, 2005	\$279,758	\$173,068	\$279,758	\$475,576	\$103,714	\$45,597	\$(23,798)	

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 ¥107.39 = U.S.\$1.00, the exchange rate prevailing on March 31, 2005. 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, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Japanese government bonds	¥344,913	¥378,761	\$3,211,782
Local government bonds	21,751	26,813	202,546
Corporate bonds	5,763	8,088	53,672
Corporate stock	47,521	45,425	442,517
Other securities	43,572	53,769	405,736
Total	¥463,522	¥512,856	\$4,316,255
Shares of subsidiaries included in corporate stock	¥ 712	¥ 712	\$ 6,637

4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Bills discounted	¥ 5,874	¥ 6,805	\$ 54,698
Loans on bills	207,474	216,596	1,931,970
Loans on deeds	1,757,732	1,671,058	16,367,748
Overdrafts	158,568	178,369	1,476,567
Total	¥2,129,649	¥2,072,830	\$19,830,985

(b) Loans and bills discounted at March 31, 2005 and 2004 included the following items:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Loans to companies under bankruptcy procedures	¥ 2,340	¥ 4,184	\$ 21,789
Delinquent loans	89,824	83,538	836,427
Loans past due 3 months or more	1,334	1,377	12,422
Restructured loans	41,900	52,825	390,166
Total	¥135,398	¥141,924	\$1,260,806

5. Premises and Equipment

Premises and equipment at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Land	¥15,397	¥14,899	\$143,377
Buildings	21,945	22,229	204,350
Furniture and equipment	23,921	23,213	222,756
Guarantee money, net	5,471	5,367	50,949
Software, net	2,489	2,551	23,177
	69,224	68,261	644,611
Less: accumulated depreciation	(28,909)	(28,863)	(269,201)
Premises and equipment, net	¥40,315	¥39,397	\$375,410

6. Deposits

Deposits at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars
Current deposits	¥ 75,132	¥ 72,889	\$ 699,624
Ordinary deposits	1,096,698	1,051,351	10,212,295
Deposits at notice	11,850	9,641	110,347
Time deposits	1,448,513	1,455,456	13,488,350
Other deposits	135,476	113,579	1,261,535
Subtotal	2,767,671	2,702,918	25,772,154
Negotiable certificates of deposit	—	6,000	—
Total	¥2,767,671	¥2,708,918	\$25,772,154

7. Common Stock

Common stock was as follows:

- (1) Authorized: 396,029,983 shares no par value at March 31, 2005 and 2004
- (2) Issued and outstanding: 264,939,248 shares at March 31, 2005 and 2004
- (3) Treasury stock: 2,670,800 shares at March 31, 2005

8. 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.

9. 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
	2005	2004	2005
Net income	¥ 39.70	¥ 33.41	\$0.369
Net assets	545.98	497.93	5.084
Diluted net stock	39.67	33.40	0.369

10. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Other operating income:			
Gain on foreign exchange transactions	¥ 169	¥ 148	\$ 1,582
Gain on sales of bonds	1,159	1,093	10,792
Gain on redemption of bonds	—	553	—
Other	—	3,592	—
Total	¥1,328	¥5,389	\$12,375
Other operating expenses:			
Loss on sales of bonds	¥ 510	¥ 159	\$ 4,755
Loss on redemption of bonds	25	3	232
Other	2	30	27
Total	¥ 538	¥ 192	\$ 5,015

11. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Salaries and allowances	¥13,960	¥14,227	\$129,977
Depreciation	3,180	3,210	29,618
Taxes	2,038	1,838	18,978
Other	17,189	17,221	160,066
Total	¥36,368	¥36,497	\$338,660

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005 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.

Ernst & Young ShinNihon

June 24, 2005



SURUGA bank

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