

SURUGA bank Annual Report 2006

Corporate Data

As of May 1, 2006

Date of Establishment	October 19, 1895
Head office	23, Tohriyoko-cho, Numazu, Shizuoka, Japan
Number of Branches and offices	Domestic: 120
Paid-in Capital	30,043 million yen



Message from the President

Suruga Bank was founded in the fertile area around Suruga Bay in the shadow of majestic Mount Fuji. Since our founding, we have always listened closely to the opinions of our customers, the community we serve and the spirit of the times, and have done our best to reflect them in our management. Now the needs of nature are also on our agenda. We are creating an environmental management system and are proactively engaged in environmental protection activities. Our environmental role, involving support activities for our local community, is highly visible, as befits a bank that began operations in one of the most beautiful areas of Japan. I believe we can fully justify the trust placed in us as a bank that plays a useful role for the customer, for society and for the environment.

Our role is not limited to providing advanced services. It goes without saying that we meet public expectations in terms of compliance, ethical conduct of business, accountability, and sound corporate governance. We also contribute to the public good through community and philanthropic activities and support of the arts, and we regard it as an important basic mission to fulfill these CSR responsibilities. We also see environmental protection as one of our important services, in terms of enriching the lifestyles of our customers through a healthier environment. By continuing to view the world through our customers' eyes, we will fulfill our customers' expectations through our actions, so that they continue to hold us in high regard.

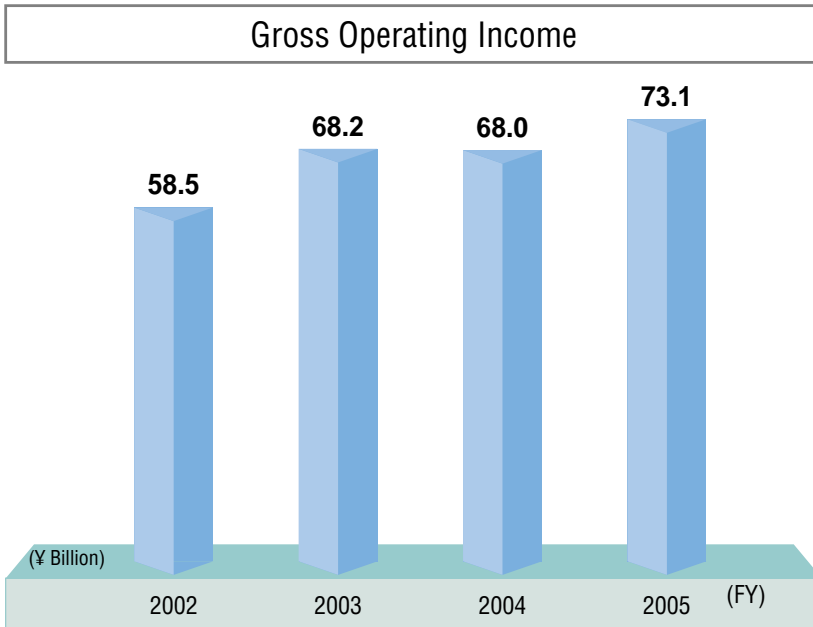
May 19, 2006



Mitsuyoshi Okano
President and Chief Executive Officer

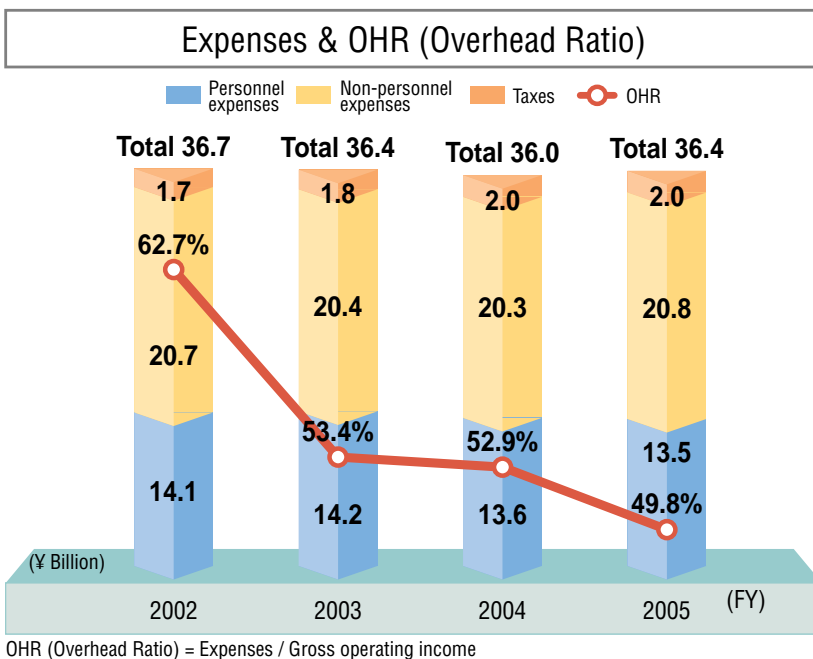
Review of Operations (Non-consolidated)

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



Gross Operating Income

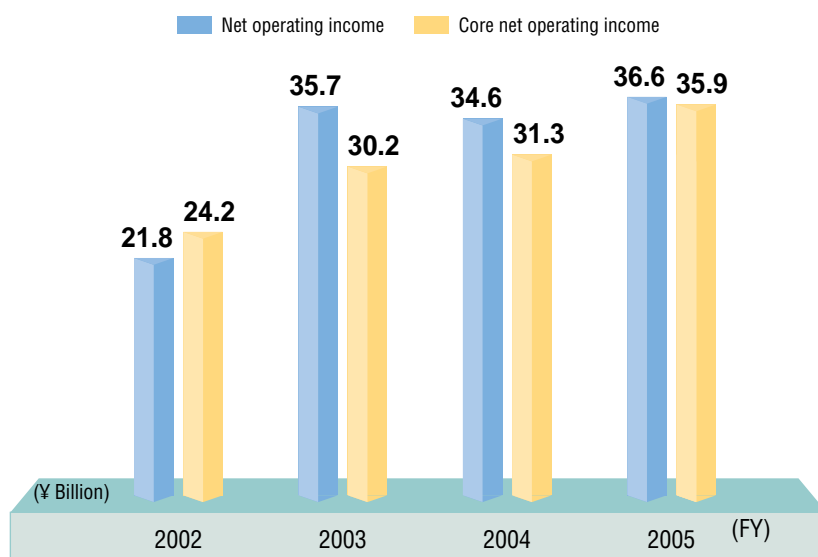
The gross operating income indicates the Bank's earnings from basic banking operations. This figure comprises three elements: "Net Interest Income," which is based on interest payments on loans; "Net Fees and Commissions"; and "Other Operating Income," which includes proceeds from foreign transactions. Gross operating income increased ¥5.0 billion year-on-year to ¥73.1 billion due to an increase in interest on loans and discounts on steady growth in consumer loans and an increase of fees and commissions resulting from enhanced marketing activities to increase the balance of individuals' assets.



Expenses & OHR (Overhead Ratio)

Despite increased investments to strengthen marketing activities, expenses increased by only ¥400 million year-on-year, thanks to cost-savings activities. The OHR (overhead ratio) improved 3.1 percentage points year-on-year to 49.8% on the increase in gross operating income.

Net Operating Income & Core Net Operating Income

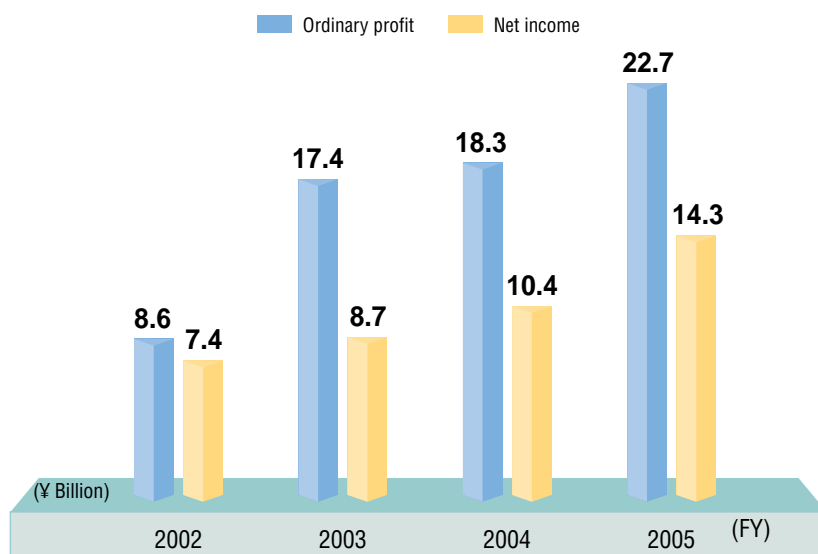


Net operating income = Gross operating income - Expenses - Transfer to general reserve for possible loan losses
 Core net operating income = Net operating income (before transfer to general reserve for possible loan losses)
 - Proceeds from bonds, including JGBs (5 accounts)

Net Operating Income & Core Net Operating Income

Core net operating income rose ¥4.5 billion year-on-year on a ¥4.9 billion increase in core gross operating income, including a ¥3.3 billion increase in net interest income. Net operating income increased ¥2.0 billion year-on-year due to a rise in net interest income (¥3.3 billion) and net fees and commissions (¥1.7 billion), despite increased provisions to the general reserve for possible loan losses (¥2.6 billion). Both net operating income and core net operating income were record highs.

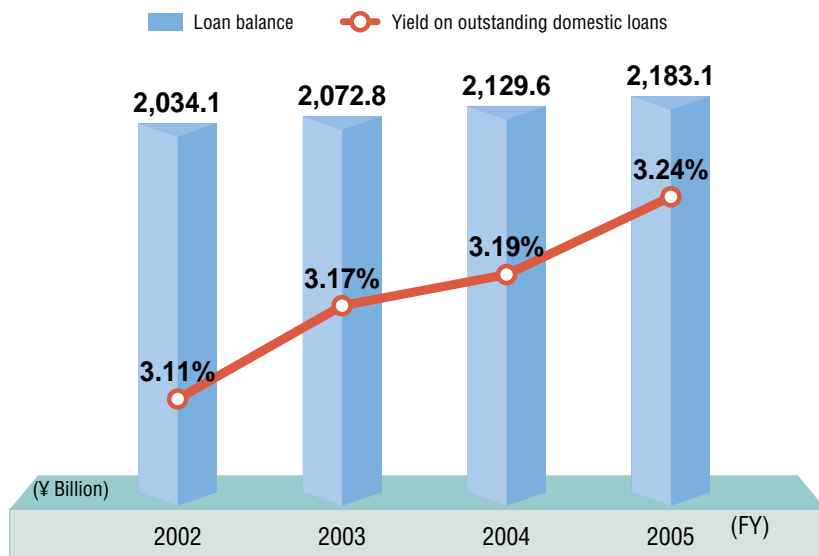
Ordinary Profit & Net Income



Ordinary Profit & Net Income

Ordinary profit increased ¥4.4 billion year-on-year, on a ¥2.0 billion increase in net operating income, a ¥700 million fall in the costs of disposal of non-performing loans and a ¥1.5 billion increase in the sale of equities. Net income for the period increased ¥3.8 billion, reflecting a ¥4.4 billion increase in ordinary profit and a ¥2.3 billion extraordinary gain (including a ¥1.6 billion increase in gain on collection of bad debt written off). Both ordinary profit and net income posted record profits for two consecutive years.

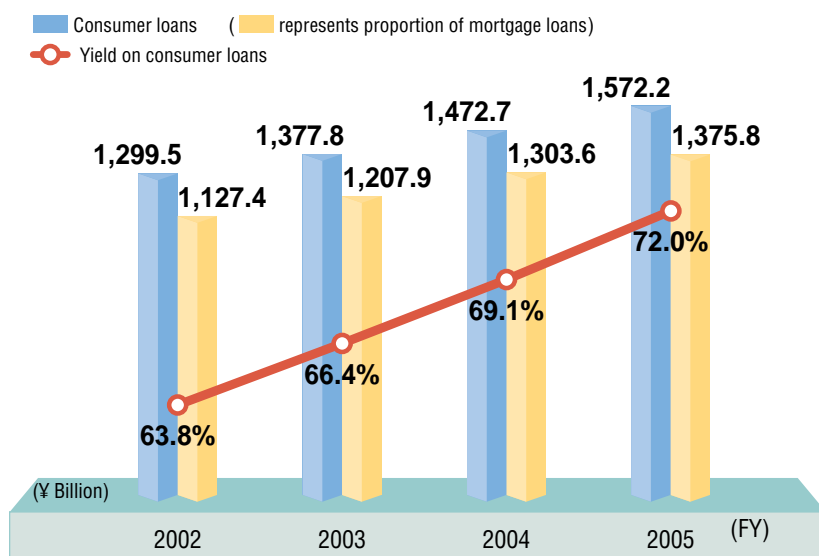
Loan Balance & Yield on Outstanding Domestic Loans



Loan Balance & Yield on Outstanding Domestic Loans

As a result of strong growth in consumer loans, the Bank's year-end loan balance increased by ¥53.5 billion year-on-year to ¥2,183.1 billion. Likewise, the yield on outstanding domestic loans also increased 0.05 percentage points over the previous year, to 3.24%, due chiefly to an increase in consumer loans.

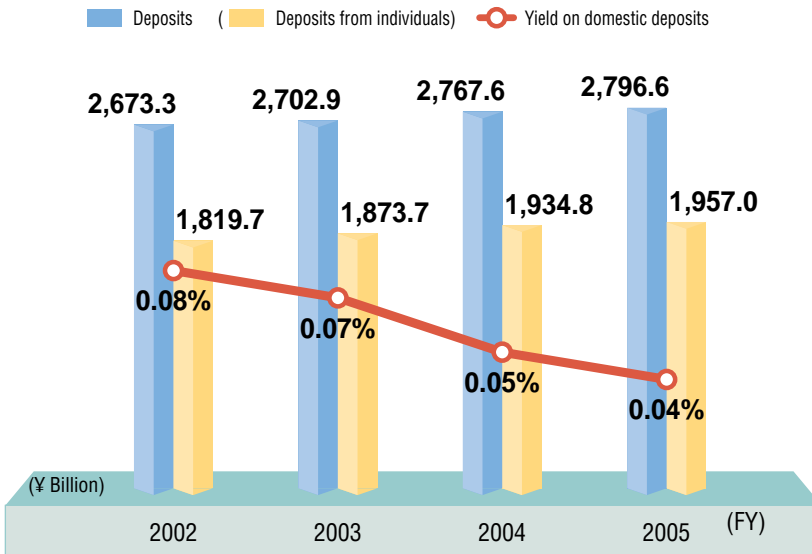
Consumer Loans



Consumer Loans

The year-end balance of consumer loans increased by ¥99.5 billion to ¥1,572.2 billion with an increase in mortgage loans and personal loans. The proportion of consumer loans as a percentage of all loans was up 2.9 percentage points at 72.0%.

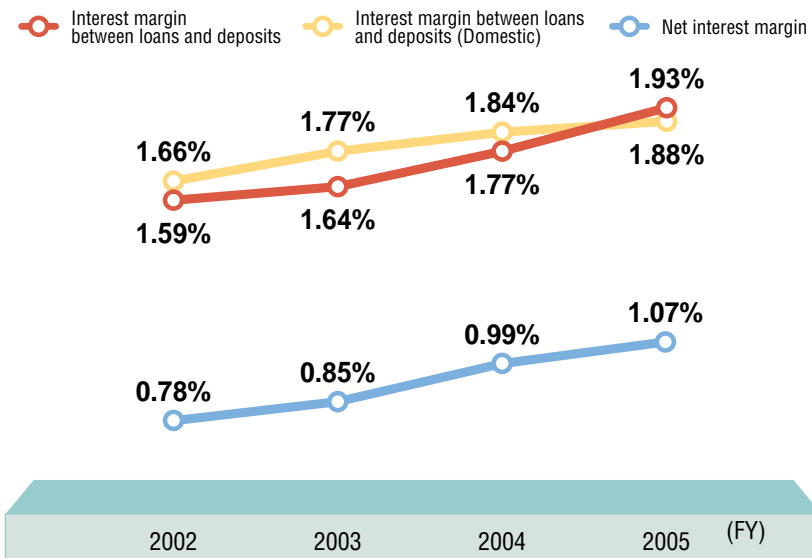
Deposits & Yield on Domestic Deposits



Deposits & Yield on Domestic Deposits

The year-end balance of deposits rose ¥29.0 billion year-on-year to ¥2,796.6 billion, due chiefly to a steady increase in deposits from individuals. The balance of deposits from individuals rose ¥22.1 billion to ¥1,957.0 billion. The increase was posted even after the ending of remaining unlimited government guarantees on deposits.

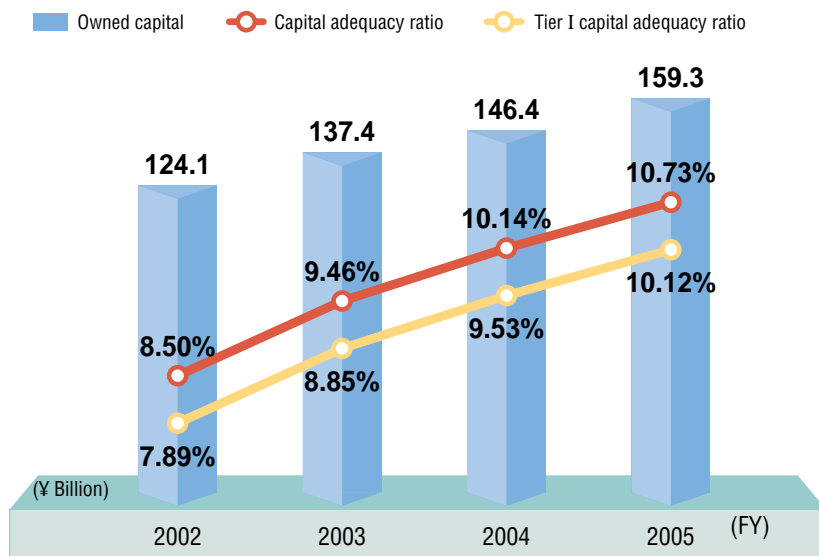
Interest Margin between Loans and Deposits & Net Interest Margin



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 a rise in the interest margin between loans and deposits arising from an increase in total yields on outstanding loans, the total net interest margin saw a year-on-year increase of 0.08 percentage points to 1.07%.

Owned Capital & Capital Adequacy Ratio (Domestic Standard)

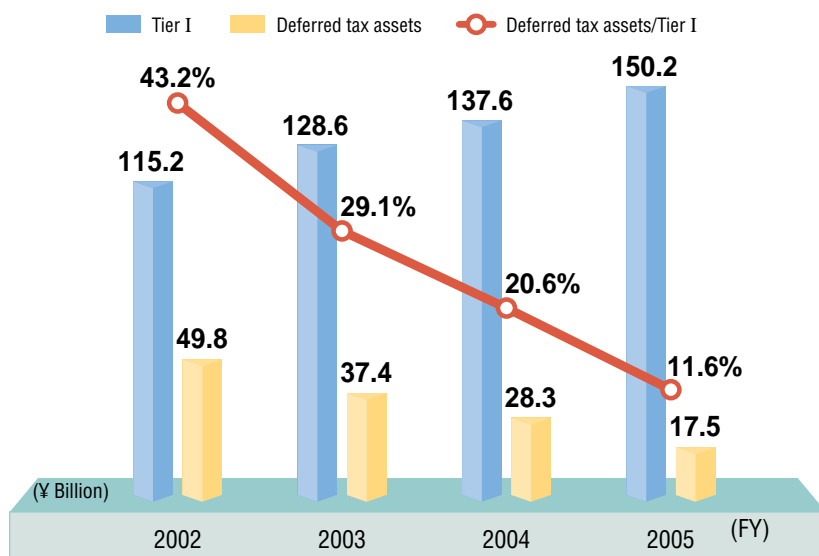


Capital adequacy ratio = [Owned Capital (Basic items + Supplementary items) / Risk assets] X 100
 Tier I capital adequacy ratio = [Owned Capital (Basic items: Tier I) / Risk assets] X 100

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 (domestic standard) at the end of this period increased 0.59 percentage points year-on-year to 10.73%. Only the maximum amount for the reserve for possible loan losses is recorded as a Tier II item in our statements. Qualifying capital and gains on the revaluation of land not recorded.

Status of Tier I and Deferred Tax Assets



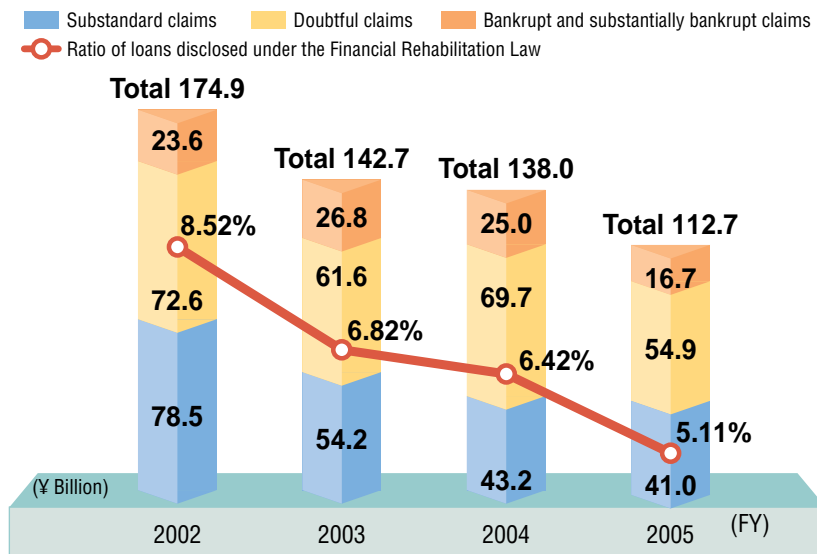
Status of Tier I and Deferred Tax Assets

The ratio of deferred tax assets to Tier I capital fell 9.0 percentage points to 11.6%, showing qualitative improvement in capital adequacy. Deferred tax assets declined ¥10.8 billion, and Tier I capital increased ¥12.5 billion.

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

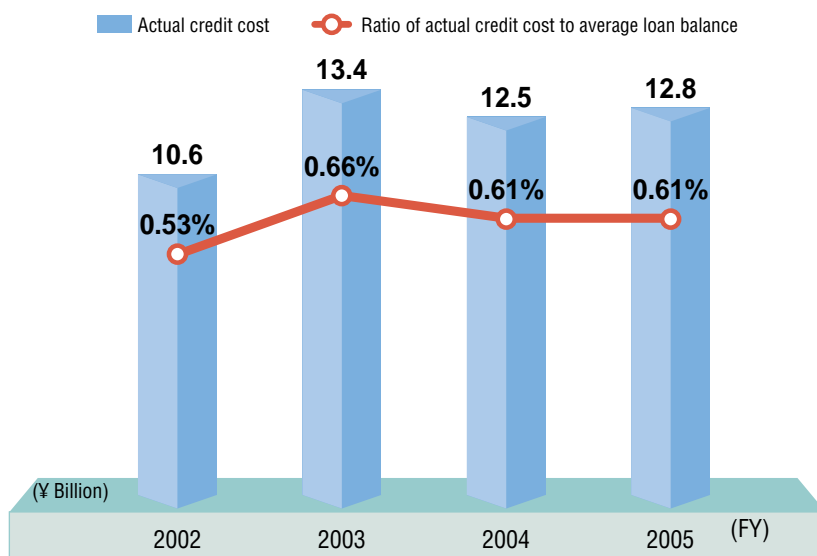


Ratio of loans disclosed under the Financial Rehabilitation Law = Balance of loans disclosed/Total extended credit

Balance and Ratio of Loans Disclosed under the Financial Rehabilitation Law

During the term under review, the Bank made good progress in final disposal of nonperforming loans as well as corporate rehabilitation programs. As a result, the non-consolidated balance of claims disclosed in accordance with the standards stipulated under the Financial Rehabilitation Law decreased ¥25.3 billion year-on-year, to ¥112.7 billion at the end of the reporting term compared with the previous term-end. Of this total, bankrupt and substantially bankrupt claims accounted for ¥16.7 billion, Doubtful claims accounted for ¥54.9 billion, and substandard claims amounted to ¥41.0 billion of the total. The ratio of claims disclosed under the Financial Rehabilitation Law improved 1.31 percentage points year-on-year to 5.11%.

Actual Credit Cost

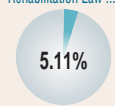
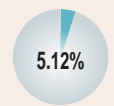
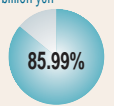
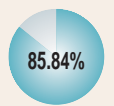


Actual credit cost = transfer to general reserve + amount for non-performing loan disposal - collection of claims written off
 Ratio of actual credit cost to average loan balance = actual credit cost divided by average loan balance

Actual Credit Cost

In line with substantial progress in the disposal of non-performing loans, actual credit costs increased ¥200 million year-on-year to ¥12.8 billion.

(As of March 31, 2006)

Disclosure of Problem Assets							(¥ Billion)	
Classification under Self-Assessment Target: Total balance of extended credit		Problem Assets Based on the Financial Rehabilitation Law Target: Total balance of extended credit, except substandard claims (only loans are counted in.)			Covered by collateral and guarantees	Covered by reserves	Coverage ratio	Risk-Managed Loans Target: Loans
Legally bankrupt borrowers	2.7	Bankrupt and Substantially Bankrupt Claims	16.7	11.8	4.9	100%	Loans to bankrupt borrowers	2.4
Substantially bankrupt borrowers	13.9						Loans past due	68.4
Potentially bankrupt borrowers	54.9	Doubtful Claims	54.9	34.3	16.8	93.20%	Past due for 3 months or longer	1.2
Borrowers requiring caution	Borrowers under supervision	Substandard Claims	41.0	22.5	6.3	70.60%	Restructured	39.7
	Other borrowers requiring caution						196.9	Total
Sub-total		112.7		68.7	28.1	85.99%	Total	
Normal borrowers	1,872.3	Normal assets	2,090.8	Loans disclosed in accordance with the Financial Rehabilitation Law ...112.7 billion yen  5.11% Ratio to total balance of extended credit			Risk-managed loans to total loans ...111.9 billion yen  5.12% Ratio of risk-managed loans to total loans	
Total	2,203.5	Total	2,203.5	 85.99% Coverage ratio			 85.84% 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.

Strengthened Security Functions for Greater Peace of Mind

To increase the security of banking transactions without affecting customer convenience, the Bank is taking measures to prevent misuse of bank cards, and has developed its own security measures and related services.



Suruga Bank's Security Measures at a Glance

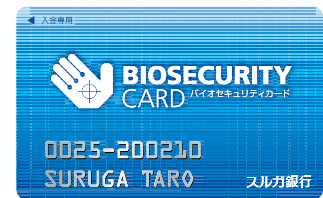
(1) Products and services that prevent banking fraud

☞ Biosecurity system:

Maximizing peace of mind and security with the leading biosecurity technologies

☞ Services to prevent fraudulent withdrawals from ATMs:

Two kinds of security for bank card and mobile phone



(2) Cash card antifraud measures

☞ Service enabling changes to the terms of use of bank cards:

Allowing setting of ATM withdrawal limits for bank cards

☞ Changing your bank card security code:

We recommend that you regularly change your security code

☞ "Shuffle" function for rejigging keys used for entering personal security codes into ATMs:

Stopping others from reading your security code from your finger movements

(3) Internet banking antifraud measures

☞ Changing remittance limits for Internet and mobile phone banking:

Minimizing losses from fraud

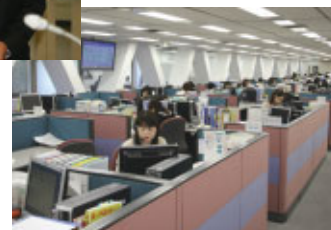
☞ Touch-screen keypad:

Preventing losses from spyware fraud



Information Security Management System

In January 2006, the Bank's "access center" call center department strengthened its information management system further by becoming the first Japanese regional bank to acquire certification under the Conformity Assessment Scheme for Information Security Management System (ISMS) (developed in Japan) and the BS7799 standard (developed in the UK).



SURUGA VISA Debit Card

In January 2006, the Bank launched sales of the SURUGA VISA Debit Card. This card, which requires neither membership nor annual usage fee payment, can be used in Visa global ATMs and Plus System ATMs in over 150 countries and territories for withdrawal of cash in local currency from a Suruga Bank account in Japan. This worry-free debit card has many advantages over cash purchases, including compensation for loss or theft of items purchased under its Worry-free Shopping Service.

Applies only to costs of stay overseas where no permit or report is needed under foreign exchange and foreign trade legislation.





Suruga Bank has steadily evolved from *community banking centered on the Numazu, Shizuoka and Shonan communities* into *personal banking serving the greater Tokyo area* and *direct banking serving customers all over Japan*. As a result, expectations of the Bank have changed, and its social responsibilities are no longer what they were.

As a financial institution with a strong awareness of its public role, we meet all expectations naturally placed on us with regard to compliance, ethical behavior, accountability, and corporate governance. We are also involved in a range of vital community activities such as contributions to regional development, and support for the arts and philanthropy. By continuing to deliver superior customer services and maintain our profile in the local economy while we meet these demands, we will carry out our social responsibilities, meeting the expectations of stakeholders such as our community, our employees and our shareholders.

Environmental Initiatives

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

Suruga Bank Environmental Policy

1. By providing environmentally-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 that 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 environmentally-friendly way
6. We publicly disclose details of these policies

(compiled June 1, 2005)

Basic Policy

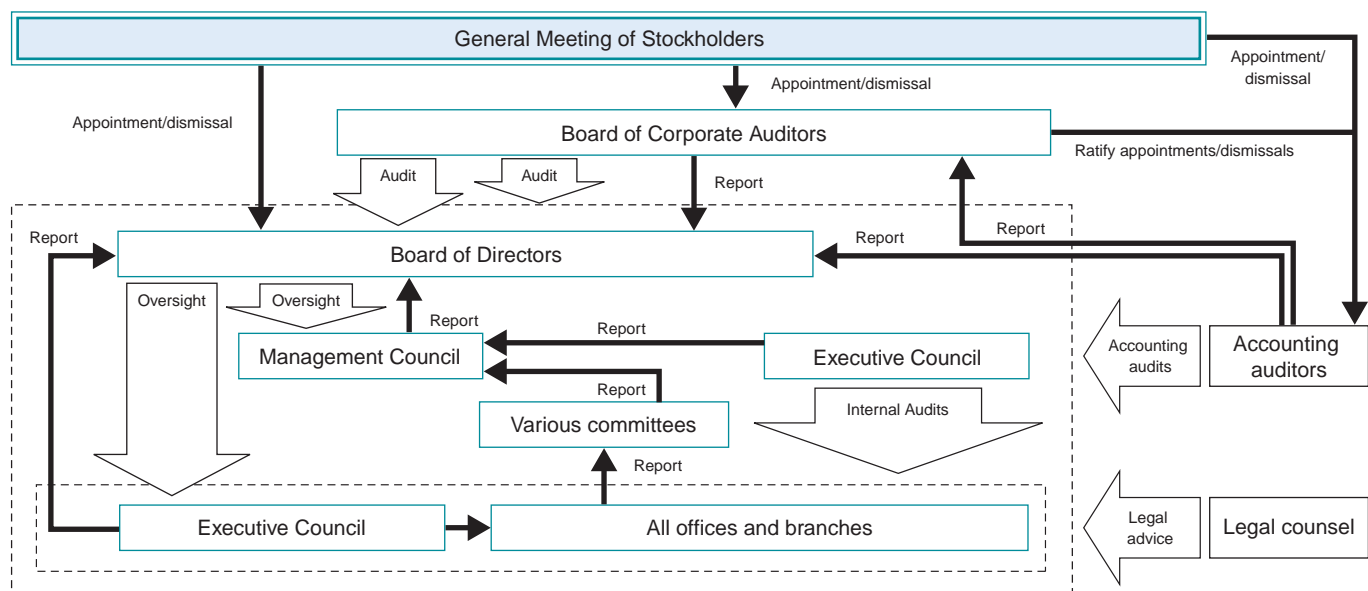
To hasten and clarify management strategy-making, Suruga Bank considers more-effective corporate governance to be a priority in hastening and clarifying management strategy-making. By improving our record in compliance, disclosure, accountability and risk management, we are creating a management model 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.

Diagram of Suruga Bank's Corporate Governance System

(As of March, 2006)



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 standard, we have set up an environment-management system headed by the CEO and operated under the guidance of the ISO office. Environmental measures undertaken under this program include reduction of the amount of copying paper used and cuts in electricity consumption.

Basic Policy

As a bank with a public mission and social responsibilities, we take compliance very seriously. In a financial environment of ever-accelerating 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 features case studies that 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

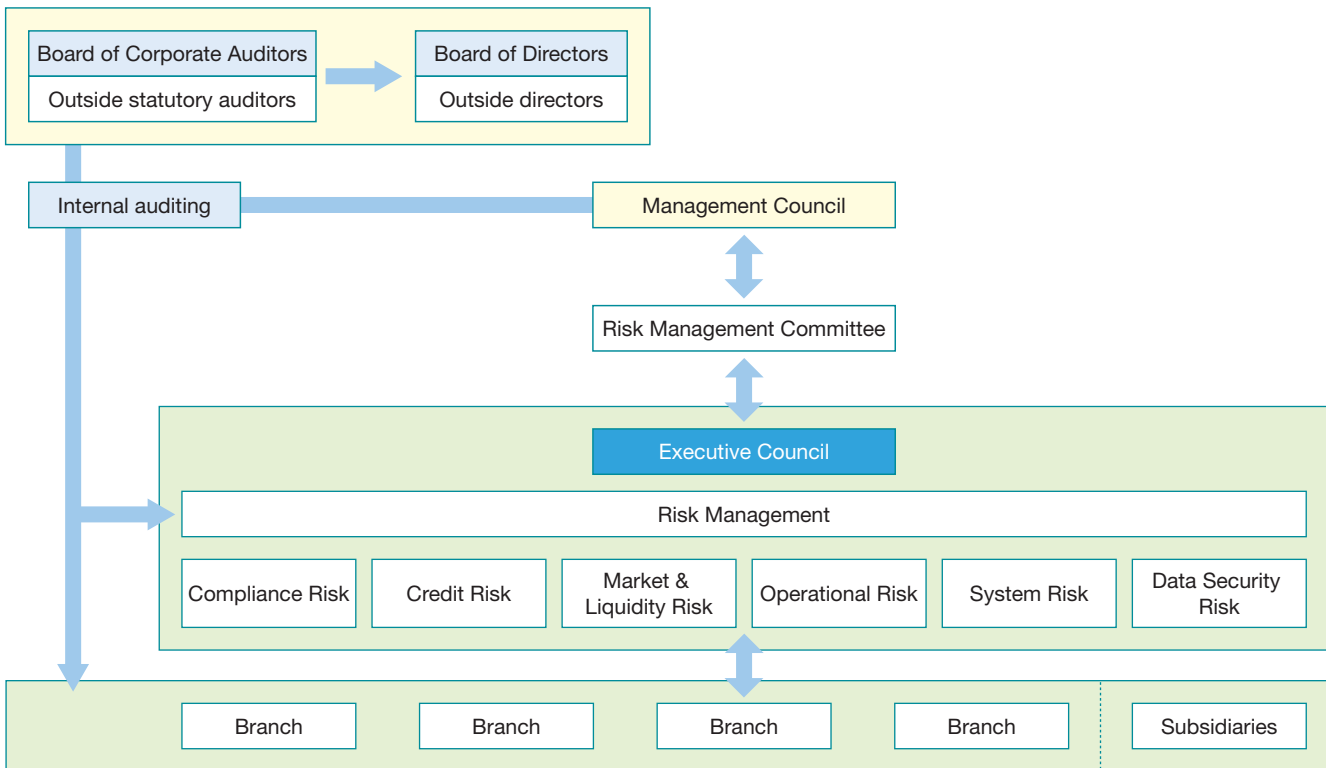
Customer Relationships Based on Reliable Service

To contribute to the financial 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 credit-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.

Basic Approaches to Risk Management

Rapid progress in financial deregulation innovations in financial technologies, and the widening scope of business operations available have changed the operating environment faced by banks, increasing the diversity and complexity of the risks they face. The management of Suruga Bank regards development of more-sophisticated approaches to risk management as a priority issue, as it is essential to accurately understand the risks inherent in all banking operations, and to establish a management system capable of addressing them appropriately.





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

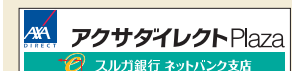
NetBank Branch

<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

Financial Section

Consolidated Balance Sheets	16
Consolidated Statements of Income	17
Consolidated Statements of Stockholders' Equity	18
Consolidated Statements of Cash Flows	19
Notes to Consolidated Financial Statements	20
Report of Independent Auditors	30
Non-Consolidated Balance Sheets	31
Non-Consolidated Statements of Income	32
Non-Consolidated Statements of Stockholders' Equity	33
Notes to Non-Consolidated Financial Statements	34
Report of Independent Auditors	36

Consolidated Balance Sheets

Suruga Bank Ltd. and consolidated subsidiaries

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note2)
	2006	2005	Change from 2005	2006
ASSETS:				
Cash and Due from Banks	71,543	71,620	(76)	609,039
Call Loans and Bills Bought	200,601	217,982	(17,380)	1,707,685
Monetary Claims Bought	397	404	(7)	3,384
Trading Account Securities	499	500	(0)	4,249
Money Held in Trust	2,246	1,868	378	19,126
Securities	468,056	464,330	3,726	3,984,477
Loans and Bills Discounted	2,179,120	2,123,505	55,614	18,550,441
Foreign Exchanges	3,156	705	2,451	26,872
Other Assets	26,461	27,336	(874)	225,265
Premises and Equipment	55,369	51,599	3,769	471,346
Deferred Tax Assets	18,259	28,979	(10,719)	155,439
Customers' Liabilities for Acceptances and Guarantees	7,584	9,002	(1,418)	64,565
Reserve for Possible Loan Losses	(40,790)	(43,686)	2,896	(347,243)
Total Assets	2,992,507	2,954,148	38,358	25,474,650
LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY:				
Liabilities				
Deposits	2,795,835	2,766,312	29,522	23,800,420
Call Money and Bills Sold	822	—	822	7,000
Borrowed Money	9,252	9,248	3	78,761
Foreign Exchanges	14	7	7	123
Other Liabilities	19,781	26,171	(6,390)	168,394
Reserve for Employees' Bonus	526	518	8	4,481
Reserve for Employee Retirement Benefits	360	487	(126)	3,070
Reserves under Special Laws	0	0	—	0
Acceptances and Guarantees	7,584	9,002	(1,418)	64,565
Total Liabilities	2,834,177	2,811,748	22,428	24,126,817
Minority Interest	306	287	19	2,611
Stockholders' Equity				
Common Stock	30,043	30,043	—	255,752
Capital Surplus	18,640	18,585	54	158,685
Retained Earnings	105,886	93,136	12,750	901,390
Net Unrealized Gains (Losses) on Securities, Net of Taxes	7,306	4,935	2,371	62,202
Treasury Stock	(3,854)	(4,587)	733	(32,810)
Total Stockholders' Equity	158,023	142,112	15,910	1,345,221
Total Liabilities, Minority Interest and Stockholders' Equity	2,992,507	2,954,148	38,358	25,474,650

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 (Note2)
	2006	2005	Change from 2005	2006
Ordinary Income	98,753	90,390	8,363	840,673
Interest Income	75,492	69,931	5,560	642,650
Interest on Loans and Discounts	71,417	66,718	4,698	607,964
Interest and Dividends on Securities	3,493	3,076	417	29,740
Interest on Call Loans and Bills Bought	38	49	(10)	329
Interest on Receivables Under Resale Agreements	0	0	(0)	1
Interest on Deposits with Banks	0	1	(0)	3
Other Interest Income	541	85	456	4,611
Fees and Commissions	12,910	11,025	1,884	109,901
Other Operating Income	7,717	7,605	112	65,699
Other Income	2,633	1,828	805	22,421
Ordinary Expenses	75,760	71,353	4,407	644,935
Interest Expenses	6,746	4,400	2,345	57,428
Interest on Deposits	1,759	1,461	298	14,980
Interest on Negotiable Certificates of Deposit	—	1	(1)	—
Interest on Call Money and Bills Sold	14	0	14	119
Interest on Borrowings and Rediscount	151	157	(6)	1,287
Other Interest Expenses	4,821	2,780	2,040	41,040
Fees and Commissions	6,567	6,511	55	55,904
Other Operating Expenses	5,693	5,659	33	48,466
General and Administrative Expenses	37,641	37,273	367	320,432
Other Expenses	19,112	17,507	1,605	162,703
Transfer to Reserve for Possible Loan Losses	8,430	7,638	791	71,765
Losses on Write-offs of Loans	7,256	6,750	505	61,768
Others	3,426	3,118	308	29,168
Ordinary Profits	22,993	19,037	3,956	195,737
Extraordinary Profits	2,956	1,403	1,553	25,172
Gains on Dispositions of Premises and Equipment	240	337	(97)	2,043
Recoveries of Written-off Claims	2,716	1,044	1,672	23,128
Other Extraordinary Profits	—	20	(20)	—
Extraordinary Losses	683	1,469	(786)	5,815
Losses on Dispositions of Premises and Equipment	249	630	(380)	2,122
Loss on Impairment of Fixed Assets	433	—	433	3,692
Other Extraordinary Losses	—	839	(839)	—
Income before Income Taxes and Others	25,267	18,970	6,296	215,094
Provision for Income Taxes and Others	1,841	1,369	472	15,674
Deferred Income Taxes	9,100	6,740	2,360	77,469
Minority Interest	48	125	(77)	410
Net Income	14,277	10,735	3,541	121,540

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)
	2006	2005	Change from 2005	2006
Capital Surplus				
Balance of Capital Surplus at Beginning of Year	18,585	18,586	(0)	158,217
Increase	54	—	54	467
Gains on Sales of Treasury Stock	54	—	54	467
Decrease	—	0	(0)	—
Losses on Sales of Treasury Stock	—	0	(0)	—
Balance of Capital Surplus at End of Year	18,640	18,585	54	158,685
Retained Earnings				
Balance of Retained Earnings at Beginning of Year	93,136	83,735	9,401	792,852
Increase	14,277	10,735	3,541	121,540
Net Income	14,277	10,735	3,541	121,540
Decrease	1,527	1,334	192	13,001
Dividends	1,426	1,295	130	12,139
Bonus for Directors and Corporate Auditors	30	30	—	255
Losses on Sales of Treasury Stock	71	8	62	606
Balance of Retained Earnings at End of Year	105,886	93,136	12,750	901,390

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)
	2006	2005	Change from 2005	2006
Cash Flows from Operating Activities				
Income before Income Taxes and Others	25,267	18,970	6,296	215,094
Depreciation and Amortization	7,041	7,282	(240)	59,946
Loss on Impairment of Fixed Assets	433	—	433	3,692
Increase (Decrease) in Reserve for Possible Loan Losses	(2,896)	1,768	(4,664)	(24,655)
Increase (Decrease) in Reserve for Employees' Bonus	8	(61)	69	70
Increase in Reserve for Employee Retirement Benefits	245	972	(727)	2,086
Gain on Contribution of Securities to Employee Retirement Benefit Trusts	—	(20)	20	—
Bonus for Directors and Corporate Auditors	(30)	(30)	—	(255)
Interest Income	(75,492)	(69,931)	(5,560)	(642,650)
Interest Expenses	6,746	4,400	2,345	57,428
Loss (Gain) on Investment Securities, Net	(2,689)	(911)	(1,777)	(22,891)
Loss (Gain) on Money Trusts, Net	(93)	(66)	(26)	(795)
Loss (Gain) on Sales of Premises and Equipment	9	292	(283)	78
Changes in Operating Assets and Liabilities:				
Trading Securities	0	(456)	457	7
Loans	(55,614)	(56,637)	1,022	(473,438)
Deposits	29,522	63,975	(34,452)	251,323
Negotiable Certificates of Deposit	—	(6,000)	6,000	—
Borrowings Excluding Subordinated Debt	3	82	(79)	27
Due from Banks Other Than BOJ	4,457	(1,668)	6,125	37,942
Call Loans	17,387	(77,370)	94,758	148,016
Call Money	822	—	822	7,000
Foreign Exchange Assets	(2,451)	(28)	(2,422)	(20,865)
Foreign Exchange Liabilities	7	(8)	15	63
Interest Received	74,813	69,690	5,122	636,869
Interest Paid	(6,589)	(3,984)	(2,605)	(56,099)
Other, Net	(5,207)	7,892	(13,100)	(44,331)
Subtotal	15,701	(41,848)	57,549	133,664
Income Taxes Paid	(2,089)	(893)	(1,196)	(17,788)
Net Cash Provided by (Used in) Operating Activities	13,611	(42,741)	56,353	115,876
Cash Flows from Investing Activities				
Purchase of Securities	(551,817)	(768,256)	216,438	(4,697,518)
Proceeds from Sales of Securities	35,517	81,013	(45,496)	302,349
Proceeds from Redemption of Securities	519,772	743,473	(223,701)	4,424,721
Increase in Money Trusts	(284)	(773)	489	(2,422)
Purchase of Premises and Equipment	(12,659)	(8,621)	(4,038)	(107,766)
Proceeds from Sales of Premises and Equipment	1,005	644	360	8,555
Net Cash Provided by (Used in) Investing Activities	(8,467)	47,480	(55,947)	(72,080)
Cash Flows from Financing Activities				
Dividends Paid	(1,426)	(1,295)	(130)	(12,139)
Purchase of Treasury Stock	(164)	(173)	9	(1,400)
Proceeds from Sales of Treasury Stock	815	104	710	6,938
Net Cash Used in Financing Activities	(775)	(1,365)	590	(6,601)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	11	1	10	101
Net Increase in Cash and Cash Equivalents	4,380	3,374	1,006	37,294
Cash and Cash Equivalents at Beginning of Year	59,820	56,446	3,374	509,243
Cash and Cash Equivalents at End of Period	64,201	59,820	4,380	546,537

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, 2006 and 2005, the amounts deducted were ¥9,797 million (US\$83,407 thousand) and ¥11,331 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.

(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, 2006 were ¥344 million and ¥328 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) Accounting standards for impairment of fixed assets

For the year ended March 31, 2006, the Bank applies "Accounting Standards for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment on Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (Guidelines on Implementation of Business Accounting Standard No. 6, issued by the Accounting Standards Board of Japan on October 31, 2003). As a result, income before income taxes for the reporting period decreased by ¥433 million compared with the former method.

In the banking industry, fixed assets are stated at cost less accumulated depreciation, pursuant to the Enforcement Ordinance of the Banking Law (Ministry of Finance Ordinance No.10, 1982), and the accumulated impairment loss is also deducted from the book value of each asset.

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 ¥117.47 = U.S.\$1.00, the exchange rate prevailing on March 31, 2006. 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, 2006 and 2005 included the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans to companies under bankruptcy procedures	¥ 2,665	¥ 2,493	\$ 22,686
Delinquent loans	69,591	90,970	592,415
Loans past due 3 months or more	1,246	1,390	10,606
Restructured loans	39,796	41,900	338,775
Total	¥113,299	¥136,753	\$964,493

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 ¥4,281 million (US\$36,446 thousand).

4. Accumulated Depreciation

Accumulated depreciation on premises and equipment at March 31, 2006 and 2005 totaled ¥50,491 million (US\$429,822 thousand) and ¥51,475 million, respectively.

5. Assets Pledged

Assets pledged as collateral at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Investment securities	¥ 7,691	¥28,046	\$65,478
Treasury stock (common stock held by subsidiaries)	1,788	1,788	15,221
Customers’ notes and others	¥10,107	¥10,395	\$86,041

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Borrowed money	¥8,502	¥1,612	\$72,376

In addition, investment securities totaling ¥141,899 million (US\$1,207,967 thousand) and ¥147,149 million at March 31, 2006 and 2005, 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 ¥910,751 million (US\$7,753,057 thousand) and ¥924,721 million at March 31, 2006 and 2005, 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Projected benefit obligation	¥(18,174)	¥(17,813)	\$(154,717)
Fair value of plan assets	20,851	15,478	177,507
Projected benefit obligation in excess of plan assets	2,677	(2,335)	22,789
Unrecognized net obligation at transition	—	—	—
Unrecognized net actuarial loss	(2,704)	2,553	(23,022)
Unrecognized plan assets	—	—	—
Net liability recognized	(27)	217	(232)
Prepaid pension cost	333	705	2,838
Accrued pension and severance costs	¥ (360)	¥ (487)	\$ (3,070)

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
	2006	2005	2006
Net income	¥ 54.72	¥ 41.24	\$0.465
Net assets	606.06	547.16	5.159
Diluted net income	¥ 54.64	¥ 41.21	\$0.465

Diluted net income per share is not presented for the year ended March 31, 2005, 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
			2006
Other income:			
Gain on sales of stocks and other securities	¥ 1,957	¥ 931	\$ 16,663
Gain on disposition of premises and Equipment	240	337	2,043
Collection of claims written-off	2,716	1,044	23,128
Other	676	917	5,758
Total	¥ 5,590	¥ 3,231	\$ 47,593
Other expenses:			
Provision for possible loan losses	¥ 8,430	¥ 7,638	\$ 71,765
Loss on devaluation of stocks and other securities	26	640	229
Write-offs of loans	7,256	6,750	61,768
Loss on disposition of premises and equipment	249	630	2,122
Loss on sales of stocks and other securities	3	0	30
Cost of amortization of differences resulting from changes in accounting standards	—	839	—
Other	3,833	2,478	32,631
Total	¥19,795	¥18,976	\$168,519

10. 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
	2006	2005	U.S. dollars
			2006
Acquisition cost			
Movables	¥27,139	¥25,539	\$231,030
Others	3,207	2,957	27,306
Total	¥30,346	¥28,496	\$258,336
Accumulated depreciation expenses			
Movables	¥18,941	¥17,649	\$161,241
Others	2,238	2,044	19,057
Total	¥21,179	¥19,694	\$180,298
Net book value			
Movables	¥ 8,198	¥ 7,889	\$69,789
Others	968	913	8,248
Total	¥ 9,167	¥ 8,802	\$78,037

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
			2006
Minimum lease payment under finance leases			
Due within one year	¥ 3,699	¥ 4,157	\$31,490
Due after one year	6,794	7,290	57,837
Total	¥10,493	¥11,447	\$89,327

(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
	2006	2005	U.S. dollars
			2006
Lease revenue and depreciation expense for the term			
Lease revenue	¥4,359	¥4,652	\$37,110
Depreciation expense	¥3,569	¥3,801	\$30,389

(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
	2006	2005	U.S. dollars
Acquisition cost			2006
Movables	¥410	¥114	\$3,493
Others	—	—	—
Total	¥410	¥114	\$3,493
Accumulated depreciation expenses			
Movables	¥ 30	¥ 2	\$ 258
Others	—	—	—
Total	¥ 30	¥ 2	\$ 258
Net book value			
Movables	¥379	¥111	\$3,234
Others	—	—	—
Total	¥379	¥111	\$3,234

(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
	2006		U.S. dollars
Minimum lease payment			
under finance leases			
Due within one year	¥ 95		\$ 814
Due after one year	284		2,420
Total	¥379		\$3,234

(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
	2006		U.S. dollars
Total lease payments and assumed depreciation expenses for the term			
Total lease payments	¥27		\$233
Assumed depreciation expenses	¥27		\$233

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.

11. Impairment Losses

For the year ended March 31, 2006, the Bank recorded impairment losses on idle assets (land) at eight locations in Shizuoka Prefecture and one in Kanagawa Prefecture.

Because of the significant decrease in the market value of these fixed assets, book values were reduced to the recoverable amounts, recognizing impairment loss of ¥433 million. The losses are included in extraordinary losses. In general, the Bank regards each of its branches as an unit of asset group for recognition and measurement of impairment loss, but jointly managed branches are regarded as a single unit. The head office, administrative center, employee dormitory, and some other premises are considered to be common assets. The Bank treats each consolidated subsidiary as one unit of asset group.

Recoverable amounts are estimated on the basis of net realizable value. Net realizable value is calculated based on amounts computed using the method laid down by the National Tax Agency for calculation of land prices used as the basis for computing taxable amounts in land tax as set forth in Article 16 of the Land Tax Law.

12. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is summarized as follows:

(a) Business segment information

Year ended March 31, 2006	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 90,421	¥11,289	¥ 101,710	¥ —	¥ 101,710
Total income from intersegment transactions	260	2,848	3,109	(3,109)	—
Total	90,682	14,138	104,820	(3,109)	101,710
Total expenses	65,741	13,625	79,367	(2,923)	76,443
Income before income taxes	¥ 24,940	¥ 513	¥ 25,453	¥ (186)	¥ 25,267
Total assets	¥2,966,266	¥36,025	¥3,002,292	¥(9,785)	¥2,992,507
Depreciation and amortization	2,999	4,042	7,041	—	7,041
Loss on impairment of fixed assets	392	40	433	—	433
Capital expenditures	8,965	3,694	12,659	—	12,659

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, 2006	Thousands of U.S. dollars				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	\$ 769,738	\$ 96,106	\$ 865,845	\$ —	\$ 865,845
Total income from intersegment transactions	2,221	24,251	26,472	(26,472)	—
Total	771,960	120,357	892,318	(26,472)	865,845
Total expenses	559,649	115,990	675,639	(24,888)	650,750
Income before income taxes	\$ 212,311	\$ 4,367	\$ 216,678	\$ (1,583)	\$ 215,094
Total assets	\$25,251,269	\$306,682	\$25,557,951	\$(83,301)	\$25,474,650
Depreciation and amortization	25,530	34,416	59,946	—	59,946
Loss on impairment of fixed assets	3,344	348	3,692	—	3,692
Capital expenditures	76,318	31,448	107,766	—	107,766

13. Market Value of Securities

(a) The market value of, and the valuation difference on, available-for-sale marketable securities at March 31, 2006 and 2005 are summarized as follows:

March 31, 2006	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 34,395	¥ 54,061	¥19,666	¥20,065	¥ 398
Bonds:	379,179	371,575	(7,604)	69	7,674
Government bonds	343,243	336,086	(7,156)	2	7,159
Municipal bonds	20,335	19,989	(345)	2	348
Corporate bonds	15,601	15,499	(102)	64	166
Other	37,349	37,605	256	1,850	1,594
Total	¥450,924	¥463,242	¥12,318	¥21,985	¥9,666

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, 2006	Thousands of U.S. dollars				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	\$ 292,800	\$ 460,217	\$167,416	\$170,809	\$ 3,393
Bonds:	3,227,887	3,163,149	(64,737)	591	65,329
Government bonds	2,921,966	2,861,043	(60,922)	21	60,944
Municipal bonds	173,109	170,165	(2,944)	20	2,965
Corporate bonds	132,811	131,940	(870)	549	1,419
Other	317,946	320,130	2,183	15,754	13,570
Total	\$3,838,634	\$3,943,496	\$104,862	\$187,155	\$82,293

(b) Available-for-sale securities sold during the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥35,517	¥81,013	\$302,349
Gain	2,179	2,090	18,554
Loss	24	514	212

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, 2006	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	¥192,734	¥35,406	¥ 6,073	¥138,015
Government bonds	190,024	4,896	3,150	138,015
Municipal bonds	1,049	18,455	484	—
Corporate bonds	1,660	12,055	2,438	—
Other	682	5,830	9,095	13,424
Total	¥193,417	¥41,237	¥15,169	¥151,440

March 31, 2006	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	\$1,640,714	\$301,409	\$51,702	\$1,174,899
Government bonds	1,617,642	41,682	26,818	1,174,899
Municipal bonds	8,936	157,104	4,124	—
Corporate bonds	14,134	102,621	20,759	—
Other	5,813	49,634	77,430	114,283
Total	\$1,646,527	\$351,043	\$129,132	\$1,289,183

15. Money Trusts

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

March 31, 2006	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	¥1,129	¥129	\$9,618	\$1,106

March 31, 2005	Millions of yen	
	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥1,072	¥72

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 27, 2006, 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, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥5.0 = US\$0.042 per share)	¥ 1,314	\$11,193
Bonuses to directors and corporate auditors	50	425
Transfer to voluntary reserve	11,000	93,640

17. Cash and Cash Equivalents

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2006 and 2005 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
	2006	2005	2006
Cash and due from banks	¥71,543	¥71,620	\$609,039
Time deposits	(350)	(550)	(2,981)
Ordinary deposits	(2,977)	(2,664)	(25,348)
Other deposits	(4,014)	(8,584)	(34,171)
Cash and cash equivalents	¥64,201	¥59,820	\$546,537

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 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.

June 27, 2006



Non-Consolidated Balance Sheets

Suruga Bank Ltd.

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	Change from 2005	2006
ASSETS:				
Cash and Due from Banks	70,215	70,406	(190)	597,733
Call Loans	200,601	191,282	9,319	1,707,685
Bills Bought	—	26,700	(26,700)	—
Monetary Claims Bought	397	404	(7)	3,384
Trading Account Securities	499	500	(0)	4,249
Money Held in Trust	2,246	1,868	378	19,126
Securities	467,217	463,522	3,694	3,977,335
Loans and Bills Discounted	2,183,198	2,129,649	53,548	18,585,154
Foreign Exchanges	3,156	705	2,451	26,872
Other Assets	19,068	20,420	(1,352)	162,329
Premises and Equipment	45,137	40,315	4,821	384,244
Deferred Tax Assets	17,532	28,365	(10,832)	149,250
Customers' Liabilities for Acceptances and Guarantees	7,590	9,008	(1,418)	64,616
Reserve for Possible Loan Losses	(38,854)	(42,189)	3,334	(330,761)
Total Assets	2,978,008	2,940,961	37,046	25,351,221
LIABILITIES AND STOCKHOLDERS' EQUITY:				
Liabilities				
Deposits	2,796,672	2,767,671	29,000	23,807,545
Call Money	822	—	822	7,000
Borrowed Money	—	5	(5)	—
Foreign Exchanges	14	7	7	123
Other Liabilities	13,402	20,240	(6,838)	114,089
Reserve for Employees' Bonus	482	477	5	4,108
Reserve for Employee Retirement Benefits	223	328	(104)	1,902
Reserves under Special Laws	0	0	—	0
Acceptances and Guarantees	7,590	9,008	(1,418)	64,616
Total Liabilities	2,819,207	2,797,738	21,469	23,999,385
Stockholders' Equity				
Common Stock	30,043	30,043	—	255,752
Capital Surplus	18,585	18,585	—	158,217
Capital Surplus Reserve	18,585	18,585	—	158,217
Retained Earnings	105,013	92,253	12,759	893,957
Earned Surplus Reserve	30,043	30,043	—	255,752
Voluntary Reserves	59,872	51,072	8,800	509,680
Unappropriated Profits at the End of the Term	15,097	11,137	3,959	128,523
Net Unrealized Gains (Losses) on Securities, Net of Taxes	7,202	4,896	2,305	61,309
Treasury Stock	(2,044)	(2,555)	511	(17,401)
Total Stockholders' Equity	158,800	143,223	15,576	1,351,836
Total Liabilities and Stockholders' Equity	2,978,008	2,940,961	37,046	25,351,221

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)
	2006	2005	Change from 2005	2006
Ordinary Income	89,893	81,820	8,073	765,249
Interest Income	74,010	68,277	5,732	630,033
Interest on Loans and Discounts	69,940	65,067	4,872	595,388
Interest and Dividends on Securities	3,489	3,073	415	29,702
Trust Fees	0	0	0	0
Fees and Commissions	12,211	10,404	1,806	103,955
Other Operating Income	1,096	1,328	(232)	9,330
Other Income	2,576	1,809	766	21,929
Operating Expenses	67,158	63,519	3,639	571,707
Interest Expenses	6,755	4,322	2,432	57,508
Interest on Deposits	1,759	1,461	298	14,980
Fees and Commissions	7,130	7,065	65	60,701
Other Operating Expenses	263	538	(274)	2,246
General and Administrative Expenses	36,487	36,368	118	310,612
Other Expenses	16,520	15,223	1,296	140,637
Ordinary Profits	22,735	18,301	4,434	193,542
Extraordinary Profits	2,927	1,382	1,544	24,919
Extraordinary Losses	637	1,467	(829)	5,430
Income before Income Taxes and Others	25,024	18,216	6,808	213,031
Provision for Income Taxes and Others	1,437	1,058	378	12,236
Deferred Income Taxes	9,283	6,713	2,570	79,024
Net Income	14,304	10,444	3,859	121,770
Unappropriated Profits at the Beginning of the Term	1,652	1,357	294	14,064
Losses on Sales of Treasury Stock	71	8	62	606
Interim Dividends	787	655	131	6,704
Unappropriated Profits at the End of the Term	15,097	11,137	3,959	128,523

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, 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)
Net income for the year ended March 31, 2006						14,304		
Cash dividends paid						(1,443)		
Reversal of voluntary reserve					8,800	(8,800)		
Bonuses to directors and corporate auditors						(30)		
Losses on sales of treasury stock						(71)		
Net change during the year							2,305	511
Balance at March 31, 2006	264,939	¥30,043	¥18,585	¥30,043	¥59,872	¥15,097	¥7,202	¥(2,044)

	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, 2005	\$255,752	\$158,217	\$255,752	\$434,768	\$ 94,814	\$41,684	\$(21,756)	
Net income for the year ended March 31, 2006					121,770			
Cash dividends paid					(12,286)			
Reversal of voluntary reserve				74,912	(74,912)			
Bonuses to directors and corporate auditors					(255)			
Losses on sales of treasury stock					(606)			
Net change during the year						19,624	4,355	
Balance at March 31, 2006	\$255,752	\$158,217	\$255,752	\$509,680	\$128,523	\$61,309	\$(17,401)	

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 ¥117.47 = U.S.\$1.00, the exchange rate prevailing on March 31, 2006. 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Japanese government bonds	¥336,086	¥344,913	\$2,861,043
Local government bonds	19,989	21,751	170,165
Corporate bonds	16,119	5,763	137,218
Corporate stock	57,750	47,521	491,616
Other securities	37,272	43,572	317,291
Total	¥467,217	¥463,522	\$3,977,335
Shares of subsidiaries included in corporate stock	¥ 712	¥ 712	\$ 6,067

4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Bills discounted	¥ 4,274	¥ 5,874	\$ 36,389
Loans on bills	192,157	207,474	1,635,804
Loans on deeds	1,809,536	1,757,732	15,404,240
Overdrafts	177,229	158,568	1,508,719
Total	¥2,183,198	¥2,129,649	\$18,585,154

(b) Loans and bills discounted at March 31, 2006 and 2005 included the following items:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Loans to companies under bankruptcy procedures	¥ 2,451	¥ 2,340	\$ 20,864
Delinquent loans	68,462	89,824	582,804
Loans past due 3 months or more	1,211	1,334	10,309
Restructured loans	39,796	41,900	338,775
Total	¥111,922	¥135,398	\$952,770

5. Premises and Equipment

Premises and equipment at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Land	¥15,648	¥15,397	\$133,211
Buildings	22,044	21,945	187,660
Furniture and equipment	24,752	23,921	210,716
Guarantee money, net	5,356	5,471	45,599
Software, net	7,282	2,489	61,995
	75,084	69,224	639,183
Less: accumulated depreciation	(29,947)	(28,909)	(254,939)
Premises and equipment, net	¥45,137	¥40,315	\$384,244

6. Deposits

Deposits at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of
	2006	2005	U.S. dollars
Current deposits	¥ 80,407	¥ 75,132	\$ 684,495
Ordinary deposits	1,183,381	1,096,698	10,073,905
Deposits at notice	18,000	11,850	153,235
Time deposits	1,366,375	1,448,513	11,631,695
Other deposits	148,507	135,476	1,264,213
Total	¥2,796,672	¥2,767,671	\$23,807,545

7. Common Stock

Common stock was as follows:

- (1) Authorized: 400,000,000 shares no par value at March 31, 2006 and 2005
- (2) Issued and outstanding: 264,939,248 shares at March 31, 2006 and 2005
- (3) Treasury stock: 1,970,000 shares at March 31, 2006

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
	2006	2005	2006
Net income	¥ 54.29	¥ 39.70	\$0.462
Net assets	603.68	545.98	5.139
Diluted net stock	¥ 54.21	¥ 39.67	\$0.461

10. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Other operating income:			
Gain on foreign exchange transactions	¥ 87	¥ 169	\$ 748
Gain on sales of bonds	222	1,159	1,890
Gain on redemption of bonds	786	—	6,691
Total	¥1,096	¥1,328	\$9,330
Other operating expenses:			
Loss on sales of bonds	¥ 24	¥ 510	\$ 206
Loss on redemption of bonds	224	25	1,913
Other	14	2	127
Total	¥ 263	¥ 538	\$2,246

11. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Salaries and allowances	¥13,561	¥13,960	\$115,446
Depreciation	3,090	3,180	26,309
Taxes	2,071	2,038	17,631
Other	17,764	17,189	151,224
Total	¥36,487	¥36,368	\$310,612

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 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.

June 27, 2006





SURUGA bank

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