

# SURUGA bank Annual Report 2007

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## Message from the President

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With around 70% of its land occupied by mountains, including the world-famous Mount Fuji, Japan is a country blessed with a beautiful natural environment. To preserve its precious environmental and natural resources, and also to help our customers cross the numerous metaphorical “mountains” that stand in the way of fulfilling their dreams, Suruga Bank aims always to be its customers’ truly trusted partner. To accomplish this mission, we must anticipate and quickly ascertain our customers’ needs, and take prompt action to satisfy them.

The journey of Suruga Bank is a history of innovation. We have constantly developed new products and services while introducing innovative measures and programs to increase our value, meet and exceed the expectations of all our stakeholders, and fulfill our responsibility as a good corporate citizen. We are committed to working with you to bring about a better tomorrow.

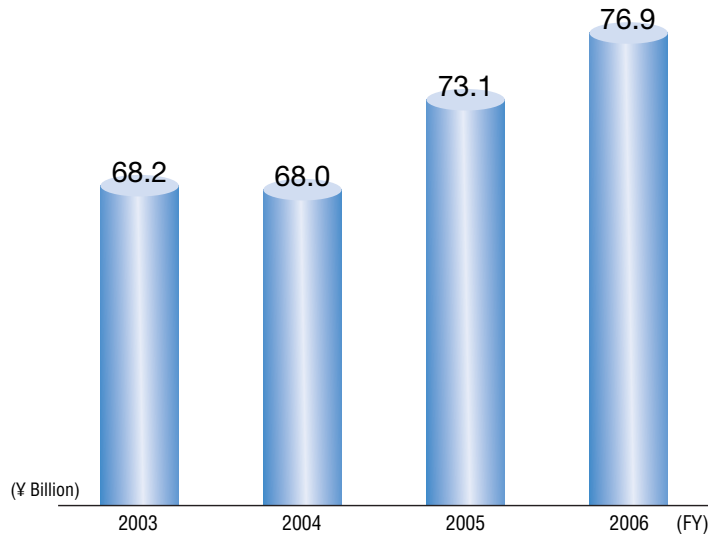
May 23, 2007



**Mitsuyoshi Okano**

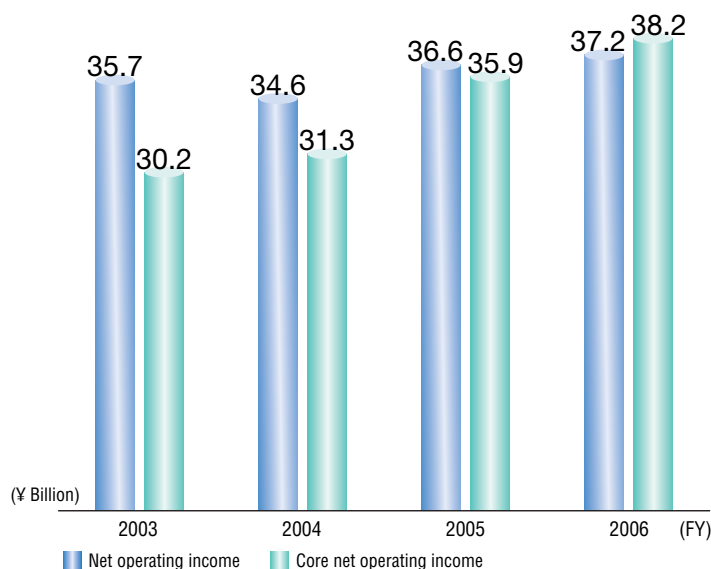
*President and Chief Executive Officer*

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



## Gross Operating Income

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 on loans; "Net Fees and Commissions"; and "Other Operating Income," which includes proceeds from foreign transactions. Gross operating income increased ¥3.7 billion year-on-year to ¥76.9 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 marketing activities to increase the balance of individuals' assets in custody.

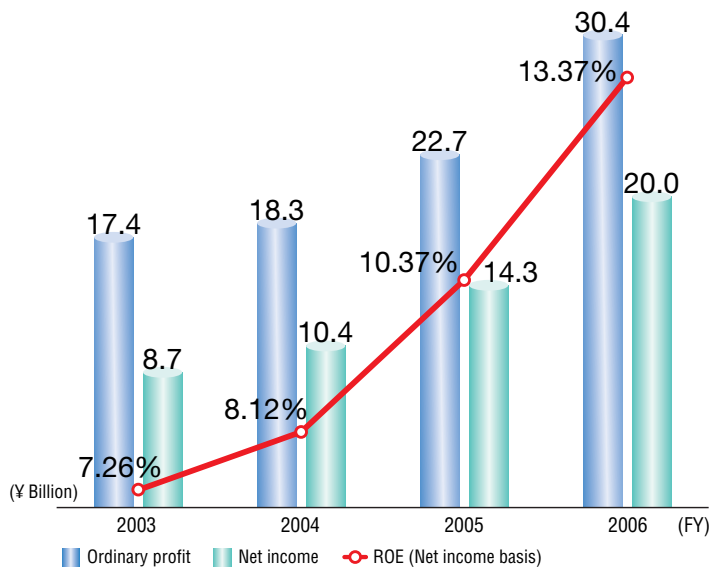


## Net Operating Income & Core Net Operating Income

Core net operating income rose ¥2.2 billion year-on-year due to a rise in net interest income and net fees and commissions. Net operating income increased ¥600 million year-on-year, despite an increase in provisions to the general reserve for possible loan losses, which was more than offset by a rise in core net operating income.

Net operating income = Gross operating income – Expenses – Transfer to general reserve for possible loan losses

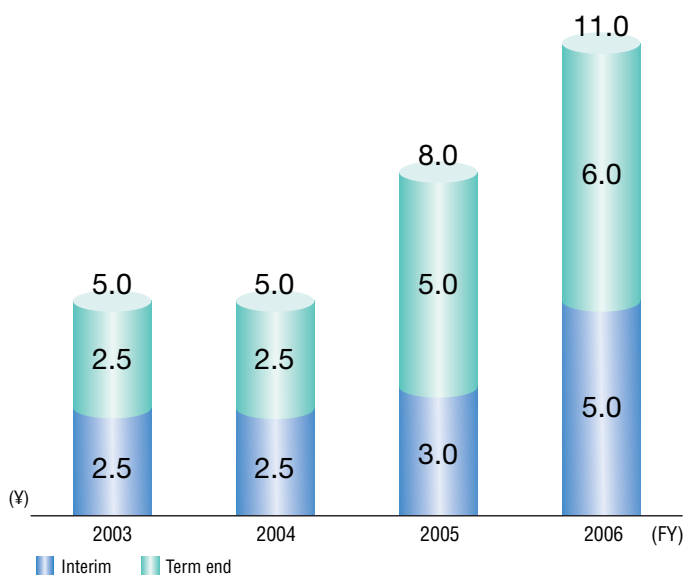
Core net operating income = Net operating income (before transfer to general reserve for possible loan losses) – Proceeds from bonds, including JGBs (5 accounts)



## Ordinary Profit & Net Income

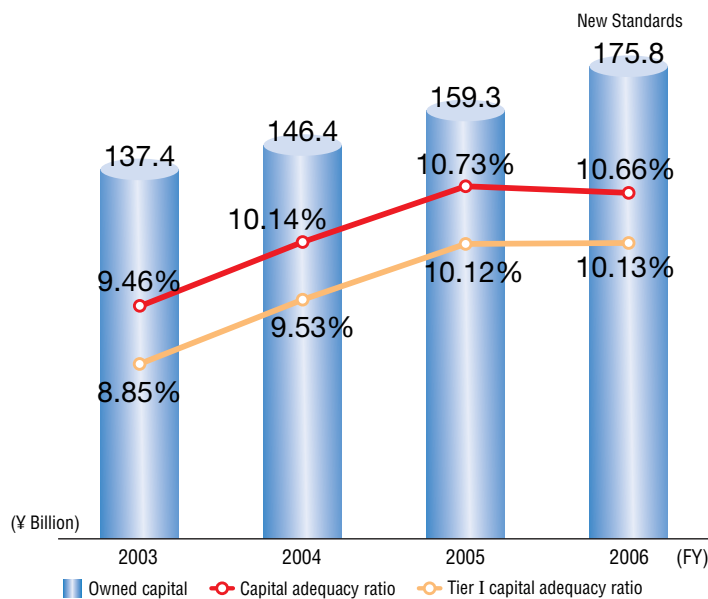
Ordinary Profit increased ¥7.6 billion year-on-year, on increase in net operating income and fall in the costs of disposal of nonperforming loans.

Net income for the term increased 5.7 billion, reflecting a increase in ordinary profit.



## Per Share Dividend

The Bank has decided to increase its term-end dividend payment from ¥5 per share (the previous forecast) to ¥6 per share, as the business performance has almost certainly exceeded its previous target. Consequently, the Bank's annual dividends per share will amount to ¥11, up ¥3 over the previous term.

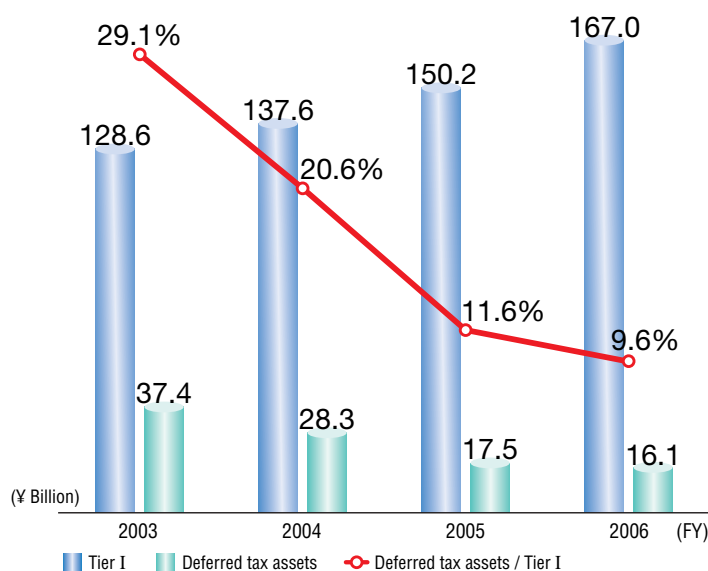


### Owned Capital & Capital Adequacy Ratio (Domestic Standard)

The Bank's owned capital comprises Tier I capital (including its capital stock, capital surplus, and retained earnings) and Tier II capital (including the general reserve for possible loan losses). Beginning with the reporting term, the Bank has employed the new accounting standards for the calculation of its capital ratio (domestic standards), which stood at 10.66% at the end of the reporting term. This is attributable to: increases in operational risk due to the adoption of the new accounting standards; an increase in risk-weighted assets in line with the rise in the loan balance; and revaluation of collateral value on mortgage loans. These factors combined to offset an increase in retained earnings. For the Tier II items, we have posted only the amount of the reserve for possible loan losses. Neither subordinated debt nor land revaluation gains have been posted.

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

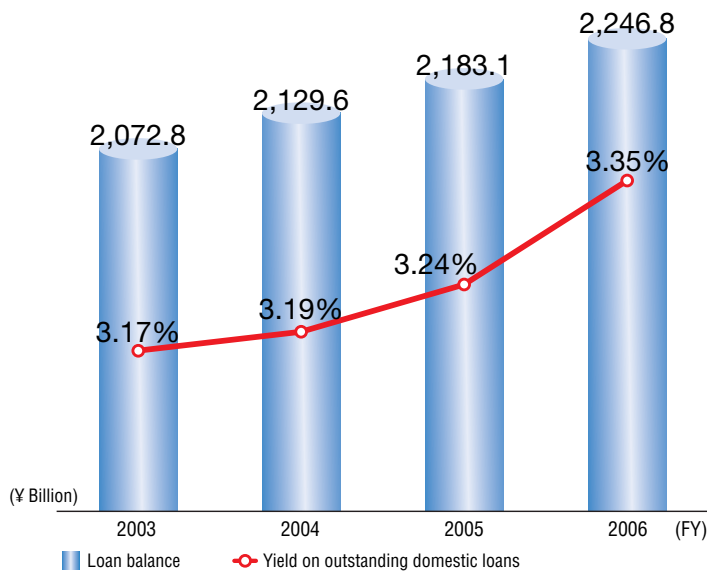
Tier I capital adequacy ratio = [Owned Capital (Basic items: Tier I) / Risk assets] X 100



### Status of Tier I and Deferred Tax Assets

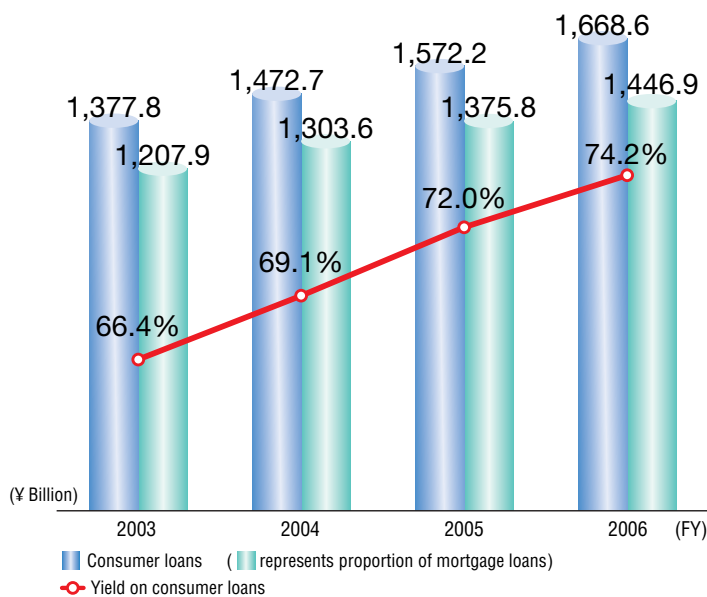
The ratio of deferred tax assets to Tier I capital fell 2.0 percentage points to 9.6%, showing qualitative improvement in capital adequacy. Deferred tax assets declined ¥1.4 billion, and Tier I capital increased ¥16.8 billion.

\*Deferred tax assets that represents anticipated future returns on taxes already paid.



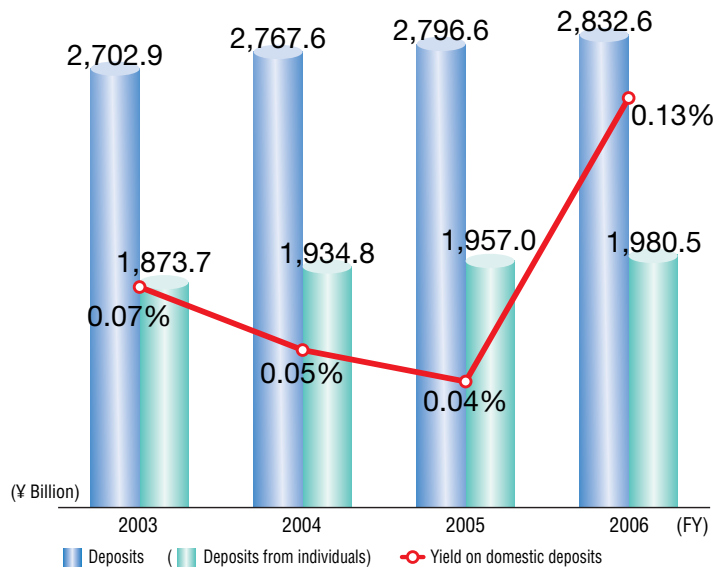
### Loan Balance & Yield on Outstanding Domestic Loans

As a result of strong growth in consumer loans, the Bank's loan balance increased by ¥63.6 billion to ¥2,246.8 billion. Likewise, the yield on outstanding domestic loans also increased 0.11 percentage points over the previous year, to 3.35%.



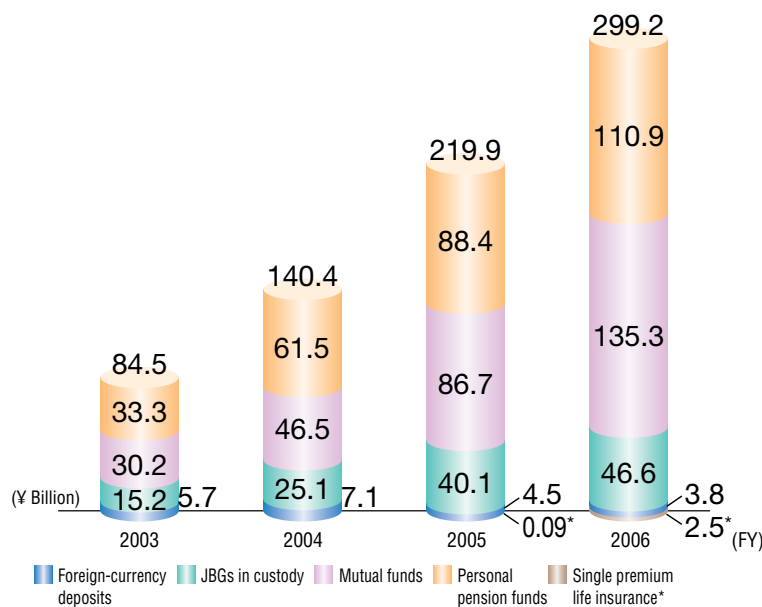
### Consumer Loans

The year-end balance of consumer loans grew ¥96.3 billion year-on-year, to ¥1,668.6 billion, and the year-end balance of mortgage loans increased by ¥71.0 billion to ¥1,446.9 billion. The proportion of consumer loans as a percentage of all loans was up 2.2 percentage points at 74.2%.



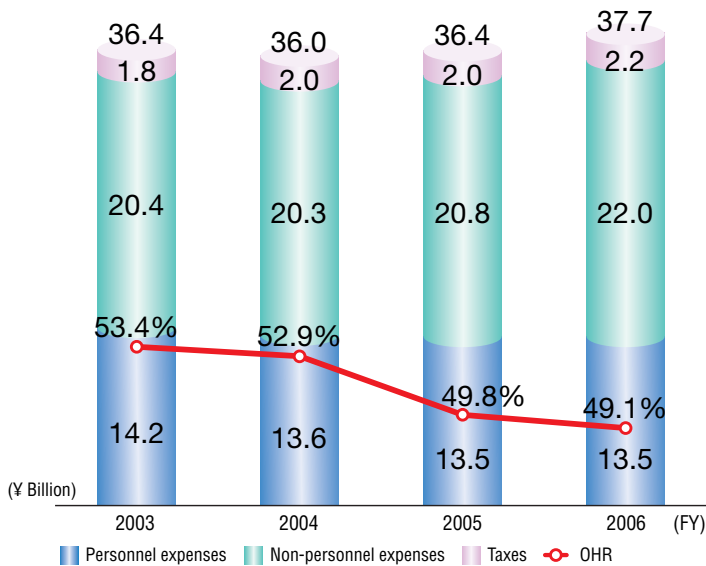
### Deposit Balance & Yield on Domestic Deposits

The balance of deposits rose ¥36.0 billion year-on-year to ¥2,832.6 billion, due chiefly to a steady increase in deposits from individuals. The balance of deposits from individuals rose ¥23.5 billion to ¥1,980.5 billion. The yield on domestic deposits also increased 0.09 of a percentage point over the previous year, to 0.13%, in line with a rise in market interest rates due to the termination of the BOJ's zero-interest policy.



### Individuals' Assets in Custody (Investments)

The balance of assets in custody (investment fund trusts held by individuals) rose ¥79.3 billion year-on-year to ¥299.2 billion, due chiefly to an expansion in the product line-up and enhanced marketing capabilities.

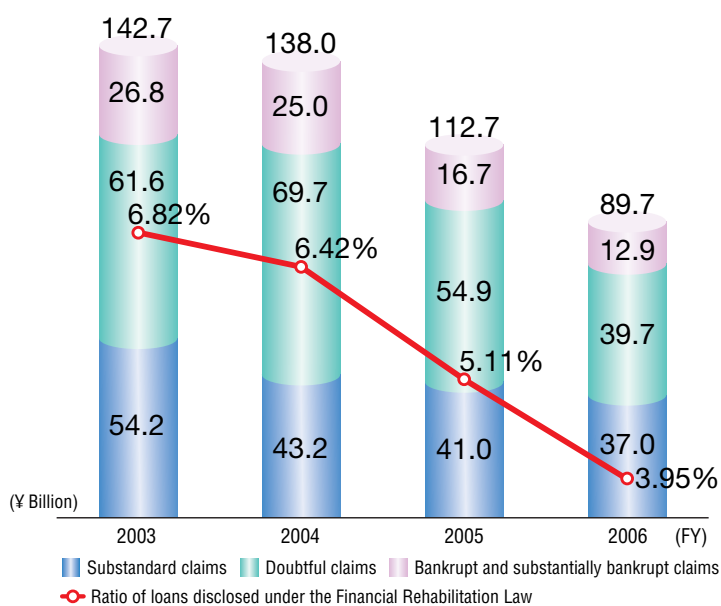


## Expenses & OHR (Overhead Ratio)

Due to an increase in investments aimed at strengthening the marketing capabilities, expenses increased by ¥1.3 billion year-on-year. The OHR (overhead ratio), however, improved 0.7 percentage points to 49.1%, thanks to a rise in gross operating income.

OHR (Overhead Ratio (%)) = Expenses / Gross operating income X 100

## Status of Non-Performing Loans



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

During the term under review, the Bank made good progress in the 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 ¥23.0 billion year-on-year, to ¥89.7 billion at the end of the reporting term. The ratio of claims disclosed under the Financial Rehabilitation Law to total claims improved 1.16 percentage points to 3.95%.

Ratio of loans disclosed under the Financial Rehabilitation Law (%) = Balance of loans disclosed / Total extended credit X 100



## Disclosure of Problem Assets

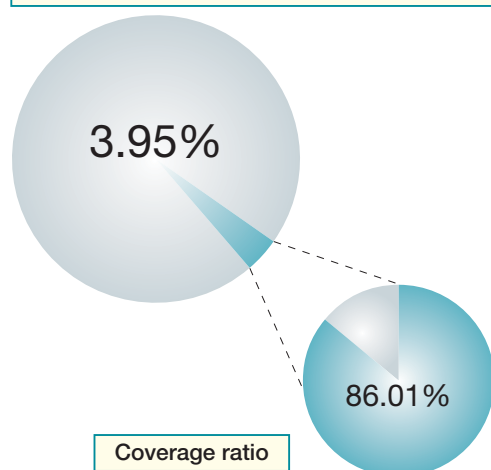
(As of March 31, 2007)

(¥ Billion)

### Problem Assets Based on the Financial Rehabilitation Law

Target: Total balance of extended credit, except substandard claims (only loans are counted in.)

#### Ratio to total balance of extended credit



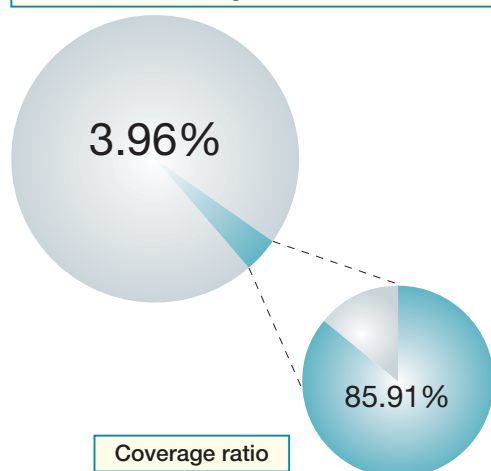
		Covered by collateral and guarantees	Covered by reserves	Coverage ratio
Bankrupt and Substantially Bankrupt Claims	12.9	9.5	3.3	100.00%
Doubtful Claims	39.7	24.0	13.9	95.76%
Substandard Claims	37.0	19.4	6.7	70.66%
Sub-total	89.7	53.0	24.0	86.01%
Normal assets	2,178.4			
Total	2,268.1			

(¥ Billion)

### Risk-Managed Loans

Target: Loans

#### Ratio of risk-managed loans to total loans



Loans to bankrupt borrowers	1.1
Loans past due	50.8
Past due for 3 months or longer	1.1
Restructured loans	35.8
Total	89.1

(¥ Billion)

### Classification under Self-Assessment

Target: Total balance of extended credit

Legally bankrupt borrowers	1.4
Substantially bankrupt borrowers	11.5
Potentially bankrupt borrowers	39.7
Borrowers requiring caution:	
Borrowers under supervision	57.1
Other borrowers requiring caution	197.4
Normal borrowers	1,960.8
Total	2,268.1

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

### Offering greater security and convenience

Suruga's bank card has been transformed. The Bank has launched a new bank card incorporating an IC chip, that not only offers greater convenience to our customers, but provides enhanced security to protect their valuable property.

#### ■ Our IC bank card

Suruga Bank's new bank card is equipped with an IC chip that makes counterfeiting and the unauthorized reading of information more difficult than with conventional bank cards (which utilize magnetic strips), thus providing enhanced security.

#### ■ Features of the IC bank card

The Bank's IC bank card has a VISA debit function (not available on some IC bank cards).

\* The VISA debit function is a debit card function that is available to VISA members around the world and a payment tool that is more convenient and safer than cash. Unlike a credit card, the function allows money to be taken from your bank account immediately, and you cannot spend more money than is in your bank balance.

For detailed information on our VISA debit function and IC bank card, visit our website. (Japanese Only)

<http://www.surugabank.co.jp/surugabank/01/05/11/0105112000.html>

<http://www.surugabank.co.jp/surugabank/01/07/0107070011.html>

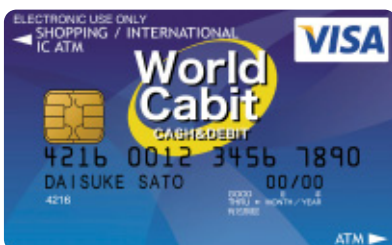


The convenience of the Suruga VISA Debit Card, launched in January 2006, is particularly evident for customers when they go abroad for travel, study or business. To make this level of convenience available to more customers, the Bank has formed alliances with travel agencies and companies engaging in overseas education.

#### Travel card available to 15-year olds

The Bank has formed an alliance with H.I.S. Co., Ltd. to issue a debit card meeting needs for currency exchange, money transfer, and payment when traveling overseas.

The Bank and H.I.S. have jointly developed a travel card named World Cabit for overseas travelers and people studying overseas, and began to issue them in March 2007. The card has a bank card function and a VISA debit card shopping function available both in Japan and abroad. The card is well received by customers as a payment tool that alleviates anxiety about money when they are abroad: it allows them to travel and study overseas without any financial worries.



#### Meeting customers' need for convenient financial services when they are overseas

We formed alliances with the following companies:

Mainichi Communications Inc.

Staff Service Education International Co., Ltd.

We provide convenient financial services that enable SURUGA VISA Debit Card holders to withdraw local currencies at ATMs all around the world and to shop at VISA member stores. Customers do not need to open bank accounts overseas or pay overseas remittance charges.



毎日コミュニケーションズ



STAFF SERVICE  
EDUCATION INTERNATIONAL

# Opening of “d-labo” (dream laboratory) / Midtown Branch

We are pleased to announce the opening of our Midtown Branch, complete with Suruga Bank’s new communication platform “d-labo (dream laboratory)” within the Tokyo Midtown complex in Roppongi.

d-labo

## Birth of the dream laboratory

Suruga Bank’s “d-labo,” which opened in the Tokyo Midtown complex, embodies the new banking style envisioned by Suruga Bank for the 21st century, and creates a unique space designed to maximize our relationship with customers. Under the keywords of “Creating a future where the dreams of customers come true,” d-labo assists you in finding and living in your dream.



## What is d-labo?

Who likes dealing with banks? Sadly, not many. While banks handle one of the most precious aspects of their customers’ lives, they often leave them feeling dissatisfied with the service they receive. Banks too often see their customers merely as a part of the product, treating them with a distant and overly official attitude, keeping them waiting too long for service, and setting business hours at their convenience rather than the customer’s. “d-labo” is different, so different that it is probably the world’s first banking office that customers enjoy visiting even when it’s not necessary, a banking office that communicates freely with customers via money. “d-labo” is a space filled with lifestyle tips, and advice about what you can realize by making the best use of money. It’s an environment that makes you realize that spending time at this bank is being ambitious for your future. SURUGA’s d-labo declares that “dream” is a word that will grow from the year 2007.



**01** Concept of d-labo — dream laboratory —  
 Helping to give shape and timeframe for customers' dreams as a life and business concierge



**01 atlas**  
 The wooden sphere symbolizes the globe. Turn it, and you will find the various desires and hopes of people around the world collected through the d-labo website. Enjoy a virtual journey on the large 103-inch screen to learn about the exciting dreams of others.

**02 time**  
 The dream almanac compiles dreams associated with the various events that occurred over the past 100 years, and also with possibilities and visions that may come true in the next 100 years. The almanac consists of different sections, such as environment and science, to help you find your inspiration in each area.

**03 gallery**  
 The drawers contain "pieces of dreams" of various people that are sure to infuse you with energy and passion.

**04 library**  
 This "library of dreams, money and the environment" boasts a collection of around 1,500 books and magazines that give you various inside of dreams & money.

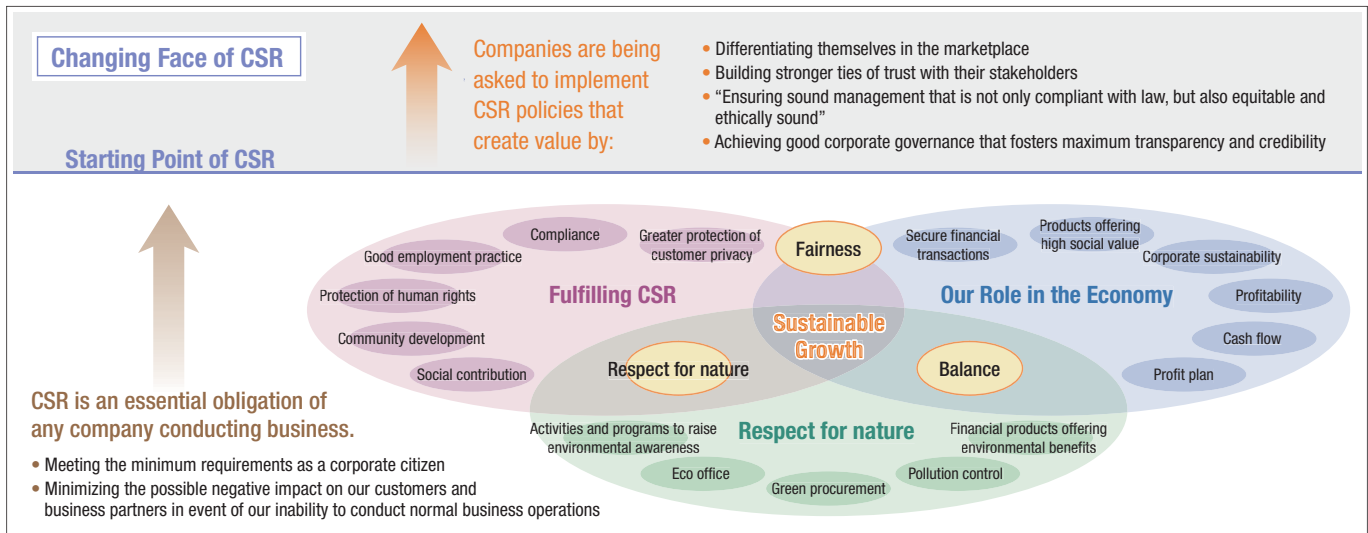
**05 refresh counter**  
 Learn more about seminars, gatherings and other exciting events that will help you find your dream, and ways to achieve it!



Internet Home Page  
<http://www.d-labo-midtown.com/>

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 these policies

(compiled June 1, 2005)

## Environmental Management System (EMS)

Suruga Bank is proactively engaged in environmental protection. In 2000, the Bank's Surugadaira 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. In December 2005, the Bank acquired the updated 2004 version of the certification.

## Corporate Governance

### Basic Policy

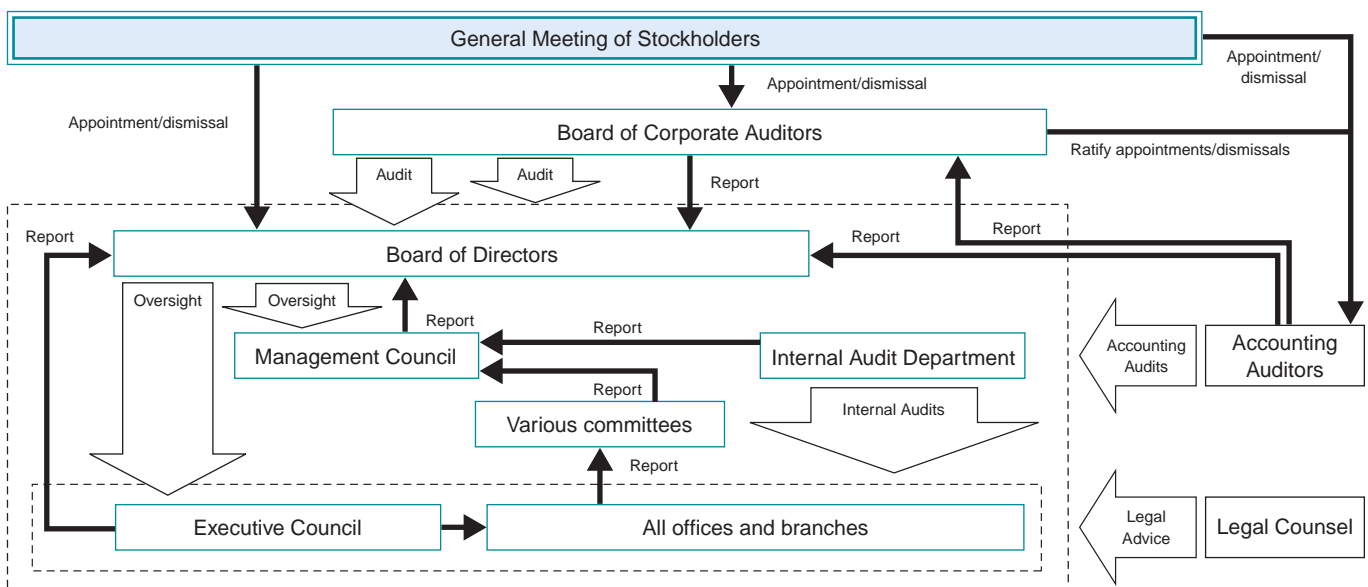
Suruga Bank considers more-effective corporate governance to be a priority in hastening and clarifying management strategy-making. By improving our record in compliance, disclosure, accountability and risk management, we are creating a management model that puts customers, shareholders and other stakeholders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

### Auditing System

In addition to 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 June 27, 2007, three of our ten directors, and three of our five corporate auditors, were external.

Diagram of Suruga Bank's Corporate Governance System

(As of May 24, 2006)



## 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.

## 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 the principles of accountability
- 4. Corporate conduct**  
Behave in a rigorously correct and fair way

## **Customer Relationships**

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### **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.

## **Risk Management**

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### **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



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



Products with free lottery tickets

## 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



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



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/docomo/> (24 hours a day, 365 days a year)  
 Toll free (from within Japan only): 0120-17-2038  
 Telephone reception hours 9:00 am - 5:00 pm Monday - Friday  
 (excluding holidays)



<http://www.surugabank.co.jp/alsok/> (24 hours a day, 365 days a year)  
 Toll free (from within Japan only): 0120-243-053  
 Telephone reception hours 9:00 am - 5:00 pm Monday - Friday  
 (excluding holidays)

## **Consolidated Financial Section**

Consolidated Balance Sheets	18
Consolidated Statements of Income	19
Consolidated Statements of Cash Flows	20
Consolidated Statement of Changes in Net Assets	21
Consolidated Statement of Stockholders' Equity	23
Notes to Consolidated Financial Statements	24
Report of Independent Auditors	34

# Consolidated Balance Sheets

Suruga Bank Ltd. and consolidated subsidiaries

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	Change from 2006	2007
<b>ASSETS:</b>				
Cash and Due from Banks	102,133	71,543	30,590	865,174
Call Loans and Bills Bought	170,558	200,601	(30,043)	1,444,800
Monetary Claims Bought	396	397	(1)	3,354
Trading Account Securities	499	499	0	4,234
Money Held in Trust	2,188	2,246	(58)	18,534
Securities	465,467	468,056	(2,589)	3,942,970
Loans and Bills Discounted	2,242,682	2,179,120	63,562	18,997,734
Foreign Exchanges	3,207	3,156	51	27,169
Other Assets	32,651	26,461	6,190	276,588
Premises and Equipment	—	55,369	(55,369)	—
Tangible Fixed Assets	41,901	—	41,901	354,949
Intangible Fixed Assets	11,386	—	11,386	96,452
Deferred Tax Assets	16,510	18,259	(1,749)	139,860
Customers' Liabilities for Acceptances and Guarantees	7,467	7,584	(117)	63,255
Reserve for Possible Loan Losses	(37,937)	(40,790)	2,853	(321,363)
<b>Total Assets</b>	<b>3,059,114</b>	<b>2,992,507</b>	<b>66,607</b>	<b>25,913,716</b>
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY:</b>				
<b>Liabilities</b>				
Deposits	2,832,085	2,795,835	36,250	23,990,561
Call Money and Bills Sold	2,361	822	1,539	20,000
Borrowed Money	8,983	9,252	(269)	76,097
Foreign Exchanges	12	14	(2)	106
Other Liabilities	30,258	19,781	10,477	256,321
Reserve for Employees' Bonus	546	526	20	4,625
Reserve for bonus for directors and corporate auditors	51	—	51	432
Reserve for Employee Retirement Benefits	133	360	(227)	1,128
Reserves under Special Laws	0	0	—	0
Acceptances and Guarantees	7,467	7,584	(117)	63,255
Total Liabilities	2,881,899	2,834,177	47,722	24,412,528
<b>Minority Interest</b>	—	306	—	—
<b>Stockholders' Equity</b>				
Common Stock	—	30,043	—	—
Capital Surplus	—	18,640	—	—
Retained Earnings	—	105,886	—	—
Net Unrealized Gains (Losses) on Securities, Net of Taxes	—	7,306	—	—
Treasury Stock	—	(3,854)	—	—
Total Stockholders' Equity	—	158,023	—	—
<b>Total Liabilities, Minority Interest and Stockholders' Equity</b>	<b>—</b>	<b>2,992,507</b>	<b>—</b>	<b>—</b>
<b>Net Assets</b>				
Common Stock	30,043	—	—	254,496
Capital Surplus	18,640	—	—	157,905
Retained Earnings	123,571	—	—	1,046,772
Treasury Stock	(3,699)	—	—	(31,341)
Total Stockholders' Equity	168,555	—	—	1,427,833
Net Unrealized Gains (Losses) on Securities, Net of Taxes	8,169	—	—	69,202
Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	55	—	—	468
Total Valuation and Translation Adjustments	8,224	—	—	69,671
Subscription Rights to Shares	68	—	—	580
Minority Interest	366	—	—	3,101
Total Net Assets	177,215	—	—	1,501,187
<b>Total Liabilities and Net Assets</b>	<b>3,059,114</b>	<b>—</b>	<b>—</b>	<b>25,913,716</b>

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)
	2007	2006	Change from 2006	2007
<b>Ordinary Income</b>	<b>105,656</b>	98,753	6,903	<b>895,015</b>
Interest Income	<b>82,908</b>	75,492	7,416	<b>702,318</b>
Interest on Loans and Discounts	<b>77,113</b>	71,417	5,696	<b>653,224</b>
Interest and Dividends on Securities	<b>3,669</b>	3,493	176	<b>31,085</b>
Interest on Call Loans and Bills Bought	<b>425</b>	38	387	<b>3,608</b>
Interest on Deposits with Banks	<b>1</b>	0	1	<b>12</b>
Other Interest Income	<b>1,698</b>	541	1,157	<b>14,386</b>
Fees and Commissions	<b>14,271</b>	12,910	1,361	<b>120,892</b>
Other Operating Income	<b>7,313</b>	7,717	(404)	<b>61,950</b>
Other Income	<b>1,163</b>	2,633	(1,470)	<b>9,853</b>
<b>Ordinary Expenses</b>	<b>74,398</b>	75,760	(1,362)	<b>630,230</b>
Interest Expenses	<b>10,970</b>	6,746	4,224	<b>92,933</b>
Interest on Deposits	<b>5,371</b>	1,759	3,612	<b>45,506</b>
Interest on Call Money and Bills Sold	<b>106</b>	14	92	<b>899</b>
Interest on Borrowings and Rediscount	<b>144</b>	151	(7)	<b>1,220</b>
Other Interest Expenses	<b>5,348</b>	4,821	527	<b>45,306</b>
Fees and Commissions	<b>7,400</b>	6,567	833	<b>62,692</b>
Other Operating Expenses	<b>5,382</b>	5,693	(311)	<b>45,598</b>
General and Administrative Expenses	<b>38,954</b>	37,641	1,313	<b>329,986</b>
Other Expenses	<b>11,689</b>	19,112	(7,423)	<b>99,018</b>
Transfer to Reserve for Possible Loan Losses	<b>3,588</b>	8,430	(4,842)	<b>30,401</b>
Losses on Write-offs of Loans	<b>3,938</b>	7,256	(3,318)	<b>33,362</b>
Others	<b>4,161</b>	3,426	737	<b>35,253</b>
<b>Ordinary Profits</b>	<b>31,257</b>	22,993	8,264	<b>264,785</b>
Extraordinary Profits	<b>3,003</b>	2,956	47	<b>25,446</b>
Gains on Dispositions of Premises and Equipment	<b>—</b>	240	—	<b>—</b>
Gains on Disposal of Fixed Assets	<b>105</b>	—	—	<b>895</b>
Recoveries of Written-off Claims	<b>2,898</b>	2,716	182	<b>24,551</b>
Extraordinary Losses	<b>219</b>	683	(464)	<b>1,857</b>
Losses on Dispositions of Premises and Equipment	<b>—</b>	249	—	<b>—</b>
Losses on Disposal of Fixed Assets	<b>219</b>	—	—	<b>1,857</b>
Loss on Impairment of Fixed Assets	<b>—</b>	433	(433)	<b>—</b>
<b>Income before Income Taxes and Others</b>	<b>34,042</b>	25,267	8,775	<b>288,374</b>
Provision for Income Taxes and Others	<b>12,509</b>	1,841	10,668	<b>105,964</b>
Deferred Income Taxes	<b>1,055</b>	9,100	(8,045)	<b>8,942</b>
Minority Interest	<b>132</b>	48	84	<b>1,119</b>
<b>Net Income</b>	<b>20,345</b>	14,277	6,068	<b>172,347</b>

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)
	2007	2006	Change from 2006	2007
<b>Cash Flows from Operating Activities</b>				
Income before Income Taxes and Others	34,042	25,267	8,775	288,374
Depreciation and Amortization	6,981	7,041	(60)	59,137
Loss on Impairment of Fixed Assets	—	433	(433)	—
Increase (Decrease) in Reserve for Possible Loan Losses	(2,853)	(2,896)	43	(24,173)
Increase (Decrease) in Reserve for Employees' Bonus	70	8	62	597
Increase (Decrease) in Reserve for Bonus for Directors and Corporate Auditors	51	—	51	432
Increase in Reserve for Employee Retirement Benefits	(954)	245	(1,199)	(8,081)
Bonus for Directors and Corporate Auditors	(50)	(30)	(20)	(423)
Interest Income	(82,908)	(75,492)	(7,416)	(702,318)
Interest Expenses	10,970	6,746	4,224	92,933
Loss (Gain) on Investment Securities, Net	(942)	(2,689)	1,747	(7,987)
Loss (Gain) on Money Held in Trusts	(12)	(93)	81	(107)
Loss (Gain) on Sales of Premises and Equipment	—	9	—	—
Loss (Gain) on Sales of Fixed Assets	113	—	—	962
Changes in Operating Assets and Liabilities:				
Trading Securities	(0)	0	(0)	(5)
Loans	(63,562)	(55,614)	(7,948)	(538,435)
Deposits	36,250	29,522	6,728	307,077
Borrowings Excluding Subordinated Debt	(268)	3	(271)	(2,277)
Due from Banks Other Than BOJ	2,499	4,457	(1,958)	21,171
Call Loans	30,044	17,387	12,657	254,508
Call Money	1,538	822	716	13,034
Foreign Exchange Assets	(50)	(2,451)	2,401	(428)
Foreign Exchange Liabilities	(1)	7	(8)	(16)
Interest Received	81,801	74,813	6,988	692,937
Interest Paid	(9,701)	(6,589)	(3,112)	(82,181)
Other, Net	327	(5,207)	5,534	2,773
Subtotal	43,383	15,701	27,682	367,504
Income Taxes Paid	(1,667)	(2,089)	422	(14,125)
Net Cash Provided by (Used in) Operating Activities	41,716	13,611	28,105	353,378
<b>Cash Flows from Investing Activities</b>				
Purchase of Securities	(553,033)	(551,817)	(1,216)	(4,684,742)
Proceeds from Sales of Securities	16,138	35,517	(19,379)	136,712
Proceeds from Redemption of Securities	542,051	519,772	22,279	4,591,709
Increase in Money Trusts	—	(284)	284	—
Decrease in Money Held in Trusts	71	—	71	604
Purchase of Premises and Equipment	—	(12,659)	—	—
Purchase of Tangible Fixed Assets	(7,272)	—	(7,272)	(61,603)
Proceeds from Sales of Premises and Equipment	—	1,005	—	—
Proceeds from Sales of Property and Equipment	598	—	598	5,067
Purchase of Intangible Fixed Assets	(4,662)	—	(4,662)	(39,491)
Net Cash Provided by (Used in) Investing Activities	(6,108)	(8,467)	2,359	(51,742)
<b>Cash Flows from Financing Activities</b>				
Dividends Paid	(2,601)	(1,426)	(1,175)	(22,033)
Purchase of Treasury Stock	(168)	(164)	(4)	(1,424)
Proceeds from Sales of Treasury Stock	249	815	(566)	2,115
Net Cash Provided by (Used in) Financing Activities	(2,519)	(775)	(1,744)	(21,343)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	0	11	(11)	5
<b>Net Increase in Cash and Cash Equivalents</b>	33,089	4,380	28,709	280,298
<b>Cash and Cash Equivalents at Beginning of Year</b>	64,201	59,820	4,380	543,852
<b>Cash and Cash Equivalents at End of Term</b>	97,291	64,201	33,089	824,151

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

Suruga Bank Ltd. and consolidated subsidiaries

	Millions of yen				
	Stockholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at March 31, 2006	30,043	18,640	105,886	(3,854)	150,716
<b>Changes of Items During the Period</b>					
Dividends from Surplus			(2,601)		(2,601)
Bonus for Directors and Corporate Auditors			(50)		(50)
Net Income			20,345		20,345
Repurchase of Treasury Stock				(168)	(168)
Disposal of Treasury Stock			(9)	259	249
Changes in Own Shares Held by Consolidated Subsidiaries				63	63
Net Changes of Items Other than Stockholders' Equity					—
Total	—	—	17,685	154	17,839
<b>Balance at March 31, 2007</b>	<b>30,043</b>	<b>18,640</b>	<b>123,571</b>	<b>(3,699)</b>	<b>168,555</b>

	Millions of yen					
	Valuation and Translation Adjustments			Subscription Rights to Shares	Minority Interests	Total Net Assets
	Net Unrealized Gains on Other Securities	Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	Total Valuation and Translation Adjustments			
Balance at March 31, 2006	7,306	—	7,306	—	306	158,329
<b>Changes of Items During the Period</b>						
Dividends from Surplus						(2,601)
Bonus for Directors and Corporate Auditors						(50)
Net Income						20,345
Repurchase of Treasury Stock						(168)
Disposal of Treasury Stock						249
Changes in Own Shares Held by Consolidated Subsidiaries					(63)	—
Net Changes of Items Other than Stockholders' Equity	862	55	917	68	122	1,109
Total	862	55	917	68	59	18,885
<b>Balance at March 31, 2007</b>	<b>8,169</b>	<b>55</b>	<b>8,224</b>	<b>68</b>	<b>366</b>	<b>177,215</b>

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Net Assets

Suruga Bank Ltd. and consolidated subsidiaries

	Thousands of U.S. dollars (Note 2)				
	Stockholders' Equity				
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Stockholders' Equity
Balance at March 31, 2006	254,496	157,905	896,962	(32,649)	1,276,715
<b>Changes of Items During the Period</b>					
Dividends from Surplus			(22,033)		(22,033)
Bonus for Directors and Corporate Auditors			(423)		(423)
Net Income			172,347		172,347
Repurchase of Treasury Stock				(1,424)	(1,424)
Disposal of Treasury Stock			(79)	2,194	2,115
Changes in Own Shares Held by Consolidated Subsidiaries				538	538
Net Changes of Items Other than Stockholders' Equity					—
Total	—	—	149,810	1,307	151,118
<b>Balance at March 31, 2007</b>	<b>254,496</b>	<b>157,905</b>	<b>1,046,772</b>	<b>(31,341)</b>	<b>1,427,833</b>

	Thousands of U.S. dollars (Note 2)					
	Valuation and Translation Adjustments			Subscription Rights to Shares	Minority Interests	Total Net Assets
	Net Unrealized Gains on Other Securities	Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	Total Valuation and Translation Adjustments			
Balance at March 31, 2006	61,896	—	61,896	—	2,598	1,341,210
<b>Changes of Items During the Period</b>						
Dividends from Surplus			—			(22,033)
Bonus for Directors and Corporate Auditors			—			(423)
Net Income			—			172,347
Repurchase of Treasury Stock			—			(1,424)
Disposal of Treasury Stock			—			2,115
Changes in Own Shares Held by Consolidated Subsidiaries			—		(538)	—
Net Changes of Items Other than Stockholders' Equity	7,306	468	7,774	580	1,040	9,396
Total	7,306	468	7,774	580	502	159,976
<b>Balance at March 31, 2007</b>	<b>69,202</b>	<b>468</b>	<b>69,671</b>	<b>580</b>	<b>3,101</b>	<b>1,501,187</b>

See notes to consolidated financial statements.

# Consolidated Statement of Stockholders' Equity

Suruga Bank Ltd. and consolidated subsidiaries

For the Years Ended March 31,	Millions of yen 2006
<b>Capital Surplus</b>	
Balance of Capital Surplus at Beginning of Year	18,585
Increase	54
Gains on Sales of Treasury Stock	54
Decrease	—
Losses on Sales of Treasury Stock	—
<b>Balance of Capital Surplus at End of Year</b>	<b>18,640</b>
<b>Retained Earnings</b>	
Balance of Retained Earnings at Beginning of Year	93,136
Increase	14,277
Net Income	14,277
Decrease	1,527
Dividends	1,426
Bonus for Directors and Corporate Auditors	30
Losses on Sales of Treasury Stock	71
<b>Balance of Retained Earnings at End of Year</b>	<b>105,886</b>

See notes to consolidated financial statements.



# Notes to Consolidated Financial Statements

Suruga Bank Ltd. and consolidated subsidiaries

## 1. Summary of Significant Accounting Policies

### (a) Basis of preparation

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

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

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

### (b) Principles of consolidation

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

Suruga Business Service Co., Ltd.  
Suruga Staff Service Co., Ltd.  
A.P.I. Co., Ltd.  
Suruga Capital Co., Ltd.  
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) Depreciation and amortization

#### i) Tangible fixed assets

Depreciation of tangible fixed assets of the Bank is computed by the declining-balance method at rates principally based on following estimated useful lives:

Buildings	15 to 50 years
Equipment and furniture	4 to 20 years

Property and equipment held by the Bank's consolidated subsidiaries are depreciated, in principle, on a straight line basis.

#### ii) Intangible fixed assets

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

### (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 term.

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, 2007 and 2006, the amounts deducted were ¥8,093 million (US\$68,562 thousand) and ¥9,797 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' bonus**

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

#### **(j) Reserve for bonus for directors and corporate auditors**

The reserve is provided for the payment of bonus for directors and corporate auditors, an estimate of which is determined as of the balance sheet date.

#### **(Changes in accounting standards)**

Previously, bonus for directors and corporate auditors was accounted for as a reduction in unappropriated retained earnings at the payments. Effective from the year ended March, 2007, the Bank and its domestic consolidated subsidiaries have applied "Accounting Standard for directors' bonuses" (Accounting Standards Board of Japan ("ASBJ") Statement No. 4 November 29, 2005). Under the new standards, payments of bonus for directors and corporate auditors are treated as expenses.

Accordingly, the reserve for bonus for directors and corporate auditors is maintained at the amount accrued at the term-end, based on a portion attributable to their services provided during the term. As a result, operating expenses increased by ¥51 million (US\$432 thousand) over the corresponding figure calculated under the previous standards, and total income and income before income taxes decreased by the same amount.

#### **(k) Reserve for possible losses on sales of loans**

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

#### **(l) Pension and severance costs**

Accrued pension and severance costs is provided for the future payment of employees' retirement benefits based on estimated amounts of the actuarially calculated retirement benefit obligation and the pension plan assets. Prior service cost is amortized by the straight-line method over 5 years. Net actuarial gain (loss) is amortized by the declining-balance method over 13 years commencing the year following the year in which the gain or loss is incurred.

#### **(m) 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 terms 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, 2007 were ¥172 million and ¥164 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.

#### **(n) Consumption tax**

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

## 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 ¥118.05 = U.S.\$1.00, the exchange rate prevailing on March 31, 2007. 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, 2007 and 2006 included the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans to companies under bankruptcy procedures	¥ 1,615	¥ 2,665	\$ 13,686
Delinquent loans	52,092	69,591	441,273
Loans past due 3 months or more	1,249	1,246	10,581
Restructured loans	35,849	39,796	303,680
Total	¥90,806	¥113,299	\$769,221

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 term 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 ¥4,535 million (US\$38,415 thousand).

## 4. Accumulated Depreciation

Accumulated depreciation on tangible fixed assets at March 31, 2007 and 2006 totaled ¥50,719 million (US\$429,647 thousand) and ¥50,491 million, respectively.

## 5. Assets Pledged

Assets pledged as collateral at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Investment securities	¥ 7,751	¥ 7,691	\$65,662
Treasury stock (common stock held by subsidiaries)	1,788	1,788	15,147
Customers' notes and others	¥10,266	¥10,107	\$86,964

Liabilities related to the above pledged assets were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Borrowed money	¥8,233	¥8,502	\$69,744

In addition, investment securities totaling ¥142,531 million (US\$1,207,382 thousand) and ¥141,899 million at March 31, 2007 and 2006, 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 ¥1,024,646 million (US\$8,679,767 thousand) and ¥910,751 million at March 31, 2007 and 2006, respectively. As of March 31, 2007, the balance of the unused portion under such contracts whose contract terms are one year or less, or which include a special rider that allows the Bank to cancel out the contracts unconditionally any time, amounted to ¥1,019,162 million (US\$8,633,314 thousand).

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 credit-worthiness, 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of
	2007	2006	U.S. dollars
			2007
Projected benefit obligation	¥(18,245)	¥(18,174)	\$(154,555)
Fair value of plan assets	21,476	20,851	181,928
Projected benefit obligation in excess of plan assets	3,231	2,677	27,372
Unrecognized net obligation at transition	—	—	—
Unrecognized net actuarial loss	(2,304)	(2,704)	(19,522)
Unrecognized plan assets	—	—	—
Net liability recognized	926	(27)	7,850
Prepaid pension cost	1,059	333	8,978
Accrued pension and severance costs	¥ (133)	¥ (360)	\$ (1,128)

## 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
	2007	2006	2007
Net income	¥ 78.01	¥ 54.72	\$0.66
Net assets	677.49	606.06	5.73
Diluted net income	¥ 77.85	¥ 54.64	\$0.65

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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of
	2007	2006	U.S. dollars
			2007
<b>Other income:</b>			
Gain on sales of stocks and other securities	¥ 38	¥ 1,957	\$ 325
Gain on disposition of premises and equipment	—	240	—
Gain on disposal of fixed assets	105	—	895
Collection of claims written-off	2,898	2,716	24,551
Other	1,124	676	9,527
<b>Total</b>	<b>¥ 4,167</b>	<b>¥ 5,590</b>	<b>\$ 35,300</b>

### Other expenses:

Provision for possible loan losses	¥ 3,588	¥ 8,430	\$ 30,401
Loss on devaluation of stocks and other securities	29	26	251
Write-offs of loans	3,938	7,256	33,362
Loss on disposition of premises and equipment	—	249	—
Losses on disposal of fixed assets	219	—	1,857
Loss on sales of stocks and other securities	—	3	—
Cost of amortization of differences resulting from changes in accounting standards	—	—	—
Other	4,132	3,833	35,002
<b>Total</b>	<b>¥11,908</b>	<b>¥19,795</b>	<b>\$100,875</b>

## Notes to Consolidated Financial Statements

### 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 U.S. dollars
	2007	2006	2007
<b>Acquisition cost</b>			
Movables	¥26,567	¥27,139	\$225,049
Others	3,320	3,207	28,128
<b>Total</b>	<b>¥29,887</b>	<b>¥30,346</b>	<b>\$253,177</b>
<b>Accumulated depreciation expenses</b>			
Movables	¥18,488	¥18,941	\$156,614
Others	2,310	2,238	19,574
<b>Total</b>	<b>¥20,799</b>	<b>¥21,179</b>	<b>\$176,189</b>
<b>Net book value</b>			
Movables	¥ 8,078	¥ 8,198	\$ 68,435
Others	1,009	968	8,553
<b>Total</b>	<b>¥ 9,088</b>	<b>¥ 9,167</b>	<b>\$ 76,988</b>

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Minimum lease payment under finance leases</b>			
Due within one year	¥ 3,619	¥ 3,699	\$30,657
Due after one year	6,900	6,794	58,453
<b>Total</b>	<b>¥10,519</b>	<b>¥10,493</b>	<b>\$89,111</b>

(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 U.S. dollars
	2007	2006	2007
<b>Lease revenue and depreciation expense for the term</b>			
Lease revenue	¥4,095	¥4,359	\$34,695
Depreciation expense	¥3,389	¥3,569	\$28,712

(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 U.S. dollars
	2007	2006	2007
<b>Acquisition cost</b>			
Movables	¥408	¥410	\$3,461
Others	—	—	—
<b>Total</b>	<b>¥408</b>	<b>¥410</b>	<b>\$3,461</b>
<b>Accumulated depreciation expenses</b>			
Movables	¥125	¥ 30	\$1,063
Others	—	—	—
<b>Total</b>	<b>¥125</b>	<b>¥ 30</b>	<b>\$1,063</b>
<b>Net book value</b>			
Movables	¥283	¥379	\$2,397
Others	—	—	—
<b>Total</b>	<b>¥283</b>	<b>¥379</b>	<b>\$2,397</b>

(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 U.S. dollars
	2007	2006	2007
<b>Minimum lease payment under finance leases</b>			
Due within one year	¥ 95	¥ 95	\$ 806
Due after one year	187	284	1,590
<b>Total</b>	<b>¥283</b>	<b>¥379</b>	<b>\$2,397</b>

(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 U.S. dollars
	2007	2006	2007
<b>Total lease payments and assumed depreciation expenses for the term</b>			
Total lease payments	¥95	¥27	\$805
Assumed depreciation expenses	¥95	¥27	\$805

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

## 11. New standards for presentation of net assets

Effective from the year ended March 2007, the Bank has adopted new standards for the presentation of net assets in accordance with the Business Accounting Standard for Presenting Net Assets (Business Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and Guidelines for the Application of Business Accounting Standard for Presenting Net Assets (Implementation Guidance for Business Accounting Standards No. 8, on December 9, 2005). Amounts equivalent to shareholders' equity under the previous standards came to ¥176,725 million (US\$1,497,036 thousand) as of the consolidated balance-sheet date. The net asset section for the reporting term was prepared in accordance with changes in regulations for preparing consolidated financial statements and Enforcement Regulations to the Banking Law.

## 12. Stock options

Effective from the year ended March 2007, the Bank has applied new accounting standards to stock options granted on and after May 1, 2007, in accordance with the Business Accounting Standard for Stock Option (Business Accounting Standard No. 8 issued by the Accounting Standards Board of Japan on December 27, 2005) and Guidelines for the Application of Business Accounting Standard for Stock Option (Implementation Guidance for Business Accounting Standards No. 11, on December 27, 2005). As a result, total income and income before income taxes decreased by ¥68 million (US\$580 thousand).

## 13. Changes in presentation

Effective from the year ended March 2007, the Bank has adopted new accounting standards for the presentation of financial statements in line with changes on April 28, 2006 in Enforcement Regulations for the Banking Law (1982 Finance Ministry Order No. 10). Changes are as follows:

### Balance-sheet items

(1) Previously, deferred hedge losses had been included in other assets and deferred hedge gains included in other liabilities. Currently, realized and unrealized gains and losses on hedge instruments are recorded in the amount of net gains (losses) on deferred hedge under tax-effect accounting.

(2) Previously, minority interests were recorded separately, next to the liabilities section. Effective from the reporting term, minority interests are shown in the net asset section.

(3) Premises and equipment were reclassified under "tangible fixed assets," "intangible fixed assets" and "other assets." Accordingly, land, buildings and equipment that had previously been recorded under premises and equipment were recorded as "land," "buildings," and "other tangible fixed assets" under tangible fixed assets. Regarding guarantee money and leasehold deposits, which had previously been recorded under premises and equipment, guarantee money was included in "other" under other assets, and leasehold deposits were included in other intangible fixed assets. Costs of software developed or obtained were reclassified under software and software in process, both of which were included in intangible fixed assets.

### Cash flow items

Amounts that had previously been recorded under loss (gain) on sale of premises and equipment were recorded under "loss (gain) on sale of fixed assets." Amounts that had previously been recorded under purchase of premises and equipment were recorded under "purchase of property and equipment" and amounts that had previously been recorded under proceeds from sale of premises and equipment were recorded under "proceeds from sale of property and equipment."

## 14. Segment Information

Information regarding the business segments and total income of the Bank and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is summarized as follows:

### Business segment information

Year ended March 31, 2007	Millions of yen				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	¥ 94,806	¥10,849	¥ 105,656	¥ —	¥ 105,656
Total income from intersegment transactions	314	2,848	3,163	(3,163)	—
Total	95,121	13,698	108,819	(3,163)	105,656
Total expenses	64,672	12,736	77,409	(3,010)	74,398
Income before income taxes	¥ 30,448	¥ 962	¥ 31,410	¥ (152)	¥ 31,257
Total assets	¥3,035,946	¥34,007	¥3,069,954	¥(10,840)	¥3,059,114
Depreciation and amortization	2,867	4,113	6,981	—	6,981
Capital expenditures	7,323	4,610	11,934	—	11,934

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	¥ 87,493	¥11,259	¥ 98,753	¥ —	¥ 98,753
Total income from intersegment transactions	260	2,848	3,109	(3,109)	—
Total	87,754	14,108	101,863	(3,109)	98,753
Total expenses	65,101	13,582	78,684	(2,923)	75,760
Income before income taxes	¥ 22,653	¥ 526	¥ 23,179	¥ (189)	¥ 22,993
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, 2007	Thousands of U.S. dollars				
	Banking operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes:					
Total income from outside customers	\$ 803,107	\$ 91,907	\$ 895,015	\$ —	\$ 895,015
Total income from intersegment transactions	2,663	24,132	26,795	(26,795)	—
Total	805,771	116,040	921,811	(26,795)	895,015
Total expenses	547,841	107,890	665,732	(25,501)	630,230
Income before income taxes	\$ 257,929	\$ 8,149	\$ 266,079	\$ (1,293)	\$ 264,785
Total assets	\$25,717,466	\$288,078	\$26,005,545	\$(91,829)	\$25,913,716
Depreciation and amortization	24,293	34,844	59,137	—	59,137
Capital expenditures	62,039	39,055	101,094	—	101,094

## 15. Market Value of Securities

(a) The market value of, and the valuation difference on, available-for-sale marketable securities at March 31, 2007 and 2006 are summarized as follows:

March 31, 2007	Millions of yen				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	¥ 34,593	¥ 54,588	¥19,995	¥21,050	¥1,054
Bonds:	366,885	360,386	(6,498)	158	6,657
Government bonds	322,903	316,515	(6,387)	9	6,397
Municipal bonds	27,442	27,344	(98)	94	192
Corporate bonds	16,539	16,526	(12)	55	67
Other	44,920	45,169	248	1,445	1,196
<b>Total</b>	<b>¥446,398</b>	<b>¥460,144</b>	<b>¥13,745</b>	<b>¥22,654</b>	<b>¥8,908</b>

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
<b>Total</b>	<b>¥450,924</b>	<b>¥463,242</b>	<b>¥12,318</b>	<b>¥21,985</b>	<b>¥9,666</b>

March 31, 2007	Thousands of U.S. dollars				
	Cost	Corresponding amount in the balance sheet	Valuation difference	Gain	Loss
Stocks	\$ 293,038	\$ 462,419	\$169,380	\$178,317	\$ 8,936
Bonds:	3,107,881	3,052,830	(55,050)	1,341	56,392
Government bonds	2,735,309	2,681,197	(54,111)	77	54,189
Municipal bonds	232,468	231,635	(833)	797	1,630
Corporate bonds	140,103	139,997	(105)	467	573
Other	380,519	382,627	2,108	12,244	10,135
<b>Total</b>	<b>\$3,781,438</b>	<b>\$3,897,877</b>	<b>\$116,438</b>	<b>\$191,903</b>	<b>\$75,465</b>

(b) Available-for-sale securities sold during the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Proceeds from sales	¥16,138	¥35,517	\$136,712
Gain	126	2,179	1,072
Loss	45	24	383



## 16. 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, 2007	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	¥175,807	¥37,238	¥105,306	¥42,883
Government bonds	169,863	4,958	98,810	42,883
Municipal bonds	—	22,844	4,499	—
Corporate bonds	5,944	9,435	1,995	—
Other	626	9,340	9,779	14,057
<b>Total</b>	<b>¥176,434</b>	<b>¥46,578</b>	<b>¥115,085</b>	<b>¥56,941</b>

March 31, 2007	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	\$1,489,266	\$315,449	\$892,048	\$363,265
Government bonds	1,438,907	42,003	837,021	363,265
Municipal bonds	—	193,516	38,119	—
Corporate bonds	50,359	79,930	16,907	—
Other	5,307	79,120	82,837	119,082
<b>Total</b>	<b>\$1,494,574</b>	<b>\$394,570</b>	<b>\$974,886</b>	<b>\$482,348</b>

## 17. Money Held in Trusts

A presentation of money trusts by purpose at March 31, 2007 and 2006 is summarized as follows:

March 31, 2007	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	¥1,097	¥97	\$9,299	\$828

March 31, 2006	Millions of yen	
	Amount in the balance sheet	Valuation difference
Money trusts for trading purposes	¥1,129	¥129

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

## 18. Subsequent Events

### Appropriations of retained earnings

At a shareholders' meeting held on June 27, 2007, 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, 2007:

	Millions of yen	Thousands of U.S. dollars
Year-end dividends from surplus (¥6.0 = US\$0.050 per share)	¥1,578	¥13,375

## 19. Cash and Cash Equivalents

A reconciliation between cash and due from banks in the consolidated balance sheets at March 31, 2007 and 2006 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
	2007	2006	2007
Cash and due from banks	¥102,133	¥71,543	¥865,174
Time deposits	(100)	(350)	(847)
Ordinary deposits	(2,163)	(2,977)	(18,323)
Other deposits	(2,579)	(4,014)	(21,852)
Cash and cash equivalents	¥ 97,291	¥64,201	¥824,151

## Report of Independent Auditors

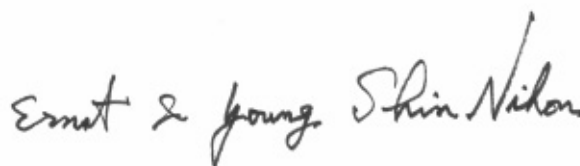
The Board of Directors  
Suruga Bank Ltd.

We have audited the accompanying consolidated balance sheets of Suruga Bank Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, and cash flows for the years then ended, changes in net assets for the year ended March 31, 2007 and shareholders' equity for the year ended March 31, 2006, 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 as of March 31, 2007 and 2006, 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, 2007 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, 2007

## **Non-Consolidated Financial Section**

Non-Consolidated Balance Sheets	36
Non-Consolidated Statements of Income	37
Non-Consolidated Statement of Changes in Net Assets	38
Non-Consolidated Statement of Stockholders' Equity	40
Notes to Non-Consolidated Financial Statements	41
Report of Independent Auditors	45

# Non-Consolidated Balance Sheets

Suruga Bank Ltd.

As of March 31,	Millions of yen			Thousands of U.S. dollars (Note 2)
	2007	2006	Change from 2006	2007
<b>ASSETS:</b>				
Cash and Due from Banks	101,872	70,215	31,657	862,961
Call Loans	170,558	200,601	(30,043)	1,444,800
Monetary Claims Bought	396	397	(1)	3,354
Trading Account Securities	499	499	0	4,234
Money Held in Trust	2,188	2,246	(58)	18,534
Securities	464,793	467,217	(2,424)	3,937,259
Loans and Bills Discounted	2,246,830	2,183,198	63,632	19,032,869
Foreign Exchanges	3,207	3,156	51	27,169
Other Assets	24,359	19,068	5,291	206,348
Premises and Equipment	—	45,137	(45,137)	—
Tangible Fixed Assets	32,905	—	32,905	278,740
Intangible Fixed Assets	10,282	—	10,282	87,100
Deferred Tax Assets	16,111	17,532	(1,421)	136,476
Customers' Liabilities for Acceptances and Guarantees	7,473	7,590	(117)	63,306
Reserve for Possible Loan Losses	(36,245)	(38,854)	2,609	(307,038)
<b>Total Assets</b>	<b>3,045,231</b>	<b>2,978,008</b>	<b>67,223</b>	<b>25,796,117</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>				
<b>Liabilities</b>				
Deposits	2,832,697	2,796,672	36,025	23,995,741
Call Money	2,361	822	1,539	20,000
Foreign Exchanges	12	14	(2)	106
Other Liabilities	24,854	13,402	11,452	210,538
Reserve for Bonus for Directors and Corporate Auditors	51	—	51	432
Reserve for Employees' Bonus	497	482	15	4,210
Reserve for Employee Retirement Benefits	—	223	(223)	—
Reserves under Special Laws	0	0	0	0
Acceptances and Guarantees	7,473	7,590	(117)	63,306
<b>Total Liabilities</b>	<b>2,867,946</b>	<b>2,819,207</b>	<b>48,739</b>	<b>24,294,335</b>
<b>Stockholders' Equity</b>				
Common Stock	—	30,043	—	—
Capital Surplus	—	18,585	—	—
Capital Surplus Reserve	—	18,585	—	—
Retained Earnings	—	105,013	—	—
Earned Surplus Reserve	—	30,043	—	—
Voluntary Reserves	—	59,872	—	—
Unappropriated Profits at the End of the Term	—	15,097	—	—
Net Unrealized Gains (Losses) on Securities, Net of Taxes	—	7,202	—	—
Treasury Stock	—	(2,044)	—	—
<b>Total Stockholders' Equity</b>	<b>—</b>	<b>158,800</b>	<b>—</b>	<b>—</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>—</b>	<b>2,978,008</b>	<b>—</b>	<b>—</b>
<b>Net Assets</b>				
Common Stock	30,043	—	—	254,496
Capital Surplus	18,585	—	—	157,440
Capital Surplus Reserve	18,585	—	—	157,440
Retained Earnings	122,402	—	—	1,036,870
Earned Surplus Reserve	30,043	—	—	254,496
Other Retained Earnings	92,359	—	—	782,374
Treasury Stock	(1,953)	—	—	(16,546)
<b>Total Stockholders' Equity</b>	<b>169,078</b>	<b>—</b>	<b>—</b>	<b>1,432,261</b>
Net Unrealized Gains (Losses) on Securities, Net of Taxes	8,080	—	—	68,448
Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	58	—	—	491
Total Valuation and Translation Adjustments	8,138	—	—	68,940
Subscription Rights to Shares	68	—	—	580
<b>Total Net Assets</b>	<b>177,285</b>	<b>—</b>	<b>—</b>	<b>1,501,781</b>
<b>Total Liabilities and Net Assets</b>	<b>3,045,231</b>	<b>—</b>	<b>—</b>	<b>25,796,117</b>

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)
	2007	2006	Change from 2006	2007
<b>Ordinary Income</b>	<b>97,320</b>	89,893	7,427	<b>824,401</b>
Interest Income	<b>81,341</b>	74,010	7,331	<b>689,039</b>
Interest on Loans and Discounts	<b>75,551</b>	69,940	5,611	<b>639,993</b>
Interest and Dividends on Securities	<b>3,665</b>	3,489	176	<b>31,048</b>
Trust Fees	<b>0</b>	0	0	<b>0</b>
Fees and Commissions	<b>13,525</b>	12,211	1,314	<b>114,572</b>
Other Operating Income	<b>1,292</b>	1,096	196	<b>10,946</b>
Other Income	<b>1,162</b>	2,576	(1,414)	<b>9,843</b>
<b>Operating Expenses</b>	<b>66,893</b>	67,158	(265)	<b>566,651</b>
Interest Expenses	<b>11,033</b>	6,755	4,278	<b>93,462</b>
Interest on Deposits	<b>5,372</b>	1,759	3,613	<b>45,509</b>
Fees and Commissions	<b>7,975</b>	7,130	845	<b>67,560</b>
Other Operating Expenses	<b>211</b>	263	(52)	<b>1,793</b>
General and Administrative Expenses	<b>37,861</b>	36,487	1,374	<b>320,723</b>
Other Expenses	<b>9,811</b>	16,520	(6,709)	<b>83,111</b>
<b>Ordinary Profits</b>	<b>30,427</b>	22,735	7,692	<b>257,749</b>
Extraordinary Profits	<b>2,995</b>	2,927	68	<b>25,371</b>
Extraordinary Losses	<b>215</b>	637	(422)	<b>1,828</b>
<b>Income before Income Taxes and Others</b>	<b>33,206</b>	25,024	8,182	<b>281,292</b>
Provision for Income Taxes and Others	<b>12,335</b>	1,437	10,898	<b>104,492</b>
Deferred Income Taxes	<b>792</b>	9,283	(8,491)	<b>6,709</b>
<b>Net Income</b>	<b>20,079</b>	14,304	5,775	<b>170,090</b>

See notes to non-consolidated financial statements.

## Non-Consolidated Statement of Changes in Net Assets

Suruga Bank Ltd.

	Millions of yen						
	Stockholders' Equity						
	Capital Surplus		Retained Earnings				Total Retained Earnings
	Capital Stock	Capital Surplus Reserve	Earned Surplus Reserve	Other Retained Earnings			
			Reserve for Retirement Benefits	Voluntary Reserve	Earned Surplus Brought Forward		
Balance at March 31, 2006	30,043	18,585	30,043	840	59,032	15,097	105,013
<b>Changes of Items During the Period</b>							
Dividends from Surplus						(2,630)	(2,630)
Bonus for Directors and Corporate Auditors						(50)	(50)
Net Income						20,079	20,079
Provision to Voluntary Reserves					11,000	(11,000)	—
Repurchase of Treasury Stock							
Disposal of Treasury Stock						(9)	(9)
Net Changes of Items Other than Stockholders' Equity							
Total					11,000	6,389	17,389
<b>Balance at March 31, 2007</b>	<b>30,043</b>	<b>18,585</b>	<b>30,043</b>	<b>840</b>	<b>70,032</b>	<b>21,487</b>	<b>122,402</b>

	Millions of yen						
	Stockholders' Equity		Valuation and Translation Adjustments			Subscription Rights to Shares	Total Net Assets
	Treasury Stock	Total Stockholders' Equity	Net Unrealized Gains (Losses) on Available-for-sale Securities	Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	Total Valuation and Translation Adjustments		
Balance at March 31, 2006	(2,044)	151,598	7,202	—	7,202	—	158,800
<b>Changes of Items During the Period</b>							
Dividends from Surplus		(2,630)					(2,630)
Bonus for Directors and Corporate Auditors		(50)					(50)
Net Income		20,079					20,079
Provision to Voluntary Reserves		—					—
Repurchase of Treasury Stock	(168)	(168)					(168)
Disposal of Treasury Stock	259	249					249
Net Changes of Items Other than Stockholders' Equity			878	58	936	68	1,004
Total	90	17,480	878	58	936	68	18,485
<b>Balance at March 31, 2007</b>	<b>(1,953)</b>	<b>169,078</b>	<b>8,080</b>	<b>58</b>	<b>8,138</b>	<b>68</b>	<b>177,285</b>

See notes to non-consolidated financial statements.

## Non-Consolidated Statement of Changes in Net Assets

Suruga Bank Ltd.

	Thousands of U.S. dollars (Note 2)						
	Stockholders' Equity						
	Capital Surplus		Retained Earnings				
	Capital Stock	Capital Surplus Reserve	Earned Surplus Reserve	Other Retained Earnings			Total Retained Earnings
			Reserve for Retirement Benefits	Voluntary Reserve	Earned Surplus Brought Forward		
Balance at March 31, 2006	254,496	157,440	254,496	7,115	500,061	127,892	889,565
<b>Changes of Items During the Period</b>							
Dividends from Surplus						(22,281)	(22,281)
Bonus for Directors and Corporate Auditors						(423)	(423)
Net Income						170,090	170,090
Provision to Voluntary Reserves					93,180	(93,180)	—
Repurchase of Treasury Stock							
Disposal of Treasury Stock						(79)	(79)
Net Changes of Items Other than Stockholders' Equity							
Total					93,180	54,124	147,305
<b>Balance at March 31, 2007</b>	<b>254,496</b>	<b>157,440</b>	<b>254,496</b>	<b>7,115</b>	<b>593,241</b>	<b>182,016</b>	<b>1,036,870</b>

	Thousands of U.S. dollars (Note 2)						
	Stockholders' Equity		Valuation and Translation Adjustments			Subscription Rights to Shares	Total Net Assets
	Treasury Stock	Total Stockholders' Equity	Net Unrealized Gains (Losses) on Available-for-sale Securities	Net Deferred Gains (Losses) on Hedging Instruments, Net of Taxes	Total Valuation and Translation Adjustments		
Balance at March 31, 2006	(17,315)	1,284,185	61,008	—	61,008	—	1,345,194
<b>Changes of Items During the Period</b>							
Dividends from Surplus		(22,281)					(22,281)
Bonus for Directors and Corporate Auditors		(423)					(423)
Net Income		170,090					170,090
Provision to Voluntary Reserves		—					—
Repurchase of Treasury Stock	(1,424)	(1,424)					(1,424)
Disposal of Treasury Stock	2,194	2,115					2,115
Net Changes of Items Other than Stockholders' Equity			7,439	491	7,931	580	8,512
Total	769	148,075	7,439	491	7,931	580	156,587
<b>Balance at March 31, 2007</b>	<b>(16,546)</b>	<b>1,432,261</b>	<b>68,448</b>	<b>491</b>	<b>68,940</b>	<b>580</b>	<b>1,501,781</b>

See notes to non-consolidated financial statements.



## Non-Consolidated Statement 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
<b>Balance at March 31, 2005</b>	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)		
Bonus for Directors and Corporate Auditors						(30)		
Losses on Sales of Treasury Stock						(71)		
Net Change During the Year							2,305	511
<b>Balance at March 31, 2006</b>	264,939	30,043	18,585	30,043	59,872	15,097	7,202	(2,044)

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 representations 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 ¥118.05 = U.S.\$1.00, the exchange rate prevailing on March 31, 2007. 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Japanese government bonds	¥316,515	¥336,086	\$2,681,197
Local government bonds	27,344	19,989	231,635
Corporate bonds	17,341	16,119	146,900
Corporate stock	58,672	57,750	497,013
Other securities	44,919	37,272	380,511
<b>Total</b>	<b>¥464,793</b>	<b>¥467,217</b>	<b>\$3,937,259</b>
Shares of subsidiaries included in corporate stock	¥ 712	¥ 712	\$ 6,038

## 4. Loans and Bills Discounted

(a) Loans and bills discounted at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Bills discounted	¥ 4,532	¥ 4,274	\$ 38,392
Loans on bills	150,843	192,157	1,277,796
Loans on deeds	1,891,307	1,809,536	16,021,239
Overdrafts	200,146	177,229	1,695,440
<b>Total</b>	<b>¥2,246,830</b>	<b>¥2,183,198</b>	<b>\$19,032,869</b>

(b) Loans and bills discounted at March 31, 2007 and 2006 included the following items:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans to companies under bankruptcy procedures	¥ 1,193	¥ 2,451	\$ 10,109
Delinquent loans	50,878	68,462	430,987
Loans past due 3 months or more	1,185	1,211	10,038
Restructured loans	35,849	39,796	303,680
<b>Total</b>	<b>¥89,105</b>	<b>¥111,922</b>	<b>\$754,815</b>

## Notes to Non-Consolidated Financial Statements

### 5. Fixed Assets

Fixed assets at March 31, 2007 and 2006 were as follows:

Asset category	Millions of yen						
	Balance at previous term-end	Increase during reporting term	Decline during reporting term	Balance at reporting term-end	Accumulated depreciation at term-end	Depreciation during reporting term	Net book value at term-end
2007							
Tangible fixed assets							
Land	¥15,648	¥ 743	¥ 80	¥16,311	¥ —	¥ —	¥16,311
Buildings	22,044	549	278	22,315	15,965	572	6,350
Equipment	24,752	2,450	2,525	24,678	14,534	1,252	10,144
Construction in progress account	—	99	—	99	—	—	99
<b>Total</b>	<b>¥62,445</b>	<b>¥3,842</b>	<b>¥2,884</b>	<b>¥63,404</b>	<b>¥30,499</b>	<b>¥1,825</b>	<b>¥32,905</b>
Intangible fixed assets							
Software	¥ —	¥ —	¥ —	¥13,465	¥ 9,156	¥1,361	¥ 4,308
Software suspense account	—	—	—	5,552	—	—	5,552
Other	—	—	—	572	150	0	421
<b>Total</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥19,589</b>	<b>¥ 9,307</b>	<b>¥1,361</b>	<b>¥10,282</b>
Others	¥ 4,935	¥ 153	¥ 112	¥ 4,976	¥ 0	¥ —	¥ 4,976

(Notes) 1. The amounts recorded on the balance sheet under the sub-categories of "land" and "buildings" within the category of "tangible fixed assets" are smaller than the amounts recorded above by ¥266 million (US\$2,260 thousand) for land and ¥65 million (US\$551 thousand) for buildings. These amounts represent the book values of leased assets of which the Bank is the sitting tenant, and are classified as "tangible fixed assets - other."

2. As the value of intangible fixed assets accounts for no more than 1,000th of the value of the Bank's total assets, and are thus immaterial, the relevant figures have been omitted from the above categories of Balance at previous term-end, Increase during reporting term, and Decline during reporting term.

3. "Others" includes guarantee money and rental deposits.

Asset category	Thousands of U.S. dollars						
	Balance at previous term-end	Increase during reporting term	Decline during reporting term	Balance at reporting term-end	Accumulated depreciation at term-end	Depreciation during reporting term	Net book value at term-end
2007							
Tangible fixed assets							
Land	\$132,556	\$ 6,297	\$ 679	\$138,174	\$ —	\$ —	\$138,174
Buildings	186,738	4,656	2,357	189,038	135,241	4,853	53,797
Equipment	209,681	20,760	21,394	209,047	123,117	10,609	85,929
Construction in progress account	—	838	—	838	—	—	838
<b>Total</b>	<b>\$528,977</b>	<b>\$32,553</b>	<b>\$24,431</b>	<b>\$537,099</b>	<b>\$258,358</b>	<b>\$15,463</b>	<b>\$278,740</b>
Intangible fixed assets							
Software	\$ —	\$ —	\$ —	\$114,063	\$ 77,564	\$11,531	\$ 36,498
Software suspense account	—	—	—	47,035	—	—	47,035
Other	—	—	—	4,845	1,278	4	3,566
<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$165,944</b>	<b>\$ 78,843</b>	<b>\$11,535</b>	<b>\$ 87,100</b>
Others	\$ 41,809	\$ 1,301	\$ 954	\$ 42,157	\$ 4	\$ —	\$ 42,152

	Millions of yen
2006	
Land	¥15,648
Buildings	22,044
Furniture and equipment	24,752
Guarantee money, net	5,356
Software, net	7,282
	75,084
Less: accumulated depreciation	(29,947)
<b>Fixed assets, net</b>	<b>¥45,137</b>

## 6. Deposits

Deposits at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current deposits	¥ 73,774	¥ 80,407	\$ 624,942
Ordinary deposits	1,054,999	1,183,381	8,936,884
Deposits at notice	82,601	18,000	699,715
Time deposits	1,455,364	1,366,375	12,328,369
Other deposits	165,958	148,507	1,405,829
<b>Total</b>	<b>¥2,832,697</b>	<b>¥2,796,672</b>	<b>\$23,995,741</b>

## 7. Common Stock

Common stock was as follows:

- (1) Authorized: 400,000,000 shares no par value at March 31, 2007 and 2006
- (2) Issued and outstanding: 264,939,248 shares at March 31, 2007 and 2006
- (3) Treasury stock: 1,772,000 shares at March 31, 2007

## 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
	2007	2006	2007
Net income	¥ 76.31	¥ 54.29	\$0.646
Net assets	673.40	603.68	5.704
Diluted net stock	¥ 76.16	¥ 54.21	\$0.645

## 10. Other Operating Income and Expenses

Other operating income and expenses for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
<b>Other operating income:</b>			
Gain on foreign exchange transactions	¥ 126	¥ 87	\$ 1,068
Gain on sales of bonds	88	222	746
Gain on redemption of bonds	1,057	786	8,959
Other	20	—	172
<b>Total</b>	<b>¥1,292</b>	<b>¥1,096</b>	<b>\$10,946</b>
<b>Other operating expenses:</b>			
Loss on sales of bonds	¥ 45	¥ 24	\$ 383
Loss on redemption of bonds	166	224	1,409
Other	—	14	—
<b>Total</b>	<b>¥ 211</b>	<b>¥ 263</b>	<b>\$ 1,793</b>

## 11. General and Administrative Expenses

General and administrative expenses for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Salaries and allowances	¥13,639	¥13,561	\$115,543
Depreciation	3,193	3,090	27,051
Taxes	2,207	2,071	18,701
Other	18,820	17,764	159,425
<b>Total</b>	<b>¥37,861</b>	<b>¥36,487</b>	<b>\$320,723</b>

## 12. New standards for presentation of net assets

Effective from the year ended March 2007, the Bank has adopted new standards for the presentation of net assets in accordance with the Business Accounting Standard for Presenting Net Assets (Business Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and Guidelines for the Application of Business Accounting Standard for Presenting Net Assets (Implementation Guidance for Business Accounting Standards No. 8, on December 9, 2005). Amounts equivalent to shareholders' equity under the previous standards came to ¥177,158 million (US\$1,500,709 thousand) as of the balance-sheet date. The net asset section for the reporting term was prepared in accordance with changes in regulations for preparing financial statements and Enforcement Regulations to the Banking Law.

### 13. Stock options

Effective from the year ended March 2007, the Bank has applied new accounting standards to stock options granted on and after May 1, 2007, in accordance with the Business Accounting Standard for Stock Option (Business Accounting Standard No. 8 issued by the Accounting Standards Board of Japan on December 27, 2005) and Guidelines for the Application of Business Accounting Standard for Stock Option (Implementation Guidance for Business Accounting Standards No. 11, on December 27, 2005). As a result, total income and income before income taxes decreased by ¥68 million (US\$580 thousand).

### 14. Reserve for bonus for directors and corporate auditors

The reserve is provided for the payment of bonus for directors and corporate auditors, an estimate of which is determined as of the balance sheet date.

#### (Changes in accounting standards)

Previously, bonus for directors and corporate auditors was accounted for as a reduction in unappropriated retained earnings at the payments. Effective from the year ended March, 2007, the Bank has applied "Accounting Standard for directors' bonuses" (Accounting Standards Board of Japan ("ASBJ") Statement No. 4 November 29, 2005). Under the new standards, payments of bonus for directors and corporate auditors are treated as expenses. Accordingly, the reserve for bonus for directors and corporate auditors is maintained at the amount accrued at the term-end, based on a portion attributable to their services provided during the term. As a result, operating expenses increased by ¥51 million (US\$432 thousand) over the corresponding figure calculated under the previous standards, and total income and income before income taxes decreased by the same amount.

## 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, 2007 and 2006, and the related non-consolidated statements of income for the years then ended, changes in net assets for the year ended March 31, 2007 and shareholders' equity for the year ended March 31, 2006, 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. as of March 31, 2007 and 2006, 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, 2007 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, 2007





**SURUGA bank**

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