

Financial Highlights

Consolidated Basis

	Millions of Yen		
	2001	2000	1999
As of March 31			
Total Assets	2,866,207	2,749,937	2,679,376
Deposits and NCD	2,468,107	2,369,048	2,301,447
Loans and Bills Discounted	1,794,856	1,766,322	1,770,610
Investment Securities	791,125	680,442	487,661
Shareholders' Equity	193,976	157,969	153,627
Years ended March 31			
Total Income	91,891	86,612	96,252
Total Expenses	80,133	76,117	91,385
Income before Income Taxes and Minority Interests	11,757	10,494	4,866
Net Income	5,585	5,535	1,901
Cash Dividends	1,261	1,156	1,051
Capital Adequacy Ratio	12.45%	11.92%	11.34%
Per Share			
	Yen		
Net Income	26.56	26.32	9.04
Cash Dividends	6.00	6.00	5.00

Non-Consolidated Basis

	Millions of Yen				
	2001	2000	1999	1998	1997
As of March 31					
Total Assets	2,837,187	2,721,675	2,642,392	2,578,554	2,457,371
Deposits and NCD	2,471,744	2,372,758	2,303,660	2,221,782	2,115,457
Loans and Bills Discounted	1,805,105	1,777,325	1,775,263	1,689,205	1,622,570
Investment Securities	789,134	679,018	486,362	417,705	523,482
Shareholders' Equity	193,964	157,792	153,288	124,349	120,717
Years ended March 31					
Total Income	78,459	72,074	81,531	99,509	90,606
Total Expenses	67,309	62,119	77,746	89,578	80,561
Income before Income Taxes	11,150	9,954	3,785	9,931	10,045
Net Income	5,766	5,703	1,916	3,994	5,744
Capital Adequacy Ratio	12.30%	11.81%	11.30%	11.25% *	10.85%
Per Share					
	Yen				
Net Income	27.40	27.10	9.10	19.02	27.42

Note: The Bank had adopted BIS international standards for the calculation of capital adequacy ratio until the previous fiscal year. However, a partial revision of the Banking Law enforcement regulations had made the Bank subject to domestic standards from the fiscal year under review.

Message from the President



local service region, where we renewed our focus on loans to both corporate and individual customers.

This strategy has had the intended effect. The Kagoshima Bank is recognized today as one of Japan's best-managed banks, with a high capital adequacy ratio and a low level of risk-monitored loans. The soundness of our financial position has been confirmed by our Standard & Poor's rating of "A-" and an outlook of "stable".

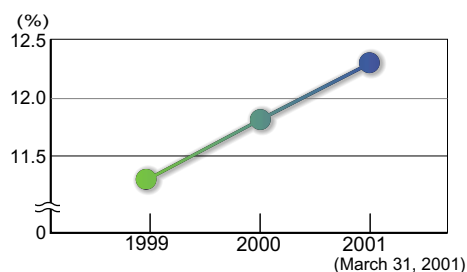
1. Excellent Progress since 1992

Since my appointment as president of The Kagoshima Bank, Ltd., in June 1992, I have been keenly aware of the need for the Bank to take decisive action in relation to the changing financial environment brought on by the continuing deregulation of Japan's financial sector and the instability that has resulted from the collapse of country's economic bubble. As a result, the Bank has until recently focused primarily on a defensive strategy intended to strengthen its corporate financial strength.

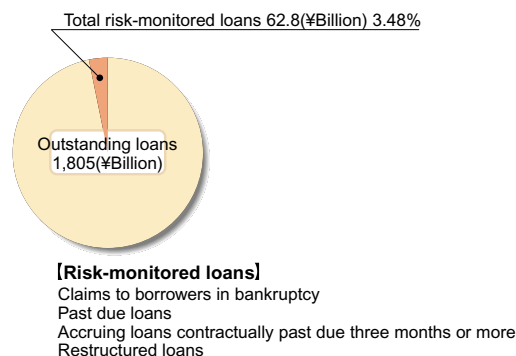
This strategy has been based around the twin pillars of reducing operating costs and credit costs, the latter by improving the quality of the Bank's loan assets. To reduce operating costs, we installed new computer systems and have vigorously championed the use of ATM and electronic banking, for significantly more efficient operations. To further decrease expenses, we changed to a multi-office sales implementation and streamlined office operations.

Credit costs were lowered by aggressively reducing outstanding loan balances held by high-risk large enterprises and overseas customers in the Tokyo and Osaka areas, and instead returning our attention to our

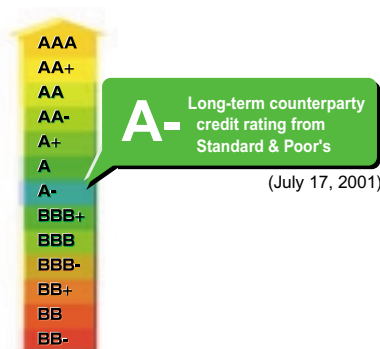
● Capital adequacy ratio (Domestic standard)



● Risk-monitored loans (March 31, 2001)

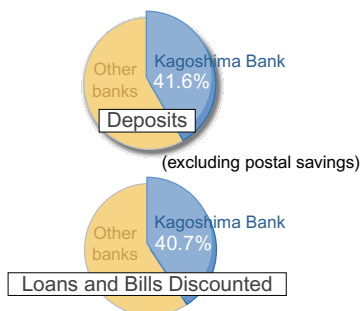


● Rating



● Market shares within the prefecture

(March 31, 2001)



2. A New Vision amid Ongoing Change

In April 2000, the Bank launched its First Business Strategy Plan. This master plan marked the Bank's change in strategy from defensive to offensive by setting out the goal of expanding the Bank's revenue opportunities. The plan also calls for the continuation of the Bank's comprehensive risk management programs to preserve its financial soundness while building on the trust placed in the Bank by its customers, investors and securities markets.

Toward this end, the following four objectives have been established:

1. Development of markets that are currently under-served (e.g., primary industry and venture capital enterprises)
2. Strengthening of loan services and diversified asset management services to individuals
3. Aggressive promotion of electronic banking and use of information technology
4. Increasing revenues from settlement services fees

These objectives were specified by the plan as essential for improved profitability and growth. The overall goal has been defined as the development of a strong, trustworthy bank.

3. New Direction as a Regional Bank

The Bank's new vision is based on the further development of its local service region. This focus is clearly different from the policies of Japan's major banking institutions. We are working to become and remain a strong regional bank that is capable of meeting the full range of financial requirements of the residents of Kagoshima Prefecture.

We believe that a regional bank should maximize the value of its leading position in its local service region by providing low-cost, one-stop service to its customers in a variety of convenient forms and locations. In short, we aim to become a private bank for the people of the prefecture.

The phrase "private bank" is often interpreted as meaning a bank that provides investment opportunities to the wealthy, but because our objective is to earn and keep the trust of the people we serve, we believe that a strong focus on "the people of the prefecture" is a key aspect of our strategy. We are working toward the day when our customers fondly refer to the Kagoshima Bank as "my bank."

To achieve this, customers will be encouraged to make even greater use of the Bank's settlement services, the Bank currently holding the greatest share of such accounts in its local service region. We will build on this strong foundation to provide our customers with an ever-growing portfolio of services from which reasonable fees can be generated.

Yoshio Ohno
President

The First Business Strategy Plan

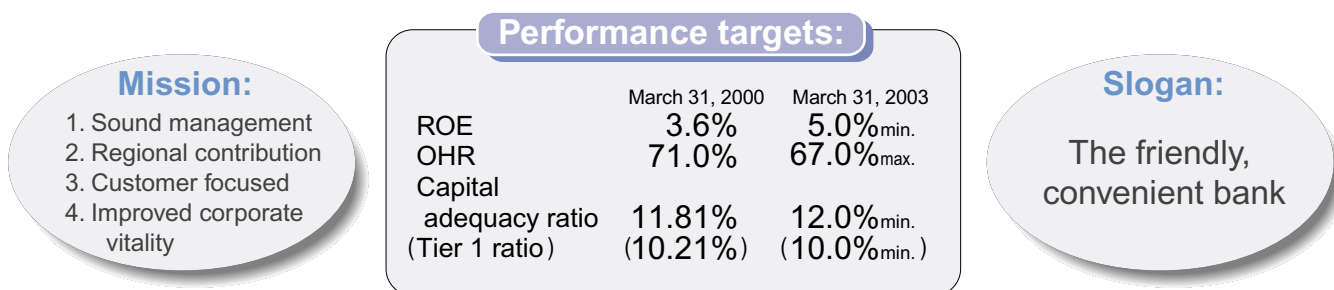
(The Master Plan)

(April 1, 2000, to March 31, 2003)

In April 2000, the Bank, recognizing the importance of a more proactive strategy enabling rapid response to dramatic change in financial markets, reviewed its medium-term management plan. From this review the First Business Strategy Plan was developed. This master plan specifies the achievement of the primary goal of the Bank through seven strategic directions grouped under two key strategies: the Balance Sheet Strategy and the Relationship Strategy.

The plan calls for continued development of the Bank's existing strengths in the forms of deep customer relations and a high capital adequacy ratio together with effective use of information technology to accurately understand customer needs and thereby provide a comprehensive range of high-quality financial services. The plan also provides for enhanced financial soundness and increased profitability, thereby making it possible to return more to our shareholders, customers, local service region and employees.

Conceptual Diagram



Basic Management policies

Role: Specialize in financing and settlement services

Base for Development: Provision of comprehensive, high-quality financial services based on an accurate understanding of customer needs

Results: Strive to enhance profitability while ensuring corporate soundness

Contribution: Provide for our customers, our region, our shareholders and our employees

Primary goals

Enhanced corporate value

Enhanced satisfaction of regional customers

Enhanced employee morale

Enhanced risk management capabilities and systems

1. Renewed focus on our core competence
Effective leverage of existing deep relationships with customers and a solid capital adequacy ratio

Strategic Approach

2. Strategic use of information technology

Balance Sheet Strategy

Financing strategy
Comprehensive financing and settlement service strategy
Securities investment strategy
Information technology strategy

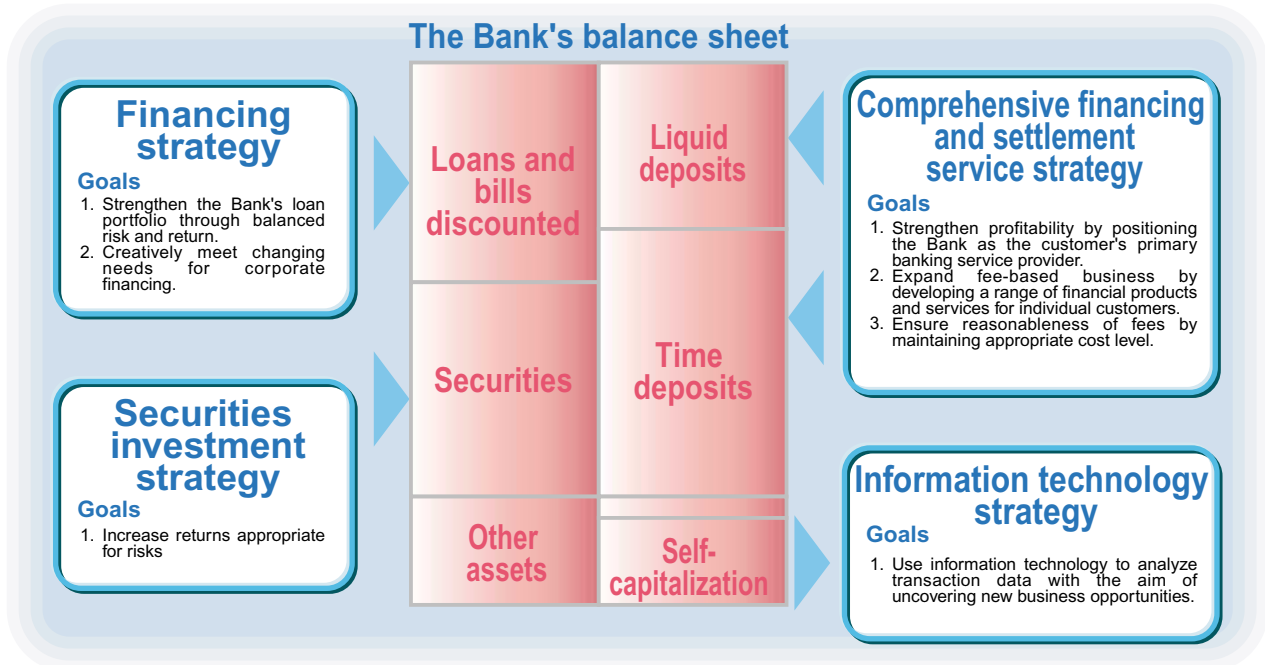
Key Strategies

Relationship Strategy

Channel strategy
Public relations and investor relations strategy
Customer satisfaction and employee satisfaction strategy

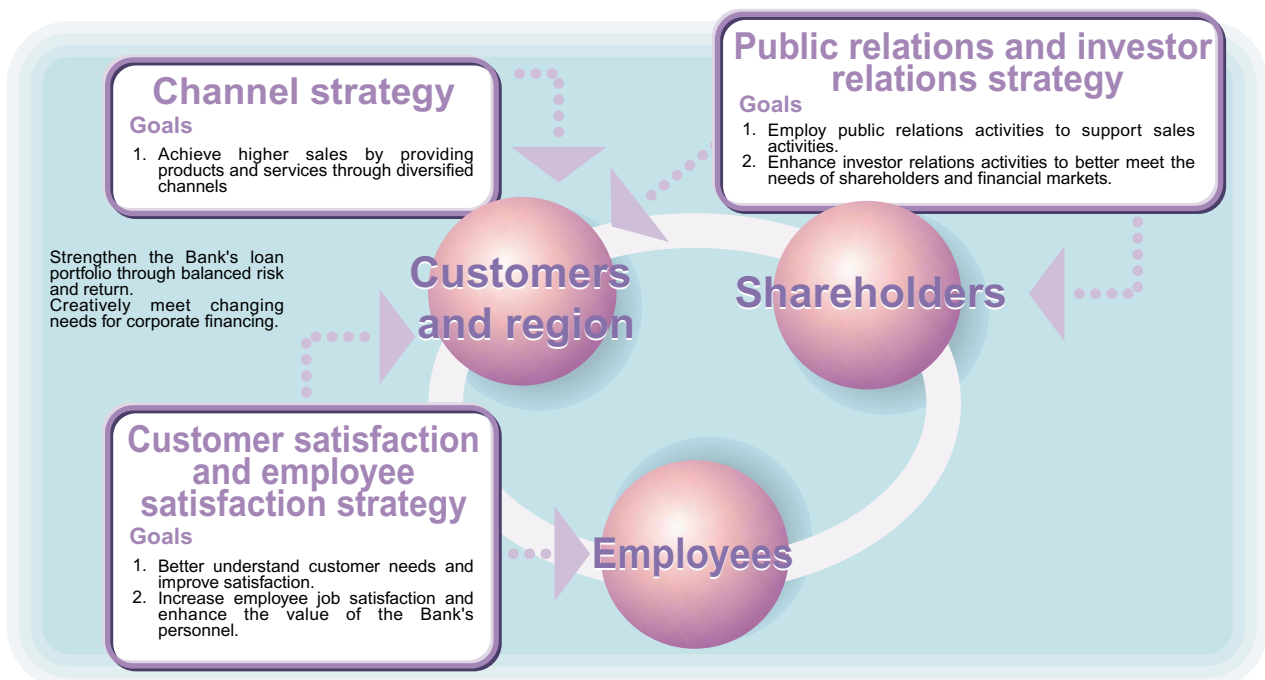
Goals of the Balance Sheet Strategy

This strategy aims to improve overall profitability and financial soundness by taking the Bank's entire balance sheet into consideration.



Goals of the Relationship Strategy

This strategy calls for strengthening our relationships with and improving satisfaction among our stakeholders (customers, the region, shareholders and employees).



Key Issues

Balance Sheet Strategy

1. Financing strategy

[Corporate Clients]

- (1) Clarify policies for serving existing accounts and accelerate the development of new accounts.
- (2) Actively develop clients in new economic sectors (home healthcare, hybrids, environmental technology, etc.)
- (3) Apply knowledge gained through analysis of customer Strengths lending to regions adjacent to our home region.
- (4) Ensure the use of appropriate interest rates for loans.
- (5) Continue to refine credit risk management methods.

[Individual Clients]

- (1) Accelerate loans to individual clients through timely reviews of the personal loan stance.

[Local Government Clients]

- (1) Review transactions with local governments in light of current market principles.

3. Securities investment strategy

- (1) Achieve expanded returns appropriate to the diversification of the Bank's investment management methods.
- (2) Continue to enhance risk management methods.
- (3) Formulate operational policies based on risk-return analysis and strengthen oversight capabilities.

2. Comprehensive financing and settlement service strategy

- (1) Position the Bank as the customer's primary banking services provider and encourage greater use of the full range of Bank services.
- (2) Deepen relationships with large-scale asset-holders with an eye toward possible alliances.
- (3) Apply knowledge gained through analysis of customer needs to deepen relationships with medium-scale asset-holders.
- (4) Expand transactions with the Bank's core of individual customers.
- (5) Strengthen activity in asset management services and investigate alliances with other financial and related firms.
- (6) Research appropriate fee levels for services and implement accordingly.
- (7) Fully explain all products and services to customers.

4. Information technology strategy

- (1) Research, develop and implement information technology strategy centered on a core department.
- (2) Research and undertake organizational restructuring appropriate to the Bank's business diversification and information technology strategies.
- (3) Develop and implement systems capable of undertaking new business and utilizing increasingly diverse channels.
- (4) Improve management and utilization of customer information, and implement customer relationship management systems.
- (5) Develop and implement a branch office structure that supports these operational objectives.
- (6) Implement activity-based costing systems for reviews of department performance and to support the allocation of corporate assets.
- (7) Ensure that customer information is safeguarded by a comprehensive privacy policy.

Relationships Strategy

5. Channel strategy

- (1) Make strategic use of direct channels, particularly for the core of individual customers.
- (2) Clarify branch office strategies based on market analysis.
- (3) Restructure the branch office network for improved efficiency.

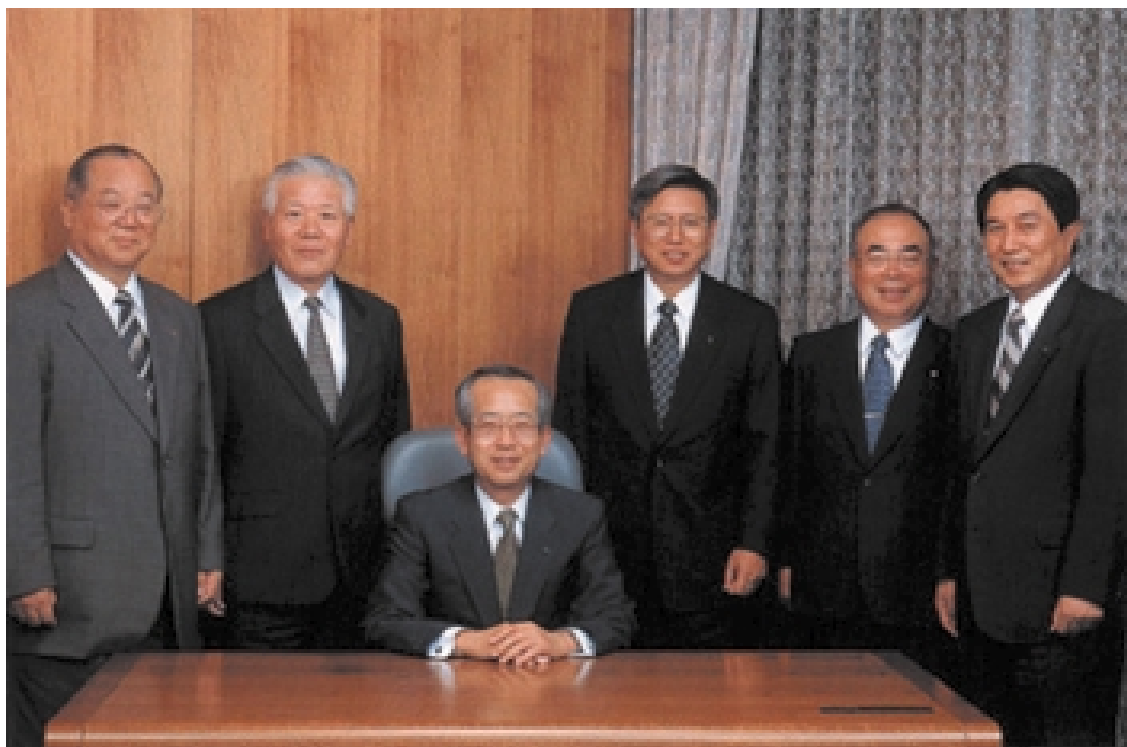
6. Public relations and investor relations strategy

- (1) Review advertising and public relations activities to better support sales.
- (2) Promote understanding of corporate activity through enhanced information provision to shareholders and potential investors.
- (3) Continue the Bank's current approach to environmental issues.

7. Customer satisfaction and employee satisfaction strategy

- (1) Review and apply results of customer satisfaction surveys to better understand the full range of customer needs.
- (2) Undertake and act on the results of employee satisfaction surveys to improve employee morale.
- (3) Provide opportunities for employees to select and develop their own career paths.

Board of Directors and Corporate Auditors



Koichi Kikuchi

Shigeaki Mori

Yoshio Ohno

Noritaka Hagiwara

Makihide Ikeda

Yasutaka Takeda

■ President

Yoshio Ohno

■ Senior Managing Directors

Noritaka Hagiwara

Shigeaki Mori

■ Managing Directors

Makihide Ikeda

Koichi Kikuchi

Yasutaka Takeda

■ Directors

Minoru Enokiya

Toshiro Yamaguchi

Tsunenobu Uwatoko

Fumiharu Nagata

Hiroshi Beppu

Tomio Sugiyama

Toshiharu Imamura

■ Standing Corporate Auditor

Shigehiko Sugimura

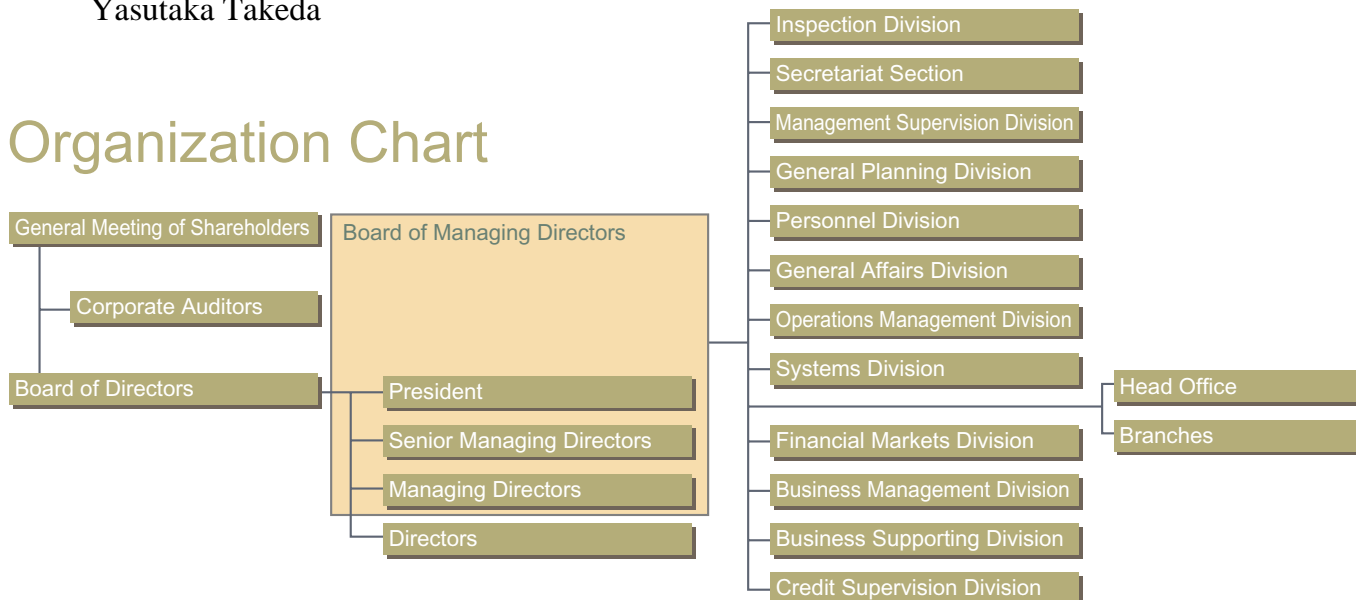
■ Corporate Auditors

Torao Kawano

Kyoichi Iwamoto

Noriyuki Iwamoto

Organization Chart



Bank Data

ESTABLISHED:
October 1879

PAID-IN CAPITAL:
¥18,130,760,235

HEAD OFFICE:
6-6 Kinseicho
Kagoshima 892-0828, Japan
Tel.: (099) 225-3111

FINANCIAL MARKETS DIVISION:
TOKYO MONEY MARKET CENTER
13-11, Nihombashi 3-chome,
Chuo-ku, Tokyo 103-0027
Tel.: (03) 3272-3196
Telex: 02223290 KAGOBK J
Fax: (03) 3272-3180

HONG KONG
REPRESENTATIVE OFFICE:
32F, Jardine-House,
No.1 Connaught Place Central,
Hong Kong
Tel.: 2521-5419
Telex: 81908 KGBHK HX

NUMBER OF BRANCHES:
175, plus 156 off-branch
cash dispensers and
automatic teller machines

CORRESPONDENT BANKS:
284 branches of 64 banks,
in 120 cities of 33 countries

NUMBER OF EMPLOYEES:
2,427

NUMBER OF SHARES:
Issued —
210,403,655
Authorized —
800,000,000

NUMBER OF SHAREHOLDERS:
8,410

RATING:
Long-term counterparty credit rating from
Standard & Poor's A-

GROUP COMPANIES AT A GLANCE

Name of Company	Address	Capital (Millions of Yen)	Equity Share	Equity Share of Other Group Companies	Established	Line of Business
The Kagin Business Service Co., Ltd	29-1, Kamoike 2-chome, Kagoshima 890-0063 Phone: 099-257-3111	20	100.0%		September 1, 1983	Maintenance and management of CD and other equipment; collateral evaluation; etc.
The Kagin System Service Co., Ltd	29-1, Kamoike 2-chome, Kagoshima 890-0063 Phone: 099-257-0321	20	100.0%		October 1, 1985	Electronic data processing, software development, etc.
The Kagin Office Service Co., Ltd	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-227-2141	30	100.0%		July 12, 1991	Personnel dispatch service
The Kagoshima Regional Economic Research Institute Co., Ltd	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-225-7491	20	45.0%	50.0%	April 16, 1990	Surveys and research in industry, economics, finance and regional development
The Kagoshima Card Co., Ltd	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-223-2011	50	25.0%	38.0%	March 1, 1983	Credit card business, loan guarantee financing, etc.
The Kagoshima Lease Co., Ltd	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-225-2455	66	5.0%	48.5%	September 25, 1974	Leasing, factoring, securities investment, etc.
The Kagoshima Guarantee Service Co., Ltd	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-224-2760	20	2.5%	32.5%	June 23, 1977	Loan guarantees for housing and consumer loans

(as of end June 2001)

Consolidated Balance Sheets

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets			
Cash and due from banks	¥ 41,785	¥ 40,383	\$ 337,248
Call loans and bills purchased	87,390	118,409	705,327
Commercial paper and other debt purchased	3,571	3,081	28,825
Trading account securities (Note 3)	2,117	410	17,092
Money held in trust (Note 3)	11,814	3,500	95,357
Investment securities (Notes 3 and 7)	791,125	680,442	6,385,197
Loans and bills discounted (Notes 4 and 7)	1,794,856	1,766,322	14,486,329
Foreign exchanges (Note 5)	389	887	3,141
Other assets	46,421	39,176	374,670
Premises and equipment (Note 6)	63,569	65,747	513,074
Deferred tax assets (Note 15)	830	12,231	6,700
Excess of net assets acquired over cost	604	835	4,882
Customers' liabilities for acceptances and guarantees (Note 11)	44,981	43,814	363,047
Reserve for possible loan losses	(23,250)	(25,306)	(187,657)
	<u>¥2,866,207</u>	<u>¥2,749,937</u>	<u>\$23,133,232</u>
Liabilities, Minority Interests and Shareholders' Equity			
Liabilities:			
Deposits (Note 8)	¥2,429,157	¥2,360,598	\$19,605,789
Negotiable certificates of deposits	38,950	8,450	314,369
Call money and bills sold	74,488	67,853	601,201
Borrowed money (Note 9)	15,337	17,082	123,792
Foreign exchanges (Note 5)	46	37	374
Other liabilities (Note 15)	32,263	70,854	260,398
Reserve for retirement allowances	-	5,578	-
Employee retirement benefit liability (Note 10)	9,198	-	74,238
Deferred tax liabilities (Note 15)	9,806	-	79,148
Deferred tax liabilities for revaluation (Note 6)	12,312	12,462	99,371
Acceptances and guarantees (Note 11)	44,981	43,814	363,047
Total liabilities	<u>2,666,542</u>	<u>2,586,732</u>	<u>21,521,727</u>
Minority interests in consolidated subsidiaries	5,688	5,235	45,915
Shareholders' equity (Notes 12 and 16):			
Common stock, ¥50 par value-			
Authorized: 800,000,000 shares			
Issued: 210,403,655 shares in 2001 and 2000	18,130	18,130	146,334
Capital surplus	11,204	11,204	90,430
Land revaluation increment (Note 6)	17,213	17,423	138,929
Retained earnings	115,749	111,257	934,215
Net unrealized gains on available-for-sale securities	31,725	-	256,056
Less, treasury stock, at cost	(46)	(46)	(374)
Total shareholders' equity	<u>193,976</u>	<u>157,969</u>	<u>1,565,590</u>
	<u>¥2,866,207</u>	<u>¥2,749,937</u>	<u>\$23,133,232</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Income:			
Interest on loans and discounts	¥ 46,254	¥ 45,227	\$ 373,317
Interest and dividends on securities	16,249	16,849	131,152
Other interest income	118	405	953
Fees and commissions	8,460	8,033	68,287
Other operating income	14,268	14,481	115,159
Gain on transfer of investment securities to trusts for retirement benefit plan	3,925	-	31,687
Other income	2,614	1,614	21,102
Total income (Note 17)	<u>91,891</u>	<u>86,612</u>	<u>741,657</u>
Expenses:			
Interest on deposits	4,192	4,566	33,837
Interest on borrowings and rediscounts	4,929	4,383	39,788
Other interest expenses	4,827	5,521	38,961
Fees and commissions	2,630	2,612	21,228
Other operating expenses	12,263	12,671	98,977
General and administrative expenses	38,578	39,067	311,368
Provision for possible loan losses	-	4,066	-
Transitional provision of adoption of new accounting standard for retirement benefits	9,287	-	74,962
Other expenses	3,424	3,227	27,638
Total expenses (Note 17)	<u>80,133</u>	<u>76,117</u>	<u>646,759</u>
Income before income taxes and minority interests	<u>11,757</u>	<u>10,494</u>	<u>94,898</u>
Income taxes (Note 15)	5,821	4,537	46,988
Minority interests in net income of consolidated subsidiaries	350	422	2,827
Net income	<u>¥ 5,585</u>	<u>¥ 5,535</u>	<u>\$ 45,083</u>
Per share:			
Net income	¥ 26.56	¥ 26.32	\$ 0.21
Cash dividends	6.00	6.00	0.05

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Number of shares issued	Common stock	Capital surplus	Land revaluation increment	Retained earnings	Net unrealized gains on available-for-sale securities	Treasury stock
Millions of Yen							
Balance at March 31, 1999	210,403,655	¥ 18,130	¥ 11,204	¥ 17,470	¥ 106,874	¥ -	¥ (52)
Net income for the year	-	-	-	-	5,535	-	-
Cash dividends	-	-	-	-	(1,156)	-	-
Bonuses to directors and corporate auditors	-	-	-	-	(42)	-	-
Reversal of land revaluation increment	-	-	-	(46)	46	-	-
Fractional shares sold, net	-	-	-	-	-	-	6
Balance at March 31, 2000	210,403,655	18,130	11,204	17,423	111,257	-	(46)
Net income for the year	-	-	-	-	5,585	-	-
Cash dividends	-	-	-	-	(1,261)	-	-
Bonuses to directors and corporate auditors	-	-	-	-	(42)	-	-
Reversal of land revaluation increment	-	-	-	(210)	209	-	-
Net unrealized gains on available-for-sale securities, net of applicable income taxes of ¥22,766 million	-	-	-	-	-	31,725	-
Balance at March 31, 2001	210,403,655	¥ 18,130	¥ 11,204	¥ 17,213	¥ 115,749	¥ 31,725	¥ (46)

	Thousands of U.S. Dollars						
Balance at March 31, 2000	\$ 146,334	\$ 90,430	\$ 140,629	\$ 897,961	\$ -	\$ (374)	
Net income for the year	-	-	-	45,083	-	-	
Cash dividends	-	-	-	(10,183)	-	-	
Bonuses to directors and corporate auditors	-	-	-	(339)	-	-	
Reversal of land revaluation increment	-	-	(1,700)	1,693	-	-	
Net unrealized gains on available-for-sale securities, net of applicable income taxes of \$183,750 thousand	-	-	-	-	256,056	-	
Balance at March 31, 2001	\$ 146,334	\$ 90,430	\$ 138,929	\$ 934,215	\$ 256,056	\$ (374)	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 11,757	¥ 10,494	\$ 94,898
Adjustments for:			
Depreciation	11,930	12,256	96,294
(Decrease) increase in reserve for possible loan losses	(2,055)	379	(16,592)
Interest income recognized on statement of income	(62,621)	(62,483)	(505,423)
Interest expenses recognized on statement of income	13,949	14,471	112,585
Net loss on sale or maturities of investment securities	2,032	2,076	16,403
(Increase) decrease in loans and bills discounted	(28,533)	4,288	(230,296)
Increase in deposits	68,558	63,701	553,339
Increase in negotiable certificates of deposits	30,500	3,900	246,168
Decrease in due from banks	1,556	73,917	12,565
Decrease in call loans and bills purchased	30,628	10,156	247,205
(Decrease) increase in call money and bills sold	(3,753)	3,101	(30,298)
(Decrease) increase in security deposits received relating to lending transactions	(46,928)	39,132	(378,758)
Interest income received	60,421	63,603	487,665
Interest expenses paid	(14,852)	(16,424)	(119,876)
Other, net	5,046	(4,145)	40,734
Subtotal	77,637	218,426	626,613
Income taxes paid	(7,321)	(3,391)	(59,093)
Net cash provided by operating activities	70,315	215,034	567,520
Cash flows from investing activities:			
Purchases of Investment securities	(393,263)	(348,728)	(3,174,037)
Proceeds from sale or maturities of investment securities	346,454	145,093	2,796,239
Net change in money held in trust	(8,500)	2,685	(68,604)
Purchases of premises and equipment	(11,702)	(11,557)	(94,454)
Proceeds from sale of premises and equipment	906	389	7,318
Net cash used in investing activities	(66,105)	(212,117)	(533,538)
Cash flows from financing activities:			
Dividends paid	(1,261)	(1,156)	(10,183)
Other, net	(5)	(6)	(44)
Net cash used in financing activities	(1,267)	(1,162)	(10,227)
Effect of exchange rate changes on cash and cash equivalents	14	(37)	120
Net increase in cash and cash equivalents	2,958	1,716	23,875
Cash and cash equivalents at beginning of year	34,786	33,069	280,761
Cash and cash equivalents at end of year	¥ 37,744	¥ 34,786	\$ 304,636

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries

1. Basis of Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of THE KAGOSHIMA BANK, LTD. (the "Bank") and its consolidated subsidiaries (together with the Bank, the "Group") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from application and disclosure requirements of International Accounting Standards. Certain items presented in the original consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The amounts shown in millions of Japanese Yen in the accompanying consolidated financial statements are stated by omitting the amounts less than one million Yen in accordance with the Legal Provisions. Accordingly, the sum of each Yen amount appearing in the accompanying consolidated financial statements and the notes thereto may not be equal to the sum of the individual account balances.

(b) U.S. dollar amounts

The Group maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen to U.S. dollars on a basis of ¥123.90 = \$1, the exchange rate at March 31, 2001. The inclusion of such dollar amounts is solely for convenience of the readers and is not intended to imply that Yen and assets and liabilities originated in Yen have been or could be readily converted, realized or settled in dollars at ¥123.90 = \$1 or at any other rate.

(c) Reclassification

Certain comparative figures have been reclassified to conform with the current year's presentations.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements included the accounts of the Bank and its significant seven subsidiaries at March 31, 2001 and 2000, respectively. All intercompany transactions and accounts have been eliminated. The difference between the cost of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition is amortized over five years by the straight-line method.

Though the Bank had eight subsidiaries primarily engaged in a wide range of financial services to customers and no affiliate at March 31, 2001 based on the self-judgment of the Bank for its subsidiary as an enterprise that is controlled by the Bank rather than that is owned for a majority voting interest, the accounts of one subsidiary were excluded from consolidation as no operating results substantially belong to the subsidiary. Investments in unconsolidated subsidiary are stated at cost, and were included in investment securities in the amount of ¥3 million (\$24 thousand) at March 31, 2001.

(b) Preparation of statement of cash flows

The accompanying consolidated statements of cash flows have been provided in accordance with "Opinion Concerning

Establishment of Standards for Preparation of Consolidated Statement of Cash Flows" issued by the Business Accounting Deliberation Council of Japan ("BADC") and related practical guideline issued by the Japanese Institute of Certified Public Accountants ("JICPA").

For the purpose of consolidated statements of cash flows, cash and cash equivalents consisted of cash and demand deposits from the Bank of Japan. At March 31, 2001, cash and cash equivalents are defined as the amounts included in cash and due from banks of ¥41,785 million (\$337,248 thousand), net of due amounts from banks other than the Bank of Japan of ¥4,040 million (\$32,612 thousand). At March 31, 2000, cash and cash equivalents are defined as the amounts included in cash and due from banks of ¥40,383 million, net of due amounts from banks other than the Bank of Japan of ¥5,597 million.

(c) Accounting for financial instruments

Effective April 1, 2000, the Group adopted "Opinion Concerning Establishment for Accounting Standard for Financial Instruments" issued by BADC and related practical guideline issued by JICPA. This new standard provides the new accounting methods for securities, derivatives and hedge accounting as mentioned below.

Adoption of the new accounting standard resulted in an increase in income before income taxes and minority interests for the year ended March 31, 2001 by ¥304 million (\$2,458 thousand), as compared with the previous accounting method.

(c-i) Trading account securities

Until the year ended March 31, 2000, trading account securities with market quotations on stock exchanges of the Bank were stated at the lower of cost or market, cost being determined by the moving average method. When market value of such securities valued on an individual basis was less than cost, the amount by which their cost exceeded market value was accounted for as a valuation allowance, and the change in the valuation allowance was included in the determination of net income of the period in which it occurred. Other trading account securities were carried at moving average cost.

From the year ended March 31, 2001, trading account securities are stated at fair value at the fiscal year-end. Related gains or losses, both realized and unrealized, are included in current earnings. Accrued interests on trading account securities are included in other assets.

(c-ii) Investment securities

Until the year ended March 31, 2000, equity securities and convertible bonds with market quotations on stock exchanges were stated at the lower of cost or market, cost being determined by the moving average method. When market value of such securities valued on an individual basis was less than cost, the amount by which their cost exceeded market value was accounted for as a valuation allowance, and the change in the valuation allowance was included in the determination of net income of the period in which it occurred. Other securities were carried at moving average cost.

Effective April 1, 2000, debt securities for which the Group has both positive intent and ability to hold to maturity are classified as held-to-maturity securities, and are stated at amortized cost. Marketable securities other than those classified as trading or held-to-maturity are classified as available-for-sale securities and carried at fair value, with net unrealized gains or losses reported on a separate component of shareholders' equity, net of applicable income taxes. Nonmarketable securities for available-for-sale securities are stated at moving average cost or amortized cost. Carrying values of individual investment securities are reduced, if

necessary, through write-downs to reflect other-than-temporary impairments in values. Gains and losses on disposition of investment securities are principally computed based on the moving average method. Accrued interests on securities are included in other assets. Funds entrusted to trust banks for securities (included in "Money held in trust") of the Bank were stated at fair value.

(c-iii) Derivatives and hedge accounting

The Group uses swaps, forward and options contracts, and other types of derivative contracts. These derivative instruments are used for trading purposes to generate revenues and fee income, and some of them are used to hedge exposures to fluctuations in interest and foreign exchange rates.

Effective April 1, 2000, derivatives entered into for trading purposes are carried at fair value, with unrealized and realized gains and losses recorded as current earnings. Derivatives used for hedge purposes are accounted for under certain method of hedge accounting, referred to as "Macro hedge" in which the Bank manages interest rate risks arising from various assets and liabilities with derivatives transactions as a whole. Under the macro hedge accounting, the Bank records the outstanding derivative transactions at fair value on the balance sheets. However, the Bank defers unrealized gains and losses on hedging instruments not attributable to the related gains and losses on the hedged items and records them as other assets or liabilities on the accompanying consolidated balance sheets. The Bank applies a risk adjustment approach in accordance with the report issued by JICPA "Tentative Treatments in Accounting and Audit for Banks on Application of Accounting Standard for Financial Instruments". Effectiveness of the macro hedge is reviewed for a reduction in interest rate risk exposure and for the actual risk amount of derivatives within the permitted risk amount under the Bank's risk control policies. In addition to the macro hedge accounting, the Group applies for another hedge accounting according to exceptional treatments permitted for interest rate swaps. Until the year ended March 31, 2000, the Bank recorded the derivative transactions on a settlement basis, except for foreign currency transactions as disclosed in Note 2(h).

(d) Loans and bills discounted, and reserve for possible loan losses

Loans and bills discounted are stated at the amount of unpaid principal. Unearned interest and discount are recorded as liabilities and recognized as income over the contract terms of the loans or bills.

The reserve for possible loan losses of the Bank is established to cover the future credit loss pursuant to the internal rules for self-assessment for asset quality and providing the reserve for possible loan losses. Loans written off are charged either to reserve for possible loan losses and/or current income. Recoveries of loans written off are recorded as other income.

Such a provision is made based on the Bank's internal rules for establishing for possible loan losses. For claims to borrowers in legal bankruptcy and virtual bankruptcy, a reserve has been provided based on the amounts of the claims net of the amounts expected to be collected through the disposal of collateral or from guarantees. For claims to borrowers having possibility of bankruptcy, a reserve has been provided at the amounts considered necessary based on an overall solvency assessment of the amounts from the claims net of the amounts expected to be collected through the disposal of collateral or from guarantees. For claims to borrowers except for those as mentioned above, a reserve has been provided based on the historical loss experience of the Bank for certain past period. All claims are being assessed by the Bank's operating divisions based on the Bank's internal rules for the self-assessment of asset quality. The inspection division, which is independent from operating divisions, conducts

audits of these assessments, and a reserve is provided based on the audit results.

The reserve of the consolidated subsidiaries has been provided for at the aggregate amounts of estimated credit loss for doubtful or troubled claims and a general reserve based on the historical loss experience for other claims.

(e) Premises and equipment, and depreciation

Premises and equipment of the Bank are stated at cost, less accumulated depreciation computed by the declining-balance method over the following estimated useful lives of the assets except for buildings. The buildings acquired on and after April 1, 1998 have been depreciated by the straight-line method over the estimated useful lives of the assets.

Buildings	19 years to 50 years
Equipment	2 years to 20 years

Premises and equipment of the consolidated subsidiaries have been principally depreciated by the straight-line method over the estimated useful lives of the assets.

(f) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Group as lessee is not capitalized and the relating rental and lease expenses are charged to income as incurred.

A certain consolidated subsidiary engaged in the leasing operations as lessor accounts for all of the lease contracts, including the financing leases, by the accounting treatments similar to operating leases as permitted by the accounting principles generally accepted in Japan.

(g) Cost of computer software developed or obtained for internal use

The Group adopted "Opinion Concerning Establishment of Accounting Standards for Research and Development Costs, and Software Costs." issued by BADC and related practical guideline issued by JICPA, which were implemented effective from the year ended March 31, 2000. Accordingly, costs of computer software developed or obtained for internal use are principally deferred and amortized by the straight-line method over the estimated useful lives of five years.

(h) Foreign currency translation

Foreign currency translation is accounted for in accordance with the accounting standards for Banks. Assets and liabilities denominated in foreign currencies are principally translated into Japanese Yen at the exchange rates prevailing at the balance sheet dates. Revenues and expenses are translated at the exchange rates at transaction dates. Gains or losses resulting from transactions are included in the determination of net income.

Foreign exchange trading positions, including all foreign currency spot, forward contracts and option positions are valued at prevailing market rates at balance sheet dates, and net gain or loss from foreign exchange trading is reported in other operating income or expenses.

(i) Employee retirement benefits

Employees who terminate their service with the Group are entitled to retirement benefits generally determined by the reference of current basic rates of pay, length of service and conditions under which the termination occurs.

The Bank has defined benefit pension plans, which cover substantially all of its employees. Some of the principal consolidated subsidiaries have also adopted the pension plans. Until the year ended March 31, 2000, the contribution to the pension plan was charged to income when paid, and the Group provided for a reserve for employees' retirement allowances at the full amount of liabilities assuming that all employees terminate the employment voluntarily at the balance sheet date.

Effective April 1, 2000, the Group adopted "Opinion Concerning Establishment of Accounting Standard for Retirement Benefits" established by BADC and related practical guideline issued by JICPA, which are implemented effective from the fiscal year beginning on and after April 1, 2000. In accordance with the new accounting standard, the Group has principally recognized the retirement benefits including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end. A transitional provision of adoption of this new accounting standard of ¥9,287 million (\$74,962 thousand) was charged to income in a current single fiscal year ended March 31, 2001, through the trusts foundation for the transfer of investment securities with a recorded gain of ¥3,925 million (\$31,687 thousand). Unrecognized prior service cost is amortized using the straight-line method over ten years as a certain period within remaining service lives of employees from the year in which it occurs. Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a declining-balance basis over ten years within remaining service lives of employees from the next year in which they arise. A reserve for retirement allowances provided at March 31, 2000 was carried forward to employee retirement benefit liability account on the accompanying consolidated balance sheets. As a result of adoption of the new standard, income before income taxes and minority interests for the year ended March 31, 2001 decreased by ¥5,061 million (\$40,855 thousand), as compared with the previous accounting method.

(j) Income taxes

Income taxes are accounted for in accordance with "Opinion Concerning Establishment of Standard for Tax Effects" issued by BADC in October 1998, which requires the accounting for income taxes to recognize deferred taxes under the asset and liability method. Under the accounting standard, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases, and measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(k) Appropriation of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

(l) Per share data

Net income per share is based on the weighted average number of shares of common stock outstanding during the respective years.

Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

3. Trading Account Securities, Money Held in Trust and Investment Securities

At March 31, 2001 and 2000, trading account securities consisted of national government bonds only.

At March 31, 2001 and 2000, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
National government bonds	¥ 164,338	¥ 187,243	\$ 1,326,382
Local government bonds	170,369	97,220	1,375,060
Bonds and debentures	211,782	226,903	1,709,305
Equity securities	78,620	41,668	634,550
Other	166,013	127,407	1,339,900
	<u>¥ 791,125</u>	<u>¥ 680,442</u>	<u>\$ 6,385,197</u>

Trading account securities, money held in trust and investment securities in the accompanying consolidated balance sheets included marketable securities trading on the stock exchanges or the over-the-counter markets. At March 31, 2000, fair value of marketable securities and related net unrealized gains (losses) were as follows:

	Carrying value	Fair value	Net unrealized gains (losses)
	Millions of Yen		
Marketable securities:			
Trading account securities	¥ 257	¥ 257	¥ (0)
Money held in trust	3,500	3,744	244
Investment securities	456,531	523,638	67,107
Total	<u>¥ 460,289</u>	<u>¥ 527,640</u>	<u>¥ 67,351</u>

Effective from the year ended March 31, 2001, investment securities are classified as trading, held-to-maturity or available-for-sale, whose classification determines the respective accounting method as stipulated by the new accounting standard. At March 31, 2001, carrying values of trading account securities and money held in trust for trading purpose and related net unrealized gains (losses) included in the current earnings were as follows:

	Carrying value	Unrealized gains (losses)	Carrying Value	Unrealized gains (losses)
	Millions of Yen		Thousands of U.S. Dollars	
Trading account securities	¥ 2,117	¥ 2	\$ 17,092	\$ 21
Money held in trust	11,814	(53)	95,357	(432)

At March 31, 2001, gross unrealized gains and losses for marketable securities held-to-maturity and available-for-sale are summarized as follows:

	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
	Millions of Yen			
Held-to-maturity debt securities with fair value:				
Bonds				
National government bonds	¥ 499	¥ 1	¥ -	¥ 500
Local government bonds	3,651	207	-	3,858
Bonds and debentures	439	-	-	439
Other	2,181	-	-	2,181
	<u>¥ 6,772</u>	<u>¥ 208</u>	<u>¥ -</u>	<u>¥ 6,980</u>

	Thousands of U.S. Dollars			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Bonds				
National government bonds	\$ 4,033	\$ 8	\$ -	\$ 4,041
Local government bonds	29,471	1,675	-	31,146
Bonds and debentures	3,550	-	-	3,550
Other	17,603	-	-	17,603
	<u>\$ 54,657</u>	<u>\$ 1,683</u>	<u>\$ -</u>	<u>\$ 56,340</u>

	Cost	Gross	Gross	Fair and carrying value
		unrealized gains	unrealized losses	
Millions of Yen				
Available-for-sale securities with fair value:				
Equity securities	¥ 38,694	¥ 38,591	¥ 355	¥ 76,930
Bonds				
National government bonds	159,254	4,629	44	163,839
Local government bonds	162,481	4,381	145	166,718
Bonds and debentures	204,462	5,948	14	210,397
Other	162,227	2,244	639	163,832
	<u>¥ 727,121</u>	<u>¥ 55,796</u>	<u>¥ 1,199</u>	<u>¥ 781,717</u>

	Thousands of U.S. Dollars			
Equity securities	\$ 312,307	\$ 311,473	\$ 2,872	\$ 620,908
Bonds				
National government bonds	1,285,347	37,363	361	1,322,349
Local government bonds	1,311,396	35,366	1,174	1,345,588
Bonds and debentures	1,650,224	48,012	116	1,698,120
Other	1,309,340	18,117	5,160	1,322,297
	<u>\$ 5,868,614</u>	<u>\$ 450,331</u>	<u>\$ 9,683</u>	<u>\$ 6,309,262</u>

At March 31, 2001, net unrealized gains of available-for-sale securities, net of applicable income taxes of ¥22,766 million (\$183,750 thousand) and minority interests of ¥104 million (\$842 thousand), aggregated ¥31,725 million (\$256,056 thousand) and were recorded in a separate component of shareholders' equity on the accompanying consolidated balance sheets. During the year ended March 31, 2001, the Group sold available-for-sale securities and recorded realized gains of ¥901 million (\$7,274 thousand) and realized losses of ¥948 million (\$7,653 thousand), excluding a gain on transfer to trusts for retirement benefit plan, on the accompanying consolidated statements of income.

Expected maturities of debt securities held-to-maturity and available-for-sale at March 31, 2001 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 91,031	\$ 734,718
Due from one year to five years	349,278	2,819,039
Due from five years to ten years	198,320	1,600,647
Due after ten years	1,637	13,213
	<u>¥ 640,267</u>	<u>\$ 5,167,617</u>

4. Loans and Bills Discounted

At March 31, 2001 and 2000, loans and bills discounted consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Bills discounted	¥ 43,271	¥ 41,659	\$ 349,244
Loans on notes	344,814	323,084	2,783,002
Loans on deeds	1,196,423	1,175,214	9,656,366
Overdrafts	210,347	226,363	1,697,717
	<u>¥ 1,794,856</u>	<u>¥ 1,766,322</u>	<u>\$ 14,486,329</u>

At March 31, 2001 and 2000, nonaccrual outstanding of loans and bills discounted, on which interest revenue accruals have been suspended when loans are classified as claims to borrowers in bankruptcy and past due loans, aggregated ¥41,370 million (\$333,389 thousand) and ¥39,789 million, respectively. Loans are generally placed on nonaccrual status when substantial doubt is judged to exist as to ultimate collectibility of either principal or interest if they are past due for a certain period or for other reasons. Claims to borrowers in bankruptcy represent nonaccrual loans, after the charge-off of claims deemed uncollectible, to borrowers who are legally bankrupt, which are defined in Article 96, Paragraph 1, Subparagraph 3 and 4 of Enforcement Ordinance for the Corporation Tax Law of Japan. Past due loans are nonaccrual loans other than claims to borrowers in bankruptcy and loans of which interest payment is deferred in order to assist the financial recovery of borrowers in financial difficulties.

At March 31, 2001 and 2000, accruing loans for which the payment of the principal and/or interest is contractually past due three months or more, excluding nonaccrual loans, amounted to ¥37 million (\$304 thousand) and ¥14 million, respectively.

At March 31, 2001 and 2000, restructured loans of which the Bank has relieved to the borrowers in financial difficulties the lending conditions such as a reduction of the original interest rate, forbearance of interest and/or principal payments, extension of maturity date in order to support them in their financial recovery or restructuring, excluding nonaccrual loans and accruing loans contractually past due three months or more disclosed above, amounted to ¥24,775 million (\$199,961 thousand) and ¥17,384 million, respectively.

Total nonperforming assets net of charge-off, which consisted of nonaccrual loans, accruing loans contractually past due three months or more and restructured loans, aggregated ¥66,182 million (\$534,164 thousand) and ¥57,188 million at March 31, 2001 and 2000, respectively.

5. Foreign Exchanges

At March 31, 2001 and 2000, foreign exchanges consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets:			
Due from banks	¥ 300	¥ 732	\$ 2,426
Foreign bills of exchange purchased	80	96	647
Foreign bills of exchange receivable	8	58	68
	<u>¥ 389</u>	<u>¥ 887</u>	<u>\$ 3,141</u>
Liabilities:			
Foreign bills of exchange sold	¥ 43	¥ 27	\$ 349
Foreign bills of exchange payable	3	10	25
	<u>¥ 46</u>	<u>¥ 37</u>	<u>\$ 374</u>

6. Premises and Equipment

At March 31, 2001 and 2000, a major classification of premises and equipment was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Land	¥ 47,205	¥ 47,627	\$ 380,998
Buildings and structures	30,823	30,819	248,779
Equipment	18,129	18,973	146,327
Construction in progress	31	59	257
	<u>96,191</u>	<u>97,479</u>	<u>776,361</u>
Less, accumulated depreciation	(33,309)	(32,492)	(268,844)
	<u>62,881</u>	<u>64,987</u>	<u>507,517</u>
Lease deposits	688	760	5,557
	<u>¥ 63,569</u>	<u>¥ 65,747</u>	<u>\$ 513,074</u>

The Bank elected the one-time revaluation to restate the cost of land used for the banking business at values rationally reassessed, reflecting appropriate adjustments for land shape and other factors, based on the appraisal values issued by the Japanese National Tax Agency effective on March 31, 1998 under the Law Concerning Revaluation of Land. According to the Law, the amount equivalent to the tax effect on the excess of sound reassessed values over the original book values is recorded in the liabilities as deferred tax liabilities for revaluation account, and the rest of such excess, net of the tax effect, is recorded in the shareholders' equity as land revaluation increment account in the accompanying consolidated balance sheets. At March 31, 2001 and 2000, the difference of the carrying values of land used for the banking business after reassessment over the current fair value of such land at the respective fiscal year-ends amounted to ¥7,504 million (\$6,566 thousand) and ¥5,852 million, respectively.

7. Assets Pledged

At March 31, 2001, the following assets were pledged as collateral for liabilities such as certain deposits and borrowed money:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Investment securities	¥ 66,689	¥ 5,347	\$ 538,251
Loans and bills discounted	2,337	2,182	18,868

In addition, investment securities totaling ¥86,699 million (\$699,575 thousand) and ¥181,393 million at March 31, 2001 and 2000, respectively, were pledged as collateral for the settlement of exchange, derivative and other transactions.

8. Deposits

At March 31, 2001 and 2000, deposits consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Demand deposits	¥ 1,092,792	¥ 1,018,761	\$ 8,819,957
Time deposits	1,318,899	1,302,799	10,644,868
Other	17,465	39,037	140,964
	¥ 2,429,157	¥ 2,360,598	\$ 19,605,789

9. Borrowed Money

The annual maturities of borrowed money at March 31, 2001 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 5,587	\$ 45,094
2003	4,505	36,368
2004	2,903	23,433
2005	1,609	12,987
2006	725	5,859
2007 and thereafter	6	51
	¥ 15,337	\$ 123,792

10. Employee Retirement Benefits

The Group has defined benefit welfare and qualified pension plans and lump-sum retirement benefit plans, which substantially cover all employees.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at, or for the year ended March 31, 2001.

	Millions of Yen	Thousands of U.S. Dollars
Reconciliation of benefit liability:		
Projected benefit obligation	¥ 34,160	\$ 275,714
Less, fair value of pension plan assets at end of year	(23,013)	(185,744)
	11,147	89,970
Less, unrecognized actuarial differences (loss)	(3,297)	(26,617)
Unrecognized prior service cost (credit) of retroactive benefits granted by the plan amendment in the year 2001*2	1,348	10,885
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 9,198	\$ 74,238

Note 1. The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

2. Prior service cost resulted from the plan amendments for the deferral of commencing age of annuity payments to employees in relation to the portion subject to the revised Japanese Welfare Pension Insurance Law

	Millions of Yen	Thousands of U.S. Dollars
Components of net periodic retirement benefit expense:		
Service cost	¥ 1,257	\$ 10,148
Interest cost	1,019	8,228
Expected return of pension plan assets	(1,215)	(9,808)
Amortization of prior service cost	(11)	(91)
Initial transitional provision	9,287	74,962
Net periodic retirement benefit expense	¥ 10,338	\$ 83,439

Major assumptions used in the calculation of the above information for the year ended March 31, 2001 were as follows:

	For the year 2001
Method attributing the projected benefits to periods of services	Straight-line method
Discount rate	3.0%
Expected rate of return on pension plan assets:	
Welfare pension fund	6.0%
Qualified pension plan	3.0%
Trusts for retirement benefits	2.5%
Amortization of unrecognized prior service cost	10 years
Amortization of unrecognized actuarial differences	10 years
Amortization of initial transitional provision	1 year

11. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for the payments of loans or other liabilities from other financial institutions. As a contra account, "Customers' liabilities for acceptances and guarantees" are shown as the assets on the accompanying consolidated balance sheets, indicating the Bank's right of indemnity from the customers.

12. Shareholders' Equity

The authorized number of shares of common stock, with a par value of ¥50 per share, is 800 million at March 31, 2001, unless there is a reduction due to a cancellation of treasury stock

acquired. Pursuant to the Bank's articles of incorporation revised upon the approval of shareholders at the general meeting held on June 26, 1998, the Bank can purchase and cancel the treasury stock of the Bank up to 20 million shares through a charge to retained earnings, subject to the resolution of the Board of Directors, in accordance with the Law Concerning Special Measures under the Commercial Code with Respect to Procedures of Cancellation of Stocks.

At March 31, 2001 and 2000, retained earnings included legal reserve of the Bank in the amounts of ¥18,130 million (\$146,334 thousand) and ¥17,952 million, respectively. The Banking Law of Japan provides that an amount equivalent to at least 20% of the cash payments as an appropriation of retained earnings shall be appropriated as the legal reserve until such reserve equals 100% of common stock. The legal reserve is not available for distributions as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders.

13. Commitments

(a) Loan commitments

Contracts of overdraft facilities and loan commitment limits are the contracts that the Bank lends to customers up to the prescribed limits in response to customers' applications of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits relating to these contracts which expire within one year or are revocable for the Bank at any time without any conditions aggregated ¥584,590 million (\$4,718,247 thousand) at March 31, 2001.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank can refuse customers' applications of loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of the contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs periodic review of the customers' business results based on internal rules, and takes necessary measures to reconsider conditions in contracts and/or require additional collateral and guarantees.

(b) Lease commitments

The Group leases certain office space and equipment under long-term noncancelable lease agreements as lessee. At March 31, 2001 and 2000, aggregate future minimum lease commitments to be paid for such noncancelable agreements were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Operating leases as lessee:			
Due within one year	¥ 98	¥ 98	\$ 794
Due after one year	8	106	66
	<u>¥ 106</u>	<u>¥ 204</u>	<u>\$ 860</u>

In addition, a certain consolidated subsidiary engaged in leasing operations entered into various long-term noncancelable lease agreements with third parties as lessor, which were categorized as financing leases. At March 31, 2001 and 2000, aggregate future minimum lease commitments to be received for such noncancelable agreements, excluding the imputed interest, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Financing leases as lessor:			
Due within one year	¥ 9,365	¥ 9,445	\$ 75,592
Due after one year	18,808	18,388	151,807
	<u>¥ 28,174</u>	<u>¥ 27,834</u>	<u>\$ 227,399</u>

14. Derivative Instruments

The Group has entered into various transactions involving derivative instruments in the normal course of business to meet the financing needs of its customers for risk management, the Group's asset-liability management, and as a source of income. These derivative instruments involve, in varying degrees, elements of credit and market risk. The Group is exposed to credit loss in the event of nonperformance by the other parties. However, the Group does not expect nonperformance by the counterparties. Notional principal amounts represent the volume of outstanding derivative transactions and do not represent the potential for gain or loss relating to the market or credit risk of such transactions. A summary of the notional principal amounts of derivative instruments entered into by the Group at March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Interest rate contracts:			
Swaps	¥ 155,682	¥ 199,077	\$ 1,256,517
Option written	2,000	2,000	16,142
Option purchased	2,025	3,150	16,344
	<u>¥ 159,707</u>	<u>¥ 204,227</u>	<u>\$ 1,289,003</u>
Foreign exchange contracts:			
Currency swaps *	¥ 27,618	¥ 10,176	\$ 222,908
Forward	763	729	6,159
	<u>¥ 28,381</u>	<u>¥ 10,906</u>	<u>\$ 229,067</u>

* The figures for currency swaps, which involve the exchange of both interest and principal amounts in two different currencies in order to hedge on-balance-sheet assets and liabilities, included fund swap contracts of ¥16,426 million (\$132,578 thousand) and ¥5,609 million at March 31, 2001 and 2000, respectively, which have been accounted for under accrual method based on "Tentative Auditing Treatment relating to Adoption of 'Revised Accounting for Foreign Currency Transaction for Banks'" issued by JICPA

Effective from the year ended March 31, 2001, the Bank adopted the new accounting standard for financial instruments as disclosed in Notes 2(c-iii). At March 31, 2001, derivative instruments, other than those to which hedge accounting is applied, which are stated at fair value and recognized for valuation gains and losses as current earnings were summarized as follows:

	Contract amounts	Fair value **	Valuation gains/(losses)
	Millions of Yen		
Interest rate contracts:			
Swaps	¥ 375	¥ (6)	¥ (6)
Option written	2,000	(9)	30
Option purchased	2,000	9	(25)
Foreign exchange contracts:			
Currency swaps	¥ 27,618	¥ (232)	¥ (232)
Interest rate contracts:	Thousands of U.S. Dollars		
Swaps	\$ 3,027	\$ (51)	\$ (51)
Option written	16,142	(80)	243
Option purchased	16,142	80	(209)
Foreign exchange contracts:			
Currency swaps	\$ 222,908	\$ (1,879)	\$ (1,879)

** Fair values are based on the discounted cash flow method.

15. Income Taxes

Income taxes for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Income taxes:			
Current	¥ 7,530	¥ 5,568	\$ 60,779
Deferred	(1,708)	(1,031)	(13,791)
	<u>¥ 5,821</u>	<u>¥ 4,537</u>	<u>\$ 46,988</u>

At March 31, 2001 and 2000, income taxes (including enterprise taxes) payable in the amounts of ¥4,394 million (\$35,472 thousand) and ¥4,185 million, respectively, were included in other liabilities in the accompanying consolidated balance sheets.

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Reserve for possible loan losses	¥ 6,950	¥ 7,448	\$ 56,095
Employee retirement benefit liability	3,842	1,560	31,015
Depreciation	1,145	1,275	9,246
Other	3,366	2,058	27,174
Less, valuation allowance	(958)	(95)	(7,734)
	14,347	12,247	115,796
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(23,266)	-	(187,788)
Other	(56)	(16)	(456)
	(23,323)	(16)	(188,244)
Net deferred tax (liabilities) assets	¥ (8,976)	¥ 12,231	\$ (72,448)

At March 31, 2001 and 2000, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets	¥ 830	¥ 12,231	\$ 6,700
Deferred tax liabilities	9,806	-	79,148

In assessing the realizability of deferred tax assets, management of the Group considers whether it is more likely than not that some

portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2001 and 2000, a valuation allowance was provided to reduce the deferred tax assets to the extent that management believes that the amount of the deferred tax assets is expected to be realizable.

A reconciliation of the differences between the Japanese statutory tax rate and the effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the year ended March 31, 2001 was as follows:

	Percentage of pretax income
Japanese statutory tax rate	41.6%
Increase (decrease) due to:	
Permanently nondeductible expenses	2.4
Tax exempt income	(2.0)
Loss on write-down of investment securities	7.0
Other	0.5
Effective income tax rate	49.5%

Such reconciliation for the year 2000 was not shown, as there were no material differences.

16. Subsequent Events

The shareholders of the Bank approved the following appropriation of retained earnings at the annual general meeting on June 28, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 631	\$ 5,095
Bonuses to directors and corporate auditors	42	339

17. Segment Information

A summary of information classified by lines of business of the Group for the years ended March 31, 2001 and 2000 was as follows:

	Bank	Leasing	Other	Total	Elimination	Consolidated
	Millions of Yen					
For the year 2001:						
Ordinary income:						
Outside customers	¥ 72,616	¥ 12,888	¥ 1,571	¥ 87,076	¥ -	¥ 87,076
Inter-segment	445	1,684	408	2,538	(2,538)	-
	73,062	14,573	1,980	89,615	(2,538)	87,076
Ordinary expenses	57,645	14,128	1,522	73,296	(2,883)	70,413
Ordinary profit	¥ 15,416	¥ 444	¥ 457	¥ 16,318	¥ 344	16,663
Other income (expenses), net						(4,905)
Income before income taxes and minority interests						¥ 11,757
Identifiable assets	¥ 2,836,823	¥ 36,669	¥ 10,606	¥ 2,884,099	¥ (17,891)	¥ 2,866,207
Depreciation	1,761	10,162	7	11,930	-	11,930
Capital expenditures	1,627	10,731	20	12,380	-	12,380
For the year 2000:						
Ordinary income:						
Outside customers	¥ 71,584	¥ 13,152	¥ 1,809	¥ 86,547	¥ -	¥ 86,547
Inter-segment	521	1,724	451	2,697	(2,697)	-
	72,106	14,877	2,261	89,244	(2,697)	86,547
Ordinary expenses	62,055	14,496	1,891	78,442	(2,455)	75,987
Ordinary profit	¥ 10,050	¥ 380	¥ 370	¥ 10,801	¥ (241)	10,560
Other income (expenses), net						(65)
Income before income taxes and minority interests						¥ 10,494
Identifiable assets	¥ 2,721,334	¥ 37,277	¥ 10,412	¥ 2,769,023	¥ (19,086)	¥ 2,749,937
Depreciation	1,947	10,306	2	12,256	-	12,256
Capital expenditures	1,571	10,575	4	12,152	-	12,152

	Bank	Leasing	Other	Total	Elimination	Consolidated
	Thousands of U.S. Dollars					
For the year 2001:						
Ordinary income:						
Outside customers	\$ 586,092	\$ 104,026	\$ 12,682	\$ 702,800	\$ -	\$ 702,800
Inter-segment	3,593	13,598	3,300	20,491	(20,491)	-
	589,685	117,624	15,982	723,291	(20,491)	702,800
Ordinary expenses	465,260	114,034	12,287	591,581	(23,274)	568,307
Ordinary profit	\$ 124,425	\$ 3,590	\$ 3,695	\$ 131,710	\$ 2,783	134,493
Other income (expenses), net						(39,595)
Income before income taxes and minority interests						\$ 94,898
Identifiable assets	\$ 22,896,075	\$ 295,959	\$ 85,602	\$ 23,277,636	\$ (144,404)	\$ 23,133,232
Depreciation	14,213	82,022	59	96,294	-	96,294
Capital expenditures	13,138	86,618	164	99,920	-	99,920

Note: (1) "Ordinary income" represents total income less certain special income included in other income and gain on transfer of investment securities to trusts for retirement benefit plan on the accompanying consolidated statements of income. "Ordinary expenses" represents total expenses less certain special expenses included in other expenses and transitional provision of adoption of new accounting standard for retirement benefits on the accompanying consolidated statements of income. "Ordinary profit" represents ordinary income less ordinary expenses. Industry segment information for the year 2000 was reclassified to conform with the current year's presentation.

"Other" business segment includes credit card operations

- (2) As disclosed in Note 2(i), the Group adopted the new accounting standard for retirement benefits from the year ended March 31, 2001. As a result, as compared with the previous accounting method, ordinary profit for banking business segment increased by ¥299 million (\$2,421 thousand), respectively.
- (3) As disclosed in Note 2(c), the Group also adopted the new accounting standard for financial instruments from the year ended March 31, 2001. As a result, as compared with the previous accounting method, for banking business segment, identifiable assets at March 31, 2001 increased by ¥58,248 million (\$470,124 thousand), and ordinary profit for the year 2001 increased by ¥447 million (\$3,608 thousand). For leasing business segment, identifiable assets at March 31, 2001 increased by ¥66 million (\$533 thousand), and ordinary profit for the year 2001 decreased by ¥138 million (\$1,118 thousand). For other business segment, identifiable assets at March 31, 2001 decreased by ¥3 million (\$32 thousand), and ordinary profit for the year 2001 decreased by ¥3 million (\$32 thousand).
- (4) Information of geographic segment and income from foreign operations is not presented, as such amounts were immaterial to be disclosed.

18. Condensed Financial Statements of THE KAGOSHIMA BANK, LTD. (Parent)

Presented below are the condensed non-consolidated balance sheets, non-consolidated statements of income and shareholders' equity of the Bank, the parent company.

Non-Consolidated Balance Sheets

THE KAGOSHIMA BANK, LTD. (parent)
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets			
Cash and due from banks	¥ 40,791	¥ 39,720	\$ 329,233
Call loans and bills purchased	87,390	118,409	705,327
Commercial paper and other debt purchased	3,571	3,081	28,825
Trading account securities	2,117	410	17,092
Money held in trust	11,814	3,500	95,358
Investment securities	789,134	679,018	6,369,121
Loans and bills discounted	1,805,105	1,777,325	14,569,054
Foreign exchanges	389	887	3,141
Other assets	14,788	8,098	119,355
Premises and equipment	60,649	62,050	489,501
Deferred tax assets	-	11,634	-
Customers' liabilities for acceptances and guarantees	42,391	40,971	342,140
Reserve for possible loan losses	(20,956)	(23,431)	(169,138)
	<u>¥ 2,837,187</u>	<u>¥ 2,721,675</u>	<u>\$ 22,899,009</u>
Liabilities and Shareholders' Equity			
Liabilities:			
Deposits	2,432,794	2,364,308	19,635,145
Negotiable certificates of deposits	38,950	8,450	314,369
Call money and bills sold	74,488	67,853	601,201
Borrowed money	203	217	1,638
Foreign exchanges	46	37	373
Other liabilities	23,074	64,039	186,236
Reserve for retirement allowances	-	5,541	-
Employee retirement benefit liability	9,157	-	73,907
Deferred tax liabilities	9,805	-	79,139
Deferred tax liabilities for revaluation	12,312	12,462	99,371
Acceptances and guarantees	42,391	40,971	342,141
Total liabilities	<u>2,643,223</u>	<u>2,563,882</u>	<u>21,333,520</u>
Shareholders' equity:			
Common stock	18,130	18,130	146,334
Capital surplus	11,204	11,204	90,430
Legal reserve	18,130	17,952	146,334
Land revaluation increment	17,213	17,423	138,929
Voluntary reserves	91,115	86,793	735,394
Retained earnings	6,459	6,287	52,133
Net unrealized gains on available-for-sale securities	31,710	-	255,935
Total shareholders' equity	<u>193,964</u>	<u>157,792</u>	<u>1,565,489</u>
	<u>¥ 2,837,187</u>	<u>¥ 2,721,675</u>	<u>\$ 22,899,009</u>

Non-Consolidated Statements of Income

THE KAGOSHIMA BANK, LTD. (parent)
For the Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Income:			
Interest on loans and discounts	¥ 46,274	¥ 45,185	\$ 373,485
Interest and dividends on securities	16,218	16,816	130,899
Other interest income	116	401	938
Fees and commissions	7,959	7,574	64,240
Other operating income	804	694	6,494
Gain on transfer of investment securities to trusts for retirement benefit plan	3,925	-	31,687
Other income	3,160	1,402	25,509
Total income	<u>78,459</u>	<u>72,074</u>	<u>633,252</u>
Expenses:			
Interest on deposits	4,199	4,585	33,891
Interest on borrowings and rediscounts	4,594	3,997	37,082
Other interest expenses	4,809	5,494	38,815
Fees and commissions	2,811	2,806	22,694
Other operating expenses	934	980	7,541
General and administrative expenses	37,454	38,011	302,294
Provision for possible loan losses	2	3,419	21
Transitional provision of adoption of new accounting standard for retirement benefits	9,287	-	74,962
Other expenses	3,216	2,823	25,957
Total expenses	<u>67,309</u>	<u>62,119</u>	<u>543,257</u>
Income before income taxes	<u>11,150</u>	<u>9,954</u>	<u>89,995</u>
Income taxes:			
Current	6,776	4,901	54,689
Deferred	(1,391)	(649)	(11,234)
Total income taxes	<u>5,384</u>	<u>4,251</u>	<u>43,455</u>
Net income	<u>¥ 5,766</u>	<u>¥ 5,703</u>	<u>\$ 46,540</u>

	Yen		U.S. Dollars
	2001	2000	2001
Per share:			
Net income	¥ 27.40	¥ 27.10	\$ 0.22

Non-Consolidated Statements of Shareholders' Equity

THE KAGOSHIMA BANK, LTD. (Parent)
For the Years Ended March 31, 2001 and 2000

	Common stock	Capital surplus	Legal reserve	Land revaluation increment	Voluntary reserves	Retained earnings	Net unrealized gains on available-for-sale securities
	Millions of Yen						
Balance at March 31, 1999	¥ 18,130	¥ 11,204	¥ 17,626	¥ 17,470	¥ 75,793	¥13,063	¥ -
Net income for the year	-	-	-	-	-	5,703	-
Appropriations:							
Cash dividends	-	-	-	-	-	(1,157)	-
Transfer to legal reserve	-	-	326	-	-	(326)	-
Bonuses to directors and corporate auditors	-	-	-	-	-	(42)	-
Transfer to voluntary reserves	-	-	-	-	11,000	(11,000)	-
Reversal of land revaluation increment	-	-	-	(46)	-	46	-
Balance at March 31, 2000	18,130	11,204	17,952	17,423	86,793	6,287	-
Net income for the year	-	-	-	-	-	5,766	-
Appropriations:							
Cash dividends	-	-	-	-	-	(1,262)	-
Transfer to legal reserve	-	-	178	-	-	(178)	-
Bonuses to directors and corporate auditors	-	-	-	-	-	(42)	-
Transfer to voluntary reserves	-	-	-	-	4,321	(4,321)	-
Reversal of land revaluation increment	-	-	-	(210)	-	209	-
Net unrealized gains on available-for-sale securities, net of applicable income taxes of ¥22,681 million	-	-	-	-	-	-	31,710
Balance at March 31, 2001	<u>¥ 18,130</u>	<u>¥ 11,204</u>	<u>¥ 18,130</u>	<u>¥ 17,213</u>	<u>¥ 91,115</u>	<u>¥ 6,459</u>	<u>¥ 31,710</u>

	Thousand of U.S. Dollars						
Balance at March 31, 2000	\$ 146,334	\$ 90,430	\$144,897	\$ 140,629	\$700,514	\$ 50,745	\$ -
Net income for the year	-	-	-	-	-	46,540	-
Appropriations:							
Cash dividends	-	-	-	-	-	(10,189)	-
Transfer to legal reserve	-	-	1,437	-	-	(1,437)	-
Bonuses to directors and corporate auditors	-	-	-	-	-	(339)	-
Transfer to voluntary reserves	-	-	-	-	34,880	(34,880)	-
Reversal of land revaluation increment	-	-	-	(1,700)	-	1,693	-
Net unrealized gains on available-for-sale securities, net of applicable income taxes of \$183,062 thousand	-	-	-	-	-	-	255,935
Balance at March 31, 2001	<u>\$ 146,334</u>	<u>\$ 90,430</u>	<u>\$146,334</u>	<u>\$ 138,929</u>	<u>\$735,394</u>	<u>\$ 52,133</u>	<u>\$255,935</u>

Report of Independent Accountants

To the Board of Directors of
THE KAGOSHIMA BANK, LTD.

We have audited the accompanying consolidated balance sheets of THE KAGOSHIMA BANK, LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of THE KAGOSHIMA BANK, LTD. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective from the year ended March 31, 2001, THE KAGOSHIMA BANK, LTD. and its consolidated subsidiaries have adopted the new accounting standards for financial instruments and retirement benefits.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Nagoya, Japan
June 28, 2001