

# Financial Highlights

## Consolidated Basis

	Millions of Yen				
	2003	2002	2001	2000	1999
As of March 31					
Total Assets	<b>3,006,486</b>	3,048,385	2,866,207	2,749,937	2,679,376
Deposits and NCD	<b>2,647,310</b>	2,635,675	2,468,107	2,369,048	2,301,447
Loans and Bills Discounted	<b>1,966,872</b>	1,900,743	1,794,856	1,766,322	1,770,610
Investment Securities	<b>795,718</b>	828,906	791,125	680,442	487,661
Shareholders' Equity	<b>189,821</b>	188,940	193,976	157,969	153,627
Years ended March 31					
Total Income	<b>78,795</b>	82,710	91,891	86,612	96,252
Total Expenses	<b>71,210</b>	69,393	80,133	76,117	91,385
Income before Income Taxes and Minority Interests	<b>7,585</b>	13,316	11,757	10,494	4,866
Net Income	<b>4,339</b>	6,350	5,585	5,535	1,901
Cash Dividends	<b>1,261</b>	1,261	1,261	1,156	1,051
Capital Adequacy Ratio	<b>13.34%</b>	12.20%	12.45%	11.92%	11.34%
Per Share					
Yen					
Net Income	<b>20.41</b>	29.98*	26.56	26.32	9.04
Cash Dividends	<b>6.00</b>	6.00	6.00	6.00	5.00

## Non-Consolidated Basis

	Millions of Yen				
	2003	2002	2001	2000	1999
As of March 31					
Total Assets	<b>2,977,554</b>	3,019,770	2,837,187	2,721,675	2,642,392
Deposits and NCD	<b>2,652,082</b>	2,639,964	2,471,744	2,372,758	2,303,660
Loans and Bills Discounted	<b>1,975,024</b>	1,909,640	1,805,105	1,777,325	1,775,263
Investment Securities	<b>794,767</b>	827,665	789,134	679,018	486,362
Shareholders' Equity	<b>189,291</b>	188,601	193,964	157,792	153,288
Years ended March 31					
Total Income	<b>64,543</b>	68,313	78,459	72,074	81,531
Total Expenses	<b>57,815</b>	56,515	67,309	62,119	77,746
Income before Income Taxes	<b>6,727</b>	11,798	11,150	9,954	3,785
Net Income	<b>4,164</b>	6,036	5,766	5,703	1,916
Capital Adequacy Ratio	<b>13.18%</b>	12.06%	12.30%	11.81%	11.30%
Per Share					
Yen					
Net Income	<b>19.58</b>	28.49*	27.40	27.10	9.10

Note: The Bank and its subsidiaries adopted the new accounting standard for earnings per share from the current fiscal year. Prior-period per share data has been restated to conform to the current computation.

# Interview with the President

On behalf of Kagoshima Bank customers, Kagoshima Broadcasting correspondent Masae Fuchiwaki interviews Yoshio Ohno, president of the Bank, on its current vision and future directions.

## Everyday Necessities

**MF** Mr. Ohno, I'd like to ask you about the relationship between Kagoshima and Kagoshima Bank, as well as between the people of Kagoshima and Kagoshima Bank. On an individual level, we tend to think of the bank as one of the everyday necessities, like depositing our paychecks and paying our electric and gas bills. What is your view of the relationship between the bank and individual customers?

**YO** Actually, I'm pleased to think that people look upon us as an everyday necessity. We are part of the financial services infrastructure that serves all the people of Kagoshima Prefecture. The reason we exist is to provide the people of this region with a variety of benefits. Personally, I believe that a regional bank must provide the people who live in its area with all the conveniences of financial services they need.

We want people to think of the bank as something that is part of their everyday lives, a place they go to make deposits, payments and account transfers, and to get loans. Banks are just as much an essential part of the social infrastructure of everyday life as the gas company and the water company.

## Sound Bank

**MF** We live in a time when even ordinary individuals have to take an active role in managing their financial affairs. Needless to say, people want the bank where they put their money to be sound. I understand that Kagoshima Bank is very highly rated in this regard.

**YO** A bank's very first obligation is to take care of the money our customers entrust us with. Thus, safety is the most important thing of all. Our highest management goal is to

work to remain worthy of our customers' confidence.

One way people tell whether a bank is financially sound is to look at the capital adequacy ratio. The ratio at Kagoshima Bank is over 13%, which puts us in the top rank of Japanese banks in terms of financial soundness. Customers can have confidence that their money is safe with us.



**MF** People always worry about what becomes of their money after they put it in the bank. But when they see figures that prove the bank is sound, then they can rest easy.

**YO** Recently there has been considerable public discussion of problems with non-performing loans. The Japanese people are becoming more anxious that banks with a lot of non-performing loans are getting lower capital adequacy ratios and thereby becoming financially unstable. Kagoshima Bank, however, has actually seen its capital adequacy ratio go up every year. We have only a very small number of non-performing loans. Our non-performing loan ratio (the ratio of non-performing loans to total loans) is a low 3%. These numbers should be able to inspire confidence among customers.

## Serving the Local Region

**MF** What has Kagoshima Bank been doing to continue growing during these difficult times?

**YO** We want everyone to think of Kagoshima Bank as a bank that is convenient and offers a high level of safety, and we want everyone to feel that our bank employees are kind and courteous. Our role is to serve the local region, and our success comes from the efforts we have made to build customer confidence. Another key factor has been our ability to respond appropriately to customer needs. People want their bank to offer attractive interest rates with low service charges. To make this possible, we have to work to keep our management costs down. And the way we keep costs down is not through restructuring but rather through increased productivity. For instance, we change work procedures and use computers and other new technologies to hold down personnel costs. These are only some of the measures we take. So we are doing everything we can to meet customer expectations in terms of cost.

**MF** Are there any special efforts taken for the branch offices, where customers come into contact with the bank?

**YO** For the last decade or so we have been working to increase the number of locations where we can serve our customers. However, opening and staffing branch offices involves substantial cost, so we have focused on increasing the number of ATM machines instead. Having ATMs widely available gives people the feeling that Kagoshima Bank is right there in their own neighborhoods, I believe.

**MF** Nowadays you even have ATMs in convenience stores.

**YO** Yes, we do. We believe it's crucial to put ATMs in places easily accessible for our customers. This not only increases customer convenience, but also helps hold down costs in terms of real estate, construction and security. We plan to do more of this in the future.

## Helping Promote Local Culture

**MF** Another way you are forging closer links with the region is by actively involving the bank in community activities.

**YO** Definitely. In its own way, this is just as important as our basic function as a bank of providing financial services. In addition to actively participating in local events and festivals, we sometimes also provide financial support and also join in activities such as neighborhood cleanup. We also established the Kagin Cultural Foundation to provide support to cultural activities. The Foundation provides assistance to efforts to preserve traditional arts and crafts and support local economic development programs. It also offers financial support to young people active in the fields of painting, sculpture, dance, and music. Through a wide range of corporate philanthropy activities we hope to fulfill the role of a regional bank in forging ever closer ties to the localities we serve.

## House Calls for Ailing Companies

**MF** Up to now we have mainly talked about your services for individual customers. But a regional bank is intimately involved in the regional economy and with local businesses. Could you please tell us more about your involvement in these areas?

**YO** One of the main purposes of banks is to help local businesses grow. When local businesses grow it leads to prosperity for everyone in the region, and banks have to provide support for business. We actively support business growth by lending funds needed for plant and equipment investment and for expansion of corporate activity. Also, in the current business climate, some companies experience financial difficulties. When this happens, we get right to work with the company the way a doctor would make house calls, so the company can get back on its feet without delay. Kagoshima Bank has a wealth of information gained from working with a variety of different companies and industries. We can bring to bear our perspective as a financial institution in formulating proposals and offering recommendations. By doing this on a day-to-day basis, we reduce the amount of non-performing loans.

## Kagoshima Bank Is My Bank

**MF** What are the goals of Kagoshima Bank for the future?

**YO** Our fundamental aim is to offer financial assistance to improve the quality of life for the people and to help businesses grow and prosper in Kagoshima Prefecture.

We will endeavor to provide our customers with all essential banking services better than other banks, and in the process we hope to be worthy of unqualified support from everyone in the region. We hope that all the people of Kagoshima Prefecture will think "Kagoshima Bank is My Bank." This is our goal. At Kagoshima Bank we are keenly aware of the responsibility we bear to the public as part of the social infrastructure that supports everyday life in the region. Accordingly, it is essential that we establish and maintain a solid managerial foundation. We must constantly be aware of changing times, anticipate future changes, and be prepared for those changes.

**MF** It's comforting to hear such forthright words, Mr. Ohno. By the way, I understand the bank has started work on a new medium-term management plan.

**YO** To strengthen our management, every three years we have been formulating a business plan and achieving the goals set therein. This year we are starting a new three-year plan. This time the main focus of our management plan will be on strengthening services for personal customers.

In the past, corporate banking services provided the main source of revenue for the bank. Accordingly, we devoted more energy and resources to business lending, and as a result, our personal services are lacking in certain respects, especially in lending. We intend to make up for this by offering products that are attractive to personal customers, such as home loans, car loans, and education loans.

**MF** It seems you are working to strengthen your image as a bank that looks at each customer as an individual.

**YO** The slogan we are adopting for this next management plan is "development of sales system to achieve more direct contacts with customers." This is how we are expressing our intent to become a bank that takes into account the needs of each individual customer.

## Think Globally and Act Locally

**MF** Finally, I wonder if you have any kind of motto for management to follow.

**YO** My approach is to think globally by maintaining a broad perspective while acting locally still by paying attention to detail. In the game of "go", Japanese chess as it's called, you are always looking at what is best in terms of the overall situation and direction when making a particular move. Similarly, at Kagoshima Bank we take a broad view of the overall situation and try to anticipate changing times and changes in our customers' values and in social structure. Once we have decided what direction to go, then we can move step by step to reach our destination, while forging solid ground at the same time.

**MF** The things you have said in our conversation seem very much in line with the character of people in Kagoshima. The broadcasting industry is also in a transitional era, and I think some of what you have said can be instructive for us as well. I've very much enjoyed being able to speak with you today, Mr. Ohno. Thank you for taking time to meet with me.

**YO** Thank you very much.

# The Second Business Strategy Plan

(The Second Master Plan)

(April 1, 2003, to March 31, 2006)

The Bank will launch an aggressive charge on the local market based on the slogan of “balanced pursuit of both quality and quantity.”

## ● Images of Progress

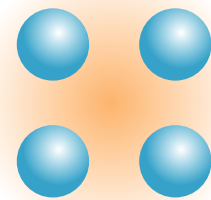
### The First Master Plan

(April 2000 to March 2003)

This plan announced a shift in orientation from defense to attack. It laid the foundation for enabling the organization to respond actively and promptly to environmental and structural changes, and to improve our profitability.

#### Results of the First Master Plan

- Installation of KeyMan (lending support system)
- Installation of RACAR (Risk And Cost Adjusted Return) System
- Introduction of new products and channels
- Improvements in IT infrastructure



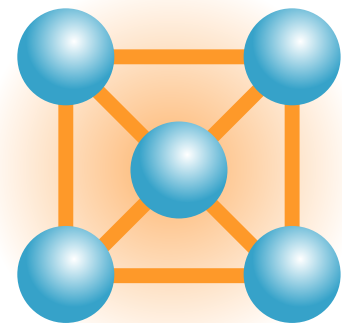
### The Second Master Plan

(April 2003 to March 2006)

The Second Master Plan will extend and develop programs launched under the First Master Plan while working to strengthen the personal sector. It includes a coordinated combination of measures to launch a concerted “charge” on the local market.

**Slogan: Balanced pursuit of both quality and quantity**

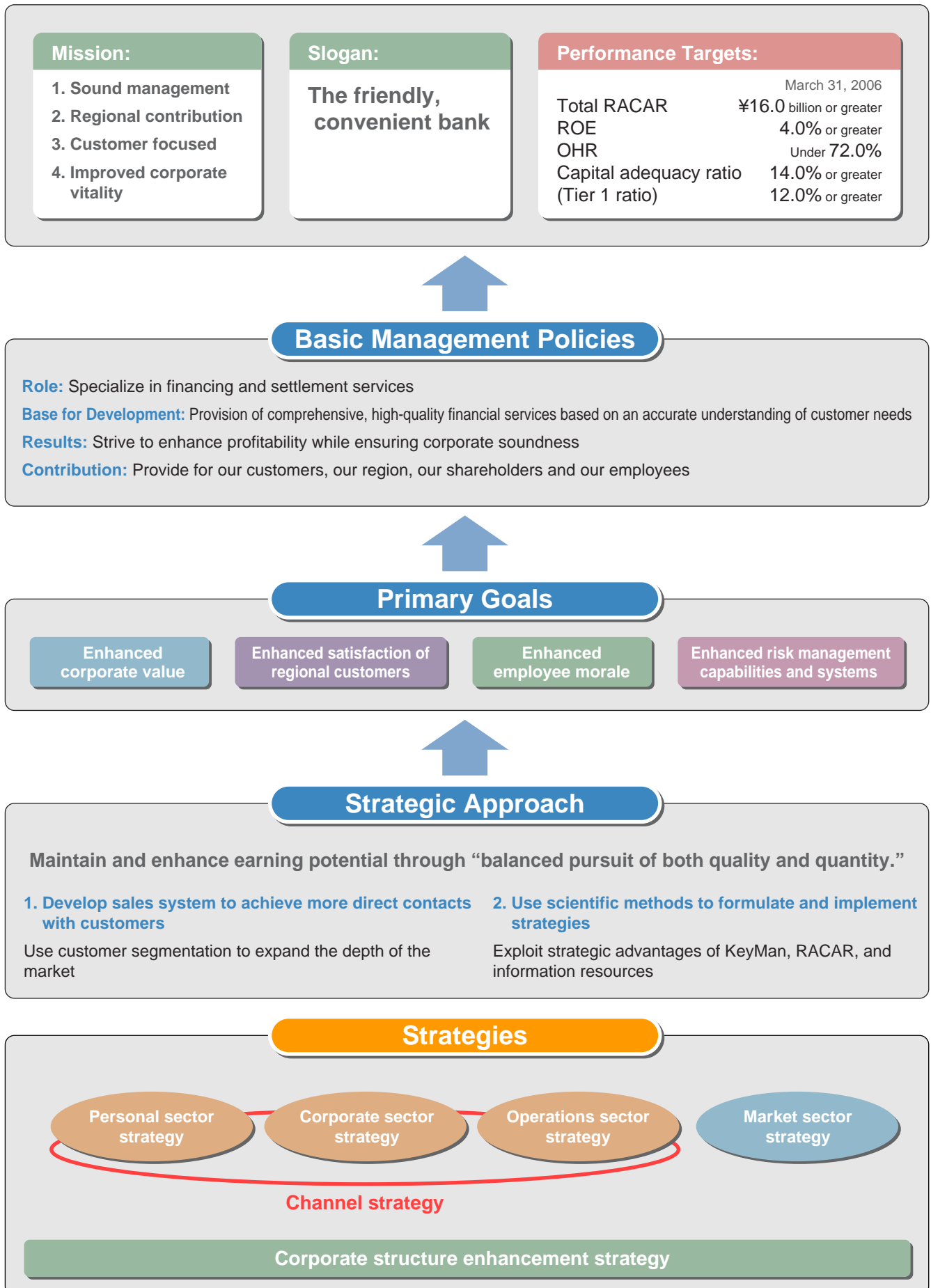
- Seeking balance between volume and earning potential
- Development of sales system to achieve more direct contacts with customers
  - Actively building on the successes of the First Master Plan
  - Preparation of new sales system for the personal sector



**Our strategic objective will be to respond to true individual customer needs, thereby forging close ties to the local market. The goal is to make Kagoshima Bank a true regional bank with a balance between soundness and profitability.**

Note: KeyMan provides centralized PC-based management for all lending-related processes.  
RACAR is a revenue indicator to evaluate real profitability of each transaction.

# Conceptual Diagram



## ● The Second Master Plan Strategies

### Personal sector strategy

#### Coordinated marketing programs

We will create a marketing program in which channel coordination, product articulation, and optimized work flows enable us to provide each customer with the right products and services at the right time and in the right method (channel). The goal is to maintain and expand customer business and solidify our local revenue base.

### Operations sector strategy

#### Establish low-cost office operations to enable us to meet customer needs Establish service charges consistent with the nature and costs of the services we provide

We will work to create a branch office program that responds promptly and accurately, while reducing and standardizing sales office operations and reducing transactional errors. We will also devote greater resources to sales. In addition, we will analyze our schedule of service charges and make improvements in order to enhance profitability of service operations.

### Channel strategy

#### Diversify sales channels to develop a sales system to achieve more direct contacts with customers

We will examine what sales channels are optimal for customers. This will help us develop a sales system that will produce more direct contacts with customers, while maintaining an effective channel mix and keeping branch office operating costs low.

### Corporate sector strategy

#### Advisory services based marketing

We will support corporate growth and development by identifying true corporate needs through business analysis, including non-financial elements, and by offering information and advice appropriate to each client's situation. The goal is also to solidify our local revenue base.

### Market sector strategy

#### Achieve consistent returns through improved efficiency in investments and operations as well as through more sophisticated risk management

In order to minimize declining earnings in an era of low interest rates, we will achieve greater efficiency and a higher level of sophistication in investments, operations, and risk management. The goal is to achieve an asset mix that yields consistent returns on investment.

### Corporate structure enhancement strategy

#### Create an efficient and lean customer-and-field-oriented organization

In order to ensure results from the strategies of each individual sector, we will work to vitalize the organization and enhance our corporate image, all the while keeping the focus on our customers and our work front. In addition, we will work to establish the new management accounting system to serve as the basis for formulating various revenue enhancement proposals.



# Board of Directors and Corporate Auditors



Tsunenobu Uwatoko

Koichi Kikuchi  
Yoshio Ohno

Yasutaka Takeda  
Shigeaki Mori

Fumiharu Nagata

■ President

**Yoshio Ohno**

■ Senior Managing Director

**Shigeaki Mori**

■ Managing Directors

**Koichi Kikuchi**  
**Yasutaka Takeda**  
**Tsunenobu Uwatoko**  
**Fumiharu Nagata**

■ Directors

**Toshiro Yamaguchi**  
**Hiroshi Beppu**  
**Tomio Sugiyama**  
**Toshiharu Imamura**  
**Yuzuru Yamanaka**  
**Itaru Iwakiri**  
**Haruo Moriyama**

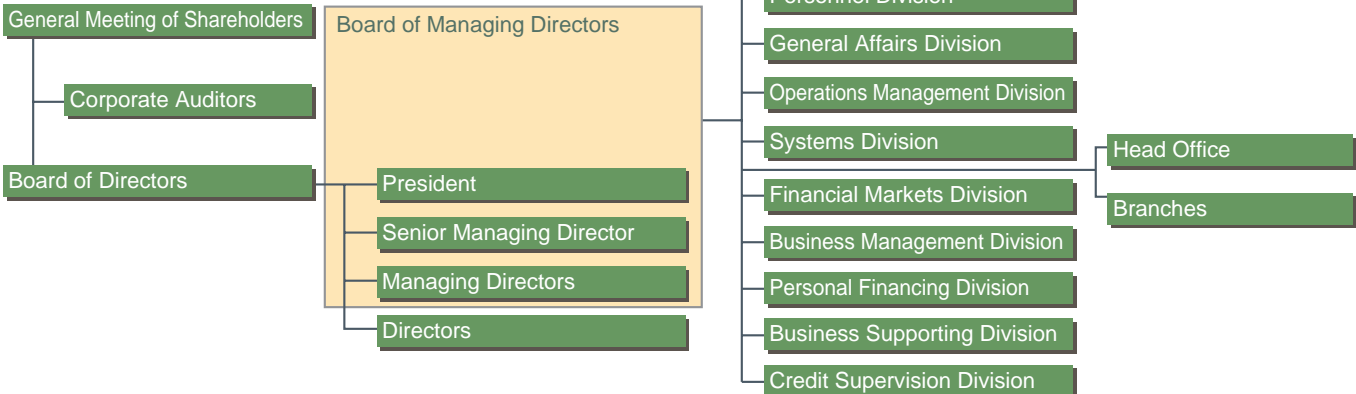
■ Standing Corporate Auditors

**Yoshitaka Nomoto**  
**Masahiro Hori**

■ Corporate Auditors

**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:  
170, plus 156 off-branch  
cash dispensers and  
automatic teller machines

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

NUMBER OF EMPLOYEES:  
2,420

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

NUMBER OF SHAREHOLDERS:  
8,259

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

(as of end March 2003)

## GROUP COMPANIES AT A GLANCE

Name of Company	Address	Capital (Millions of Yen)	Voting Share	Voting Share of Other Group Companies	Established	Line of Business
The Kagin Business Service Co., Ltd	46-20, Shimoarata 4-chome, Kagoshima 890-0056 Phone: 099-256-5240	20	100.0%		September 1, 1983	Maintenance and management of CD and other equipment; collateral evaluation; 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 Job placement 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 Management Consulting
The Kagoshima Card Co., Ltd	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-223-2011	50	30.0%	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	49.1%	11.4%	June 23, 1977	Loan guarantees for housing and consumer loans

(as of end June 2003)

# Consolidated Balance Sheets

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Assets</b>			
Cash and due from banks	¥ 53,584	¥ 55,494	\$ 445,794
Call loans and bills purchased	47,116	115,070	391,987
Commercial paper and other debt purchased	2,750	3,072	22,884
Trading account securities (Note 3)	1,285	1,419	10,698
Money held in trust (Note 3)	10,382	11,884	86,378
Investment securities (Notes 3 and 7)	795,718	828,906	6,619,951
Loans and bills discounted (Notes 4 and 7)	1,966,872	1,900,743	16,363,333
Foreign exchanges (Note 5)	732	508	6,092
Other assets	45,621	46,983	379,547
Premises and equipment (Note 6)	62,475	62,847	519,765
Deferred tax assets (Note 15)	1,845	924	15,355
Customers' liabilities for acceptances and guarantees (Note 11)	37,736	39,900	313,944
Reserve for possible loan losses	(19,636)	(19,370)	(163,364)
	<u>¥3,006,486</u>	<u>¥3,048,385</u>	<u>\$25,012,364</u>
<b>Liabilities, Minority Interests and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits (Note 8)	¥2,583,783	¥2,571,046	\$21,495,702
Negotiable certificates of deposits	63,527	64,629	528,515
Call money and bills sold	61,061	110,599	508,000
Collateral deposits on securities loaned	3,310	-	27,539
Borrowed money (Note 9)	13,651	14,256	113,570
Foreign exchanges (Note 5)	31	209	260
Other liabilities (Note 15)	24,618	27,936	204,811
Reserve for employee retirement benefits (Note 10)	11,383	9,911	94,702
Deferred tax liabilities (Note 15)	-	3,110	-
Deferred tax liabilities for revaluation (Note 6)	11,790	12,281	98,089
Excess of equity in net assets acquired over cost of investments	619	632	5,156
Acceptances and guarantees (Note 11)	37,736	39,900	313,944
Total liabilities	<u>2,811,512</u>	<u>2,854,514</u>	<u>23,390,288</u>
Minority interests in consolidated subsidiaries	5,151	4,930	42,860
<b>Shareholders' equity</b> (Notes 12 and 16):			
Common stock, no par value;			
Authorized: 800,000,000 shares			
Issued: 210,403,655 shares in 2003 and 2002	18,130	18,130	150,838
Capital surplus	11,204	11,204	93,214
Retained earnings	124,030	120,838	1,031,872
Land revaluation increment (Note 6)	17,393	17,170	144,705
Net unrealized gains on available-for-sale securities (Note 3)	19,120	21,652	159,071
Less, treasury stock, at cost – 146,200 shares in 2003 and 151,173 shares in 2002	(58)	(56)	(484)
Total shareholders' equity	<u>189,821</u>	<u>188,940</u>	<u>1,579,216</u>
	<u>¥3,006,486</u>	<u>¥3,048,385</u>	<u>\$25,012,364</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, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 41,234	¥ 43,627	\$ 343,052
Interest and dividends on securities	12,160	14,098	101,169
Other interest income	122	42	1,017
Total interest income	53,517	57,768	445,238
Fees and commissions	8,894	8,583	73,995
Other operating income	14,875	14,461	123,755
Other income	1,508	1,897	12,551
Total income (Note 17)	78,795	82,710	655,539
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	1,219	2,423	10,146
Interest on borrowings and rediscounts	1,569	2,950	13,059
Interest on collateral deposits on securities loaned	50	-	423
Other interest expenses	3,148	4,129	26,196
Total interest expenses	5,988	9,504	49,824
Fees and commissions	2,753	2,616	22,906
Other operating expenses	13,212	12,044	109,919
General and administrative expenses	39,991	39,195	332,712
Other expenses	9,263	6,034	77,069
Total expenses (Note 17)	71,210	69,393	592,430
Income before income taxes and minority interests	7,585	13,316	63,109
<b>Income taxes</b> (Note 15)	2,947	6,348	24,523
<b>Less, minority interests in net income of consolidated subsidiaries</b>	298	618	2,484
Net income	¥ 4,339	¥ 6,350	36,102
<b>Per share:</b>			
Net income	¥ 20.41	¥ 29.98	\$ 0.17
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, 2003 and 2002

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation increment	Net unrealized gains on available-for-sale securities	Treasury stock
Millions of Yen							
<b>Balance at March 31, 2001</b>	210,403,655	¥ 18,130	¥ 11,204	¥ 115,749	¥ 17,213	¥ 31,725	¥ (46)
Net income for the year	-	-	-	6,350	-	-	-
Cash dividends	-	-	-	(1,261)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(42)	-	-	-
Reversal of land revaluation increment	-	-	-	42	(42)	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	(10,072)	-
Fractional shares acquired, net	-	-	-	-	-	-	(9)
<b>Balance at March 31, 2002</b>	210,403,655	18,130	11,204	120,838	17,170	21,652	(56)
Net income for the year	-	-	-	4,339	-	-	-
Cash dividends	-	-	-	(1,261)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(42)	-	-	-
Reversal of land revaluation increment	-	-	-	156	(156)	-	-
Adjustment for applicable income taxes	-	-	-	-	379	416	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	(2,948)	-
Fractional shares acquired and other	-	-	-	-	-	-	(2)
<b>Balance at March 31, 2003</b>	<u>210,403,655</u>	<u>¥ 18,130</u>	<u>¥ 11,204</u>	<u>¥ 124,030</u>	<u>¥ 17,393</u>	<u>¥ 19,120</u>	<u>¥ (58)</u>

Thousands of U.S. Dollars

<b>Balance at March 31, 2002</b>	\$ 150,838	\$ 93,214	\$ 1,005,314	\$ 142,849	\$ 180,137	\$ (467)
Net income for the year	-	-	36,102	-	-	-
Cash dividends	-	-	(10,495)	-	-	-
Bonuses to directors and corporate auditors	-	-	(349)	-	-	-
Reversal of land revaluation increment	-	-	1,300	(1,300)	-	-
Adjustment for applicable income taxes	-	-	-	3,156	3,460	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	(24,526)	-
Fractional shares acquired and other	-	-	-	-	-	(17)
<b>Balance at March 31, 2003</b>	<u>\$ 150,838</u>	<u>\$ 93,214</u>	<u>\$ 1,031,872</u>	<u>\$ 144,705</u>	<u>\$ 159,071</u>	<u>\$ (484)</u>

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, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 7,585	¥ 13,316	\$ 63,109
Adjustments for:			
Depreciation	12,006	12,045	99,892
Increase (decrease) in reserve for possible loan losses	265	(3,880)	2,210
Interest income recognized on statement of income	(53,517)	(57,768)	(445,238)
Interest expenses recognized on statement of income	5,988	9,504	49,824
Net loss on sale or maturities of investment securities	3,600	2,490	29,950
Increase in loans and bills discounted	(66,128)	(105,887)	(550,156)
Increase in deposits	12,736	141,889	105,962
Increase (decrease) in negotiable certificates of deposits	(1,101)	25,678	(9,166)
(Increase) decrease in due from banks	2,944	(2,547)	24,496
(Increase) decrease in call loans and bills purchased	65,626	(26,686)	545,980
Increase (decrease) in call money and bills sold	(48,062)	35,053	(399,853)
Increase in collateral deposits on securities loaned	3,310	-	27,539
Interest income received	57,329	56,668	476,948
Interest expenses paid	(6,683)	(11,604)	(55,606)
Other, net	6,764	(2,202)	56,277
Subtotal	2,664	86,069	22,168
Income taxes paid	(5,435)	(8,127)	(45,218)
Net cash (used in) provided by operating activities	(2,770)	77,941	(23,050)
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(193,494)	(288,813)	(1,609,771)
Proceeds from sale or maturities of investment securities	208,377	234,681	1,733,588
Net change in money held in trust	1,435	-	11,946
Purchases of premises and equipment	(12,386)	(12,274)	(103,048)
Proceeds from sale of premises and equipment	1,185	894	9,862
Net cash provided by (used in) investing activities	5,117	(65,511)	42,577
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,263)	(1,260)	(10,510)
Other, net	(38)	(16)	(321)
Net cash used in financing activities	(1,301)	(1,276)	(10,831)
Effect of exchange rate changes on cash and cash equivalents	(10)	8	(86)
Net increase in cash and cash equivalents	1,034	11,161	8,610
Cash and cash equivalents at beginning of year	48,905	37,744	406,869
Cash and cash equivalents at end of year	¥ 49,940	¥ 48,905	415,479

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 ¥120.20 = \$1, the exchange rate at March 31, 2003. 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 ¥120.20 = \$1 or at any other rate.

### (c) Reclassification

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

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements included the accounts of the Bank and its seven significant subsidiaries at March 31, 2003 and 2002. 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, 2003 and 2002 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 of such a subsidiary substantially belong to that subsidiary itself. Investment in one unconsolidated subsidiary is stated at cost, and was included in investment securities in the amount of ¥3 million (\$25 thousand) at March 31, 2003 and 2002, respectively.

### (b) Cash and Cash equivalents

For the purpose of consolidated statements of cash flows, cash and cash equivalents consisted of cash and demand deposits from the Bank of Japan as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash and due from banks	¥ 53,584	¥ 55,494	\$ 445,794
Less, due from banks other than			
The Bank of Japan	(3,643)	(6,588)	(30,315)
Cash and cash equivalents	¥ 49,940	¥ 48,905	\$ 415,479

### (c) Trading account securities

Trading account securities are stated at fair value at the fiscal year-ends. Related gains or losses, both realized and unrealized, are included in current earnings. Accrued interest on trading account securities is included in other assets.

### (d) Investment securities

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 securities, are carried at fair value as available-for-sale securities, with net unrealized gains or losses reported as a separate component of shareholders' equity, net of applicable income taxes. Nonmarketable securities among 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 interest on securities is included in other assets. Funds entrusted to trust banks for securities (included in "Money held in trust") of the Bank are stated at fair value.

### (e) 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.

Derivatives 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 a certain method of hedge accounting, referred to as "Macro hedge" in which the Bank manages interest risks arising from various assets and liabilities with derivatives transactions as a whole in conformity with the transitional treatment described in the Industry Audit Committee Report No. 24, "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" issued by the Japanese Institute of Certified Public Accountants ("JICPA"). Under the macro hedge accounting, the Bank records such outstanding derivative transactions at fair value on the consolidated 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 Industry Audit Committee Report No. 15, "Temporary Treatment in Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" issued by JICPA. 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.

#### **(f) 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 in accordance with the Report No.4 of Ad Hoc Committee for Audits of Banks "Practical Guideline for Evaluation of Internal Control Over Valuation of Assets and Audits of Write-off of Bad Loans and Allowance for Doubtful Loans of Banks and Similar Financial Institutions" issued by the Japanese Institute of Certified Public Accountants ("JICPA"). 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 with significant credit balances, to whom the Bank has relaxed lending conditions and whose loans' future cash flows could be reasonably estimated, an allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and carrying value of the claims. For claims to borrowers with significant credit balances, whose loans' future cash flows could not be reasonably estimated, an allowance is provided based on the estimated credit loss for certain future period within the remaining loan terms calculated by the Bank. 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.

#### **(g) 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.

#### **(h) 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 financing leases, by the accounting treatments similar to operating leases as permitted by the accounting principles and practices generally accepted in Japan.

#### **(i) Cost of computer software developed or obtained for internal use**

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.

#### **(j) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Japanese Yen at the exchange rates prevailing at the fiscal year-ends. 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.

In the previous year, the Bank adopted the Industry Audit Committee Report No.20, "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" issued by JICPA. Effective the current year, the Bank has adopted the Industry Audit Committee Report No.25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" issued by JICPA.

In the current year, as the Bank has adopted the transitional treatments described in JICPA Industry Audit Committee Report No.25, "fund swap transactions" and "currency swap transactions" are accounted for by the same method as before. The translation difference of forward exchange transactions and other relevant transactions are presented with the net balance of the related asset or liability.

Pursuant to the transitional treatment of JICPA Industry Audit Committee Report No. 25, the amounts for fund swap transactions on the balance sheet are net yen-conversions of the principal equivalents of assets and liabilities using the exchange rate at the fiscal year-end. Differences between spot and forward rates in fund swap transactions are booked in the interest income or expense account on an accrual basis for the period from the settlement of spot foreign exchange to the settlement date of forward foreign exchange. Therefore, accrued interest income or expenses are recognized at the fiscal year-end.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange either bought or sold and forward foreign exchange either sold or bought. Such transactions are contracted for the purpose of funds lending or borrowing in different currencies. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange bought or sold with regard to the corresponding borrowed or loaned funds. Also, such transactions convert the corresponding principal equivalents and foreign currency equivalents payable and receivable, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange either bought or sold.

For currency swap transactions which are for the purpose of funds borrowing/lending in different currencies and for which spot/forward are flat type, which means that paying or receiving amounts at the time of currency swap contracts are equal to receiving or paying amounts at the currency swap maturity dates and the swap rate applied to principal and interest is the current market rate (including the currency swap transactions which are that the principal amount of the counterparty is revised in order to reflect each exchange rate at the interest payment dates and are judged as spot/forward flat type for each interest payment date), the amounts on the balance sheet are net positions of financial asset and liability equivalents translated by using the fiscal year-end exchange rate. The equivalent amounts of interest to exchange are booked in interest income and expense accounts on an accrual basis for the corresponding contract period. Therefore, accrued interest income or expenses are recognized at the fiscal year-end.

### (k) 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.

In accordance with the accounting standard for employee retirement benefits, the Group has principally recognized the retirement benefits including pension cost and related liability based on the actuarial present value of the projected benefit obligation using an actuarial appraisal approach and the pension plan assets available for benefits at the respective fiscal year-ends. Unrecognized prior service cost is amortized using the straight-line method over ten years from the year in which it occurs. Unrecognized actuarial differences such as changes in the projected benefit obligation or pension plan assets resulting from the experience different from assumptions and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within the remaining years of service of employees from the next year after they arise.

### (l) Income taxes

Income taxes are accounted for under the asset and liability method. 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 operating loss carryforward. Deferred tax assets and liabilities are 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.

### (m) 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.

### (n) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. The Group adopted the new accounting standard for earnings per share from the current fiscal year. Prior-period per share data has been restated to conform to the current computation.

Cash dividends per share shown 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, 2003 and 2002, trading account securities consisted of national government bonds only.

At March 31, 2003 and 2002, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
National government bonds	¥ 241,958	¥ 213,588	\$ 2,012,966
Local government bonds	191,067	184,175	1,589,578
Bonds and debentures	210,416	202,858	1,750,553
Equity securities	52,155	63,557	433,910
Other	100,119	164,726	832,944
	<u>¥ 795,718</u>	<u>¥ 828,906</u>	<u>\$ 6,619,951</u>

Investment securities are classified as trading, held-to-maturity or available-for-sale, whose classification determines the respective accounting methods as stipulated by the accounting standard for financial instruments. At March 31, 2003 and 2002, carrying

values of trading account securities and money held in trust for trading purpose and related net unrealized gains or losses included in the current earnings were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2003		2002		2003	
	Carrying value	Unrealized gains (losses)	Carrying value	Unrealized gains (losses)	Carrying Value	Unrealized gains (losses)
Trading account securities	¥1,285	¥ (3)	¥1,419	¥ 0	\$10,698	\$(27)
Money held in trust	10,382	(448)	11,884	(121)	86,378	(3,729)

At March 31, 2003 and 2002, gross unrealized gains and losses for marketable securities held-to-maturity and available-for-sale are summarized as follows:

	Millions of Yen			
	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Held-to-maturity debt securities with fair value at March 31, 2003:				
Bonds:				
Local government bonds	¥ 1,221	¥ 25	¥ -	¥ 1,247
Bonds and debentures	1,782	85	-	1,867
	<u>¥ 3,003</u>	<u>¥ 110</u>	<u>¥ -</u>	<u>¥ 3,114</u>
Held-to-maturity debt securities with fair value at March 31, 2002:				
Bonds:				
Local government bonds	¥ 2,436	¥ 93	¥ -	¥ 2,530

Held-to-maturity debt securities with fair value at March 31, 2002:

Bonds:				
Local government bonds	¥ 2,436	¥ 93	¥ -	¥ 2,530

Held-to-maturity debt securities with fair value at March 31, 2003:

	Thousands of U.S. Dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Bonds:				
Local government bonds	\$10,166	\$ 210	\$ -	\$10,376
Bonds and debentures	14,825	712	-	15,537
	<u>\$24,991</u>	<u>\$ 922</u>	<u>\$ -</u>	<u>\$25,913</u>

Available-for-sale securities with fair value at March 31, 2003:

	Millions of Yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Bonds:				
National government bonds	¥239,067	¥ 4,624	¥(1,733)	¥241,958
Local government bonds	182,820	7,027	(2)	189,845
Bonds and debentures	203,311	4,252	(6)	207,557
Equity securities	35,623	16,957	(2,192)	50,387
Other	96,913	3,697	(491)	100,119
	<u>¥757,736</u>	<u>¥36,559</u>	<u>¥(4,426)</u>	<u>¥789,869</u>

	Millions of Yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Available-for-sale securities with fair value at March 31, 2002:				
Bonds:				
National government bonds	¥210,146	¥ 3,489	¥ (47)	¥213,588
Local government bonds	177,566	4,353	(181)	181,738
Bonds and debentures	197,594	4,123	(115)	201,602
Equity securities	36,614	26,356	(1,037)	61,933
Other	162,314	1,920	(1,600)	162,634
	<u>¥784,236</u>	<u>¥40,243</u>	<u>¥(2,982)</u>	<u>¥821,496</u>

	Thousands of U.S. Dollars			
	2003	2002	2003	2002
Available-for-sale securities with fair value at March 31, 2003:				
Bonds:				
National government bonds	\$1,988,914	\$ 38,476	\$(14,424)	\$2,012,966
Local government bonds	1,520,968	58,463	(19)	1,579,412
Bonds and debentures	1,691,447	35,375	(54)	1,726,768
Equity securities	296,368	141,075	(18,243)	419,200
Other	806,267	30,765	(4,089)	832,943
	<u>\$6,303,964</u>	<u>\$304,154</u>	<u>\$(36,829)</u>	<u>\$6,571,289</u>

At March 31, 2003 and 2002, net unrealized gains of available-for-sale securities, net of applicable income taxes and minority interests, recorded in a separate component of shareholders' equity on the accompanying consolidated balance sheets were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2003	2002	2003	2002
Unrealized gains	¥ 32,132	¥ 37,260	\$ 267,325	\$ 304,154
Less, applicable income taxes	(12,982)	(15,537)	(108,007)	(141,075)
Less, minority interests portion	(29)	(70)	(247)	(30,765)
Net unrealized gains in shareholders' equity	<u>¥ 19,120</u>	<u>¥ 21,652</u>	<u>\$ 159,071</u>	<u>\$ 232,314</u>

During the years ended March 31, 2003 and 2002, the Group sold available-for-sale securities and recorded gains of ¥1,210 million (\$10,068 thousand) and ¥902 million, respectively, and losses of ¥106 million (\$885 thousand) and ¥144 million, respectively, on the accompanying consolidated statements of income. During the years ended March 31, 2003 and 2002, the Group recorded a loss on write-down of investment available-for-sale securities due to other-than-temporary impairments in value in amounts of ¥4,500 million (\$37,439 thousand) and ¥3,211 million, respectively.

Expected maturities of debt securities held-to-maturity and available-for-sale at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 125,307	\$ 1,042,493
Due from one year to five years	405,004	3,369,424
Due from five years to ten years	127,627	1,061,791
Due after ten years	78,671	654,505
	<u>¥ 736,611</u>	<u>\$ 6,128,213</u>

#### 4. Loans and Bills Discounted

At March 31, 2003 and 2002, loans and bills discounted consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2003	2002	2003	2002
Bills discounted	¥ 28,959	¥ 37,369	\$ 240,929	\$ 304,154
Loans on notes	214,761	363,050	1,786,703	3,369,424
Loans on deeds	1,431,861	1,217,448	11,912,321	10,068,000
Overdrafts	291,290	282,874	2,423,380	2,321,000
	<u>¥1,966,872</u>	<u>¥1,900,743</u>	<u>\$ 16,363,333</u>	<u>\$ 16,002,578</u>

At March 31, 2003 and 2002, 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 ¥34,275 million (\$285,152 thousand) and ¥37,609 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, 2002, 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 ¥1 million. At March 31, 2003, there was no balance of such loans.

At March 31, 2003 and 2002, 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 ¥45,172 million (\$375,812 thousand) and ¥50,682 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 ¥79,447 million (\$660,964 thousand) and ¥88,293 million at March 31, 2003 and 2002, respectively.

## 5. Foreign Exchanges

At March 31, 2003 and 2002, foreign exchanges consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Assets:</b>			
Due from banks	¥ 658	¥ 416	\$ 5,475
Foreign bills of exchange purchased	8	49	72
Foreign bills of exchange receivable	65	42	545
	<u>¥ 732</u>	<u>¥ 508</u>	<u>\$ 6,092</u>
<b>Liabilities:</b>			
Foreign bills of exchange sold	¥ 23	¥ 207	\$ 193
Foreign bills of exchange payable	8	1	67
	<u>¥ 31</u>	<u>¥ 209</u>	<u>\$ 260</u>

## 6. Premises and Equipment

At March 31, 2003 and 2002, a major classification of premises and equipment was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Land	¥ 46,980	¥ 47,157	\$ 390,854
Buildings and structures	31,361	31,091	260,914
Equipment	15,957	17,030	132,756
Construction in progress	33	1	280
	<u>94,333</u>	<u>95,279</u>	<u>784,804</u>
Less, accumulated depreciation	<u>(32,447)</u>	<u>(33,045)</u>	<u>(269,949)</u>
	<u>61,885</u>	<u>62,234</u>	<u>514,855</u>
Lease deposits	590	613	4,910
	<u>¥ 62,475</u>	<u>¥ 62,847</u>	<u>\$ 519,765</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, 2003 and 2002, 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 ¥12,398 million (\$103,149 thousand) and ¥9,926 million, respectively.

## 7. Assets Pledged

At March 31, 2003 and 2002, the following assets were pledged as collateral for liabilities such as certain deposits and borrowed money:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Investment securities	¥ 109,545	¥ 102,007	\$ 911,358
Loans and bills discounted	1,968	2,008	16,380

In addition, investment securities totaling ¥59,258 million (\$492,998 thousand) and ¥80,758 million at March 31, 2003 and 2002,

respectively, were pledged as collateral for the settlement of exchange, derivative and other transactions.

## 8. Deposits

At March 31, 2003 and 2002, deposits consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Demand deposits	¥ 1,341,455	¥ 1,254,692	\$ 11,160,196
Time deposits	1,190,811	1,289,817	9,906,915
Other	51,516	26,536	428,591
	<u>¥ 2,583,783</u>	<u>¥ 2,571,046</u>	<u>\$ 21,495,702</u>

## 9. Borrowed Money

At March 31, 2003, the annual maturities of borrowed money, which was due through March 2008 with an average interest rate of 1.28% per annum, were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2004	¥ 5,099	\$ 42,423
2005	3,810	31,705
2006	2,780	23,132
2007	1,414	11,768
2008	546	4,542
	<u>¥ 13,651</u>	<u>\$ 113,570</u>

## 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 years ended March 31, 2003 and 2002.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Reconciliation of benefit liability:</b>			
Projected benefit obligation	¥ 40,290	¥ 39,453	\$ 335,197
Less, fair value of pension plan assets at end of year	<u>(20,925)</u>	<u>(22,855)</u>	<u>(174,089)</u>
	<u>19,365</u>	<u>16,597</u>	<u>161,108</u>
Less, unrecognized actuarial differences (loss)	<u>(9,075)</u>	<u>(7,917)</u>	<u>(75,500)</u>
Unrecognized prior service cost (credit) of retroactive benefits granted by the plan amendment	<u>1,093</u>	<u>1,231</u>	<u>9,094</u>
Net amounts of reserve for employee retirement benefits recognized on the consolidated balance sheets	<u>¥ 11,383</u>	<u>¥ 9,911</u>	<u>\$ 94,702</u>

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

Note 2. Projected benefit obligation of subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Components of net periodic retirement benefit expense:			
Service cost	¥ 1,398	¥ 1,178	\$ 11,638
Interest cost	984	1,024	8,188
Expected return on pension plan assets	(313)	(569)	(2,609)
Amortization of prior service cost	(137)	(136)	(1,147)
Amortization of actuarial differences	1,631	679	13,569
Net periodic retirement benefit expense	¥ 3,562	¥ 2,176	\$ 29,639

Major assumptions used in the calculation of the above information for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
	Straight-line method	Straight-line method
Method attributing the projected benefits to periods of services		
Discount rate	2.5%	2.5%
Expected rate of return on pension plan assets:		
Welfare pension fund	1.0%	2.5%
Qualified pension plan	0.5%	1.0%
Trusts for retirement benefits	2.5%	2.5%
Amortization of prior service cost	10 years	10 years
Amortization of actuarial differences	10 years	10 years

## 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 no par value common stock is 800 million at March 31, 2003, unless there is a reduction due to a cancellation of treasury stock acquired.

Pursuant to the Commercial Code of Japan and the resolution by shareholders at the annual general meeting on June 27, 2003, the Bank can purchase the treasury stock of the Bank up to 20 million shares in maximum consideration for ¥12,000 million (\$99,834 thousand) for the period through the date of its next annual shareholders' general meeting.

At March 31, 2003 and 2002, capital surplus consisted of additional paid-in capital, respectively. Retained earnings included legal reserve of the Bank in the amount of ¥18,130 million (\$150,838 thousand) at March 31, 2003 and 2002, 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 a total amount of additional paid-in capital and 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 ¥542,894 million (\$4,516,595 thousand) and ¥588,264 million at March 31, 2003 and 2002, respectively.

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, 2002, aggregate future minimum lease commitments to be paid for such noncancelable agreements amounted to ¥8 million, while no outstanding balance for such lease commitments at March 31, 2003.

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, 2003 and 2002, 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
	2003	2002	2003
Financing leases as lessor:			
Due within one year	¥ 9,522	¥ 9,506	\$ 79,220
Due after one year	18,393	18,948	153,023
	¥27,915	¥28,455	\$232,243

## 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.

The Bank adopted the accounting standard for financial instruments. At March 31, 2003 and 2002, derivative instruments which are traded on the over-the-counter market and stated at fair value and recognized for valuation gains and losses as current earnings, other than those to which hedge accounting is applied, were summarized as follows:

	Notional principal or contract amounts	Fair value	Valuation gains/(losses)
	Millions of Yen		
At March 31, 2003:			
Interest rate contracts:			
Option written	¥ 1,000	¥ (0)	¥ 18
Option purchased	1,000	0	(16)
Foreign exchange contracts:			
Currency swaps	6,173	11	11
At March 31, 2002:			
Interest rate contracts:			
Option written	¥ 2,000	¥ (2)	¥ 25
Option purchased	2,000	2	(23)
Foreign exchange contracts:			
Currency swaps	6,513	14	14
At March 31, 2003:	Thousands of U.S. Dollars		
Interest rate contracts:			
Option written	\$ 8,319	\$ (2)	\$152
Option purchased	8,319	2	(138)
Foreign exchange contracts:			
Currency swaps	51,362	94	94

Note 1. Fair values are based on the discounted cash flow method, etc.  
2. Currency swaps, which are accounted for by an accrual basis in accordance with JICPA Industry Audit Committee Report No. 20 "Tentative Accounting and Auditing Treatment relating to Adoption of 'Accounting for Foreign Currency Translation for Banks'", are not included in the table above. Notional principal amounts, fair value and valuation gains or losses of currency swaps on an accrual basis are as follows:

	Notional principal or contract amounts	Fair value	Valuation gains/(losses)
	Millions of Yen		
Currency swaps			
—at March 31, 2003	¥24,892	¥ (257)	¥ (257)
Currency swaps			
—at March 31, 2002	20,884	(472)	(472)
Currency swaps	Thousands of U.S. Dollars		
—at March 31, 2003	\$ 207,095	\$ (2,146)	\$ (2,146)

3. Foreign exchange related-transactions such as forward exchange contracts, currency options are not included in the table above, since they are revalued at the fiscal year-end and their valuation gains (losses) are recognized in the accompanying consolidated statements of income. Notional principal amounts of such foreign exchange related-transactions are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Notional principal amounts - Foreign exchange forward contracts	¥ 440	¥ 274	\$ 3,663

## 15. Income Taxes

Income taxes for the years ended March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Income taxes:			
Current	¥ 4,535	¥ 5,940	\$ 37,735
Deferred	(1,588)	407	(13,212)
	¥ 2,947	¥ 6,348	\$ 24,523

At March 31, 2003 and 2002, income taxes (including enterprise taxes) payable in the amounts of ¥1,308 million (\$10,883 thousand) and ¥1,798 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, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Reserve for possible loan losses	¥ 6,897	¥ 6,293	\$ 57,381
Reserve for employee retirement benefits	4,976	4,257	41,405
Depreciation	932	1,042	7,755
Write-down of investment securities	1,700	1,935	14,167
Unrealized losses on available -for-sale securities	1,788	1,243	14,900
Other	1,616	1,745	13,396
Less, valuation allowance	(1,237)	(1,870)	(10,294)
Subtotal	16,672	14,646	138,710
Deferred tax liabilities:			
Unrealized gains on available -for-sale securities	(14,771)	(16,781)	(122,889)
Other	(56)	(50)	(466)
Subtotal	(14,827)	(16,832)	(123,355)
Net deferred tax assets (liabilities)	¥ 1,845	¥ (2,185)	\$ 15,355

At March 31, 2003 and 2002, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets	¥ 1,845	¥ 924	\$ 15,355
Deferred tax liabilities	-	3,110	-

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, 2003 and 2002, 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 effective tax rate and the actual effective income tax rate on pretax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2003 and 2002 was as follows:

	Percentage of pretax income	
	2003	2002
Japanese statutory effective tax rate	41.7%	41.6%
Increase (decrease) due to:		
Permanently nondeductible expenses	1.9	1.1
Tax exempt income	(2.0)	(1.8)
Loss on write-down of investment securities	(7.5)	8.5
Change in tax rate for the calculation of deferred tax assets and liabilities	4.6	-
Other	0.1	(1.8)
Actual effective income tax rate	38.8%	47.6%

With the implementation of the 'Revision of the Local Tax Law' on March 31, 2003, the statutory effective tax rate used in the calculation of deferred tax assets or liabilities effective from the fiscal year beginning on April 1, 2004 has been changed from 41.7% to 40.4%. As a result, at March 31, 2003, deferred tax assets decreased by ¥62 million (\$518 thousand). In addition, deferred income tax expenses increased by ¥354 million (\$29,500 thousand) for the year ended March 31, 2003.

## 16. Subsequent Event

The shareholders of the Bank approved the following appropriation of retained earnings at the annual general meeting on June 27, 2003:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 630	\$ 5,249
Bonuses to directors and corporate auditors	45	374

## 17. Segment Information

A summary of information classified by lines of business of the Group for the years ended March 31, 2003 and 2002 was as follows:

	Bank	Leasing	Other	Total	Elimination	Consolidated
For the year 2003:						
Ordinary income:						
Millions of Yen						
Outside customers	¥ 64,122	¥ 12,937	¥ 1,634	¥ 78,695	¥ -	¥ 78,695
Inter-segment	387	1,420	318	2,127	(2,127)	-
	64,510	14,358	1,953	80,822	(2,127)	78,695
Ordinary expenses	57,448	13,961	1,496	72,906	(2,131)	70,775
Ordinary profit	¥ 7,061	¥ 397	¥ 456	¥ 7,915	¥ 4	7,919
Special income (expenses), net						(334)
Income before income taxes and minority interests						¥ 7,585
Identifiable assets	¥2,977,503	¥ 35,886	¥ 11,961	¥ 3,025,350	¥(18,864)	¥3,006,486
Depreciation	1,948	10,053	4	12,006	-	12,006
Capital expenditures	1,535	10,855	-	12,390	-	12,390
For the year 2002:						
Ordinary income:						
Outside customers	¥ 67,916	¥ 12,960	¥ 1,435	¥ 82,312	¥ -	¥ 82,312
Inter-segment	423	1,544	416	2,384	(2,384)	-
	68,339	14,504	1,852	84,696	(2,384)	82,312
Ordinary expenses	56,386	13,914	1,307	71,608	(2,373)	69,234
Ordinary profit	¥ 11,953	¥ 590	¥ 544	¥ 13,088	¥ (10)	13,078
Special income (expenses), net						238
Income before income taxes and minority interests						¥ 13,316
Identifiable assets	¥3,019,719	¥ 36,170	¥ 11,740	¥ 3,067,630	¥(19,244)	¥3,048,385
Depreciation	1,747	10,293	4	12,045	-	12,045
Capital expenditures	1,557	10,719	3	12,280	-	12,280
For the year 2003:						
Ordinary income:						
Thousands of U.S. Dollars						
Outside customers	\$ 533,468	\$ 107,635	\$ 13,601	\$ 654,704	\$ -	\$ 654,704
Inter-segment	3,226	11,821	2,652	17,699	(17,699)	-
	536,694	119,456	16,253	672,403	(17,699)	654,704
Ordinary expenses	477,945	116,149	12,453	606,547	(17,732)	588,815
Ordinary profit	\$ 58,749	\$ 3,307	\$ 3,800	\$ 65,856	\$ 33	65,889
Special income (expenses), net						(2,780)
Income before income taxes and minority interests						\$ 63,109
Identifiable assets	\$24,771,241	\$ 298,554	\$ 99,514	\$ 25,169,309	\$ (156,945)	\$ 25,012,364
Depreciation	16,211	83,640	41	99,892	-	99,892
Capital expenditures	12,772	90,314	-	103,086	-	103,086

Note: (1) "Ordinary income" represents total income less certain special income included in other income on the accompanying consolidated statements of income. "Ordinary expenses" represents total expenses less certain special expenses included in other expenses. "Ordinary profit" represents ordinary income less ordinary expenses.

"Other" business segment includes guarantee and credit card operations

(2) Information of geographic segment and income from foreign operations is not presented, as such amounts were not material to be disclosed.

## 18. Financial information of THE KAGOSHIMA BANK, LTD. (Parent)

Presented below are the 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)  
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Assets</b>			
Cash and due from banks	¥ 53,108	¥ 54,702	\$ 441,831
Call loans and bills purchased	47,116	115,070	391,987
Commercial paper and other debt purchased	2,750	3,072	22,884
Trading account securities	1,285	1,419	10,698
Money held in trust	10,382	11,884	86,378
Investment securities	794,767	827,665	6,612,042
Loans and bills discounted	1,975,024	1,909,640	16,431,152
Foreign exchanges	732	508	6,092
Other assets	13,417	15,059	111,628
Premises and equipment	59,670	60,276	496,426
Deferred tax assets	628	-	5,225
Customers' liabilities for acceptances and guarantees	35,838	37,672	298,160
Reserve for possible loan losses	(17,168)	(17,201)	(142,832)
	<u>¥ 2,977,554</u>	<u>¥ 3,019,770</u>	<u>\$ 24,771,671</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits	¥ 2,585,465	¥ 2,573,019	\$ 21,509,699
Negotiable certificates of deposits	66,617	66,945	554,222
Call money and bills sold	61,061	110,599	508,000
Collateral deposits on securities loaned	3,310	-	27,539
Borrowed money	167	187	1,391
Foreign exchanges	31	209	260
Other liabilities	12,632	17,278	105,096
Reserve for employee retirement benefits	11,348	9,866	94,414
Deferred tax liabilities	-	3,110	-
Deferred tax liabilities for revaluation	11,790	12,281	98,089
Acceptances and guarantees	35,838	37,672	298,160
Total liabilities	<u>¥ 2,788,263</u>	<u>¥ 2,831,169</u>	<u>\$ 23,196,870</u>
<b>Shareholders' equity:</b>			
Common stock	¥ 18,130	¥ 18,130	\$ 150,838
Capital surplus	11,204	11,204	93,214
Retained earnings:			
Legal reserve	18,130	18,130	150,838
Voluntary reserves	100,364	95,672	834,983
Unappropriated retained earnings	5,001	6,676	41,606
Total retained earnings	<u>123,496</u>	<u>120,479</u>	<u>1,027,427</u>
Land revaluation increment	17,393	17,170	144,705
Net unrealized gains on available-for-sale securities	19,109	21,625	158,977
Less, treasury stock, at cost	(43)	(9)	(360)
Total shareholders' equity	<u>189,291</u>	<u>188,601</u>	<u>1,574,801</u>
	<u>¥ 2,977,554</u>	<u>¥ 3,019,770</u>	<u>\$ 24,771,671</u>

## Non-Consolidated Statements of Income

THE KAGOSHIMA BANK, LTD. (parent)  
For the Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Income:</b>			
Interest income:			
Interest on loans and discounts	¥ 41,135	¥ 43,589	\$ 342,225
Interest and dividends on securities	12,131	14,062	100,926
Other interest income	122	41	1,016
Total interest income	53,388	57,693	444,167
Fees and commissions	8,429	8,137	70,130
Other operating income	1,227	937	10,216
Other income	1,496	1,545	12,451
Total income	64,543	68,313	536,964
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	1,221	2,429	10,158
Interest on borrowings and rediscounts	1,368	2,677	11,387
Interest on collateral deposits on securities loaned	50	-	423
Other interest expenses	3,108	4,119	25,858
Total interest expenses	5,748	9,226	47,826
Fees and commissions	2,972	2,829	24,726
Other operating expenses	1,622	553	13,496
General and administrative expenses	38,821	38,191	322,975
Other expenses	8,651	5,715	71,975
Total expenses	57,815	56,515	480,998
Income before income taxes	6,727	11,798	55,966
<b>Income taxes:</b>			
Current	3,898	5,274	32,429
Deferred	(1,335)	487	(11,109)
Total income taxes	2,562	5,761	21,320
Net income	¥ 4,164	¥ 6,036	\$ 34,646

	Yen		U.S. Dollars
<b>Per share:</b>			
Net income	¥ 19.58	¥ 28.49	\$ 0.16

## Non-Consolidated Statements of Shareholders' Equity

THE KAGOSHIMA BANK, LTD. (Parent)  
For the Years Ended March 31, 2003 and 2002

	Common stock	Capital surplus	Legal reserve	Voluntary reserves	Retained earnings	Land revaluation increment	Net unrealized gains on available-for-sale securities	Treasury stock
	Millions of Yen							
<b>Balance at March 31, 2001</b>	¥ 18,130	¥ 11,204	¥ 18,130	¥ 91,115	¥ 6,459	¥ 17,213	¥ 31,710	¥ -
Net income for the year	-	-	-	-	6,036	-	-	-
Appropriations:								
Cash dividends	-	-	-	-	(1,262)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	-	(42)	-	-	-
Transfer to voluntary reserves	-	-	-	4,557	(4,557)	-	-	-
Reversal of land revaluation increment	-	-	-	-	42	(42)	-	-
Net unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	-	(10,084)	-
Fractional shares acquired and other	-	-	-	-	-	-	-	(9)
<b>Balance at March 31, 2002</b>	18,130	11,204	18,130	95,672	6,676	17,170	21,625	(9)
Net income for the year	-	-	-	-	4,164	-	-	-
Appropriations:								
Cash dividends	-	-	-	-	(1,262)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	-	(42)	-	-	-
Transfer to voluntary reserves	-	-	-	4,692	(4,692)	-	-	-
Reversal of land revaluation increment	-	-	-	-	156	(156)	-	-
Adjustment for applicable income taxes	-	-	-	-	-	379	416	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	-	(2,932)	-
Fractional shares acquired and other	-	-	-	-	-	-	-	(33)
<b>Balance at March 31, 2003</b>	¥ 18,130	¥ 11,204	¥ 18,130	¥ 100,364	¥ 5,001	¥ 17,393	¥ 19,109	¥ (43)

	Thousand of U.S. Dollars							
<b>Balance at March 31, 2002</b>	\$ 150,838	\$ 93,214	\$ 150,838	\$ 795,946	\$ 55,547	\$ 142,849	\$ 179,914	\$ (83)
Net income for the year	-	-	-	-	34,646	-	-	-
Appropriations:								
Cash dividends	-	-	-	-	(10,501)	-	-	-
Bonuses to directors and corporate auditors	-	-	-	-	(349)	-	-	-
Transfer to voluntary reserves	-	-	-	39,037	(39,037)	-	-	-
Reversal of land revaluation increment	-	-	-	-	1,300	(1,300)	-	-
Adjustment for applicable income taxes	-	-	-	-	-	3,156	3,460	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	-	(24,397)	-
Fractional shares acquired and other	-	-	-	-	-	-	-	(277)
<b>Balance at March 31, 2003</b>	\$ 150,838	\$ 93,214	\$ 150,838	\$ 834,983	\$ 41,606	\$ 144,705	\$ 158,977	\$ (360)

# Report of Independent Auditors

To the Board of Directors and Shareholders 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, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of THE KAGOSHIMA BANK, LTD.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE KAGOSHIMA BANK, LTD. and its consolidated subsidiaries as of March 31, 2003 and 2002, 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).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, 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 27, 2003