

**A n n u a l R e p o r t 2 0 0 1**



**The Bank of Fukuoka**

THE BANK OF FUKUOKA

## PROFILE

The Bank of Fukuoka, Ltd., is one of Japan's top regional banks and maintains the leading position in its home market of Fukuoka Prefecture and the greater Kyushu region in western Japan.

With a management philosophy of contributing to the development of its home market and taking an enterprising approach to offer clients superior-quality financial services, the Bank of Fukuoka is committed to being a bank that is well trusted and liked by the people in the communities it serves.

The Bank of Fukuoka is proud of its efforts to continually make major contributions to the further development of its home market economy and society by accurately addressing the increasingly diverse and sophisticated needs of clients.

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## CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	Millions of yen		Millions of U.S. dollars (Note 1)
	2001	2000	2001
<b>For the Year:</b>			
Total income .....	¥ 211,217	¥ 212,938	\$ 1,705
Total expenses .....	343,310	206,888	2,771
(Loss) income before income taxes and minority interests .....	(132,092)	6,049	(1,066)
Net (loss) income .....	(76,727)	3,104	(619)
<b>At Year-End:</b>			
Deposits .....	¥5,807,264	¥5,692,990	\$46,870
Loans and bills discounted .....	4,751,488	4,885,064	38,349
Securities.....	1,045,761	947,975	8,440
Total assets .....	6,583,923	6,576,694	53,139
Total stockholders' equity .....	289,752	335,142	2,339
Capital ratio (%) (Note 3) .....	8.96%	10.57%	
	Yen		U.S. dollars (Note 1)
<b>Per Share Data:</b>			
Net (loss) income:			
Basic.....	¥(121.34)	¥4.93	\$ (0.979)
Diluted.....	—	4.78	—

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at ¥123.90=US\$1.00, the exchange rate on March 31, 2001.

2. The years stated in the text are for the fiscal year, which runs from April 1 of the previous year through March 31.

3. Capital ratios are based on domestic standards.

## NON-CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd.

	Millions of yen		Millions of U.S. dollars (Note 1)
	2001	2000	2001
<b>For the Year:</b>			
Total income .....	¥ 193,421	¥ 178,793	\$ 1,561
Total expenses .....	325,706	170,228	2,629
(Loss) income before income taxes .....	(132,284)	8,565	(1,068)
Net (loss) income .....	(76,835)	5,290	(620)
<b>At Year-End:</b>			
Deposits .....	¥5,814,825	¥5,718,888	\$46,931
Loans and bills discounted .....	4,754,339	4,855,752	38,372
Securities.....	1,046,044	948,582	8,443
Total assets .....	6,578,663	6,502,195	53,097
Total stockholders' equity .....	288,570	337,580	2,329
Capital ratio (%) (Note 3) .....	8.88%	10.75%	
	Yen		U.S. dollars (Note 1)
<b>Per Share Data:</b>			
Net (loss) income:			
Basic.....	¥(121.04)	¥8.35	\$ (0.977)
Diluted.....	—	7.80	—
Cash dividends applicable to the year .....	5.00	5.00	0.040

Notes: 1. The U.S. dollar amounts represent translations of Japanese yen at ¥123.90=US\$1.00, the exchange rate on March 31, 2001.

2. The years stated in the text are for the fiscal year, which runs from April 1 of the previous year through March 31.

3. Capital ratios are based on domestic standards.

## A MESSAGE FROM THE PRESIDENT

### Business Environment

In fiscal 2001, ended March 31, 2001, the management environment in the Japanese financial sector underwent change at an unprecedented speed due to a large-scale global reorganization, the debut of new competitors from non-finance-related industries, and the rapid growth of e-business.

Faced with intensifying competition, the Bank of Fukuoka, Ltd., announced the following three management objectives: obtain strong customer support and trust and gain a good market reputation, build a stable company structure, and create a dynamic corporate culture. In line with these objectives, in April 2000 the Bank launched its new medium-term business plan—the “New Century Plan”—effective through March 2003.

### The New Century Plan

The aim of the New Century Plan is to enable the Bank to meet quickly and accurately the needs of its corporate and individual customers. The Bank is currently developing a new sales promotion structure and reforming operating procedures in order to win in the era of intensified competition.

In fiscal 2001, the Bank opened its Corporate Call Center, which offers a variety of services to small- and medium-sized companies. At the same time, the Bank is training and dispatching to branch offices employees with specialized knowledge in the services of small- and medium-sized companies.

The Corporate Call Center has made exhaustive efforts to improve its services, under the concepts of consistency

and continuity in transactions, convenience, and speed as well as detailed and timely service. Simultaneously, the Bank endeavors to efficiently expand customer support via telephone, fax, and the Internet. The Bank opened a Corporate Call Center in September 2000 in Fukuoka and its satellite center in Kitakyushu in January 2001. By the end of March 2001, the number of customers served by the center totaled approximately 8,000. The Corporate Call Center allows the filing of loan applications via telephone and fax, speeds up screenings, and provides information relating to corporate management. It also expanded operating hours to include Saturdays.

Improvements in services targeting individual customers include accepting loan applications via the Internet, fax, and telephone, and operating ATM corners 365 days a year. Mutual funds and foreign currency deposits are available together with investment consultation at all branches.

Regarding its management strategy, the Bank has transferred 95% of its shareholdings in its leasing subsidiary, Fukugin Leasing Co., Ltd., to the GE Capital Group. Through this strategy of “selection and concentration,” the Bank is concentrating its resources on the banking business and, through a strategic tie-up with the world’s largest financial services company, the GE Capital Group, the Bank is now able to offer a wide variety of world-class financing strategies to its clients.

In addition, the Bank of Fukuoka and the Hiroshima Bank, Ltd., in January 2001 commenced operations of their

joint Integrated Securities System, which is the first stage of the integration of their mainframe computer systems. The full-scale rollout of the system is scheduled for January 2002. Thus, the Bank is striving to create a more efficient, high-quality mainframe system for offering diversified and sophisticated financial products and services.

### Achieving Healthy Assets

For each accounting period, the Bank takes appropriate action regarding non-performing loans.

However, since the beginning of calendar 2001 there has been lively debate among financial authorities concerning possible general solutions to the bad debt problem of financial institutions and the excessive debt obligations of Japanese companies. Therefore, the Bank greatly increased its loan-loss reserve in the fiscal 2001 accounting period.

Specifically, the Bank revalued its collateral and conducted strict self-assessments on the premise that deflation and stagnant economic conditions will continue.

As a result, the Bank is confident that it can implement adequate provisions for the processing of its bad debt.

Moreover, the Bank’s capital adequacy ratio (a bank’s indicator of financial health) is 8.96% on a consolidated basis, which sufficiently clears the international requirement of 8% or over, and far exceeds the domestic requirement of 4% or over.

## The New Century Plan—"Second Step"

In the year beginning April 2001, which is the second fiscal year of the Bank's three-year New Century Plan, the Bank is going to make full use of the sales structure that had been put into place in the previous year. Thus, the Bank's products and services can be offered to customers with confidence.

That is to say, the Bank will continue to increase efforts to meet the financial needs of the local firms which contribute to the regional economy in Fukuoka, as well as provide financial services that correspond to the life stages of individual customers.

For small- and medium-sized companies, the Bank is setting up satellite offices of its Corporate Call Center in the southern parts of Fukuoka Prefecture to expand its service area. The Bank is also making efforts to develop new products and provide highly specialized services.

Moreover, the Bank supports corporate financial activities in the form of a cash management service, a lump-sum factoring service, a derivative transaction service, and other sophisticated financial services. The Bank advises companies on such matters as M&A and business strategy. We are reinforcing the quality of our group of specialists at our headquarters to meet our corporate clients' financial and management needs. Drawing on this pool of skills and expertise, the Bank promotes its partnerships with corporate clients aiming to revolutionize their operations and boost their competitiveness.



**Kiyoshi Teramoto, President**

For individual customers, the Bank of Fukuoka is making efforts to become a bank to which customers will turn when the time comes to make a decision regarding the financing of a home or their children's education and other personal financing needs.

In addition, in April 2001 the organization of branch outlets was revised, and the Bank has since expanded services relating to mutual funds, foreign currency deposits, government and municipal bonds, and other asset management products as well as customer consultations.

As for the mainframe computer system integration with Hiroshima Bank, the System Center will be moved to Hiroshima in January 2002, at which time the Bank of Fukuoka's system will begin full-scale operations. Eager to make every effort to ensure that customers will not be inconvenienced in any way by the rollout of the new

system, the Bank has established a special team to oversee the rollout process.

Through the implementation of the various policies called for in the New Century Plan, the Bank aims to answer its customers' diversified and upgraded needs while endeavoring to contribute to the continued growth of the regional economy.

August 2001

A handwritten signature in black ink that reads "Kiyoshi Teramoto". The signature is written in a cursive, flowing style.

**Kiyoshi Teramoto, President**

## STRATEGIC INITIATIVES

# Q & A

### Q&A

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#### **What kind of risk management does the Bank practice?**

At the Bank of Fukuoka, our management objectives are to maintain financial health and improve profitability. To this end, the Bank is acting to strengthen its risk management in the following ways.

#### **RISK MANAGEMENT**

##### **CREDIT RISK**

The Bank works to ensure the health of its primary asset—its loan portfolio—through a basic credit policy specifying fundamental guidelines for loan financing and through strict loan management and accurate assessments of borrower credit-worthiness. By gathering a wide variety of credit information on potential corporate borrowers, using advanced financial analysis systems to determine the soundness of individual companies, and monitoring industry trends, we gain a clear understanding of the financial soundness of borrowers.

Moreover, special sections were established and oversee an integrated credit-risk-management system which includes credit ratings for borrowers, self-assessment, loan provisions, and disclosure. We are developing ways to better quantify credit risk for more sophisticated lending operations.

##### **MARKET RISK**

The Bank is committed to maintaining stable earnings through its Asset and Liability Management (ALM) system, which focuses on controlling market risk, including interest rate and price movement risk. Specifically, the ALM Committee meets monthly to formulate management

policies to control risk through swaps and other derivatives based on forecasts for interest rates and other variables.

The ALM system assesses all risk derived from interest rate fluctuations. Specifically, we assess and manage interest rate risk for the trading of negotiable securities, derivatives, and other financial instruments as well as for domestic savings, loans, and others. This is accomplished using a comprehensive basis point value index that tracks profit-and-loss changes due to fluctuations in interest rates of as little as 0.01%.

For managing risk due to price movements, we use various techniques for assessing unrealized profit and loss while also taking into account future interest rate trends and the introduction of market-value accounting. Risk from the trading of derivatives, foreign exchange futures, and other off-balance-sheet items is strictly controlled through limitations on trading amounts and rules for cutting losses.

##### **ADMINISTRATIVE RISK**

At the Bank, we are required to be strict in our implementation of administrative duties. Having established a strict set of procedures, we endeavor to fulfill administrative duties in an accurate and timely manner. The Bank also supports employee education by offering in-house employee training and on-the-job training. Furthermore, we are expanding our procurement of office equipment and actively strengthening the checking capabilities done by computer.

##### **SYSTEMS RISK**

The Bank's main priority is the steady operation of the main-frame system, and the Bank is taking a variety of steps to make doubly sure that the system operates without mishap.

A backup computer system, supporting communication lines, and a secondary deposit register are maintained to ensure that operations continue during a major disaster. Moreover, the Bank has formulated a security policy with basic guidelines for protecting information assets and is committed to reducing systems risk through stricter controls.

Furthermore, faced with systems risks that are becoming increasingly diversified and complex as a result of advances in IT and network expansion, we have implemented numerous measures to ensure the security of the mainframe system.

### **INSPECTION SYSTEM**

The Bank carries out comprehensive inspections once a year at all branches to prevent any adverse consequences of non-compliance with the Bank's rules and regulations in such areas as credit-risk management, internal control, branch management, and clerical settlement.

With the aim of raising awareness at its branches of the importance of complying with regulations, the Bank conducts inspections without advance notice twice a year to prevent any transgressions of administrative guidelines.

Moreover, divisions involved in market transactions are inspected for compliance with market-risk management regulations, and systems divisions are inspected for compliance with systems-risk management rules. The aim is to ensure the effectiveness of risk-management strategies.

### **Q&A**

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#### **What kinds of measures are being taken regarding compliance?**

The Bank, long recognizing that trustworthiness is a crucial asset for a bank, has established a compliance system, which it is implementing with great thoroughness.

Specifically, we have created a system by which the Compliance Office—the central coordinating body—works jointly with the other divisions in checking to ensure that procedures are being conducted in accordance with legal imperatives and social norms. The Compliance Office also trains

Bank employees in the ethical rules governing employee behavior indicated in the *Compliance Manual*.

There is also a Compliance Committee, joined by external lawyers and certified public accountants. This committee undertakes evaluations of the compliance system setup and conducts periodic checks. The committee revises its compliance program each half-year term and is improving the organizational structure for compliance and the Bank's regulations.

### **Q&A**

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#### **What is the status of computer system integration with the Hiroshima Bank?**

As the first stage of integrating their mainframe computer systems, the Bank of Fukuoka and the Hiroshima Bank in January 2001 commenced operations of their joint Integrated Securities System, which accommodates market-value accounting. The Bank of Fukuoka is currently making preparations for the full-scale rollout of the system in January 2002.

By jointly developing a mainframe system that can accommodate increasingly diversified and sophisticated financial products and services, the Bank expects to reduce annual system costs by approximately 30%.

### **Q&A**

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#### **What are the new developments with the Bank's leasing business?**

The Bank of Fukuoka has agreed to turn over 95% of its shares in its leasing subsidiary, Fukugin Leasing Co., Ltd., to GE Capital Leasing of the GE Capital Group. The Bank simultaneously signed a strategic alliance with GE Capital Leasing for the operation of the new Fukugin Leasing.

Thanks to its tie-up with GE Capital—the world's largest financial services company—the Bank will be able to offer its world-class products and services to its customers through Fukugin Leasing.

## PERFORMANCE AND OUTLOOK (NON-CONSOLIDATED)

### Financial Environment

In the first half of fiscal 2001, the Japanese economy recovered modestly, fueled by IT-related industries, with corporate profits continuing to show high growth. However, personal income levels failed to rise, causing continuing concern about the future of household finances in the minds of consumers. Consequently, consumption remained sluggish.

The impact of the rapid slowdown in the U.S. and Asian economies began to be felt during the second half of the fiscal year, as a dark shadow was cast on exports, the main factor behind the recovery. Growing concern about the future direction of the Japanese economy led the Nikkei Stock Average to temporarily decline to a record-low level for the “post-bubble” period.

On the financial front, the Bank of Japan abandoned its zero interest rate policy, and from the end of last year the pace of economic recovery slowed. The Bank of Japan lowered the official discount rate twice in February. Then, in March the Bank of Japan drastically eased the money supply to halt the continuing downward slide in commodity prices, with a view toward creating the foundation for a sustainable economic recovery. As a result, long-term interest rates declined to the low levels seen before the abandonment of the zero interest rate policy.

The Japanese government is compiling emergency economic countermeasures centering on the final disposal of bad debts and the establishment of a mechanism through which to buy stocks.

### Financial Performance

The Bank of Fukuoka worked aggressively to boost deposits from individual customers. While deposits from individual

customers increased ¥150.7 billion, total deposits, excluding negotiable certificates of deposit decreased ¥20.5 billion, to ¥5,564.0 billion (US\$44.9 billion) at the end of fiscal 2001, due to the decline of large-sum time deposits.

Loans and bills discounted decreased ¥101.4 billion during the term and stood at ¥4,754.3 billion (US\$38.3 billion) at the end of fiscal 2001 as lower demand for capital offset ongoing efforts to boost lending, especially to businesses and individual customers in our home market.

Despite strenuous efforts by the Bank to boost profitability through raising the efficiency of fund management and through rationalization at all levels, due to ¥175.2 billion of credit costs, including ¥174.5 billion of provision for loan-loss reserves, net loss totaled ¥76.8 billion (US\$620 million) for the year under review.

### The Bank's Disposal of Bad Debts

Among the targets of structural reform aimed at the rebirth of the Japanese economy, key priorities include the simultaneous solution of the bad debt problem of banks together with the excess liabilities of companies. Consequently, the final disposal of bad debts is the focus of public attention. Final disposal means the elimination of bad debts from a bank's balance sheet through legal action and the selling off or the abandonment of bad debts.

For each accounting period, the Bank has taken appropriate action regarding nonperforming loans. However, to strengthen the financial soundness of the Bank, we greatly increased the loan-loss reserves for the fiscal 2001 accounting period. These reserves will be sufficient to absorb the impact of any final disposal, should one be carried out.



Specifically, the Bank made two major changes. Firstly, the Bank changed the method for estimating the value of collateral. Assuming a worst-case scenario for bad debts, this change lowered the estimated value of collateral used in calculating the provision for possible loan losses.

Secondly, the Bank has adopted stricter criteria for self-assessments of assets. This move takes into account the recent dramatic changes in the economic environment, namely the protracted recession and the current deflationary trend.

As a result, the balance of bad debts has soared. Under the standards of the Financial Reconstruction Law (FRL), problem assets at fiscal year-end were ¥537.8 billion, up ¥264.4 billion from the previous year. The general reserve for possible loan losses was ¥68.9 billion, and the specific reserve for possible loan losses was ¥198.3 billion.

A total of 85.1% of problem assets disclosed under the FRL is covered by collateral, guarantees, and reserves, which is deemed sufficient at this time. Regarding the details, coverage comprised reserves, collateral, and guarantees, of which, reserves exceeded half of the coverage, indicating a high level of reliability.

The Bank, as part of its mission as a regional financial institution, has taken the basic stance of supporting local companies' reconstruction and puts together feasible reconstruction menus, while improving the soundness of the Bank's assets.

Regarding bankrupt assets, the Bank is in the process of recovering funds through the sale of real estate held as collateral and through the sale of nonperforming assets in an effort to reduce the balance of bad debt. The Bank also

established a special section to manage collections and promote the removal of bad debts from the balance sheets.

Simultaneously, the Bank is taking a proactive response to meet the emergence of any new bad debts head-on by strengthening its examination system and upgrading its credit-risk-management system.

To live up to the expectations of its customers in the Fukuoka area, the Bank is making efforts to raise management efficiency and improve its earnings performance as quickly as possible while providing quality financial services to customers and contributing to the development of the local economy, which is the appointed task of any regional financial institution.

## **Outlook**

Taking into consideration the steady progress being made in the implementation of the various measures outlined in the Bank's New Century Plan as well as the Group's efforts to raise management efficiency and profitability and strengthen the risk-management system, the Bank expects net income of ¥18 billion for fiscal 2002.

**FINANCIAL REVIEW (NON-CONSOLIDATED)**

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd.

**Earnings Performance**

	Millions of yen	
	2001	2000
Net interest income .....	<b>¥106,904</b>	¥110,032
Net fees and commissions .....	<b>13,722</b>	13,896
Net trading income.....	<b>118</b>	(5)
Net other operating income .....	<b>(71)</b>	(3,891)
Gross banking profit.....	<b>120,675</b>	120,033
Expenses.....	<b>77,152</b>	77,630
Transfer to general reserve for possible loan losses.....	<b>34,515</b>	3,377
Net banking profit.....	<b>¥ 9,007</b>	¥ 39,025

	Millions of yen				
	2001	2000	1999	1998	1997
Total income.....	<b>¥193,421</b>	¥178,793	¥207,194	¥246,669	¥216,529
(Loss) income before income taxes .....	<b>(132,284)</b>	8,565	10,280	10,320	5,144
Net (loss) income .....	<b>(76,835)</b>	5,290	4,537	4,113	5,055

**Capital Ratio**

(Domestic Standard)	Millions of yen	
	2001	2000
Tier I.....	<b>¥ 200,127</b>	¥ 279,608
Tier II.....	<b>147,670</b>	159,117
Deducted items .....	<b>202</b>	—
Total capital (A) .....	<b>¥ 347,595</b>	¥ 438,726
Risk-adjusted assets:		
On-balance-sheet items.....	<b>¥3,793,811</b>	¥3,950,566
Off-balance-sheet items .....	<b>117,258</b>	127,011
Total (B) .....	<b>¥3,911,070</b>	¥4,077,578
Capital ratio (A)/(B) (%) .....	<b>8.88%</b>	10.75%

## Reserve for Possible Loan Losses

	Millions of yen				
	2001	2000	1999	1998	1997
Reserve for possible loan losses:					
General reserve .....	<b>¥ 68,921</b>	¥34,310	¥30,932	¥13,602	¥15,061
Specific reserve .....	<b>198,318</b>	64,801	64,021	60,744	42,686
Reserve for loans to specific overseas countries .....	<b>173</b>	111	251	—	5
Total .....	<b>¥267,413</b>	¥99,223	¥95,205	¥74,346	¥57,753

## Risk-Monitored Loans

	Millions of yen	
	2001	2000
Loans to borrowers in bankruptcy (A) .....	<b>¥ 60,012</b>	¥ 33,271
Delinquent loans (B) .....	<b>366,295</b>	142,752
Loans past due for three months or more (C) .....	<b>98</b>	3,568
Restructured loans (D) .....	<b>99,586</b>	92,472
Total (E = A + B + C + D) .....	<b>525,993</b>	272,066
Total loans and bills discounted (F) .....	<b>¥4,754,339</b>	¥4,855,752
Risk-monitored loans as a percentage of total loans and bills discounted (E/F) (%) .....	<b>11.06%</b>	5.60%
Balance of reserve for possible loan losses (G) .....	<b>¥ 224,287</b>	¥ 99,223
Reserve ratio (G/E) (%) .....	<b>42.64%</b>	36.47%
Guarantees and collateral (H) .....	<b>¥ 224,581</b>	¥ 155,223
Coverage ratio (G + H/E) (%) .....	<b>85.33%</b>	93.52%

Notes: 1. Risk-Monitored Loans are disclosed based on the standards under the Banking Law of Japan. As all loans are disclosed irrespective of amounts covered by collateral or guarantees, the disclosed amount should not be construed as representing an amount that is wholly unrecoverable.

2. (A) Loans to borrowers in bankruptcy: Nonaccrual loans to borrowers in legal bankruptcy

(B) Delinquent loans: Nonaccrual loans other than loans to borrowers in bankruptcy and restructured loans

(C) Loans past due for three months or more: Loans on which payments of principal or interest have been in arrears for three months or more, but do not meet the criteria for loans to borrowers in bankruptcy and delinquent loans

(D) Restructured loans: Loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers, and are not classified in any of the above categories

## Problem Assets Based on Financial Reconstruction Law Standard

	Millions of yen				
	Year ended March 31, 2001				
	Balance (A)	Guarantees and collateral (B)	Reserve for possible loan losses (C)	Amount covered (D=B+C)	Coverage ratio (E=D/A) (%)
Bankrupt and quasi-bankrupt assets .....	<b>¥168,382</b>	<b>¥ 61,709</b>	<b>¥106,672</b>	<b>¥168,382</b>	<b>100.0%</b>
Doubtful assets .....	<b>269,381</b>	<b>144,278</b>	<b>91,646</b>	<b>235,924</b>	<b>87.6</b>
Substandard assets .....	<b>100,114</b>	<b>19,448</b>	<b>34,142</b>	<b>53,591</b>	<b>53.5</b>
<b>Total .....</b>	<b>¥537,878</b>	<b>¥225,437</b>	<b>¥232,460</b>	<b>¥457,898</b>	<b>85.1%</b>

	Millions of yen				
	Year ended March 31, 2000				
	Balance (A)	Guarantees and collateral (B)	Reserve for possible loan losses (C)	Amount covered (D=B+C)	Coverage ratio (E=D/A) (%)
Bankrupt and quasi-bankrupt assets .....	¥ 78,035	¥ 39,513	¥38,521	¥ 78,035	100.0%
Doubtful assets .....	98,994	60,741	26,279	87,021	87.9
Substandard assets .....	96,355	55,211	14,971	70,183	72.8
<b>Total .....</b>	<b>¥273,385</b>	<b>¥155,466</b>	<b>¥79,773</b>	<b>¥235,239</b>	<b>86.0%</b>

Notes: Based on Article 6 (1998 Law, Number 132) of the "Law Related to Emergency Measures for Financial Reconstruction," for the assessment of such balance sheet items as securities lent, loans, foreign exchange, accrued income and suspense payment in other assets, and customers' liabilities and acceptances and guarantees, the quality of these assets was categorized as follows on the basis of the financial condition and operating performance of the obligor.

1. Bankrupt and Quasi-Bankrupt—This refers to claims or items corresponding to claims against obligors under bankruptcy due to such reasons as bankruptcy, company reorganization, and composition.
2. Doubtful—This refers to claims against obligors that are not yet in bankruptcy but have experienced deterioration in financial condition and operating performance and concerning which there is a high probability of contractual defaults in principal and interest payments.
3. Substandard—This refers to loans past due three months or more and restructured loans.
4. Normal—This refers to claims against obligors that are experiencing no particular problems with financial conditions or operating performance and excluding claims in the three previous categories.

## NON-CONSOLIDATED FIVE-YEAR SUMMARY

Years ended March 31 The Bank of Fukuoka, Ltd.

	Millions of yen				
	2001	2000	1999	1998	1997
<b>Income:</b>					
Interest on loans and bills discounted .....	¥ 109,119	¥ 114,263	¥ 119,170	¥ 121,411	¥ 122,623
Interest and dividends on securities .....	28,411	33,455	47,725	55,068	58,628
Total income .....	193,421	178,793	207,194	246,669	216,529
<b>Expenses:</b>					
Interest on deposits .....	16,057	19,069	33,564	47,218	53,933
General and administrative expenses .....	77,506	78,147	77,532	78,274	78,239
Total expenses .....	325,706	170,228	196,913	236,348	211,385
<b>(Loss) income before income taxes .....</b>	<b>(132,284)</b>	8,565	10,280	10,320	5,144
<b>Net (loss) income .....</b>	<b>(76,835)</b>	5,290	4,537	4,113	5,055
<b>Assets:</b>					
Loans and bills discounted .....	4,754,339	4,855,752	5,120,002	5,226,766	5,029,891
Securities .....	1,046,044	948,582	847,997	1,033,968	1,071,827
Foreign exchange assets .....	4,123	3,469	4,232	4,904	6,491
Total assets .....	6,578,663	6,502,195	6,750,542	6,877,234	6,760,556
<b>Liabilities:</b>					
Deposits .....	5,814,825	5,718,888	5,729,517	5,764,232	5,840,208
Foreign exchange liabilities .....	192	363	277	211	448
Total liabilities .....	6,290,092	6,164,615	6,417,675	6,626,844	6,511,059
<b>Stockholders' equity:</b>					
Common stock .....	58,658	58,657	57,365	57,365	57,365
Capital surplus and legal reserve .....	83,116	81,797	77,192	76,562	75,747
Voluntary reserve and retained earnings .....	59,939	140,791	141,674	116,461	116,383
Total stockholders' equity .....	288,570	337,580	332,866	250,389	249,496
Capital ratio (%) .....	8.88%	10.75%	10.64%	—	—
Yen					
<b>Per Share:</b>					
<b>Net (loss) income:</b>					
Basic .....	¥(121.04)	¥ 8.35	¥ 7.20	¥ 6.52	¥ 8.31
Diluted .....	—	7.80	6.75	6.27	—
Cash dividends applicable to the year .....	5.00	5.00	5.00	5.00	5.00
Stockholders' equity .....	454.62	531.83	528.25	397.36	395.94

Note: Capital ratios have been calculated on domestic standards since 2000. The ratio for 1999 is calculated on international standards.

## CONSOLIDATED BALANCE SHEETS

March 31, 2001 and 2000 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Assets</b>			
Cash and due from banks .....	¥ 372,414	¥ 264,302	\$ 3,006
Call loans and bills bought (Note 8).....	199,692	136,101	1,612
Monetary receivables bought .....	958	1,054	8
Trading assets (Note 1(c)) .....	24,164	5,460	195
Money held in trust (Notes 1(d) and 3) .....	17,455	17,500	141
Securities (Notes 1(d), 4 and 8).....	1,045,761	947,975	8,440
Loans and bills discounted (Notes 5 and 8) .....	4,751,488	4,885,064	38,349
Foreign exchange assets (Note 6) .....	4,123	3,469	33
Other assets (Note 8) .....	66,596	108,751	537
Premises and equipment (Notes 7 and 8) .....	149,868	152,676	1,210
Deferred tax assets (Note 15).....	87,986	47,258	710
Excess of cost over net assets acquired .....	67	—	1
Customers' liabilities for acceptances and guarantees (Note 13) .....	135,193	142,017	1,091
Reserve for possible loan losses (Note 1(g)) .....	(271,049)	(134,847)	(2,188)
Reserve for losses on investments .....	(797)	(89)	(6)
Total assets.....	¥6,583,923	¥6,576,694	\$53,139
<b>Liabilities, minority interests and stockholders' equity</b>			
<b>Liabilities</b>			
Deposits (Note 8).....	¥5,807,264	¥5,692,990	\$46,870
Call money and bills sold .....	17,047	23,225	138
Borrowed money (Note 9) .....	54,967	149,459	444
Foreign exchange liabilities (Note 6) .....	192	363	2
Bonds payable (Note 10).....	24,780	21,230	200
Convertible bonds (Note 10) .....	47,417	47,419	383
Other liabilities .....	156,554	104,759	1,264
Accrued employees' retirement benefits (Notes 1(i) and 11) .....	5,601	14,120	45
Reserve for possible loan losses on loans sold (Note 12) .....	2,790	3,395	23
Deferred tax liabilities on land revaluation account (Note 7) .....	39,961	40,142	323
Excess of net assets acquired over cost .....	—	7	—
Acceptances and guarantees (Note 13).....	135,193	142,017	1,091
Total liabilities .....	6,291,771	6,239,131	50,781
Minority interests.....	2,399	2,421	19
<b>Stockholders' equity</b>			
Common stock .....	58,658	58,657	473
Capital surplus .....	36,913	36,912	298
Land revaluation account (Note 7) .....	55,615	56,332	449
Retained earnings (Note 21) .....	108,226	185,892	873
Net unrealized gains on securities (Note 14) .....	31,236	—	252
Total .....	290,650	337,795	2,346
Less treasury stock.....	(898)	(2,652)	(7)
Total stockholders' equity.....	289,752	335,142	2,339
<b>Total liabilities, minority interests and stockholders' equity.....</b>	<b>¥6,583,923</b>	<b>¥6,576,694</b>	<b>\$53,139</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Income</b>			
Income from funds under management:			
Interest on loans and bills discounted .....	<b>¥109,760</b>	¥115,571	<b>\$ 886</b>
Interest and dividends on securities .....	<b>28,438</b>	32,694	<b>230</b>
Interest on call loans and bills bought.....	<b>1,589</b>	357	<b>13</b>
Interest on due from banks .....	<b>1,594</b>	362	<b>13</b>
Interest on others .....	<b>942</b>	723	<b>8</b>
Trust fees.....	<b>2</b>	2	<b>0</b>
Fees and commissions .....	<b>20,657</b>	20,784	<b>167</b>
Trading income .....	<b>122</b>	9	<b>1</b>
Other operating income .....	<b>20,909</b>	34,904	<b>169</b>
Other income.....	<b>27,199</b>	7,529	<b>220</b>
Total income .....	<b>211,217</b>	212,938	<b>1,705</b>
<b>Expenses</b>			
Cost of fund-raising:			
Interest on deposits.....	<b>16,047</b>	19,054	<b>130</b>
Interest on call money and bills sold.....	<b>1,056</b>	2,728	<b>9</b>
Interest on borrowed money .....	<b>2,592</b>	3,644	<b>21</b>
Interest on bonds payable .....	<b>1,433</b>	373	<b>12</b>
Interest on convertible bonds .....	<b>521</b>	521	<b>4</b>
Interest on others .....	<b>13,866</b>	14,439	<b>112</b>
Fees and commissions .....	<b>5,065</b>	4,946	<b>41</b>
Trading expenses.....	<b>3</b>	14	<b>0</b>
Other operating expenses .....	<b>17,256</b>	34,119	<b>139</b>
General and administrative expenses.....	<b>79,601</b>	79,172	<b>642</b>
Other expenses .....	<b>205,865</b>	47,873	<b>1,662</b>
Total expenses.....	<b>343,310</b>	206,888	<b>2,771</b>
<b>(Loss) income before income taxes and minority interests .....</b>	<b>(132,092)</b>	6,049	<b>(1,066)</b>
Provision for income taxes (Note 15):			
Current.....	<b>12,097</b>	13,379	<b>98</b>
Deferred.....	<b>(67,536)</b>	(10,826)	<b>(545)</b>
	<b>(55,439)</b>	2,552	<b>(447)</b>
Minority interests.....	<b>73</b>	392	<b>1</b>
<b>Net (loss) income</b> (Note 16) .....	<b>¥ (76,727)</b>	¥ 3,104	<b>\$ (619)</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Common stock</b>			
Balance at beginning of year.....	¥ 58,657	¥ 57,365	\$ 473
Conversion of convertible bonds .....	1	1,292	0
Balance at end of year .....	<b>¥ 58,658</b>	¥ 58,657	<b>\$ 473</b>
<b>Capital surplus</b>			
Balance at beginning of year.....	¥ 36,912	¥ 35,624	\$ 298
Conversion of convertible bonds .....	0	1,288	0
Balance at end of year .....	<b>¥ 36,913</b>	¥ 36,912	<b>\$ 298</b>
<b>Land revaluation account</b>			
Balance at beginning of year.....	¥ 56,332	¥ 56,634	\$ 454
Adjustment for the statutory tax rate change .....	193	—	1
Transfer to retained earnings.....	524	(302)	4
Balance at end of year .....	<b>¥ 55,615</b>	¥ 56,332	<b>\$ 449</b>
<b>Retained earnings</b>			
Balance at beginning of year.....	¥185,892	¥185,626	\$1,500
Transfer from land revaluation account .....	524	366	4
Increase due to exclusion of subsidiary from consolidation.....	1,748	—	14
Net (loss) income.....	(76,727)	3,104	(619)
Appropriations:			
Cash dividends paid .....	(3,161)	(3,145)	(26)
Bonuses to directors and statutory auditors.....	(50)	(60)	(0)
Balance at end of year .....	<b>¥108,226</b>	¥185,892	<b>\$ 873</b>
<b>Net unrealized gains on securities</b>			
Balance at beginning of year.....	¥ —	¥ —	\$ —
Net changes during the year.....	31,236	—	252
Balance at end of year .....	<b>¥ 31,236</b>	¥ —	<b>\$ 252</b>

See accompanying notes to consolidated financial statements.



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Cash flows from operating activities:</b>			
(Loss) income before income taxes and minority interests .....	¥(132,092)	¥ 6,049	\$(1,066)
Depreciation of premises and equipment.....	4,214	4,298	34
Depreciation of lease assets.....	8,762	17,663	71
Amortization of excess of net assets acquired over cost....	13	(4)	0
Equity in earnings of affiliates.....	(2)	—	(0)
Net change in reserve for possible loan losses .....	165,539	1,125	1,336
Net change in reserve for losses on investments .....	1,053	89	8
Net change in reserve for possible losses on loans sold ...	(604)	(273)	(5)
Net change in accrued employees' retirement benefit ...	1,827	519	15
Interest income.....	(142,325)	(149,708)	(1,149)
Interest expenses.....	35,518	40,761	287
Net gain related to securities transactions .....	(2,128)	(192)	(17)
Net income from money held in trust.....	(200)	(204)	(2)
Net exchange (gain) loss.....	(3,253)	456	(26)
Net loss from disposition of premises and equipment.....	1,032	611	8
Net change in trading assets .....	(18,703)	(4,696)	(151)
Net change in loans and bills discounted.....	68,298	273,056	551
Net change in deposits .....	(19,168)	(66,448)	(155)
Net change in negotiable certificates of deposit .....	133,442	56,170	1,077
Net change in borrowed money (excluding subordinated borrowed money) .....	(2,021)	(12,384)	(16)
Net change in deposits with banks.....	(112,711)	4,068	(910)
Net change in call loans .....	(63,494)	50,642	(512)
Net change in call money .....	(6,178)	(20,779)	(50)
Net change in pledged money for securities lending transactions.....	40,582	(96,906)	328
Net change in foreign exchange assets.....	(654)	780	(5)
Net change in foreign exchange liabilities .....	(171)	86	(1)
Net change in bonds payable.....	—	21,230	—
Interest received.....	137,295	155,652	1,108
Interest paid.....	(49,148)	(47,267)	(397)
Bonuses to directors and statutory auditors.....	(50)	(60)	(0)
Other, net .....	(585)	18,033	(5)
Subtotal.....	44,085	252,371	356
Income taxes paid.....	(12,693)	(19,675)	(102)
<b>Net cash provided by operating activities .....</b>	<b>31,391</b>	<b>232,696</b>	<b>253</b>
<b>Cash flows from investing activities:</b>			
Purchases of securities.....	(678,444)	(465,069)	(5,476)
Purchases of equity investments in a subsidiary.....	(10)	(21)	(0)
Proceeds from sale of securities .....	156,912	199,974	1,266
Proceeds from maturity of securities .....	494,201	128,787	3,989
Purchases of money held in trust.....	—	(3,000)	—
Decrease in money held in trust.....	296	—	2
Interest received as investing activities.....	—	200	—
Purchases of premises and equipment .....	(3,376)	(4,641)	(27)
Proceeds from sale of premises and equipment.....	895	1,234	7
Proceeds from sale of equity of subsidiary resulting in change in the scope of consolidation.....	2,588	—	21
<b>Net cash used in investing activities .....</b>	<b>(26,937)</b>	<b>(142,535)</b>	<b>(217)</b>
<b>Cash flows from financing activities:</b>			
Repayment of subordinated borrowed money.....	(6,000)	(20,000)	(48)
Dividends paid .....	(3,161)	(3,145)	(26)
Dividends paid for minority interests .....	(2)	(2)	(0)
Proceeds from sale of treasury stock .....	1	1	0
<b>Net cash used in financing activities .....</b>	<b>(9,162)</b>	<b>(23,146)</b>	<b>(74)</b>
Effect of exchange rate changes on cash and cash equivalents .....	115	(261)	1
<b>Net (decrease) increase in cash and cash equivalents ....</b>	<b>(4,593)</b>	<b>66,751</b>	<b>(37)</b>
<b>Cash and cash equivalents at beginning of year .....</b>	<b>229,722</b>	<b>162,970</b>	<b>1,854</b>
<b>Decrease due to exclusion of subsidiaries from consolidation.....</b>	<b>(5)</b>	<b>—</b>	<b>(0)</b>
<b>Cash and cash equivalents at end of year (Note 17) .....</b>	<b>¥ 225,123</b>	<b>¥229,722</b>	<b>\$ 1,817</b>

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended March 31, 2001 The Bank of Fukuoka, Ltd. and Its Consolidated Subsidiaries

### 1. Summary of Significant Accounting Policies

#### a. Basis of presentation

The accompanying consolidated financial statements of The Bank of Fukuoka, Ltd. ("the Bank") and subsidiaries have been compiled from the consolidated financial statements prepared by the Bank as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

#### b. Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and all companies controlled directly or indirectly by the Bank. All significant intercompany balances and transactions have been eliminated in consolidation.

The Bank does not have any companies over which the Bank exercises significant influence in terms of their operating and financial policies.

Differences between the cost and the underlying net equity at fair value of investments in subsidiaries at the date of acquisition is amortized over a period of five years on a straight-line basis.

#### c. Trading assets and liabilities

Trading account transactions are transactions in which profit opportunities arise from the differences between different markets and short-term movements in rates and other indices, including interest rates, currency exchange rates, and dealing in marketable securities. These transactions are included in the consolidated balance sheets as of the respective trading dates.

"Trading assets" and "Trading liabilities" are valued as follows: securities and monetary assets are valued at market price at the end of the fiscal year; futures, options and other derivative transactions are valued on the assumption that they were settled at the end of fiscal year.

#### d. Securities

Until the year ended March 31, 2000, convertible bonds and stocks listed and traded on stock exchanges had been valued at the lower of cost (by the moving-average method) or market. Other securities, including listed Japanese government bonds, had been valued at cost by the moving-average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized gain or loss, net of the applicable income taxes, included directly in stockholders' equity. Non-marketable securities classified as other securities are carried at cost or amortized cost. Cost of securities sold is determined by the moving-average method.

As of April 1, 2000, the Bank and its subsidiaries assessed their intent to hold their investments in securities and classified their investments as "Other securities" and accounted for the securities at March 31, 2001 in accordance with the new standard referred to above.

The effect of the adoption of this new standard for financial instruments was to decrease loss before income taxes and minority interests by ¥2,268 million for the year ended March 31, 2001.

#### e. Derivative transactions

In the same manner as for transactions for trading purposes, the marked-to-market method is also applied to the valuation of derivative transactions.

#### f. Premises and equipment

Depreciation for buildings and equipment is computed using the declining-balance method at rates principally based on the following estimated useful lives:

Buildings .....	3 years to 60 years
Equipment and furniture .....	2 years to 20 years

A new accounting standard for research and development costs became effective the fiscal year ended March 31, 2000.

Costs of computer software developed or obtained for internal use are deferred and amortized using the straight-line method over the estimated useful lives of five years.

#### **g. Reserve for possible loan losses**

The reserve for possible loan losses is provided in accordance with the policies regarding write-offs and reserve standards developed by the Bank. A reserve for possible loan losses is provided, as described below, pursuant to the Bank's internal rules for self-assessment of asset quality and for providing reserves for possible credit losses:

For loans to borrowers who are classified as substantially bankrupt or who are bankrupt in the formal legal sense, a reserve is provided based on the amount remaining after deduction of the amount of collateral considered disposable and an estimate of amounts recoverable under guarantees.

For loans to borrowers who, although not actually bankrupt in the legal sense, have experienced serious management difficulties and whose failure is imminent, a reserve is provided after an assessment of the borrower's solvency. The provision represents the amount considered uncollectible after deduction of the amount of collateral considered disposable and an estimate of the amounts recoverable under guarantees.

A reserve for loans to specific foreign borrowers (including the reserve for losses on overseas investment provided pursuant to Article 55-2 of the Special Taxation Measures Law) is provided based on the amount of estimated losses arising from the changes in the political and economic situation of their respective countries.

For other loans, a reserve is provided based on the Bank's historical loan loss experience.

Effective the year ended March 31, 2001, the Bank has changed the estimation method of the amount of collateral considered disposable. As a result, the reserve for possible loan losses increased by ¥87,063 million as compared with the corresponding amount which would have been derived from the previous method.

#### **h. Reserve for losses on investments**

The reserve for losses on investments is provided to cover any future potential losses on investments in companies. Consideration is given to the financial situation of the companies in determining the necessary amount to be accounted for under the above reserve.

#### **i. Retirement benefits**

Until the year ended March 31, 2000, accrued employees' retirement benefits were stated at the amount which would be required to be paid if all employees covered by the plans voluntarily terminated their employment at the respective balance sheet dates.

In accordance with a new accounting standard for employees' retirement benefits which became effective April 1, 2000, accrued employees' retirement benefits at March 31, 2001 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2001, as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation has been attributed to each period by the straight-line method over the estimated years of service of the eligible employees. The net retirement benefit obligation at transition was fully charged to income for the year ended March 31, 2001. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over 10 years.

The effect of the adoption of the new standard for retirement benefits was to increase loss before income taxes and minority interests by ¥22,151 million for the year ended March 31, 2001. Because the Bank contributed marketable securities with a fair value of ¥32,453 million to its employees' retirement benefit trust which resulted in a gain of ¥22,107 million for the year ended March 31, 2001, the ultimate effect of the adoption of this new standard was to increase loss before income taxes and minority interests by ¥43 million for the year ended March 31, 2001.

#### **j. Foreign currency accounts**

The Bank and subsidiaries maintain their accounting records in yen. Foreign currency accounts are translated into yen at the market exchange rate prevailing at the end of each accounting period, except that certain special accounts, as approved by the Japanese regulatory authorities, are translated at historical rates.

#### **k. Leases**

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating leases or finance leases), except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

#### **l. Hedge accounting**

With respect to the Bank, the macro-hedge method is adopted as hedge accounting for the overall interest rate risk involved in various financial assets and liabilities, such as loans and deposits, etc., which utilize derivatives. This is the risk-management method stipulated in "Tentative Accounting and Auditing Treatment Relating to Adoption of Accounting for Financial Instruments for Banks" (JICPA Industry Audit Committee Report No.15) as the "Risk Adjusted Approach," and utilizes the deferral method of hedge accounting.

Hedge effectiveness is assessed by checking (1) whether the total risk amount of derivative instruments used as the risk adjusting measure is within the established risk limit as set out in the risk management policy and (2) whether the risk of interest rate fluctuations on the hedged items has been reduced.

Deferred hedges based on one-to-one hedges are applied to some assets and liabilities of the Bank.

Profit/loss on derivatives where hedge accounting has been applied is indicated under the same account items as in the prior year. With the adoption of the new accounting standard for financial instruments, although the respective total income/expense amounts were previously indicated, effective the year ended March 31, 2001, the net income/expense amounts have been presented. This change did not affect income before income taxes.

The net unrealized gains/losses from hedging instruments are included in other assets as deferred hedge losses. The gross amounts of deferred hedge losses and gains before netting at March 31, 2001 were as follows:

Total deferred hedge losses: ¥22,246 million.

Total deferred hedge gains: ¥88 million.

#### m. Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### n. Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the stockholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 21.

#### o. Cash and cash equivalents

Cash and cash equivalents consist of cash and deposits with central banks, which are included in "Cash and cash due from banks" in the consolidated balance sheets.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90=US\$1, the approximate rate of exchange on March 31, 2001, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

## 3. Money Held in Trust

Money held in trust included unrealized loss amounting to ¥44 million at March 31, 2001.

The carrying and aggregate market values of money held in trust amounted to ¥17,500 million and ¥17,750 million, respectively, at March 31, 2000.

## 4. Securities

Securities at March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
National government bonds	¥ 425,083	¥420,116
Local government bonds	27,917	25,097
Corporate bonds	138,508	157,650
Share stocks	106,307	87,483
Other securities	347,944	257,628
<b>Total</b>	<b>¥1,045,761</b>	<b>¥947,975</b>

Information regarding marketable securities classified as other securities at March 31, 2001 is as follows:

	Millions of yen		
	Acquisition cost	Carrying value	Net unrealized gain
Listed securities:			
Stock	¥ 67,816	¥ 96,532	¥28,716
Bonds	570,625	583,836	13,210
Others	268,130	279,873	11,742
<b>Total</b>	<b>¥906,572</b>	<b>¥960,242</b>	<b>¥53,669</b>

Sales of securities classified as other securities amounted to ¥160,833 million with aggregate gain and loss of ¥6,785 million and ¥494 million, respectively, for the year ended March 31, 2001.

The redemption schedule for securities with maturity dates classified as other securities at March 31, 2001 is summarized as follows:

	Millions of yen			
	1 year or less	More than 1 year but less than 5 years	More than 5 years but less than 10 years	More than 10 years
Bonds	¥165,248	¥413,971	¥ 12,288	¥ —
Others	27,109	145,649	172,339	2,145
<b>Total</b>	<b>¥192,357</b>	<b>¥559,621</b>	<b>¥184,627</b>	<b>¥2,145</b>

The carrying and related fair values of marketable securities at March 31, 2000 were as follows:

	Millions of yen		
	Carrying value	Estimated fair value	Net unrealized gain
(1) Listed securities:			
Bonds	¥108,666	¥118,579	¥ 9,912
Stock	75,484	124,088	48,604
Others	129,559	129,921	362
Subtotal	313,711	372,590	58,879
(2) Unlisted securities:			
Bonds	246,439	250,407	3,967
Stock	2,257	7,384	5,127
Others	58,607	58,197	(409)
Subtotal	307,305	315,990	8,685
Total	¥621,016	¥688,580	¥67,564

## 5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2001 and 2000 included the following loans:

	Millions of yen	
	2001	2000
Loans to borrowers in bankruptcy	¥ 60,058	¥ 47,159
Delinquent loans	366,437	168,543
Loans past due for three months or more	98	3,576
Restructured loans	99,586	102,958
Total	¥526,182	¥322,237

Loans are generally placed on nonaccrual status when the ultimate collectibility of either the principal or interest becomes doubtful because payments have been in arrears for a certain period or due to other reasons. Loans to borrowers in bankruptcy represent nonaccrual loans to borrowers in legal bankruptcy as defined in the Corporation Tax Law. Delinquent loans represent nonaccrual loans other than loans to borrowers in bankruptcy and restructured loans.

Loans past due for three months or more represent loans on which payments of principal or interest have been in arrears for three months or more, but do not meet the criteria for loans to borrowers in bankruptcy and delinquent loans.

Restructured loans are loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.), and are not classified in any of the above categories.

Total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥145,766 million at March 31, 2001.

Line-of-credit agreements relating to overdrafts and loans are agreements which oblige the Bank to lend funds up to a certain limit agreed in advance. The Bank makes the loan upon the request of an obligor to draw down funds under such a loan agreement as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused line-of-credit balance relating to these overdrafts and loan agreements at March 31, 2001 amounted to ¥1,561,558 million. All of this amount related to overdrafts and loans with a term of one year or less or overdrafts and loans which permit unconditional cancellation at any time.

In many cases, the term of a line-of-credit agreement runs its course without any loan ever being drawn down and the unused loan commitment will not necessarily affect future cash flows of the Bank and its subsidiaries. Conditions are included in certain loan agreements which allow the Bank and subsidiaries either to decline the request for a loan to be drawn down or to reduce the agreed-upon limit amount where there is due cause to do so, such as when there is a change in the borrower's financial condition, or when it is necessary to do so in order to protect the Bank's and its subsidiaries' credit. The Bank and its subsidiaries take various measures to protect their credit. Such measures include having the borrower pledge collateral to the Bank and its subsidiaries in the form of real estate, securities, etc. upon signing the loan agreement or, in accordance with the Bank's established internal procedures, confirming the borrower's financial condition, etc. at regular intervals after signing and, where necessary, amending the conditions of the agreement.

## 6. Foreign Exchange Assets and Liabilities

Foreign exchange assets and liabilities at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Assets:		
Due from foreign banks	¥ 633	¥ 519
Foreign exchange bills bought	715	366
Foreign exchange bills receivable	2,774	2,583
Total	¥4,123	¥3,469
Liabilities:		
Due to foreign banks	¥ 0	¥ 57
Foreign exchange bills sold	189	305
Foreign exchange bills payable	1	0
Total	¥ 192	¥ 363

## 7. Premises and Equipment

Land utilized for the Bank's business activities was revalued at March 31, 1998 on the basis prescribed in the Law Concerning the Revaluation of Land. The income tax effect on the difference between the book value and the revalued amount has been presented under liabilities as "Deferred tax liabilities on land valuation account" and the remaining balance has been presented under stockholders' equity as "Land revaluation account" in the accompanying consolidated balance sheets.

## 8. Pledged Assets

Assets pledged as collateral for deposits of ¥30,860 million and ¥43,845 million at March 31, 2001 and March 31, 2000, respectively, were as follows:

	Millions of yen	
	2001	2000
Securities	¥135,447	¥189,365
Loans and bills discounted	—	14,430
Bills bought	—	13,000
<b>Total</b>	<b>¥135,447</b>	<b>¥216,795</b>

In addition, securities totaling ¥198,607 million and ¥189,192 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2001 and 2000, respectively.

Premises and equipment include ¥2,610 million of guarantee money and deposits. Other assets include ¥5 million of deposits with clearing houses and ¥65 million of initial margins for future transactions.

## 9. Borrowed Money

Borrowed money at March 31, 2001 and 2000 included subordinated borrowings amounting to ¥40,000 million and ¥46,000 million, respectively.

## 10. Bonds Payable and Convertible Bonds

Bonds payable at March 31, 2001 and 2000 represented unsecured 6.275% bonds, payable in U.S. dollars, due 2004.

Convertible bonds at March 31, 2001 and 2000 represented unsecured 1.1% subordinated convertible bonds, payable in yen, due 2007, which, unless previously redeemed, are convertible at any time up to and including September 27, 2007 into shares of common stock of the Bank at the option of the holders at a conversion price of ¥559 per share at March 31, 2001. Under the provisions of the issue, the conversion price is subject to adjustments in certain cases, which include stock splits.

## 11. Retirement Benefit Plans

The Bank and its subsidiaries have defined benefit plans, i.e., welfare pension fund plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2001 for the Bank's and the subsidiaries' defined benefit plans:

	Millions of Yen
Retirement benefit obligation	¥(94,733)
Plan assets at fair value	78,255
(Assets held by retirement benefit trust)	(28,391)
Unfunded retirement benefit obligation	(16,477)
Unrecognized actuarial loss	10,876
Accrued employees' retirement benefits	¥ (5,601)

The government-sponsored portion of the benefits under the welfare pension fund plans has been included in the amounts shown in the above table.

The components of retirement benefit expenses for the year ended March 31, 2001 are outlined as follows:

	Millions of Yen
Service cost	¥ 2,994
Interest cost	2,725
Expected return on plan assets	(1,891)
Amortization of net retirement benefit obligation at transition	22,077
<b>Retirement benefit expenses</b>	<b>¥25,906</b>

The assumptions used in the accounting for the above plans are as follows:

	2001
(a) Discount rate	3.0%
(b) Expected return on plan assets	3.5%

## 12. Reserve for Possible Losses on Loans Sold

The reserve for possible losses on loans sold is provided against possible future losses after consideration of the value of the collateral of the loans sold to the Cooperative Credit Purchasing Company, Limited.

### 13. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are included in this account. As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, which represents the Bank's right of indemnity from the applicants.

### 14. Net Unrealized Gains on Securities

Net unrealized gains on securities at March 31, 2001 consisted of the following:

	Millions of yen
Gross unrealized gains on securities classified	
as other securities	¥53,669
Deferred tax liabilities applicable to unrealized gains	(22,439)
Unrealized gains on securities, net of the applicable	
income taxes before adjustment for minority interests	31,229
Minority interests	(6)
Net unrealized gains on securities classified as	
other securities	¥31,236

### 15. Income Taxes

Income taxes applicable to the Bank and subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 41.8% and 41.6% for 2001 and 2000, respectively.

The significant components of the deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Deferred tax assets:		
Reserve for possible loan losses	¥ 98,666	¥34,766
Accrued employees' retirement benefits	14,631	3,940
Depreciation expenses	2,049	2,251
Other	4,610	6,434
Valuation allowance for deferred tax assets	(—)	(—)
	<b>119,957</b>	47,392
Deferred tax liabilities:		
Unrealized gain on securities	22,439	—
Gain on contribution of securities to		
retirement benefit trust	9,243	—
Reserve for special depreciation	287	126
Other	—	8
Net deferred tax assets	<b>¥ 87,986</b>	¥47,258

On June 9, 2000, the "Special Ordinance for the Taxation of Banking Business Conducted in Osaka Prefecture" was promulgated. Under this legislation, the Osaka enterprise tax is levied on total gross operating profit rather than net income effective the year beginning April 1, 2001. Because the new enterprise tax is not regarded as a tax subject to tax-effect accounting, the Bank's effective statutory tax rate will decrease. As a result of this change, deferred tax assets at March 31, 2001 decreased by ¥33 million and provision for income taxes—deferred for the year ended March 31, 2001 increased by the same amount. Also, deferred tax liabilities on the land revaluation account decreased by ¥31 million and the land revaluation account increased by the same amount at March 31, 2001.

### 16. Net (Loss) Income per Share

Net (loss) income per share for the years ended March 31, 2001 and 2000 was as follows:

	Yen	
	2001	2000
Net (loss) income per share:		
Basic	¥(121.34)	¥4.93
Diluted	—	4.78

Basic (loss) income per share is computed based on the weighted average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the convertible bonds.

### 17. Supplementary Cash Flow Information

#### a) Reconciliation of cash and cash equivalents

The reconciliation of cash and cash due from banks in the consolidated balance sheets to cash and cash equivalents at March 31, 2001 and 2000 was as follows:

	Millions of yen	
	2001	2000
Cash and due from banks	¥372,414	¥264,302
Interest-earning deposits with		
other banks	(147,290)	(34,579)
Cash and cash equivalents	<b>¥225,123</b>	¥229,722

## b) Major non-cash transactions

The major non-cash transactions during the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Increase in common stock due to conversion of convertible bonds	¥1	¥1,292
Increase in capital surplus due to conversion of convertible bonds	0	1,288
Decrease in convertible bonds due to conversion	¥2	¥2,581

## c) Assets and liabilities of a subsidiary excluded from consolidation due to a sale of equity

The following is a summary of the assets and liabilities of Fukugin Leasing Co., Ltd., which was excluded from consolidation in the year ended March 31, 2001 due to a sale of equity.

	Millions of yen
Current assets	¥10,613
Long-term assets	56,290
Total assets	¥66,904
Current liabilities	¥52,712
Long-term liabilities	15,588
Total liabilities	¥68,300

## 18. Leases

### a) Lessees' accounting

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2001 and 2000, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen	
	2001	2000
Equipment:		
Acquisition costs	¥15,657	¥267
Accumulated depreciation	7,505	145
Net book value	¥ 8,151	¥121

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥1,728 million and ¥56 million for the years ended March 31, 2001 and 2000, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥1,342 million and ¥305 million, respectively, for the year ended March 31, 2001, and ¥48 million and ¥6 million, respectively, for the year ended March 31, 2000.

Future minimum lease payments subsequent to March 31, 2001 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen
2002	¥2,866
2003 and thereafter	5,845
Total	¥8,712

### b) Lessors' accounting

The following amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets relating to finance lease transactions accounted for as operating leases at March 31, 2001 and 2000:

	Millions of yen	
	2001	2000
Equipment:		
Acquisition costs	¥—	¥130,813
Accumulated depreciation	—	84,954
Net book value	¥—	¥ 45,859

Lease income relating to finance lease transactions accounted for as operating leases amounted to ¥10,499 million and ¥21,467 million for the years ended March 31, 2001 and 2000, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest income portion included in the lease income amounted to ¥7,480 million and ¥919 million, respectively, for the year ended March 31, 2001, and ¥15,072 million and ¥2,010 million, respectively, for the year ended March 31, 2000.



## 19. Derivative Transactions

The Bank has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, interest rates and debt security prices.

Information regarding the derivative transactions outstanding at March 31, 2001 is as follows:

### Interest-related transactions

	Millions of yen		
	Notional amount	Fair value	Unrealized gain (loss)
Interest rate swaps:			
Receive fixed and pay floating	¥ 96	¥ 4	¥ 4
Receive floating and pay fixed	¥ 96	¥ (4)	¥ (4)
Options:			
Caps sold	¥500	¥—	¥—
(Premium)	(13)	5	7
Caps purchased	500		
(Premium)	(12)	5	(6)
<b>Total</b>	<b>¥ —</b>	<b>¥—</b>	<b>¥ 1</b>

Note: The derivative transactions accounted for as hedges have been excluded from the above table.

The total contract amount of the interest rate swap agreements at March 31, 2000 was ¥363,556 million. The contract amounts of the cap transactions written and held were ¥1,000 million and ¥17,956 million, respectively, at March 31, 2000. Net unrealized loss relating to these interest rate swap agreements and interest rate cap and floor transactions at March 31, 2000 amounted to ¥17,506 million.

The total contract amount of the currency swap agreements at March 31, 2000 was ¥65,552 million. Net unrealized profit or loss relating to these currency swap agreements at March 31, 2000 amounted to a profit of ¥259 million.

Forward exchange contracts to sell and buy foreign currencies, which were accounted for at market value at the balance sheet date, amounted to ¥64,492 million and ¥40,384 million at March 31, 2001 and 2000, respectively.

## 20. Segment Information

The business segment information of the Bank and subsidiaries for the years ended March 31, 2001 and 2000 is as follows:

	Millions of yen				
	Bank	Others	Total	Elimination and corporate assets	Consolidated
<b>Year ended March 31, 2001</b>					
I. Ordinary income generated from business with:					
External customers	¥ 170,882	¥18,150	¥ 189,032	¥ —	¥ 189,032
Internal units	363	8,995	9,359	(9,359)	—
	171,245	27,146	198,392	(9,359)	189,032
Ordinary expenses generated	302,086	26,070	328,156	(9,329)	318,826
Ordinary profit (loss) generated	¥ (130,840)	¥ 1,076	¥ (129,764)	¥ (30)	¥ (129,794)
II. Assets, depreciation and capital expenditures					
Assets	¥6,578,761	¥21,275	¥6,600,036	¥(16,113)	¥6,583,923
Depreciation	4,066	8,910	12,976	—	12,976
Capital expenditures	6,599	161	6,761	—	6,761

Year ended March 31, 2000	Millions of yen					Elimination and corporate assets	Consolidated
	Bank	Lease	Others	Total			
I. Ordinary income generated from business with:							
External customers	¥ 176,844	¥28,685	¥ 6,728	¥ 212,258	¥ —	¥ 212,258	
Internal units	1,286	3,537	7,692	12,515	(12,515)	—	
	178,130	32,222	14,420	224,774	(12,515)	212,258	
Ordinary expenses generated	168,396	33,265	15,152	216,814	(11,777)	205,036	
Ordinary profit (loss) generated	¥ 9,734	¥ (1,042)	¥ (732)	¥ 7,959	¥ (738)	¥ 7,221	
II. Assets, depreciation and capital expenditures							
Assets	¥6,502,193	¥62,504	¥60,086	¥6,624,784	¥(48,090)	¥6,576,694	
Depreciation	4,150	17,663	148	21,962	—	21,962	
Capital expenditures	4,452	20,355	188	24,996	—	24,996	

Ordinary income represents total income less certain special income and ordinary expenses represent total expenses less certain special expenses.  
Ordinary profit represents ordinary income less ordinary expenses.

Corporate assets included under the column heading "Elimination and corporate assets" amounted to ¥21,936 million at March 31, 2000, and represent mainly cash, due from banks and securities of the subsidiaries.

The disclosure of geographical segment information has been omitted as total income and total assets of the foreign operations comprised less than 10% of the consolidated totals for the years ended March 31, 2001 and 2000.

Income from international operations for the year ended March 31, 2001 totaled ¥19,783 million, or 10.4% of consolidated total income. The disclosure of income from international operations has been omitted as income from international operations comprised less than 10% of the consolidated total for the year ended March 31, 2000.

## 21. Subsequent Event

The following appropriations of retained earnings of the Bank, which have not been reflected in the consolidated financial statements for the year ended March 31, 2001, were approved at a stockholders' meeting held on June 28, 2001:

	Millions of yen
Cash dividends (¥2.5 per share)	¥1,586


**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS****The Board of Directors****The Bank of Fukuoka, Ltd.**

We have examined the consolidated balance sheets of The Bank of Fukuoka, Ltd. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for the years then ended, all expressed in yen. Our examinations 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 accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of The Bank of Fukuoka, Ltd. and subsidiaries at 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 applied on a consistent basis.

As described in Note 1 to the consolidated financial statements, The Bank of Fukuoka, Ltd. and subsidiaries have adopted new accounting standards for research and development costs effective the year ended March 31, 2000 and for employees' retirement benefits and financial instruments effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.



Fukuoka, Japan  
June 28, 2001

*See Note 1 to the consolidated financial statements which explains the basis of presentation of the consolidated financial statements of The Bank of Fukuoka, Ltd. and subsidiaries under Japanese accounting principles and practices.*

## NON-CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd.

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Assets</b>			
Cash and cash due from banks.....	¥ 372,099	¥ 263,748	\$ 3,003
Call loans.....	199,692	79,501	1,612
Bills bought (Note 7) .....	—	56,600	—
Monetary receivables bought .....	958	1,054	8
Trading assets.....	24,164	5,460	195
Money held in trust.....	16,465	16,500	133
Securities (Notes 3 and 7).....	1,046,044	948,582	8,443
Loans and bills discounted (Notes 4 and 7) .....	4,754,339	4,855,752	38,372
Foreign exchange assets .....	4,123	3,469	33
Other assets (Note 6) .....	57,972	35,135	468
Premises and equipment (Note 5) .....	149,298	151,574	1,205
Deferred tax assets (Note 18).....	86,518	42,112	698
Customers' liabilities for acceptances and guarantees (Note 13) .....	135,193	142,017	1,091
Reserve for possible loan losses .....	(267,413)	(99,223)	(2,158)
Reserve for losses on investments .....	(792)	(89)	(6)
Total assets.....	<b>¥6,578,663</b>	<b>¥6,502,195</b>	<b>\$53,097</b>
<b>Liabilities and stockholders' equity</b>			
<b>Liabilities</b>			
Deposits (Notes 7 and 8) .....	¥5,814,825	¥5,718,888	\$46,931
Call money.....	17,047	23,225	138
Borrowed money.....	54,967	62,989	444
Foreign exchange liabilities.....	192	363	2
Bonds payable (Note 9).....	24,780	21,230	200
Convertible bonds (Note 9).....	47,417	47,419	383
Other liabilities (Note 10) .....	147,623	91,183	1,191
Accrued employees' retirement benefits (Note 11) .....	5,292	13,760	43
Reserve for possible losses on loans sold (Note 12) .....	2,790	3,395	23
Deferred tax liabilities on land revaluation account.....	39,961	40,142	323
Acceptances and guarantees (Note 13).....	135,193	142,017	1,091
Total liabilities .....	<b>6,290,092</b>	<b>6,164,615</b>	<b>50,767</b>
<b>Stockholders' equity</b>			
Common stock (Note 14).....	58,658	58,657	473
Capital surplus (Note 14).....	36,913	36,912	297
Legal reserve (Note 15) .....	46,203	44,885	372
Land revaluation account.....	55,615	56,332	449
Voluntary reserve.....	135,396	134,220	1,093
Retained earnings (deficit) (Note 21) .....	(75,457)	6,571	(609)
Net unrealized gains on securities .....	31,239	—	252
Total stockholders' equity.....	<b>288,570</b>	<b>337,580</b>	<b>2,329</b>
Total liabilities and stockholders' equity .....	<b>¥6,578,663</b>	<b>¥6,502,195</b>	<b>\$53,097</b>

See accompanying notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS (DEFICIT)

Years ended March 31, 2001 and 2000 The Bank of Fukuoka, Ltd.

	2001	2000	2001
	Millions of yen	Millions of yen	Millions of U.S. dollars (Note 2)
<b>Income</b>			
Income from funds under management:			
Interest on loans and bills discounted.....	¥109,119	¥114,263	\$ 881
Interest and dividends on securities .....	28,411	33,455	229
Interest on call loans .....	1,539	336	12
Interest on bills bought .....	50	20	0
Interest on money held .....	1,591	361	13
Interest on interest rate swaps .....	26	347	0
Other interest income .....	915	375	7
Fees and commissions .....	20,702	20,833	167
Trading income.....	122	9	0
Other operating income (Note 16) .....	3,762	1,984	30
Other income (Note 16) .....	27,179	6,805	219
Total income.....	193,421	178,793	1,561
<b>Expenses</b>			
Cost of fund-raising:			
Interest on deposits .....	16,057	19,069	129
Interest on call money.....	1,056	2,728	9
Interest on borrowed money .....	1,875	2,072	15
Interest on bonds payable.....	1,433	373	12
Interest on convertible bonds .....	521	521	4
Interest on interest rate swap.....	9,023	11,853	73
Other interest expenses .....	4,842	2,585	39
Fees and commissions .....	6,980	6,936	56
Trading expenses .....	3	14	0
Other operating expenses (Note 17).....	3,834	5,875	31
General and administrative expenses .....	77,506	78,147	625
Other expenses (Note 17).....	202,569	40,047	1,635
Total expenses.....	325,706	170,228	2,629
<b>(Loss) income before income taxes</b> .....	<b>(132,284)</b>	8,565	<b>(1,068)</b>
Provision for income taxes (Note 18):			
Current .....	11,777	12,700	95
Deferred .....	(67,226)	(9,424)	(543)
<b>Net (loss) income</b> (Note 19) .....	<b>(76,835)</b>	5,290	<b>(620)</b>
<b>Retained earnings at beginning of year</b> .....	<b>6,571</b>	29,454	<b>53</b>
Transfer from land revaluation account.....	524	366	4
<b>Appropriations</b>			
Legal reserve.....	1,317	3,317	10
Voluntary reserve .....	1,176	22,000	9
Dividends .....	3,172	3,161	25
Bonuses to directors and statutory auditors .....	50	60	0
Total .....	5,715	28,538	46
<b>Retained earnings (deficit) at end of year</b> (Note 21).....	<b>¥ (75,457)</b>	¥ 6,571	<b>\$ (609)</b>

See accompanying notes to non-consolidated financial statements.

## NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Year ended March 31, 2001 The Bank of Fukuoka, Ltd.

## 1. Summary of Significant Accounting Policies

## a. Basis of presentation

The accompanying non-consolidated financial statements of The Bank of Fukuoka, Ltd. ("the Bank") have been compiled from the non-consolidated financial statements prepared by the Bank as required under the Securities and Exchange Law of Japan and have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

## b. Accounting policies

The accompanying non-consolidated financial statements of the Bank have been prepared on the basis of the same accounting policies as those discussed in Note 1 to the consolidated financial statements. Accordingly, the accompanying non-consolidated financial statements should be read in conjunction with the Notes to the Consolidated Financial Statements.

## c. New accounting standards

Effective the year ended March 31, 2001, the Bank has adopted a new accounting standard for employees' retirement benefits. The effect of the adoption of the new standard for retirement benefits was to increase loss before income taxes by ¥22,151 million for the year ended March 31, 2001. Because the Bank contributed marketable securities with a fair value of ¥32,453 million to its employees' retirement benefit trust, which resulted in a gain of ¥22,107 million for the year ended March 31, 2001, the ultimate effect of the adoption of this new standard was to increase loss before income taxes by ¥43 million for the year ended March 31, 2001.

In accordance with a new standard for financial instruments which became effective April 1, 2000, the Bank changed its methods of accounting for securities and derivatives as well as the method of hedge accounting. The effect of the adoption of the new accounting standard for financial instruments was to decrease loss before income taxes by ¥2,332 million for the year ended March 31, 2001.

A new accounting standard for research and development costs became effective the fiscal year ended March 31, 2000.

## 2. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥123.90=US\$1, the approximate rate of exchange on March 31, 2001, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at that rate or any other rate.

## 3. Securities

Securities at March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
National government bonds	¥ 425,083	¥420,107
Local government bonds	27,917	25,097
Corporate bonds	138,508	157,650
Share stocks	106,590	88,143
Other securities	347,944	257,583
<b>Total</b>	<b>¥1,046,044</b>	<b>¥948,582</b>

## 4. Loans and Bills Discounted

Loans and bills discounted at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Bills discounted	¥ 145,050	¥ 135,864
Loans on bills	750,570	783,491
Loans on deeds	3,126,235	3,153,649
Overdrafts	732,482	782,746
<b>Total</b>	<b>¥4,754,339</b>	<b>¥4,855,752</b>

Loans and bills discounted at March 31, 2001 and 2000 included the following loans:

	Millions of yen	
	2001	2000
Loans to borrowers in bankruptcy	¥ 60,012	¥ 33,271
Delinquent loans	366,295	142,752
Loans past due for three months or more	98	3,568
Restructured loans	99,586	92,472
<b>Total</b>	<b>¥525,993</b>	<b>¥272,066</b>

See Note 5 to the consolidated financial statements for the description of these loans.

The total face value of commercial bills and bills of exchange acquired through discounting amounted to ¥145,766 million at March 31, 2001.

The unused line-of-credit balance relating to overdrafts and loan agreements at March 31, 2001 amounted to ¥1,501,166 million. See Note 5 to the consolidated financial statements for a description of the line-of-credit agreements.

## 5. Premises and Equipment

Premises and equipment at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Land	¥117,200	¥118,109
Buildings	66,367	64,662
Other	32,375	33,851
Total	215,944	216,623
Accumulated depreciation	(66,645)	(65,048)
Net book value	¥149,298	¥151,574

## 6. Other Assets

Other assets at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Accrued income	¥16,635	¥13,654
Prepaid expenses	20	20
Deferred hedge losses	22,158	—
Other	19,157	21,460
Total	¥57,972	¥35,135

## 7. Pledged Assets

Assets pledged as collateral for deposits of ¥30,860 million and ¥43,845 million at March 2001 and 2000, respectively, were as follows:

	Millions of yen	
	2001	2000
Securities	¥135,447	¥189,365
Loans and bills discounted	—	14,430
Bills bought	—	13,000
Total	¥135,447	¥216,795

In addition, securities totaling ¥198,607 million and ¥189,157 million were pledged as collateral for settlement of exchange and other or as variation margin at March 31, 2001 and 2000, respectively.

## 8. Deposits

A breakdown of deposits at March 31, 2001 and 2000 is as follows:

	Millions of yen	
	2001	2000
Current deposits	¥ 76,019	¥ 12,531
Ordinary deposits	2,001,481	1,810,444
Deposits at notice	75,402	88,586
Time deposits	3,037,436	3,238,521
Negotiable certificates of deposit	250,822	134,340
Other deposits	373,661	434,464
Total	¥5,814,825	¥5,718,888

## 9. Bonds Payable and Convertible Bonds

See Note 10 to the consolidated financial statements for the description of these bonds.

## 10. Other Liabilities

Other liabilities at March 31, 2001 and 2000 consisted of the following:

	Millions of yen	
	2001	2000
Domestic exchange settlement		
account, credit	¥ 1,187	¥ 1,998
Corporation tax	4,823	5,085
Accrued expenses	16,134	31,198
Unearned income	3,377	5,544
Employees' deposits	3,935	4,128
Derivatives other than for trading	22,157	—
Deposits on securities sold	69,747	29,164
Other	26,259	14,063
Total	¥147,623	¥91,183

## 11. Retirement Benefit Plans

See Note 11 to the consolidated financial statements for the description of employees' retirement benefit plans.

## 12. Reserve for Possible Losses on Loans Sold

See Note 12 to the consolidated financial statements for the description of the reserve for possible losses on loans sold.

## 13. Acceptances and Guarantees

See Note 13 to the consolidated financial statements for the description of acceptances and guarantees.

## 14. Common Stock and Capital Surplus

Information with respect to the common stock and capital surplus of the Bank at March 31, 2001 and 2000 is as follows:

The authorized number of shares of common stock was 1.8 billion shares at March 31, 2001 and 2000 with a par value of ¥50 per share.

	Millions of yen	
	2001	2000
Common stock:		
Balance at beginning of year	¥ 58,657	¥ 57,365
Conversion of convertible bonds	1	1,292
Balance at end of year	¥ 58,658	¥ 58,657
(Shares issued and outstanding at end of year) (Thousands)	(634,748)	(634,744)
Capital surplus:		
Balance at beginning of year	¥ 36,912	¥ 35,624
Conversion of convertible bonds	1	1,288
Balance at end of year	¥ 36,913	¥ 36,912

## 15. Legal Reserve

Under the Banking Law of Japan, an amount equivalent to at least 20% of cash dividends and other cash appropriations of retained earnings shall be appropriated to the legal reserve from the retained earnings until such reserve equals 100% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit or may be transferred to capital.

## 16. Other Operating Income and Other Income

The composition of other operating income for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen	
	2001	2000
Other operating income		
Gains on foreign exchange transactions	¥ —	¥ 456
Gains on sales of bonds	3,762	1,320
Gains on redemption of bonds	—	172
Other	0	35
Total	¥3,762	¥1,984

The components of other income for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Other income:		
Gains on sales of stocks and other securities	¥ 2,524	¥4,142
Gains on money held in trust	477	219
Gains on dispositions of premises and equipment	33	172
Collection of written-off claims	35	490
Gain on contribution of securities to a retirement benefit trust	22,107	—
Others	2,001	1,780
Total	¥27,179	¥6,805

## 17. Other Operating Expenses and Other Expenses

The composition of other operating expenses for the years ended March 31, 2001 and 2000 was as follows:

	Millions of yen	
	2001	2000
Other operating expenses:		
Losses on foreign exchange transactions	¥3,253	¥ —
Losses on sales of bonds	360	1,092
Losses on redemption of bonds	107	3,773
Others	111	1,010
Total	¥3,834	¥5,875



The components of other expenses for the years ended March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Other expenses:		
Transfer to reserve for possible loan losses	<b>¥174,526</b>	¥33,549
Loans written off	<b>17</b>	7
Transfer to reserve for possible losses on loans sold	<b>304</b>	547
Losses on sales of stocks and other securities	<b>3</b>	125
Losses on devaluation of stocks and securities	<b>1,238</b>	1,154
Losses on money held in trust	<b>273</b>	20
Losses on sales and disposal of premises and equipment	<b>868</b>	763
Amortization of net retirement benefit obligation at transition	<b>22,077</b>	—
Others	<b>3,259</b>	3,878
Total	<b>¥202,569</b>	¥40,047

## 18. Income Taxes

Income taxes applicable to the Bank comprise corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of 41.8% and 41.6% for 2001 and 2000, respectively.

The effective tax rate reflected in the non-consolidated statement of operations and retained earnings (deficit) for the year ended March 31, 2000 differs from the statutory tax rate for the following reasons:

	2000
Statutory tax rate	41.6%
Effect of:	
Tax rate changes on deferred taxes	—
Expenses not deductible for income tax purposes	2.8
Dividend income deductible for income tax purposes	(6.0)
Other, net	(0.2)
Effective tax rate	38.2%

The significant components of the Bank's deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen	
	2001	2000
Deferred tax assets:		
Reserve for possible loan losses	<b>¥ 97,644</b>	¥31,725
Accrued employees' retirement benefits	<b>14,537</b>	3,836
Other	<b>6,313</b>	6,675
Valuation allowance for deferred tax assets	<b>(—)</b>	(—)
	<b>118,496</b>	42,238
Deferred tax liabilities:		
Unrealized gain on securities	<b>22,447</b>	—
Gain on contribution of securities to retirement benefit trust	<b>9,243</b>	—
Reserve for special depreciation	<b>287</b>	126
Net deferred tax assets	<b>¥ 86,518</b>	¥42,112

On June 9, 2000, the "Special Ordinance for the Taxation of Banking Business Conducted in Osaka Prefecture" was promulgated. Under this legislation, the Osaka enterprise tax is levied on total gross operating profit rather than net income, effective the year beginning April 1, 2001. Because the new enterprise tax is not regarded as a tax subject to tax-effect accounting, the Bank's effective statutory tax rate will decrease. As a result of this change, deferred tax assets at March 31, 2001 decreased by ¥33 million and provision for income taxes—deferred for the year ended March 31, 2001 increased by the same amount. Also, deferred tax liabilities on the land revaluation account decreased by ¥31 million and the land revaluation account increased by the same amount at March 31, 2001.

## 19. Net (Loss) Income per Share

Net (loss) income per share for the years ended March 31, 2001 and 2000 was as follows:

	Yen	
	2001	2000
Net (loss) income:		
Basic	<b>¥(121.04)</b>	¥8.35
Diluted	<b>—</b>	7.80

Basic net (loss) income per share is computed based on the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the weighted-average number of shares of common stock outstanding each year after giving effect to the dilutive potential of common shares to be issued upon the conversion of convertible bonds.

## 20. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets as of March 31, 2001 and 2000 which would have been reflected in the non-consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen	
	2001	2000
Equipment:		
Acquisition costs	<b>¥14,966</b>	¥13,418
Accumulated depreciation	<b>7,136</b>	5,058
Net book value	<b>¥ 7,830</b>	¥ 8,359

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥3,197 million and ¥2,930 million for the years ended March 31, 2001 and 2000, respectively. The depreciation expense of the leased assets computed by the straight-line method over the respective lease terms and the interest expense portion included in the lease payments amounted to ¥2,548 million and ¥609 million, respectively, for the year ended March 31, 2001, and ¥2,199 million and ¥615 million, respectively, for the year ended March 31, 2000.

Future minimum lease payments subsequent to March 31, 2001 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen
2002	¥2,746
2003 and thereafter	5,659
Total	¥8,406

## 21. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the non-consolidated financial statements for the year ended March 31, 2001, were approved at a stockholders' meeting held on June 28, 2001:

	Millions of yen
Transfer to legal reserve	¥ 317
Cash dividends (¥2.50 per share)	1,586
Reserve for special depreciation	400
	¥2,304

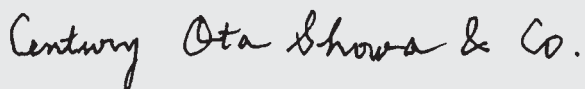
**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS****The Board of Directors  
The Bank of Fukuoka, Ltd.**

We have examined the non-consolidated balance sheets of The Bank of Fukuoka, Ltd. as of March 31, 2001 and 2000, and the related non-consolidated statements of operations and retained earnings (deficit) for the years then ended, all expressed in yen. Our examinations 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 accompanying non-consolidated financial statements, expressed in yen, present fairly the financial position of The Bank of Fukuoka, Ltd. at March 31, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 1 to the non-consolidated financial statements, The Bank of Fukuoka, Ltd. has adopted new accounting standards for research and development costs effective the year ended March 31, 2000 and for employees' retirement benefits and financial instruments effective the year ended March 31, 2001 in the preparation of its non-consolidated financial statements.

The U.S. dollar amounts in the accompanying non-consolidated financial statements are presented solely for convenience. Our examination also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the non-consolidated financial statements.



Fukuoka, Japan  
June 28, 2001

*See Note 1 to the non-consolidated financial statements which explains the basis of presentation of the non-consolidated financial statements of The Bank of Fukuoka, Ltd. under Japanese accounting principles and practices.*

## COMPANY DATA

### BOARD OF DIRECTORS AND AUDITORS

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#### Chairman

Ryoji Tsukuda

#### President

Kiyoshi Teramoto

#### Deputy Presidents

Setsuya Yukimasa

Masaaki Tani

#### Managing Directors

Yoshiji Okamoto

Isamu Ueda

Kazunori Shibuta

Kazuo Oniki

Seiji Yamauchi

Osamu Suematsu

Yoshiyuki Terahara

#### Directors

Azuma Yoshioka

Kazutoshi Nakamura

Yukuo Osada

Masazumi Tsuru

Minoru Katsuno

Shozo Koga

#### Standing Auditors

Yukio Migita

Minoru Ohno

Junichirou Kotabe

#### Auditors

Seiji Yoshida

Hiroo Nagano

(As of July 2001)

### HEAD OFFICE

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13-1, Tenjin 2-chome, Chuo-ku,  
Fukuoka 810-8727, Japan  
Phone: 092-723-2131

### INTERNATIONAL DIVISION

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13-1, Tenjin 2-chome, Chuo-ku,  
Fukuoka 810-8727, Japan  
Telex: 722346 BKFUKU J  
SWIFT Address: FKBKJPJT

#### Promotion & Planning Group

Phone: 092-723-2591 Fax: 092-716-3180

#### Trade & Foreign Business Operations Center

Phone: 092-723-2442 Fax: 092-711-1746

#### Planning & Loan Administration Group

Phone: 092-723-2591 Fax: 092-716-3180

#### Trade & Foreign Investment Consultation Center

Phone: 092-723-2591 Fax: 092-716-3180

### TREASURY DIVISION

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8-7, Yaesu 2-chome, Chuo-ku,  
Tokyo 104-0028, Japan  
Telex: 2226638 FUKUBK J  
SWIFT Address: FKBKJPJT

#### Funds & Securities Group

Phone: 03-3242-6935 Fax: 03-3242-6923

#### Trading Department

Phone: 03-3242-6931 Fax: 03-3242-6923

#### Treasury Management Department

##### Treasury Risk Management Group

Phone: 03-3242-6913 Fax: 03-3242-6918

##### Treasury Administration Group

Phone: 03-3242-6930 Fax: 03-3242-6918

### OVERSEAS OFFICES

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#### Hong Kong Representative Office

3101 Alexandra House, 16-20, Chater Road,  
Central, Hong Kong, S.A.R., P.R.C.  
Phone: 2524-2169 Fax: 2845-9250

#### Seoul Representative Office

Samsung Life Building, 20th Floor, 150,  
2-ka, Taepyung-ro, Chung-ku, Seoul, Korea  
Phone: 2-319-0367 Fax: 2-319-0369

#### Shanghai Representative Office

Room 2010, Shanghai International  
Trade Center, 2201 Yan-an Road (West),  
Shanghai, P.R.C.  
Phone: 21-6219-4570 Fax: 21-6219-5614

#### Dalian Representative Office

Room 822, Furama Hotel,  
Dalian, 60 Renmin Road,  
Dalian, P.R.C.  
Phone: 411-282-3643 Fax: 411-282-3644

#### Number of Offices

Domestic:	
Fukuoka Prefecture.....	156
Other districts.....	17
International:	
Hong Kong/Seoul/Shanghai/Dalian.....	4
<b>Total</b> .....	<b>177</b>

(As of July 2001)