Higo Bank

ANNUAL REPORT 2000

Profile

The Higo Bank is a regional bank serving its main business base of Kumamoto Prefecture in central Kyushu, and was founded in 1925 by a merger of three banks based in the prefecture. Over the 75 years of its existence, the Bank has experienced many ups and downs, including the Great Depression, World War II, the turmoil following the war, the ensuing rapid growth period, the oil shocks, the bubble economy, and the bursting of the Bubble. Through those experiences the Bank has strengthened its position in the banking world. Financial deregulation has been advancing in the banking industry since 1984, reaching a climax with the introduction of Prompt Corrective Action measures and the start of the Japanese Big Bang in April 1998. To cope with these changes, the Higo Bank firmly holds to the sound business policies it was founded on, while identifying three main principles to guide its progress. These are: putting the customer first; contributing to the prosperity of the region it serves, while respecting corporate ethics; and encouraging a free and creative corporate culture.

As of March 31, 2000, the Higo Bank and its consolidated subsidiaries had deposits of ¥2,850.3 billion (US$26,890 million), total assets of ¥3,131.3 billion (US$29,540 million), and a capital ratio of 10.81% according to domestic standards (11.77% on a non-consolidated basis according to international standards). The Bank had 129 domestic branches, a representative office in Singapore, and 2,578 employees.

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Financial Highlights (Consolidated)

The Higo Bank, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
INCOME:			
Interest on loans and bills discounted	¥ 42,605	¥ 44,567	$ 401,934
Interest and dividends on securities	20,561	22,797	193,972
Total income	82,474	92,872	778,057
EXPENSES:			
Interest on deposits	¥ 6,983	¥ 10,313	$ 65,877
General and administrative expenses	41,827	42,745	394,594
Total expenses	74,145	78,535	699,481
EARNINGS:			
Income before income taxes	¥ 8,328	¥ 14,335	$ 78,566
Net income	5,043	5,022	47,575
ASSETS:			
Loans and bills discounted	¥1,819,226	¥1,846,865	$17,162,509
Securities	803,995	708,343	7,584,858
Foreign exchange	710	479	6,698
Total assets	3,131,323	2,991,522	29,540,783
LIABILITIES:			
Deposits	¥2,850,377	¥2,706,511	$26,890,349
Foreign exchange	32	227	302
Total liabilities	2,957,165	2,839,611	27,897,783
SHAREHOLDERS' EQUITY:			
Common stock	¥ 18,128	¥ 18,128	$ 171,019
Capital surplus	8,133	8,133	76,726
Retained earnings	138,155	125,099	1,302,972
Total shareholders' equity	173,436	151,359	1,636,189

Topics

[1] An excellent reputation as a sound bank with few non-performing loans

The following are the balances in individual asset categories pursuant to the Financial Revitalization Law

March 31, 2000 (Billions of yen)

	Loans to borrowers undergoing reorganization, and corresponding loans (a)	(Borrowers on the watch list) (b)	(Borrowers in need of supervision) (c)	Total [(a) + (b) + (c)]	Ratio to total loans	Normal loans
Non-consolidated	10.6	14.8	10.1	35.5	1.89%	1,844
Consolidated	11.5	15.2	10.5	37.3	1.94%	1,885

[2] Higo Bank has a high credit rating among Japanese banks

Moody's Investors Service

Long-term deposit rating: A2

Short-term deposit rating: P-1

Bank financial strength rating: C

Standard & Poor's Ratings Services

Long-term credit rating: BBBpi

Japan Rating and Investment Information, Inc.

Long-term debt: A+

Yoshiaki Nagano *(seated), Chairman,*
and Seiichi Inagaki, *President*

Business Environment

During the year under review the Japanese economy showed signs of recovery, reflected in an upturn into positive territory by the rate of real GDP growth.

Private capital investment recorded an increase, particularly in information technology fields, and picked up over an increasingly wide selection of industries. Business performances in the corporate sector showed an improving trend. This was due to progress made in restructuring, an upturn in production activity owing to brisk exports to Asia, and the virtual completion of inventory adjustments.

Consumer spending, on the other hand, was unable to move into a recovery phase, in spite of strong sales of personal computers and other consumer electronic equipment and home appliances. This was due to the persistent decline in personal incomes and the unstable employment situation.

Operating Results

Within this operating environment, thanks to the support and goodwill of its customers, the Bank achieved a ¥126,223 million, or 4.7%, increase in total deposits from the previous year-end, for a total of ¥2,810,829 million.

Personal loans, particularly mortgage loans, recorded a strong increase, but overall lending was impacted by factors such as sluggish corporate fund demand resulting from the failure of a full-scale economic recovery to materialize. In consequence, total loans edged back by ¥27,556 million, or 1.5%, to ¥1,819,606 million.

Net business profit rose by ¥360 million, or 2.6%, from the preceding year, to ¥14.0 billion. Given the persistence of interest rates at ultra-low levels, the net interest margin declined, but as a result of factors such as a fall in transfers to the reserve for possible loan losses and reductions in operating expenses, we achieved growth in business profit.

In order to improve our financial soundness in advance of the application of the new accounting standards for retirement allowances from the 2000 fiscal year, during the year under review we made a single charge-off of ¥3,614 million of past service liabilities of pension plans and qualified retirement pension plans.

As a result of these factors, net income before income taxes declined by ¥6,358 million from the previous term, to ¥8,114 million, and net income for the term totaled ¥5,015 million.

Consolidated business results for fiscal 1999 are presented in summarized form in the attached consolidated financial statements.

Future Outlook

Amid the ongoing advance of Japan's Big Bang financial reforms and the information technology revolution, the environment for financial institutions is growing progressively more difficult, exemplified by the plans being made in other industries to enter the banking business. Given these changes in the environment, in April 2000, Higo Bank commenced its new three-year medium-term management plan entitled First Medium-Term Management Plan for the New Century.

Based upon our steadfast corporate goals of putting the customer first, abiding by corporate ethics and working for the prosperity of the regional community, and establishing a free and frank corporate culture, we are committed to working – at all levels throughout the Bank – to achieve the plan's basic target of enhancing mutual prosperity with our customers and becoming a strong regional bank that will lead the field in Kyushu in the 21st century.

Y. Nagano

Yoshiaki Nagano
Chairman

Seiichi Inagaki

Seiichi Inagaki
President

First Medium-Term Management Plan for the New Century
(Non-consolidated basis)

Characterized by factors such as changes in the structure of society and the economy wrought by the progressive maturing of society and the advances being made by the IT revolution and Big Bang financial reforms, the operating environment for financial institutions is undergoing substantial change. Particularly significant over the next few years will be the increasing intensity of competition, including from other industries, resulting from the deregulation that has taken place in recent years. This is also expected to lead to the greater sophistication and diversity of financial products and services.

In order to deal with this harsh environment, the most important factors are to strengthen our ability to provide superior financial services at low cost, based upon a strongly customer-focused approach, and to build long-term relationships of trust with customers, shareholders, and the local community.

In line with this approach, under the First Medium-Term Management Plan for the New Century, beginning this year, we have laid down challenging targets for achieving strong profitability and soundness. We will do this by strengthening relationships of trust with customers, through which we aim to make great strides in the new century.

[Basic Goal]

Enhancing the mutual prosperity of the Bank and its customers, and becoming a strong regional bank that will lead the field in Kyushu in the 21st century

[Future Vision of the Bank]

1. A bank that is an overwhelmingly significant presence, supported by the long-term relationships of trust with its customers
2. A bank that blends strong profitability with financial soundness
3. A bank with high corporate value

Active investment in IT

[Principal Numerical Targets]

Target indicator	Target for fiscal 2002	Results in fiscal 1999
ROE (Return on equity)	7.0% or higher	3.09%
ROA (Return on asset)	0.6% or higher	0.38%
Capital ratio (Domestic standard)	11% or higher	10.75%

[Plan Period]

April 2000 to March 2003 (3 years)

Basic Measures

1. To strengthen profitability and cost competitiveness

- To expand lending volume
- To strengthen fee-earning business
- To clarify a loan interest-rate strategy on the basis of credit risk
- To strengthen capacity to invest in financial markets
- To enhance efficiency by implementing BPR (Business Process Reengineering) in all business activities
- To maintain and strengthen the capacity to conduct stable funding at low cost
- To enhance group strength, including at affiliated companies

2. To maintain and strengthen financial soundness

- To strengthen risk management on the basis of credit rating
- To strengthen the management of market risk, so as to improve ability to invest in financial markets
- To rationalize risk and earnings comprehensively through ALM (Asset Liability Management)
- To ensure thorough compliance
- To maintain and strengthen financial soundness, including at affiliated companies

3. To develop marketing and management infrastructure

- Marketing infrastructure
- Personnel infrastructure
- Organizational infrastructure
- Administrative and system infrastructure
- Infrastructure to strengthen ability to deploy management resources on the front line

Strategy in Individual Spheres

[1] Strategy for corporations

In the Bank's strategy for corporations, it aims to increase business depth (both qualitatively and quantitatively) by accurately satisfying customers' diverse needs, not solely their financial needs. Since the key to strengthening investment in the form of lending lies in the expansion of business with new customers, the Bank will clearly set out its business policies, and implement them with increasing vigor.

To translate this into reality, in view of the wide variations in customer needs according to corporate scale and the industrial categories to which companies belong, a "corporate segment" will be introduced, and the structure for conducting business with corporations will be radically overhauled.

Also, in addition to strengthening capabilities for marketing to companies and improving the provision of information to corporate customers, the Bank will seek out venture companies and give active support to their growth and development, thereby contributing to the development of the regional economy.

[2] Strategy for individuals

By responding accurately to customer needs, the Bank will rebuild an effective and efficient service structure, and at the same time develop a stronger product lineup and service structure designed to cater to customers at each stage of their lives, and build stable, lasting relationships of trust with them.

The service structure will be rebuilt in a more effective and efficient form on the basis of the state of individual customers' transactions and data analysis, and ongoing efforts will be made to enhance customer satisfaction by introducing a variety of preferential schemes based on points systems.

[3] Market strategy

Given the low level of the Bank's loan-deposit ratio, its ability to invest in the markets has a major impact on overall earnings. As a means of enhancing profitability in the harsh operating environment that lies ahead, the Bank will seek to improve its capabilities in this sphere premised upon rational risk-taking. In addition, the Bank will endeavor to secure earnings by such means as shifting from interbank investment – where yields are low as a result of the government's zero-interest-rate policy – into investment in securities, while carefully monitoring the balance of its investment portfolio.

[4] Administrative strategy

Reform of administrative processes

Through measures such as the introduction of a new branch system and reorganizing sections and divisions, ongoing progress will be made in the automation and centralization of administrative functions, and the switching of jobs to part-time employees, thereby reducing substantially the number of administrative staff.

Rationalization of administrative operations at Head Office

Administrative operations at Head Office will be rationalized significantly by means of an administrative centralization division, the outsourcing of equipment maintenance and administration, and the integration of administrative divisions (including systems and centralization).

[5] IT (Information Technology) strategy

IT investment plan over the three-year period

¥5.4 billion

¥2.1 billion
Development expenses detailed separately

Relating to improvements in marketing channels
¥600 million

Strengthening of product development and sales
¥700 million

Enhancing efficiency of business operations
¥2.1 billion

Other aspects
¥2.0 billion

[6] Personnel plan

By means of enhanced business efficiency through the use of BPR and a branch strategy that places priority on efficiency, the number of employees is projected to be reduced to 2,300 by the end of the final year of the plan (March 31, 2003).

Consolidated Balance Sheets

The Higo Bank, Ltd. and its Consolidated Subsidiaries
March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	**2000**
ASSETS:			
Cash and due from banks	**¥ 233,984**	¥ 113,647	**$ 2,207,396**
Call loans and bills bought	**48,797**	92,167	**460,349**
Monetary claims purchased	**68,840**	47,989	**649,434**
Trading assets	**6,323**	5,981	**59,651**
Securities	**803,995**	708,343	**7,584,858**
Money held in trust	**22,601**	30,793	**213,217**
Loans and bills discounted	**1,819,226**	1,846,865	**17,162,509**
Foreign exchange	**710**	479	**6,698**
Other assets	**19,617**	31,720	**185,066**
Premises and equipment	**48,608**	50,133	**458,566**
Deferred tax assets	**14,096**	—	**132,981**
Customers' liabilities for acceptances and guarantees	**58,530**	63,400	**552,170**
Reserve for possible loan losses	**(13,852)**	—	**(130,679)**
Reserve for loss on investments	**(156)**	—	**(1,472)**
Total assets	**¥3,131,323**	¥2,991,522	**$29,540,783**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Deposits	**¥2,850,377**	¥2,706,511	**$26,890,349**
Call money and bills sold	**5,838**	1,205	**55,075**
Borrowed money	**173**	212	**1,632**
Foreign exchange	**32**	227	**302**
Other liabilities	**28,592**	26,027	**269,736**
Reserve for possible loan losses	**—**	19,583	**—**
Reserve for retirement allowances	**7,141**	6,912	**67,368**
Deferred tax liabilities related to land revaluation	**6,479**	—	**61,123**
Acceptances and guarantees	**58,530**	63,400	**552,170**
Excess of land revaluation	**—**	15,530	**—**
Total liabilities	**2,957,165**	2,839,611	**27,897,783**
Minority interests:			
Minority interests	**721**	551	**6,802**
Total minority interests	**721**	551	**6,802**
Shareholders' equity:			
Common stock	**18,128**	18,128	**171,019**
Capital surplus	**8,133**	8,133	**76,726**
Excess of land revaluation	**9,059**	—	**85,462**
Retained earnings	**138,115**	125,099	**1,302,972**
Less: Treasury stock	**0**	(1)	**0**
Total shareholders' equity	**173,436**	151,359	**1,636,189**
Total liabilities, minority interests and shareholders' equity	**¥3,131,323**	¥2,991,522	**$29,540,783**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

The Higo Bank, Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	**2000**
Income:			
Interest on loans and bills discounted	**¥42,605**	¥44,567	**$401,934**
Interest on and dividends from securities	**20,561**	22,797	**193,972**
Other interest	**5,188**	7,350	**48,943**
Fees and commissions	**8,033**	7,693	**75,783**
Trading revenue	**45**	171	**425**
Other operating income	**1,509**	1,656	**14,236**
Other income	**4,529**	8,633	**42,726**
Total income	**82,474**	92,872	**778,057**
Expenses:			
Interest on deposits	**6,983**	10,313	**65,877**
Interest on borrowings and call money	**214**	479	**2,019**
Other interest	**10,305**	10,477	**97,217**
Fees and commissions	**1,035**	1,072	**9,764**
Trading expenses	**—**	0	**—**
Other operating expenses	**2,473**	2,106	**23,330**
General and administrative expenses	**41,827**	42,745	**394,594**
Other expenses	**11,305**	11,340	**106,651**
Total expenses	**74,145**	78,535	**699,481**
Income before income taxes	**8,328**	14,335	**78,566**
Income taxes			
- Current	**7,631**	9,447	**71,991**
- Deferred	**(4,438)**	—	**(41,868)**
Minority interests	**92**	(134)	**868**
Net income	**¥ 5,043**	¥ 5,022	**$ 47,575**

	Yen		U.S. dollars
Per share amounts			
Primary net income	**¥19.61**	¥19.53	**$0.185**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

The Higo Bank, Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2000	1999	**2000**
Common stock:			
Balance at beginning of year	**¥ 18,128**	¥ 18,128	**$ 171,019**
Balance at end of year	**18,128**	18,128	**171,019**
Capital surplus:			
Balance at beginning of year	**8,133**	8,133	**76,726**
Balance at end of year	**8,133**	8,133	**76,726**
Excess of land revaluation:			
Balance at beginning of year	**—**	—	**—**
Revaluation of land	**9,059**	—	**85,462**
Balance at end of year	**9,059**	—	**85,462**
Retained earnings:			
Balance at beginning of year	**125,099**	121,664	**1,180,179**
Effect of adoption of deferred tax accounting	**9,585**	—	**90,425**
Net income	**5,043**	5,022	**47,575**
Dividends paid	**(1,542)**	(1,542)	**(14,547)**
Bonuses to directors and corporate auditors	**(65)**	(45)	**(613)**
Reversal of excess of land revaluation	**(4)**	(—)	**(38)**
Balance at end of year	**138,115**	125,099	**1,302,972**
Treasury stock:			
Balance at beginning of year	**(1)**	0	**(9)**
Net change during the year	**1**	(1)	**9**
Balance at end of year	**0**	(1)	**0**
Total shareholders' equity	**¥173,436**	¥151,359	**$1,636,189**

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

The Higo Bank, Ltd. and its Consolidated Subsidiaries
For the year ended March 31, 2000

	Millions of yen 2000	Thousands of U.S. dollars (Note 3) 2000
Cash flows from operating activities:		
Income before income taxes	¥ 8,328	$ 78,566
Adjustments for:		
Depreciation and amortization	2,785	26,274
Allowance for possible loan losses	(5,731)	(54,066)
Reserve for retirement allowance	228	2,151
Interest and dividend income	(68,355)	(644,858)
Interest expenses	17,504	165,132
Investment securities gains	2,956	27,887
Loss on money held in trust	(3,482)	(32,849)
Increase in loans	26,125	246,462
Increase in deposits	126,385	1,192,311
Increase in negotiable certificates of deposit	17,479	164,896
Decrease in due from banks	(80,779)	(762,066)
Decrease in call loans	22,518	212,434
Increase in call money	4,632	43,698
Interest income (cash basis)	68,759	648,670
Interest expense (cash basis)	(18,896)	(178,264)
Other	28,188	265,925
Total	148,647	1,402,330
Payments for income taxes	(9,929)	(93,670)
Net cash provided by operating activities	138,717	1,308,651
Cash flows from investing activities:		
Payments for purchase of securities	(361,706)	(3,412,321)
Proceeds from sales of securities	84,719	799,236
Proceeds from redemption of securities	172,089	1,623,481
Payments for increase in money held in trust	(3,796)	(35,811)
Proceeds from decrease in money held in trust	11,882	112,094
Payments for purchase of premises and equipment	(1,005)	(9,481)
Proceeds from sales of premises and equipment	204	1,925
Net cash used in investing activities	(97,611)	(920,858)
Cash flows from financing activities:		
Cash dividends paid	(1,542)	(14,547)
Net cash used in financing activities	(1,542)	(14,547)
Effect of exchange rate changes on cash and cash equivalents	(5)	(47)
Net increase in cash and cash equivalents	39,557	373,179
Cash and cash equivalents at beginning of year	42,376	399,774
Cash and cash equivalents at end of year	¥ 81,934	$ 772,962

1. Basis of Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Higo Bank, Ltd. (the “Bank”) and its consolidated subsidiaries (together referred to as the “Group”) in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, the Banking Law of Japan, the Financial Statements Regulation (ordinances promulgated by the Ministry of Finance), and the Uniform Accounting Standards for Banks in Japan, which are different from International Accounting Standards in certain respects as to application and disclosure requirements.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance in Japan have been reclassified for the convenience of readers outside Japan.

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

Amounts of less than ¥1 million have been omitted. As a result, the yen totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

The Consolidated Statements of Cash Flows are required to be included in the consolidated financial statements for the fiscal year ended March 31, 2000 due to the amendment of related regulations.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries, after the elimination of all material intercompany transactions, balances, and unrealized gains and losses. The scope of the consolidation is determined based on the Opinions issued by the Business Accounting Deliberation Council, as well as the Financial Statements Regulation and Consolidated Financial Statements Regulation.

The number of subsidiaries and affiliates as of March 31, 2000 was as follows:

Consolidated subsidiaries	6
Affiliates (accounted for under the equity method)	1

(b) Fiscal year-ends of consolidated subsidiaries

Fiscal year-ends for the consolidated subsidiaries are as follows:

March 31	6 consolidated subsidiaries

a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hands and due from the Bank of Japan.

b) Foreign currency translation

The Bank maintains its accounting records in yen. Foreign currency assets and liabilities are translated into yen at the exchange rates prevailing on the balance-sheet dates.

Premiums or discounts from foreign exchange forward contracts identified as monetary swap transactions are recognized as interest income or expenses over the life of the contracts. Foreign exchange forward contracts other than the monetary swap transactions are valued at the forward rates prevailing on the balance sheet dates for the remaining maturity of the contracts. Resulting gains and losses on these forward exchange contracts are taken to income when they occur.

c) Trading assets and trading liabilities

Trading accounts were established during the fiscal year ended March 31, 1999, under Article 17-2 of the Banking Law of Japan. Securities, monetary receivables, etc. included in “Trading assets” or “Trading liabilities” are stated at market value, and trading-related derivative financial instruments are valued based on the assumption that they are settled at the end of the fiscal year.

Profits and losses from trading assets and trading liabilities are recorded in “Trading revenue/expenses” on a trade date basis. In the case of securities, monetary receivables, etc., held for trading purposes, “Trading revenue/expenses” include interest received/paid during the fiscal year and the difference between the valuation profits and losses at the end of the current fiscal year and those at the end of the previous fiscal year. In the case of trading-related derivative financial instruments, “Trading revenue/expenses” include interest received/paid during the fiscal year and the difference in profits and losses at the end of the fiscal year and at the end of the previous fiscal year based on the assumption that transactions were settled.

d) Securities

Listed convertible bonds and stocks (including securities in money trusts) are stated at the lower of cost or market, with cost being determined by the moving average method. Other securities are carried at moving average cost.

e) Premises and equipment

(i) Depreciation of premises and equipment is computed as follows.

Premises: Depreciation is computed using the declining balance method over the estimated useful lives of the respective assets and is carried at 160% of the normal depreciation prescribed by the Japanese tax laws.

However, concurrent with the revision in Article 48-1 of the Corporate Tax Law, depreciation on buildings acquired after April 1, 1998 (excluding annex facilities of buildings) is computed by the straight-line method at 160% of those permitted for taxation purposes.

Equipment: Depreciation is computed by the declining balance method over the estimated useful lives of the respective assets as prescribed by the Japanese tax laws.

Others: Depreciation is computed by the method prescribed by the Japanese tax laws.

(ii) Based on the Law on the Revaluation of Land (Law 34 promulgated on March 31, 1998), land for commercial-use was revalued.

Date of Revaluation	March 31, 1999
Book value of land before revaluation	¥17,652 million
Book value of land after revaluation	¥33,183 million

The revaluation method was in accordance with Article 3, Paragraph 3 of Law 34: Revaluations were made based on the method that forms the basis for calculating land value taxes as set out in Article 2, Subparagraph 3 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119 dated March 31, 1998), with appropriate adjustments.

The unrealized gain on the revaluation of land was recorded as a liability in the account “Excess of land revaluation” at March 31, 1999. In compliance with the amendments to the Law on the Revaluation of Land on March 31, 1999, the unrealized gain (net of tax effect) is recorded as “Excess of land revaluation” in shareholders’ equity at March 31, 2000. The tax effect of the unrealized gain is recorded as “Deferred tax liabilities”. As a result, total liabilities at March 31, 2000 decreased by ¥9,059 million ($85,462 thousand) and shareholders’ equity increased by the same amount.

f) Costs of computer software developed or obtained for internal use

Costs of computer software developed or obtained for internal were expensed as incurred up to fiscal years ended March 31, 1999. Following a change in generally accepted accounting principles, these costs are now deferred and amortized using the straight-line method over the estimated useful lives of 5 years. Capitalized costs are included in "Other assets" on the balance sheet.

As a result of this change, "Other assets" at March 31, 2000 and "Income before income taxes" for the year ended March 31, 2000 increased by ¥177 million ($1,670 thousand).

g) Reserve for loan losses

The reserve for loan losses is provided as follows:

(i) The reserve for claims on debtors who are legally or substantially bankrupt is provided based on the amount remaining after deducting the amount expected to be collected through the disposal of collateral or through the execution of guarantees.

(ii) The reserve for claims on debtors who are not currently legally bankrupt but are likely to become bankrupt is provided at the amount considered necessary after due consideration of the results of a solvency assessment. The solvency assessment identifies the amounts expected to be remaining after deducting the amounts expected to be collected through the disposal of collateral or through the execution of guarantees.

(iii) The reserve for claims on debtors other than the above is provided based on default rates calculated using actual defaults during a certain period in the past.

All claims are assessed by the branches and credit supervision divisions based on the internal rules for the self-assessment of assets. The Asset Examination Division, which is independent from the branches and credit supervision divisions, audits these self-assessments, and the reserve is provided based on the audit results.

With respect to the claims with collateral or guarantees on debtors who are legally or substantially bankrupt, estimated uncollectible amounts have been directly charged off against claims at March 31, 2000. The charge off for the year amounted to ¥10,801 million ($101,896 thousand), which included those against Bankruptcy Loans and Non-accrual Loans (see Note 8) of ¥5,827 million ($54,972 thousand) and ¥4,949 million ($46,689 thousand), respectively. In addition, due to the amendments of accounting principles and practices generally accepted in Japan, the "Reserve for possible loan losses" is reported in Assets as a contra account at March 31, 2000, whilst in previous years it was shown as a liability.

h) Reserve for loss on investments

The provision for loss on investments is provided at the amount deemed necessary based on the estimation of losses on securities which are investments in counterparties who are likely to become bankrupt.

i) Reserve for retirement allowances

This reserve is set aside based on the amount that would be required if all employees were to voluntarily terminate employment as of the end of the period concerned, in accordance with the Uniform Accounting Standards for Banks in Japan.

In addition, the Bank has contributory pension plans covering substantially all employees. The past service liabilities of the plans were expensed when contributions to the plans were made in previous years. As a result of due considerations given to a change in the assumed rate of return and changes in the environment surrounding pensions such as expected implementation of new accounting for pensions, contributions are expensed as incurred from the fiscal year ended March 31, 2000 in order to achieve a better inter-period allocation of pension costs and to improve financial strength. As a result of this change, ¥3,614 million ($34,094 thousand) has been charged to "Other expenses" and "Profit before income taxes" has decreased by the same amount.

j) Income taxes

Income taxes of the Group consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

In the year ended March 31, 2000, the Group adopted the deferred tax accounting method in accordance with the amended regulations for preparation of consolidated financial statements. Income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements. The cumulative effect of adopting deferred tax accounting at April 1, 1999 was credited to retained earnings.

In the year ended March 31, 1999, income taxes of the Group were provided for at an amount currently payable based on the tax returns filed with tax authorities.

As a result of this change, balance sheet assets at March 31, 2000 and net income after tax for the year ended March 31, 2000 increased by ¥14,096 million ($132,981 thousand) and ¥4,438 million ($41,868 thousand), respectively.

k) Leases

Finance leases (other than those that are deemed to transfer ownership of the leased assets to the lessees) are accounted for as operating leases.

l) Valuation of assets and liabilities in consolidated subsidiaries

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when the majority interest in the subsidiaries is purchased.

m) Net income per share

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

3. U.S. Dollar Amounts

The Group maintains its accounting records in yen. The U.S. dollar amounts included in the accompanying financial statements and notes thereto represent the arithmetic results of translating yen to dollars on the basis of ¥106 to US$1, the approximate effective rate of exchange as of March 31, 2000. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that assets and liabilities originated in yen have been or could be readily converted, realized, or settled in dollars at the given rate or at any other rate.

4. Cash and Cash Equivalents

Reconciliation of cash and cash equivalent of consolidated statements of cash flows and account balances of consolidated balance sheets.

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Cash and due from banks	**¥233,984**	**$2,207,396**
Foreign currency deposits	**(115,763)**	**(1,092,104)**
Negotiable certificate of deposit	**(35,000)**	**(330,189)**
Other deposits	**(1,286)**	**(12,132)**
Cash and cash equivalent	**¥ 81,934**	**$ 772,962**

5. Trading Assets

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Trading account securities	**¥5,823**	¥5,281	**$54,934**
Other trading assets	**499**	699	**4,708**
Total	**¥6,323**	¥5,981	**$59,651**

6. Securities

Securities, as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
National government bonds	**¥242,910**	¥197,269	**$2,291,604**
Local government bonds	**190,146**	203,421	**1,793,830**
Corporate bonds	**236,533**	193,358	**2,231,443**
Stocks	**37,449**	38,200	**353,292**
Other securities	**96,953**	76,092	**914,651**
Total	**¥803,995**	¥708,343	**$7,584,858**

The carrying values and market values of quoted securities included in securities, as of March 31, 2000 and 1999, were as follows:

	Millions of yen			
	2000		1999	
	Carrying value	Market value	Carrying value	Market value
Bonds	**¥426,523**	**¥437,718**	¥289,408	¥303,651
Stocks	**34,906**	**73,693**	35,707	67,170
Other securities	**38,519**	**38,514**	36,421	36,989
Total	**¥499,949**	**¥549,928**	¥361,537	¥407,812

	Thousands of U.S. dollars	
	2000	
	Carrying value	Market value
Bonds	**$4,023,802**	**$4,129,415**
Stocks	**329,302**	**695,217**
Other securities	**363,387**	**363,340**
Total	**$4,716,500**	**$5,188,000**

7. Money Held in Trust

The book and market values of money held in trust, as of March 31, 2000 and 1999, were as follows:

	Millions of yen			
	2000		1999	
	Book value	Market value	Book value	Market value
Money held in trust	**¥22,601**	**¥23,224**	¥30,793	¥31,321

	Thousands of U.S. dollars	
	2000	
	Book value	Market value
Money held in trust	**$213,217**	**$219,094**

8. Loans and Bills Discounted

Loans and bills discounted, as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bills discounted	**¥ 62,050**	¥ 62,936	**$ 585,377**
Loans on notes	**362,884**	376,866	**3,423,434**
Loans on deeds	**1,119,856**	1,097,828	**10,564,679**
Overdrafts	**274,434**	309,234	**2,589,000**
Total	**¥1,819,226**	¥1,846,865	**$17,162,509**

Loans and bills discounted at March 31, 2000 and 1999 included the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Bankruptcy loans (1)	**¥ 3,619**	¥ 8,923	**$ 34,142**
Non-accrual loans (2)	**21,749**	10,505	**205,179**
Accruing loans past due 3 months or more	**711**	1,934	**6,708**
Restructured loans (3)	**9,474**	9,142	**89,377**
Total	**¥35,554**	¥30,506	**$335,415**

(1) Bankruptcy loans represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).

(2) Non-accrual loans represent non-accrual loans other than (i) bankruptcy loans and (ii) loans for which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.

(3) Restructured Loans represent loans on which contracts were amended in favor of borrowers (e.g., reduction of or exemption from stated interest, deferral of interest payments, extension of maturity dates, renunciation of claims) in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Due to changes in the criteria to discontinue recognition of accrued interest during the year ended March 31, 2000, Bankruptcy Loans at March 31, 2000 include ¥1,004 million ($9,472 thousand) which would not have been included in the category in the past. Similarly, non-accrual loans include ¥284 million ($2,679 thousand) and ¥4,261 million ($40,198 thousand) which would have been included in accruing loans past due 3 months or more and restructured loans, respectively, in the past. Also, non-accrual loans include ¥12,012 million ($113,321 thousand) which would not have been included in the category in the past.

9. Other Assets

Other assets, as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Domestic exchange settlement account, debit	**¥ 425**	¥ 439	**$ 4,009**
Prepaid expenses	**32**	76	**302**
Accrued income	**5,919**	6,620	**55,840**
Other	**13,239**	24,585	**124,896**
Total	**¥19,617**	¥31,720	**$185,066**

10. Premises and Equipment

Premises and equipment, as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Land	**¥33,419**	¥33,183	**$315,274**
Buildings	**33,871**	33,883	**319,538**
Furniture and equipment	**18,085**	18,788	**170,613**
Leasehold deposits	**838**	865	**7,906**
Total	**86,214**	86,720	**813,340**
Less, accumulated depreciation	**(37,606)**	(36,587)	**(354,774)**
Net book value	**¥48,608**	¥50,133	**$458,566**

11. Assets Pledged

As of March 31, 2000, assets pledged as collateral are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Securities	**¥ 7,467**	**$ 70,443**

Liabilities related to the above pledged assets are as follows:

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Deposits	**¥26,826**	**$253,075**

In addition, securities totaling ¥86,289 million ($814,047 thousand) are pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin, etc.

12. Deposits

Deposits, as of March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Current deposits	**¥ 76,202**	¥ 66,152	**$ 718,887**
Ordinary deposits	**811,082**	708,715	**7,651,717**
Deposits at notice	**33,407**	31,378	**315,160**
Time deposits	**1,766,304**	1,745,293	**16,663,245**
Installment savings	**17,213**	17,973	**162,387**
Negotiable certificates of deposit	**40,590**	23,110	**382,925**
Other deposits	**105,576**	113,886	**996,000**
Total	**¥2,850,377**	¥2,706,511	**$26,890,349**

13. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2000 was 41.7%.

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

	Millions of yen	Thousands of U.S. dollars
	2000	**2000**
Deferred tax assets:		
Reserve for possible loan losses	**¥ 7,307**	**$ 68,934**
Reserve for retirement allowances	**1,986**	**18,736**
Depreciation	**1,801**	**16,991**
Past service liabilities	**1,507**	**14,217**
Other	**1,533**	**14,462**
Total	**14,135**	**133,349**
Valuation allowance	**—**	**—**
Deferred tax assets	**14,135**	**133,349**
Deferred tax liabilities	**(39)**	**(368)**
Net deferred tax assets	**¥14,096**	**$132,981**

The reconciliation of the statutory tax rate to the effective income tax rate for the year ended March 31, 2000 is as follows:

	2000
Statutory tax rate	**41.7%**
Increase (decrease) in taxes resulting from	
Permanent non-taxable items including dividend income	**(2.3)**
Permanent non-deductible items including entertainment expenses	**0.8**
Resident tax per capita levy	**0.6**
Other	**(2.5)**
Effective income tax rate	**38.3%**

14. Other Liabilities

Other liabilities, as of March 31, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Domestic exchange settlement account, credit	**¥ 3,136**	¥ 3,387	**$ 29,585**
Accrued income taxes	**3,108**	5,474	**29,321**
Accrued expenses	**7,037**	8,274	**66,387**
Unearned income	**1,917**	1,918	**18,085**
Employees' deposits	**1,286**	1,392	**12,132**
Reserve for interest on installment savings	**23**	53	**217**
Other	**12,081**	5,526	**113,972**
Total	**¥28,592**	¥26,027	**$269,736**

15. Retained Earnings

Under the Banking Law of Japan, an amount equivalent to at least 20% of any amount paid out by the Bank as an appropriation of retained earnings must be appropriated to the legal reserve until such reserve equals 100% of common stock. This reserve, which is included in the retained earnings, is not available for dividends, but may be used to reduce a deficit or may be transferred to common stock.

16. Trading Revenue and Expenses

Trading income, for the years ended March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Revenue from trading securities and derivatives	**¥44**	¥162	**$415**
Other trading revenue	**1**	8	**9**
Total	**¥45**	¥171	**$425**

Trading expenses, for the years ended March 31, 2000 and 1999, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Expenses from trade-related financial derivatives	**¥ —**	¥ 0	**$ —**
Total	**¥ —**	¥ 0	**$ —**

17. Leases

Information on finance lease contracts without an ownership transfer, for the year ended March 31, 2000 and 1999, were as follows:

(a) Acquisition cost, accumulated depreciation, net book value, depreciation expenses, and interest expense on the leased assets (assuming capitalization of finance leases) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Acquisition cost	**¥4,113**	¥2,090	**$38,802**
Accumulated depreciation	**(1,315)**	(971)	**(12,406)**
Net book value	**¥2,798**	¥1,119	**$26,396**
Depreciation expenses	**¥ 747**	¥ 360	**$ 7,047**
Interest expenses	**¥ 139**	¥ 55	**$ 1,311**

Depreciation is based on the straight-line method over the lease term of the leased assets. Interest expenses are determined by the allocation of the portion of the total lease payment that exceeds the acquisition cost of leased assets, using the interest method.

(b) The amount of outstanding future lease payments due on March 31, 2000 and 1999, which excluded the portion of interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Future lease payments:			
Due within one year	**¥ 749**	¥ 367	**$ 7,066**
Due in over one year	**2,117**	790	**19,972**
Total	**¥2,866**	¥1,158	**$27,038**

(c) Lease expenses

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Lease rental expenses	**¥850**	¥414	**$8,019**

18. Derivative Financial Instruments

(1) Derivative financial instruments used by the Bank

The Bank enters into primarily future and option transactions of interest rates, currencies, stocks, and bonds and swap transactions of interest rates and currencies.

The Bank enters into these derivative transactions in order to manage and hedge the risks associated with interest rate fluctuations and exposure to changes in the market value of assets and liabilities held by the Bank. With respect to derivative transactions initiated for the purpose of hedging risk, the value of the derivative financial instruments and the value of the assets hedged by these derivative instruments change in opposite directions so that the effects of the change in value offset each other.

In addition, the Bank enters into derivative transactions for trading purposes, within the position limits and loss limits set up by the Bank.

Other companies in the Group do not enter into derivative transactions.

(2) Risks on financial derivative transactions

The major risks associated with derivative transactions, which have the potential to materially impact the Bank's financial condition, are market risk and credit risk.

Market risk is related to the increase and decrease in the market value of the positions held by the Bank due to changes in the market price and interest rates of the underlying assets. Market risk is also subject to changes in liquidity and the volatility of the markets. Credit risk refers to possible losses on the positions held by the Bank which result from a counterparty's failure to perform according to the terms and conditions of the contract.

The Bank mainly applies the quantitative measurement method in order to comprehend market risk. The Bank calculates the outstanding balance and profit and loss for each transaction on a daily basis. In addition, for the transactions for which it is considered necessary to control the risk more carefully, the Bank applies a "Value-at-Risk" measurement method. The Bank controls credit risk by establishing credit limits for counterparties. In addition, reviews of the adequacy of established credit lines are made periodically and as deemed necessary.

The credit risk amounts, which were calculated based on the capital adequacy ratio established by the Bank as of March 31, 2000 and 1999, totaled ¥6,628 million ($62,528 thousand) and ¥5,837 million, respectively.

(3) Risk management system of the Bank

The Bank exercises and controls the derivative transactions by establishing position limits, credit lines for each counterparty, stop loss limits, etc., in accordance with the Bank's policy on derivative transactions.

The middle office is responsible for risk management and monitors front and back offices' compliance with regulations and internal rules.

The Bank applies Mark to market accounting for trading accounts in order to strengthen risk management and to achieve better disclosure.

Contract amounts or notional principal amounts of derivative financial instruments stated in the table below represent contractual values or the notional principal value of derivative financial instruments outstanding as of the year-end dates, which are classified by transaction type. These amounts represent only nominal contract amounts or the notional principal amounts set up for the calculation of the settlement amounts. They do not represent the amounts for which the actual assets are exchanged. Furthermore, these amounts do not represent, by themselves, the market risk and credit risk related to the underlying derivative financial instruments.

The Bank is not engaged in derivative financial instruments with leveraged effects.

The Bank is engaged in derivative transactions principally for the purpose of hedging the risks of its on-balance-sheet assets and liabilities. The market values and unrealized profit/loss included in the financial statements represent the values of derivative transactions and do not include the values of hedged assets and liabilities.

(4) Market value of derivative financial instruments

(i) Interest rate related transactions

	Millions of yen			
	March 31, 2000			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized profit/ (loss)
Over-the-counter				
Interest rate swaps				
Receipts fixed-payments floating	**¥ 47,044**	**¥ 45,000**	**¥ 478**	**¥ 478**
Receipts floating-payments fixed	**183,187**	**180,991**	**(5,198)**	**(5,198)**
Caps				
Bought	**5,000**	**—**	**—**	**—**
Option Premium	**—**	**—**	**—**	**—**
Total				**¥(4,720)**

	Millions of yen			
	March 31, 1999			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized profit/ (loss)
Over-the-counter				
Interest rate swaps				
Receipts fixed-payments floating	¥ 48,312	¥ 36,726	¥1,233	¥ 1,233
Receipts floating-payments fixed	153,170	118,485	(8,347)	(8,347)
Caps				
Bought	5,000	5,000	—	—
Option Premium	24	—	0	(24)
Total				¥(7,138)

	Thousands of U.S. dollars			
	March 31, 2000			
	Contractual value or notional principal amount	Including over one year	Market value	Unrealized profit/ (loss)
Over-the-counter				
Interest rate swaps				
Receipts fixed-payments floating	**$ 443,811**	**$ 424,528**	**$ 4,509**	**$ 4,509**
Receipts floating-payments fixed	**1,728,179**	**1,707,462**	**(49,038)**	**(49,038)**
Caps				
Bought	**47,170**	**—**	**—**	**—**
Option Premium	**—**	**—**	**—**	**—**
Total				**$(44,528)**

Notes: 1. Market values of standardized transactions are calculated by using the closing prices of the Tokyo International Financial Futures Exchange and others.

Market values of over-the-counter transactions are based on the discounted present values or the option pricing calculation model, etc.

2. "Option Premium" in the column of "Contractual Value or Notional Principal Amount" represents the option premium recorded on the Balance Sheet.

3. The above table excludes financial derivative transactions included in the Trading Account because they are stated at amounts based on the assumption that they were settled at the end of the fiscal year. There were no derivative transactions included in the Trading Account as of March 31, 2000 and 1999.

4. The interest rate swaps and caps shown above are held principally for the purpose of hedging on-balance-sheet transactions.

5. The detailed information for interest rate swap contracts is as follows:

	Millions of yen		
	March 31, 2000		
Remaining contracts period	Within one year	Over one year less than three years	Over three years
Receipts fixed-payments floating			
Notional amounts	**¥2,044 ($19,283 thousand)**	**¥38,000 ($358,491 thousand)**	**¥7,000 ($66,038 thousand)**
Average fixed rate received	**3.66%**	**0.91%**	**1.28%**
Average floating rate paid	**1.92%**	**0.16%**	**0.25%**
Receipts floating-payments fixed			
Notional amounts	**¥2,196 ($20,717 thousand)**	**¥116,032 ($1,094,642 thousand)**	**¥64,959 ($612,821 thousand)**
Average floating rate received	**1.55%**	**0.20%**	**0.17%**
Average fixed rate paid	**1.83%**	**2.23%**	**1.89%**

	Millions of yen		
	March 31, 1999		
Remaining contracts period	Within one year	Over one year less than three years	Over three years
Receipts fixed-payments floating			
Notional amounts	¥11,586	¥20,730	¥15,996
Average fixed rate received	3.27%	3.58%	3.63%
Average floating rate paid	1.23%	2.09%	2.60%
Receipts floating-payments fixed			
Notional amounts	¥34,684	¥63,886	¥54,599
Average floating rate received	0.50%	0.52%	0.39%
Average fixed rate paid	3.54%	2.89%	2.74%

(ii) Foreign exchange related transactions

	Millions of yen			
	March 31, 2000			
	Notional principal amount	Including over one year	Market value	Unrealized profit/(loss)
Over-the-counter				
Currency swaps				
U.S. Dollars	**¥90,982**	**¥15,829**	**¥963**	**¥963**
British Pounds	**8,528**	**7,571**	**(19)**	**(19)**
Total	**¥99,510**	**¥23,400**	**¥943**	**¥943**

	Millions of yen			
	March 31, 1999			
	Notional principal amount	Including over one year	Market value	Unrealized profit/(loss)
Over-the-counter				
Currency swaps				
U.S. Dollars	¥132,240	¥10,862	¥(3,983)	¥(3,983)
British Pounds	1,027	1,027	(5)	(5)
Deutsche Marks	4,629	—	(4)	(4)
Total	¥137,897	¥11,890	¥(3,993)	¥(3,993)

	Thousands of U.S. dollars			
	March 31, 2000			
	Notional principal amount	Including over one year	Market value	Unrealized profit/(loss)
Over-the-counter				
Currency swaps				
U.S. Dollars	**$858,321**	**$149,330**	**$9,085**	**$9,085**
British Pounds	**80,453**	**71,425**	**(179)**	**(179)**
Total	**$938,774**	**$220,755**	**$8,896**	**$8,896**

Notes: 1. Market values are based on the discounted present values and the values prevailing as of the year-end date.

2. Foreign exchange forward contracts, currency options, and some other transactions are excluded from the above table because they are revalued at the end of the fiscal year and their profits/losses are eliminated in the consolidation.

3. The above table excludes derivative transactions included in the Trading Account because they are stated at amounts based on the assumption that they were settled at the end of the fiscal year. There were no derivatives transactions included in the Trading Account as of March 31, 2000.

4. The above table includes the contractual value of forward foreign exchange contracts of ¥57,994 million ($547,113 thousand) and ¥98,243 million and the related unrealized gain (loss) of ¥999 million ($9,425 thousand) and ¥(3,903) million as of March 31, 2000 and 1999, respectively, which were made to hedge the risks involved in foreign currency financing and investing activities.

The following table shows the contractual values of foreign exchange related transactions at the end of the fiscal years.

	Contractual value		
	Millions of yen		Thousands of U.S. dollars
	March 31, 2000	March 31, 1999	**March 31, 2000**
Over-the-counter			
Foreign exchange			
Forward contracts			
Sold	**¥3,342**	¥3,409	**$31,528**
Bought	**1,503**	1,673	**14,179**

Note: "Option Premium" in the column of "Contractual Value" represents option premiums recorded on the balance sheet.

19. Subsequent Event

The annual shareholders' meeting, which was held on June 29, 2000, approved the following appropriations of retained earnings for the year ended March 31, 2000:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.00 per share)	**¥ 771**	**$ 7,274**
Transfer to legal reserve	**698**	**6,585**
Bonuses to directors and corporate auditors	**71**	**670**
Transfer to voluntary reserve	**9,654**	**91,075**

20. Segment Information

a) Segment information by Type of Business

In addition to the banking business, the Group is also engaged in credit card business, credit guarantee business and other businesses. Such segment information has not been provided as the percentage of those activities is insignificant.

b) Segment information by Geographic Area

All of the Group's operations are in Japan.

c) Recurring income from international operations

	Millions of yen		Thousands of U.S. dollars
	2000	1999	**2000**
Recurring income from international operations	**¥ 9,162**	¥11,541	**$ 86,434**
Total operating income	**82,348**	92,115	**776,868**
International operations' ratio	**11.1%**	12.5%	**11.1%**

Report of Independent Certified Public Accountants

The Board of Directors
The Higo Bank, Ltd.

We have audited the accompanying consolidated balance sheets of the Higo Bank, Ltd. and its consolidated subsidiaries (the "Group") as of March 31, 2000 and 1999, and the related consolidated statements of income and shareholders' equity for the years then ended and cash flows for the year ended March 31 2000, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of the Group as of March 31, 2000 and 1999, and the consolidated result of its operations, shareholders' equity for the years then ended and their cash flows for the year ended March 31, 2000 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis except for the change, with which we concur, in accounting for past service liabilities of pension plans as described in Note 2.

As described in Note 2, effective for the year ended March 31, 2000, the Group has adopted new Japanese accounting standards for income taxes.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Independent Certified Public Accountants

Tokyo, Japan
June 29, 2000

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Matsubase Branch
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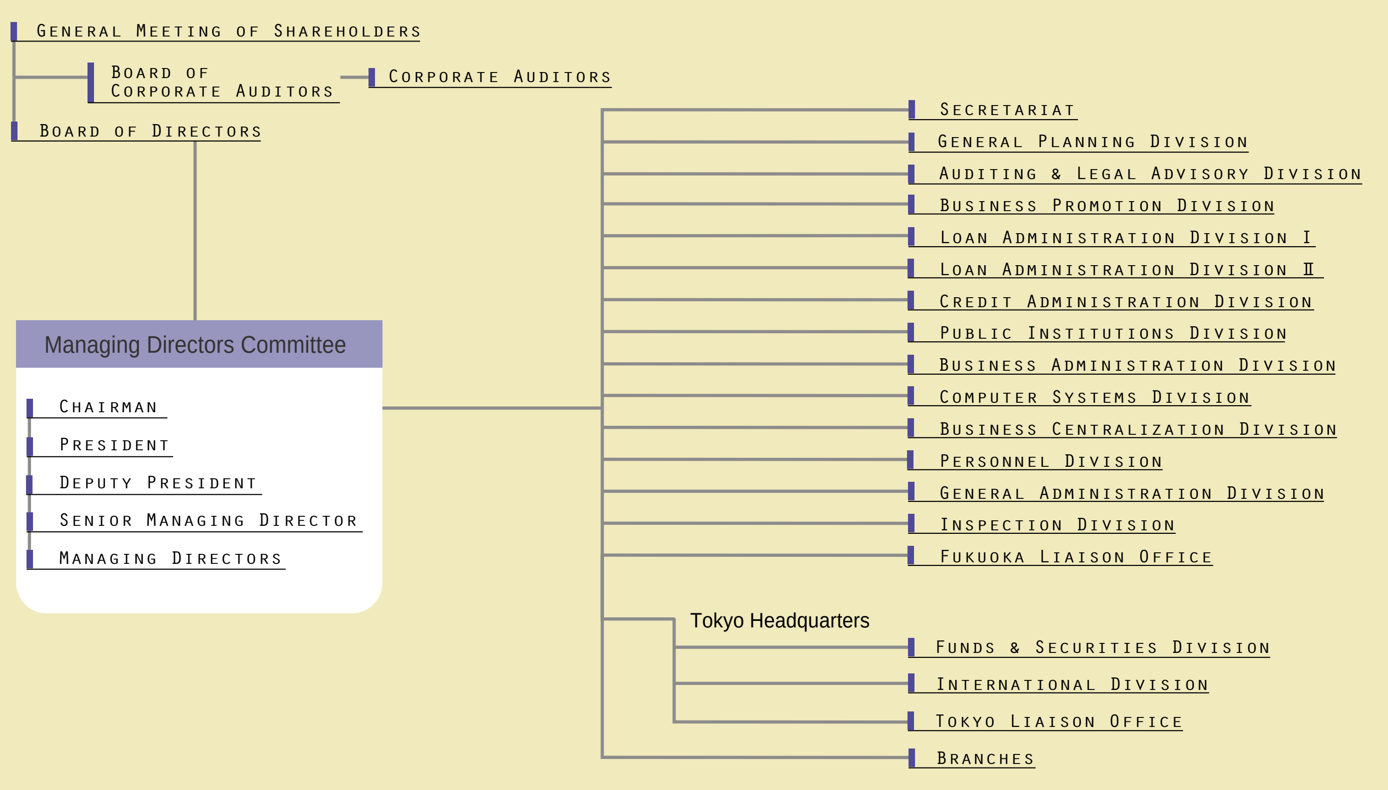
Organization



Board of Directors and Corporate Auditors

Chairman
Yoshiaki Nagano

President
Seiichi Inagaki

Deputy President
Hiroo Oguri

Senior Managing Director
Masaomi Mori

Managing Directors
Koichiro Nishina
Hidenori Mito
Ken Inomata
Kenichi Yano
Kenichi Takaiwa

Directors
Moriaki Yamada
Shozo Iwanaga
Hiroo Nagata

Standing Corporate Auditors
Masaaki Furuta
Ryuichi Kadota

Corporate Auditors
Naosuke Tokuyama
Akihisa Yoshida
Jiro Yamada