Higo Bank

Annual Report 2001

Profile

The Higo Bank is a regional bank whose main business base is Kumamoto Prefecture in central Kyushu. Possessing a varied sweep of natural beauty, including the volcano Mt. Aso, which boasts the world's largest caldera, and the scenic Amakusa area with its 200 islands of widely varying sizes, the prefecture is also home to thriving agricultural, forestry, and fisheries industries.

In recent years, Kumamoto Prefecture has become a center for leading-edge industries, notably semiconductors, for which it has been called "Japan's Silicon Valley." The number of high-tech companies setting up shop in Kumamoto is still on the increase, and is expected to contribute greatly to the area's development in the near future.

The center of Kumamoto City has also been seeing the successive start-ups of a number of redevelopment projects, and accelerating progress is being made in bolstering the city's transport infrastructure, including the start of work on the extension of the Shinkansen Line from Fukuoka down the west coast of Kyushu to Kagoshima and the construction of a modern road traffic network, principally to feed the Kyushu Expressway.

To cope with these changes, the Higo Bank firmly holds to the sound business policies on which it was founded, while identifying three main principles to guide its progress — putting the customer first; contributing to the prosperity of the region it serves while maintaining a high level of corporate ethics; and fostering a free and creative corporate culture.

As of March 31, 2001, the Higo Bank and its consolidated subsidiaries had deposits of ¥2,903.4 billion (US$23,605 million), and total assets of ¥3,227.9 billion (US$26,243 million). The capital ratio stood at 11.01% according to domestic standards (12.28% according to international standards) on a non-consolidated basis. The Bank had 126 domestic branches, a representative office in Singapore, and 2,469 regular employees.

Contents

Financial Highlights (Consolidated)

The Higo Bank, Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
INCOME:			
Interest on loans and bills discounted	**¥ 42,239**	¥ 42,605	**$ 343,407**
Interest on and dividends from securities	**20,392**	20,561	**165,789**
Total income	**80,208**	82,474	**652,098**
EXPENSES:			
Interest on deposits	**¥ 6,810**	¥ 6,983	**$ 55,366**
General and administrative expenses	**41,165**	41,827	**334,675**
Total expenses	**78,159**	74,145	**635,439**
EARNINGS:			
Income before income taxes	**¥ 2,048**	¥ 8,328	**$ 16,650**
Net income	**1,233**	5,043	**10,024**
ASSETS:			
Loans and bills discounted	**¥1,834,671**	¥1,819,226	**$14,916,024**
Securities	**906,835**	803,995	**7,372,642**
Foreign exchange	**300**	710	**2,439**
Total assets	**3,227,995**	3,131,323	**26,243,862**
LIABILITIES:			
Deposits	**¥2,903,478**	¥2,850,377	**$23,605,512**
Foreign exchange	**42**	32	**341**
Total liabilities	**3,023,196**	2,957,165	**24,578,829**
SHAREHOLDERS' EQUITY:			
Common stock	**¥ 18,128**	¥ 18,128	**$ 147,382**
Capital surplus	**8,133**	8,133	**66,122**
Retained earnings	**137,755**	138,155	**1,119,959**
Total shareholders' equity	**203,977**	173,436	**1,658,350**

Topics
Changes in Accounting Standards

The adoption of fair value accounting in line with the introduction of the new Accounting Standards Regarding Financial Products

The introduction of fair value accounting for financial products, part of the ongoing process of globalization in Japan's accounting field, entails the division of holdings of securities such as bonds and equities into four categories according to the purpose of holding, i.e. "trading securities," "securities held to maturity," "securities issued by subsidiaries," and "other securities." The accounting standards applied to securities thus differ according to the purpose for which the securities are held.

The application of fair value accounting to "other securities" (specified marketable securities) becomes mandatory from fiscal 2001, ending March 31, 2002, but Higo Bank began applying the method with effect from fiscal 2000 with a view to ensuring the transparency of its assets. Under fair value accounting, the Bank's "other securities" holdings were value at ¥53,037 million in excess of the book value, and after deduction from this excess amount of an amount equivalent to the relevant tax amount, the remaining figure of ¥30,920 million was registered in the Bank's assets under "valuation difference."

Lump-sum amortization of shortfall in reserve for retirement benefits stemming from the introduction of new accounting standards

The shortfall resulting from the changeover to the new accounting standards relating to retirement benefits, the adoption of which was made mandatory in Japan in fiscal 2000, must be amortized within 15 years of the change in accounting standards, and for this purpose the use of retirement benefit trusts employing a company's securities holdings is allowed.

Higo Bank, with the aim of preserving the health of its assets and ensuring sufficient earning power in the future, has decided not to make use of any method involving amortization over a long-term period or the establishment of a retirement benefit trust, and consequently amortized the shortfall in a lump sum amounting to ¥9,501 million in fiscal 2000 — the initial year of adoption of the new accounting standards — posted under "other expenses." The decline in net income for fiscal 2000 was attributable to this one-off occurrence: net income in fiscal 2001 and after will not be affected, and is expected to rise. The management of Higo Bank intends to strengthen the Bank's financial position still further so as to be able to swiftly deal with any monetary burdens that may arise in the future.

Hiroo Oguri
President

Business Environment

The series of deregulatory measures applied to the Japanese financial sector over the past few years is now drawing to a close. As a result, the sector is seeing dramatic changes, including the formation of "megabanks" and the entry of players from other industries into the banking business. Amid today's low-growth economy, customers' financial needs are becoming more diverse and sophisticated. Together with the constant advance of information technology, the financial environment is undergoing a rapid transformation.

Against this background, and under its guiding principles of putting the customer first, contributing to the prosperity of the region it serves while maintaining a high level of corporate ethics, and fostering a free and creative corporate culture, Higo Bank in fiscal 2000 commenced its first medium-term (three-year) management plan of the 21st century. The basic goals of this plan are to bolster the mutual prosperity of the Bank and its customers and to become a strong regional bank that will play a leading role in Kyushu in the new century: the entire staff of the Bank is fully committed to working toward the realization of these goals.

I was appointed President of the Bank on June 27 of this year. As of the same date, former chairman Yoshiaki Nagano became Senior Advisor to the Bank, while former president Seiichi Inagaki became Advisor.

Our shareholders and all other stakeholders can rest assured that the management and employees of Higo Bank will continue to exert their utmost efforts to make the Bank into a fully trusted and invaluable financial institution for its customers in the regional community.

I would like to take this opportunity to thank all our shareholders and other investors for their continued support.

Operating Results

Owing to a decline in revenues from funds under management during the term under review, total income recorded a year-on-year fall of ¥2,266 million, to stand at ¥80,208 million.

Income before income taxes for the term declined ¥6,280 million to ¥2,048 million. This decline was mainly attributable to an increase in provision to the reserve for possible loan losses as well as a decline in gains on money trusts. However, net interest income, net fees and commissions, and net trading revenue increased, and operating expenses declined.

The Bank amortized as a lump sum a shortfall in retirement benefit reserves in the amount of ¥9,501 million resulting from the adoption of the new accounting standards for employees' prior service obligations, posted under "other expenses." As a result, net income for the term came to ¥1,233 million, a decline of ¥3,810 million from the previous term.

As a result of energetic marketing initiatives closely tailored to the particular needs of regional customers, the Bank achieved a solid increase in total deposits of ¥53,101 million, to ¥2,903,478 million at term-end.

In order to maintain the trust of its customers, the Bank pushed ahead with vigorous loan marketing efforts targeted at local corporations, public bodies, and, above all, retail customers. As a result, the term-end balance of loans outstanding rose ¥15,445 million over the previous term-end, to ¥1,834,671 million.

Turning to shareholders' equity, the adoption from the term under review of new accounting standards for financial products caused specified marketable securities to be evaluated at market value. As a result, unrealized gain on securities amounting to ¥30,900 million after deduction of the relevant tax amounts was recorded.

In other indicators, ROA edged down 0.03 percentage points from the previous term, to 0.35%, while ROE fell 2.47 percentage points, to 0.62%.

During the term, the capital ratio according to domestic standards rose by 0.26 percentage points, to 11.01%, well above the mandatory 4% minimum.

Future Outlook

The Japanese financial sector has already undergone considerable reorganization, and we are seeing the entry into the banking business of a growing number of companies from other industrial sectors: this trend is expected to intensify.

Amid these circumstances, the Bank prepared itself to meet the challenges of the rapidly unfolding new business environment by launching its first medium-term (three-year) management plan of the 21st century in April 2000. Under this new medium-term plan, we have laid down three immediate targets for achievement as part of our long-term goal of strengthening the bonds of mutual prosperity between ourselves and our customers, and building the Bank into a strong financial institution that will play a leading role in Kyushu in this new century. These three targets are: bolstering fund management while creating a low-cost operating structure; maintaining the integrity of the Bank's financial position; and thoroughly revamping the Bank's marketing and management "infrastructures."

By working steadily to materialize — one by one — the targets set out in our management plan, we aim to attain our vision of the future Higo Bank, i.e. —

- **Supported by the long-term trust placed in us by our customers, we will strengthen the Bank's presence in Kyushu to the point where it has no rival among the regional banks.**
- **We will create a bank with both high earning power and a sound financial position.**
- **We will raise the Bank's corporate value.**

In this way, we plan to lay solid foundations for the further growth and development of Higo Bank in the coming decades.

H. Oguri

Hiroo Oguri
President

Fundamental Management Policy

The Higo Bank group conducts its activities in line with a three-part philosophy: offering the best financial services by putting the customer first; strictly observing ethical standards and making significant contributions to the prosperity of the regional community; and fostering a corporate culture that is innovative, free and respects the individual.

In fiscal 2000, the group initiated its first medium-term (three-year) management plan of the 21st century. The basic goals are to deepen the mutually beneficial relationship between the Bank and its customers, and to become a powerful regional bank that ranks among the leaders in Kyushu. The group is working to establish a solid reputation in three areas: as an invaluable business partner, forming long-term bonds of trust with its customers; as a bank that is highly profitable and boasts a sound balance sheet; and as a financial institution with a high corporate value.

During the current three-year management plan, the Higo Bank group will take steps to increase earnings and become more cost competitive while improving its financial soundness.

First Medium-Term Management Plan for the New Century

Basic Goal

Deepen mutually beneficial relationship with customers, becoming a powerful regional bank that ranks among the leaders in Kyushu

Higo Bank's Future Vision

- A bank with a solid reputation, supported by long-term relationships of trust with its customers.
- A bank that blends strong profitability with financial soundness
- A bank with high corporate value

This management plan, which extends from April 2000 through March 2003, aims to reinforce the group's ability to prosper together with customers. To retain its position among Japan's most respected regional banks, the group must place priority on preserving a strong financial position and enhancing profitability. In this respect, the group has set a target of at least 7% for its return on equity (ROE). To reach this target, a detailed numerical plan has been formulated. Furthermore, the group has created a concrete action plan by preparing a list of fundamental actions and strategies for individual divisions.

Actions Required to Achieve the Numerical Goals of the Management Plan

The new management plan includes a set of basic actions composed of three core elements: strengthening profitability and cost competitiveness; maintaining financial soundness; and, developing the marketing and management infrastructure needed to achieve the first two goals. These three elements are to be accomplished by implementing strategies in six fields: corporate banking, retail banking, market activities, administrative activities, information technology (IT) and personnel.

Corporate banking – Creating a system of segments for corporate clients in accordance with credit ratings, based mainly on company size, and the group's policy for serving each client. This will allow extending credit in line with the policy for each client.

Retail banking – Using CRM* to serve customers effectively and efficiently. The group will offer financial services that match the financial condition and life stage of each customer.

*CRM: A means to build long-term relationships with customers. A customer database is used to conduct marketing that offers each customer the services best suited to his or her requirements.

Market strategy – Taking aggressive steps to upgrade asset management skills by maintaining the proper balance between risks and returns.

Administrative activities – Applying business process reengineering (BPR) to all of the group's operations to boost the efficiency of clerical and other administrative activities. The goal is to achieve a substantial reduction in administrative expenses.

IT – Making effective use of IT to accurately monitor customers' needs and become more cost competitive.

Personnel – Reducing the group's headcount by raising efficiency, utilizing outsourcing services and reviewing the organization of the head office and branch banking network. The goal is 2,300 employees by March 31, 2003.

By implementing these strategies, the Higo Bank group plans to achieve its target of raising ROE to 7% at the minimum by fiscal 2003.

A Loan Plaza office

Addressing Management Issues

The key issue facing the Higo Bank group is increasing profitability by bolstering asset management skills and shifting to a low-cost structure while at the same time preserving the Bank's extremely sound balance sheet.

To bolster asset management skills, Higo Bank formed Corporate Sales and Consumer Sales departments within its Sales Management Division in April 2000. This provides separate organizations to serve each of these two market sectors, thereby enhancing the Bank's ability to offer sophisticated services. For consumer loans, all customer data has been centralized in an MCIF, and an automated credit investigation system was adopted, both in fiscal 2001. The Bank is also stepping up efforts to offer more appealing consumer loan products. We are also bolstering our marketing capabilities by working harder to meet the wishes of customers. For example, the Loan Plaza network, a marketing channel exclusively for consumer loans, is now open on Saturdays and Sundays as well as weekdays.

To shift to a low-cost structure, the group in April 2001 established Higin Clerical Service Co., Ltd. as a wholly owned subsidiary to consolidate all of the group's clerical services in a single location. In addition, a Clerical Management Division was formed to oversee steps to boost the efficiency of clerical and other administrative functions. From this platform, the group plans to bring about radical changes in its clerical activities. Other steps are to be taken in fiscal 2002. One is the adoption of a profitability management and cost calculation system to facilitate more selective management, concentrating resources only in carefully chosen fields. This involves applying tight cost management to each business activity, customer segment, product category and customer service channel. Another step is the recent start of development of a new branch management system. This will provide systems for clerical processes at branches and expand the scope of image processing, thereby centralizing more clerical procedures.

More actions are planned. Internet banking, mobile banking and other new channels to serve customers will be enlarged. Branches will oversee all activities in the areas they serve. These and other steps will further contribute to cutting costs across the entire group.

Regarding the management of the group, a consolidated accounting system was introduced in fiscal 1998. This facilitated management of business activities from a group-wide perspective and heightened the ability to provide a comprehensive line of financial services. In fiscal 2001, the group adopted two new accounting standards. One applies market-value accounting to financial instruments. The other involves the method for accounting for the cost of retirement benefits. Dedicated to promoting the transparency of its operations, the group is aggressively disclosing information with the aim of continuing to earn the trust of its customers.

Unification of Computer Systems

Higo Bank, Michinoku Bank and San-In Godo Bank agreed in April 2000 to share a single computer system and network for the purpose of significantly cutting their future investments in data processing systems. Joint development of such a system has started. Development is aimed at building a highly sophisticated system capable of supporting future IT strategies while also making use of the outstanding computer systems and networks now in place at the three banks. Four systems are to be shared by the banks: banking, external links, data and international. The beginning of operations at a joint computer center is scheduled for fiscal 2002.

One of the Highest Capital Ratios Among Japan's Regional Banks

The capital ratio is the ratio of the bank's total equity (capital, retained earnings and other items) to total risk-weighted assets, including loans, marketable securities and others. This figure is growing in importance as an indicator of a bank's financial soundness and overall safety as the deregulation of Japan's financial services industry progresses.

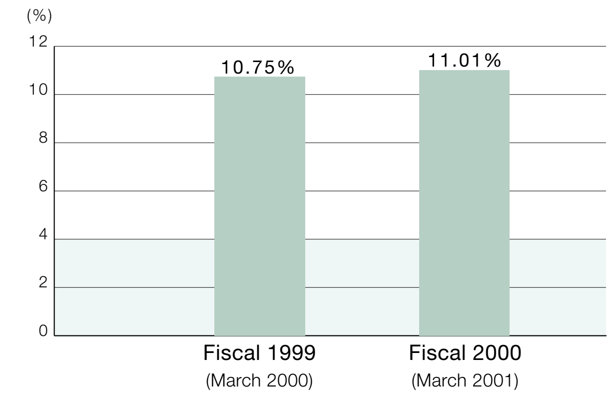
As of March 31, 2001, Higo Bank's capital ratio was 11.01% based on domestic standards. This is one of the highest ratios of any regional bank in Japan and is far above the 4% standard for capital adequacy.

Using only Tier I capital, which includes common stock and certain other elements of equity, the capital ratio stands at 9.96%.

When applying the BIS common minimum standard, Higo Bank's capital ratio remains at a high 12.28%.

*Risk-weighted assets are calculated by multiplying assets and the credit equivalents of off-balance-sheet transactions by a risk factor that varies depending on the credit quality of each asset.

Capital Ratio



The Financial Environment

The abolition of the unlimited guarantee on bank deposits in April 2002

Under the current Japanese system, in the event of the failure of a financial institution, deposits made with that institution are guaranteed in full (principal and interest) by the Deposit Insurance Corporation, a public-sector insurance organization to which all Japanese financial institutions must belong. With the change in the system scheduled for April 2002, depositors at failed financial institutions will receive their deposits in full only up to a maximum of ¥10 million. Details of the system before and after amendment are shown in the table at below.

Higo Bank ranks among the top regional banks in Japan in terms of indicators of financial soundness, such as capital ratio, credit ratings, and value of non-performing loans. It thus enjoys a reputation as an extremely safe bank. From here on, too, the whole management and staff of the Bank will work to ensure that Higo Bank remains a trustworthy business partner for all its customers and potential customers, strengthen its management structure, and ensure further management transparency.

		To March 31, 2002	April 1, 2002 to March 31, 2003	From April 1, 2003 onward
Financial products covered by deposit insurance	Liquid deposits: Current deposits Ordinary deposits	Full cover		Coverage for total amounts (principal and interest) up to ¥10 million (portion exceeding ¥10 million to be compensated in proportion to the financial assets of the failed institution)
	Other deposits: Time deposits Deposits at notice			
Financial products not covered by deposit insurance	Foreign currency deposits Negotiable certificates of deposit		Not covered (Compensation receivable out of financial assets of failed institution in proportion to the amount of said assets)	

High Credit Ratings (As of March 31, 2001)

A credit rating is an indicator of a company's credit risk based on such factors as its credit standing and ability to meet its financial obligations. Ratings are determined by a third party with no relationship whatsoever to the company being evaluated. These rating agencies make public their comprehensive evaluations based on a company's financial position and earnings.

Following an official request for such a credit rating, Higo Bank received the high credit rating of A, for its long-term obligations from three credit rating agencies in Japan and overseas.

Moody's Credit Rating	S&P Credit Rating
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
Higo Bank A2	A
A3	Higo Bank A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-
Ba1	BB+
Ba2	BB
Ba3	BB-
B1	B+
B2	⋮
⋮	CC
C	

Moody's Investors Service

Long-term credit rating of A2

Highest among all regional banks in Kyushu
Third-highest among all banks in Japan

S&P

Long-term credit rating A-

Highest among all regional banks in Kyushu
Third-highest among all banks in Japan

Rating and Investment Information, Inc.

Long-term credit rating A+

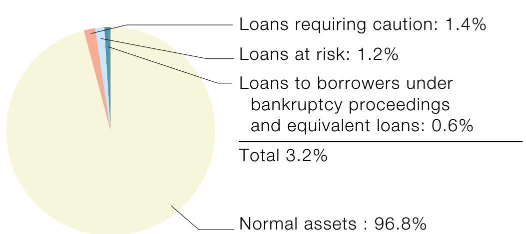
Higo Bank has an Excellent Reputation as a Financially Sound Bank Carrying Few Non-Performing Loans

Disclosure of claims under the Financial Reconstruction Law (non-consolidated)

As of March 31, 2001 (billions of yen)

	Loan balance	Coverage by collateral and guarantees	Reserve for possible loan losses	Coverage ratio
Loans to borrowers under bankruptcy proceedings and equivalent loans	10.5	10.0	0.4	100.0%
Loans at risk	23.0	15.1	6.7	95.0%
Loans requiring caution	26.2	17.7	3.7	81.8%
Sub-total	59.7	42.9	10.9	90.1%
Normal loans	1,832.0			
Total	1,891.8			

Note: Figures have been rounded down to the nearest ¥100 million. Fractions in the coverage ratios up to 0.04 have been rounded down, and from 0.05 upward have been rounded up.



Higo Bank's non-performing loans under the disclosure standards mandated by the Financial Reconstruction Law stood at ¥59,770 million as of the end of March 2001, representing 3.2% of the total loan balance. This is an extremely low level compared to Japan's other regional banks.

Of these non-performing loans, 90.1% is covered by collateral, guarantees, and the reserve for possible loan losses, providing a sufficient buffer for the Bank.

Note: The above loans include such other claims as customers' liabilities for acceptances and guarantees.

Explanation of terms:

Loans to borrowers under bankruptcy proceedings and equivalent loans
This category indicates loans to borrowers undergoing bankruptcy proceedings or corporate rehabilitation, or loans to borrowers in a state of virtual bankruptcy.

Loans at risk
This category indicates loans to borrowers who, while not yet in a state of bankruptcy, are suffering from a severe deterioration in financial conditions and are very likely to be unable to repay outstanding loans.

Loans requiring caution
This category indicates loans for which no repayments, including payments of interest, have been made for 3 months or more, or whose repayment conditions have been eased.

Note: Non-performing loans held by the entire Higo Bank group on a consolidated basis, including subsidiaries and affiliates, in accordance with the disclosure standards under the Financial Reconstruction Law, totaled ¥61,568 million, accounting for 3.2% of the group's total loan balance.

Consolidated Balance Sheets

The Higo Bank, Ltd. and its Consolidated Subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
ASSETS:			
Cash and due from banks	**¥ 163,324**	¥ 233,984	**$ 1,327,837**
Call loans and bills bought	**169,644**	48,797	**1,379,220**
Monetary claims purchased	**31,100**	68,840	**252,846**
Trading assets	**8,839**	6,323	**71,862**
Securities	**906,835**	803,995	**7,372,642**
Money held in trust	**10,073**	22,601	**81,894**
Loans and bills discounted	**1,834,671**	1,819,226	**14,916,024**
Foreign exchange	**300**	710	**2,439**
Other assets	**18,502**	19,617	**150,423**
Premises and equipment	**48,180**	48,608	**391,707**
Deferred tax assets	**142**	14,096	**1,154**
Customers' liabilities for acceptances and guarantees	**54,387**	58,530	**442,171**
Reserve for possible loan losses	**(17,979)**	(13,852)	**(146,171)**
Reserve for loss on investments	**(29)**	(156)	**(236)**
Total assets	**¥3,227,995**	¥3,131,323	**$26,243,862**
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY:			
Liabilities:			
Deposits	**¥2,903,478**	¥2,850,377	**$23,605,512**
Call money and bills sold	**9,416**	5,838	**76,553**
Borrowed money	**112**	173	**911**
Foreign exchange	**42**	32	**341**
Other liabilities	**26,714**	28,592	**217,187**
Reserve for retirement allowances	**—**	—	**—**
Reserve for retirement benefits	**20,170**	—	**163,984**
Deferred tax liabilities	**2,409**	7,141	**19,585**
Deferred tax liabilities related to Land revaluation	**6,464**	6,479	**52,553**
Acceptances and guarantees	**54,387**	58,530	**442,171**
Total liabilities	**3,023,196**	2,957,165	**24,578,829**
Minority interests:			
Minority interests	**821**	721	**6,675**
Total minority interests	**821**	721	**6,675**
Shareholders' equity:			
Common stock	**18,128**	18,128	**147,382**
Capital surplus	**8,133**	8,133	**66,122**
Excess of land revaluation	**9,038**	9,059	**73,480**
Retained earnings	**137,755**	138,115	**1,119,959**
Unrealized gain on securities, net of tax	**30,922**	—	**251,398**
Less: Treasury stock	**0**	0	**0**
Total shareholders' equity	**203,977**	173,436	**1,658,350**
Total liabilities, minority interests and shareholders' equity	**¥3,227,995**	¥3,131,323	**$26,243,862**

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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Income:			
Interest on loans and bills discounted	**¥42,239**	¥42,605	**$343,407**
Interest on and dividends from securities	**20,392**	20,561	**165,789**
Other interest	**3,230**	5,188	**26,260**
Fees and commissions	**8,333**	8,033	**67,748**
Trading revenue	**90**	45	**732**
Other operating income	**2,318**	1,509	**18,846**
Other income	**3,603**	4,529	**29,293**
Total income	**80,208**	82,474	**652,098**
Expenses:			
Interest on deposits	**6,810**	6,983	**55,366**
Interest on borrowings and call money	**403**	214	**3,276**
Other interest	**6,153**	10,305	**50,024**
Fees and commissions	**1,113**	1,035	**9,049**
Other operating expenses	**3,024**	2,473	**24,585**
General and administrative expenses	**41,165**	41,827	**334,675**
Other expenses	**19,489**	11,305	**158,447**
Total expenses	**78,159**	74,145	**635,439**
Income before income taxes	**2,048**	8,328	**16,650**
Income taxes			
– Current	**6,497**	7,631	**52,821**
– Deferred	**(5,774)**	(4,438)	**(46,943)**
Minority interests	**92**	92	**748**
Net income	**¥ 1,233**	¥ 5,043	**$ 10,024**

	Yen		U.S. dollars
Per share amounts			
Primary net income	**¥4.79**	¥19.61	**$0.039**

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, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Common stock:			
Balance at beginning of year	**¥ 18,128**	¥ 18,128	**$ 147,382**
Balance at end of year	**18,128**	18,128	**147,382**
Capital surplus:			
Balance at beginning of year	**8,133**	8,133	**66,122**
Balance at end of year	**8,133**	8,133	**66,122**
Excess of land revaluation:			
Balance at beginning of year	**9,059**	—	**73,650**
Reversal of excess of land revaluation	**(21)**	9,059	**(171)**
Balance at end of year	**9,038**	9,059	**73,480**
Retained earnings:			
Balance at beginning of year	**138,115**	125,099	**1,122,886**
Effect of adoption of deferred tax accounting	**—**	9,585	**—**
Reversal of excess of land revaluation	**21**	—	**171**
Net income	**1,233**	5,043	**10,024**
Dividends paid	**(1,542)**	(1,542)	**(12,537)**
Bonuses to directors and corporate auditors	**(71)**	(65)	**(577)**
Reversal of excess of land revaluation	**—**	(4)	**—**
Balance at end of year	**137,755**	138,115	**1,119,959**
Unrealized gain on securities:			
Balance at beginning of year	**—**	—	**—**
Unrealized gain on securities	**30,922**	—	**251,398**
Balance at end of year	**30,922**	—	**251,398**
Treasury stock:			
Balance at beginning of year	**0**	(1)	**0**
Net change during the year	**0**	1	**0**
Balance at end of year	**0**	0	**0**
Total shareholders' equity	**¥203,977**	¥173,436	**$1,658,350**

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

Consolidated Statements of Cash Flows

The Higo Bank, Ltd. and its Consolidated Subsidiaries
For the years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes	**¥ 2,048**	¥ 8,328	**$ 16,650**
Adjustments for:			
Depreciation and amortization	**2,513**	2,785	**20,431**
Allowance for possible loan losses	**4,127**	(5,731)	**33,553**
Reserve for retirement allowance	**(7,141)**	228	**(58,057)**
Reserve for retirement benefits	**20,170**	—	**163,984**
Interest and dividend income	**(65,862)**	(68,355)	**(535,463)**
Interest expenses	**13,366**	17,504	**108,667**
Investment securities gains	**(2,656)**	2,956	**(21,593)**
Loss on money held in trust	**1,452**	(3,482)	**11,805**
Increase in loans	**(16,633)**	26,125	**(135,228)**
Increase in deposits	**4,950**	126,385	**40,244**
Increase in negotiable certificates of deposit	**48,150**	17,479	**391,463**
Decrease in due from banks	**41,768**	(80,779)	**339,577**
Decrease in call loans	**(83,106)**	22,518	**(675,659)**
Increase in call money	**3,578**	4,632	**29,089**
Interest income (cash basis)	**65,615**	68,759	**533,455**
Interest expense (cash basis)	**(14,520)**	(18,896)	**(118,049)**
Other	**9,685**	28,188	**(78,740)**
Total	**8,136**	148,647	**66,146**
Payments for income taxes	**(6,118)**	(9,929)	**(49,740)**
Net cash provided by operating activities	**2,018**	138,717	**16,407**
Cash flows from investing activities:			
Payments for purchase of securities	**(325,243)**	(361,706)	**(2,644,252)**
Proceeds from sales of securities	**178,886**	84,719	**1,454,358**
Proceeds from redemption of securities	**106,815**	172,089	**868,415**
Payments for increase in money held in trust	**(100)**	(3,796)	**(813)**
Proceeds from decrease in money held in trust	**11,829**	11,882	**96,171**
Payments for purchase of premises and equipment	**(1,816)**	(1,005)	**(14,764)**
Proceeds from sales of premises and equipment	**236**	204	**1,919**
Net cash used in investing activities	**(29,392)**	(97,611)	**(238,959)**
Cash flows from financing activities:			
Cash dividends paid	**(1,542)**	(1,542)	**(12,537)**
Payment for purchase of treasury stock	**(18)**	—	**(146)**
Proceeds from sales of treasury stock	**18**	—	**146**
Net cash used in financing activities	**(1,542)**	(1,542)	**(12,537)**
Effect of exchange rate changes on cash and cash equivalents	**24**	(5)	**195**
Net increase in cash and cash equivalents	**(28,891)**	39,557	**(234,886)**
Cash and cash equivalents at beginning of year	**81,934**	42,376	**666,130**
Cash and cash equivalents at end of year	**¥ 53,042**	¥ 81,934	**$ 431,236**

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

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.

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 and 2001 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

(c) Summary of significant accounting policies

a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand 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

Securities, monetary receivables, money trusts, etc. included in "Trading assets" or "Trading liabilities", which are trading accounts established under Article 17-2 of the Banking Law of Japan, are stated at market value. 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) Financial Instruments

Effective April 1, 2000, the Bank and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000. As a result of the adoption of the new standard, income before income taxes for the year ended March 31, 2001 has increased by ¥566 million ($4,602 thousand) compared with the amount that would have been reported if the previous standard had been applied consistently.

i) Securities

Held-to-maturity debt securities are stated at amortized cost as determined by the moving average method. Other securities with market quotations are stated market prices prevailing at the balance sheet date. Net unrealized gains or losses on these securities, net of tax, are reported as a separate item in the shareholders' equity. Other securities without market quotations are stated at cost or amortized cost as determined by the moving average method. Investments in money trusts are accounted for in a manner consistent with those discussed above.

Until the year ended March 31, 2000, listed convertible bonds and stocks (including securities in money trusts) were stated at the lower of cost or market, with cost being determined by the moving average method. Other securities were carried at moving average cost.

ii) Derivatives

Under the new standard, all derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see iii) Hedge Accounting below).

Until the fiscal year ended March 31, 2000, derivative financial instruments held for non-trading purpose were accounted for on accrual basis.

iii) Hedge Accounting

The Bank utilizes a macro hedge methodology using derivatives to manage overall interest rate risk arising in various financial assets and liabilities held, including loans and deposits. This methodology is stipulated as "Risk Adjusted Approach" of risk management in "Tentative Accounting and Auditing Treatment relating to Adoption of 'Accounting for Financial Instruments' for Banks" (Japanese Institute of Certified Public Accountants, Industry Audit Committee Report No. 15), under which the deferral method of hedge accounting is used. Hedge effectiveness is assessed by checking that the risk amounts arising from derivative instruments used as hedging instruments are within established risk limits set out in the risk management policy and that the interest rate risk arising from hedged items has been reduced.

The bank also applies the deferral method for hedges of certain assets and liabilities, and the accrual method for specific interest rate swaps hedging certain assets or liabilities. Under the deferral method, the recognition of expense arising from a hedging instrument is deferred until the income or expense arising on the hedged item is recognized. The Bank's consolidated subsidiaries do not apply hedge accounting.

Income and expenses from derivative transactions to which hedge accounting were applied were included in the same accounts used in prior years. However, they are shown net as compared to gross basis used in the periods to March 31, 2000. There was no impact on income arising from this change.

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.

The useful lives of premises and equipment are generally as follows:

Building	20 ~ 39 years
Equipment	5 ~ 20 years

(ii) Based on the Law Concerning the Revaluation of Land (Law 34 promulgated on March 31, 1998), land for commercial-use was revalued on March 31, 1999.

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

The unrealized gain (net of tax effect) is recorded as "Excess of land revaluation" in shareholders' equity and the tax effect is recorded as "Deferred tax liabilities" related to land revaluation. The difference between the book value of the land revalued in accordance with Article 10 of the Law Concerning the Revaluation of Land and the market value was ¥5,067 million ($41,195 thousand) and ¥2,034 million at March 31, 2001 and 2000, respectively.

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

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 5 years.

g) Reserve for loan losses

The reserve for loan losses is provided as follows:

1) 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.

2) 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 remain after deducting the amounts expected to be collected through the disposal of collateral or through the execution of guarantees.

3) 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. The charge off amounted to ¥10,487 million ($85,260 thousand) and ¥10,801 for the year ended March 31, 2001 and 2000, respectively.

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 that are investments in counterparties who are likely to become bankrupt.

i) Reserve for retirement benefits

Effective from the year ended March 31, 2001, the Bank and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000. In accordance with the new standard, the reserve for retirement benefits as of March 31, 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences are amortized on a straight-line basis over the period of 10 years from the year following the year in which they arise. The unrecognized transition amount arising from adopting the new standard of ¥9,501 million ($77,244 thousand) at April 1, 2000 (the beginning of year) has been expensed in the year ended March 31, 2001. As a result of adopting the new standard, income before income taxes has decreased by ¥9,836 million ($79,967 thousand) compared with the amounts that would have been reported if the previous standard had been applied consistently.

Until the year ended March 31, 2000, the reserve was 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 had recorded an additional expense for past service liabilities amounting to ¥3,614 million in the year ended March 31, 2000.

j) 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.

k) 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.

l) Per share information

Net income per share is computed based on the weighted average number of shares of common stock outstanding during the year. Net asset per share at March 31, 2001 and 2000 were ¥793.21 and ¥674.44, respectively.

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 ¥123 to US$1, the approximate effective rate of exchange as of March 31, 2001. 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 the cash and cash equivalent balance on the consolidated statements of cash flows and the account balances on the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Cash and due from banks	**¥163,324**	¥233,984	**$1,327,837**
Foreign currency deposits	**(99,390)**	(115,763)	**(808,049)**
Negotiable certificate of deposit	**(10,000)**	(35,000)	**(81,301)**
Other deposits	**(891)**	(1,286)	**(7,244)**
Cash and cash equivalent	**¥ 53,042**	¥ 81,934	**$ 431,236**

5. Trading Assets

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Trading account securities	**¥5,341**	¥5,823	**$43,423**
Other trading assets	**3,498**	499	**28,439**
Total	**¥8,839**	¥6,323	**$71,862**

6. Securities

Securities, as of March 31, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
National government bonds	**¥236,947**	¥242,910	**$1,926,398**
Local government bonds	**184,936**	190,146	**1,503,545**
Corporate bonds	**265,687**	236,533	**2,159,984**
Stocks	**72,016**	37,449	**584,618**
Other securities	**147,248**	96,953	**1,198,098**
Total	**¥906,835**	¥803,995	**$7,372,642**

(1) Market value of securities as of March 31, 2001

(a) Trading securities

	Millions of yen		Thousands of U.S. dollars	
	Carrying value	Unrealized gain charged to income	Carrying value	Unrealized gain charged to income
Trading securities	¥8,839	¥8	$71,862	$65

(b) Held-to-maturity debt securities with market value

	Millions of yen				
	Carrying value	Market value	Net unrealized gain	Gains	Losses
Municipal government bonds	¥55,139	¥58,211	¥3,072	¥3,072	¥—
Total	¥55,139	¥58,211	¥3,072	¥3,072	¥—

	Thousands of U.S. dollars				
	Carrying value	Market value	Net unrealized gain	Gains	Losses
Municipal government bonds	$448,285	$473,260	$24,976	$24,976	$—
Total	$448,285	$473,260	$24,976	$24,976	$—

The following disclosure includes certificate of deposits included in "cash and due from banks," commercial paper included in "monetary claims purchased" as well as "securities" on the balance sheet.

Note: Market values are mainly based on their market prices at the balance sheet date.

(c) Other securities with market value

	Millions of yen				
	Acquisition cost	Carrying value	Net unrealized gain	Gains	Losses
Stocks	¥ 39,112	¥ 69,776	¥30,663	¥32,226	¥1,562
Bonds					
Japanese government bonds	225,810	236,947	11,136	11,136	—
Municipal government bonds	124,232	129,796	5,564	5,564	—
Corporate bonds	255,404	260,823	5,418	5,424	5
	605,447	627,567	22,119	22,125	5
Others	152,611	152,879	268	1,328	1,060
Total	¥797,171	¥850,223	¥53,051	¥55,680	¥2,628

	Thousands of U.S. dollars				
	Acquisition cost	Carrying value	Net unrealized gain	Gains	Losses
Stocks	$ 317,984	$ 567,285	$249,293	$262,000	$12,699
Bonds					
Japanese government bonds	1,835,854	1,926,398	90,537	90,537	—
Municipal government bonds	1,010,016	1,055,252	45,236	45,236	—
Corporate bonds	2,076,455	2,120,512	44,049	44,098	41
	4,922,333	5,102,171	179,829	179,878	41
Others	1,240,740	1,242,919	2,179	10,797	8,618
Total	$6,481,065	$6,912,382	$431,309	$452,683	$21,366

Note: Carrying values on the Consolidated Balance Sheet are stated mainly based on their market prices at the balance sheet date.

(d) Held-to-maturity debt securities sold during the fiscal year

No held-to-maturity debt securities were sold during the fiscal year.

(e) Other securities sold during the fiscal year

Millions of yen			Thousands of U.S. dollars		
Amounts sold	Gross gains	Gross losses	Amounts sold	Gross gains	Gross losses
¥175,635	¥3,335	¥88	$1,427,927	$27,114	$715

(f) Carrying value of securities without market value

	Millions of yen	Thousands of U.S. dollars
Held-to-maturity debt securities	¥9,215	$74,919
Other securities	2,135	17,358

(g) Reclassified securities

The Bank and its consolidated subsidiaries had no reclassified securities.

(h) Maturities of held-to-maturity debt securities and other securities held at March 31, 2001

	Millions of yen			
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds				
Japanese government bonds	¥ 30,403	¥179,387	¥ 27,155	¥ —
Municipal government bonds	30,219	89,572	64,792	352
Corporate bonds	43,269	203,282	19,135	—
	103,892	472,242	111,083	352
Others	30,825	86,911	36,545	—
	¥134,718	¥559,154	¥147,629	¥352

	Thousands of U.S. dollars			
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds				
Japanese government bonds	$ 247,179	$1,458,431	$ 220,772	$ —
Municipal government bonds	245,683	728,228	526,764	2,862
Corporate bonds	351,780	1,652,699	155,569	—
	844,650	3,839,366	903,114	2,862
Others	250,610	706,593	297,114	—
	$1,095,268	$4,545,967	$1,200,236	$2,862

(i) Details of unrealized gain on other securities

The unrealized gain on other securities on the balance sheet consists of the following:

	Millions of yen	Thousands of U.S. dollars
Gross unrealized gain on other securities	¥53,051	$431,309
Less: deferred tax liabilities	22,122	179,854
Net Unrealized gain on other securities	30,929	251,455
Minority interest	7	57
Unrealized gain on other securities of Affiliates attributable to the parent company	0	0
Unrealized gain on other securities on the balance sheet	¥30,922	$251,398

(2) Market value of securities as of March 31, 2000

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

	Millions of yen				
	Carrying value	Market value	Unrealized gain/loss	Gains	Losses
Bonds	¥426,523	¥437,718	¥11,194	¥11,723	¥529
Stocks	34,906	73,693	38,786	39,100	312
Other securities	38,519	38,514	(5)	239	243
Total	¥499,949	¥549,928	¥49,977	¥51,064	¥1,085

7. Money Held in Trust

The carrying and market values of money held in trust, as of March 31, 2001 and 2000, were as follows:

	Millions of yen			
	2001		2000	
	Carrying value	Market value	Carrying value	Market value
Money held in trust	**¥10,073**	**¥10,073**	¥22,601	¥23,224

	Thousands of U.S. dollars	
	2001	
	Carrying value	Market value
Money held in trust	**$81,894**	**$81,894**

(1) For the year ended March 31, 2001

(a) Fair Value of Money Held in Trust

i) Money Held in Trust Held for Investment

Millions of yen		Thousands of U.S. dollars	
Carrying value	Unrealized gain charged to income	Carrying value	Unrealized gain charged to income
¥9,773	¥(744)	$79,455	$(6,049)

ii) Money Held in Trust Held to Maturity

Millions of yen				
Carrying value	Market value	Net unrealized gain/loss	Gains	Losses
¥300	¥300	—	—	—

Thousands of U.S. dollars				
Carrying value	Market value	Net unrealized gain/loss	Gains	Losses
$2,439	$2,439	—	—	—

iii) Other Money Held in Trust (Money Held in Trust other than Held for Investment or Held to Maturity)

None.

(2) For the year ended March 31, 2000

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

	Millions of yen				
	Book value	Market value	Unrealized gain/loss	Gains	Losses
Money held In trust	¥22,601	¥23,224	¥623	¥741	¥118

8. Loans and Bills Discounted

Loans and bills discounted, as of March 31, 2001 and 2000, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Bills discounted	**¥ 66,107**	¥ 62,050	**$ 537,455**
Loans on notes	**348,864**	362,884	**2,836,293**
Loans on deeds	**1,162,582**	1,119,856	**9,451,886**
Overdrafts	**257,118**	274,434	**2,090,390**
Total	**¥1,834,671**	¥1,819,226	**$14,916,024**

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Bankruptcy loans (1)	**¥ 3,824**	¥ 3,619	**$ 31,089**
Non-accrual loans (2)	**28,185**	21,749	**229,146**
Accruing loans past due 3 months or more	**839**	711	**6,821**
Restructured loans (3)	**25,406**	9,474	**206,553**
Total	**¥58,255**	¥35,554	**$473,618**

(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.

9. Other Assets

Other assets, as of March 31, 2001 and 2000, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Domestic exchange settlement account, debit	**¥ 622**	¥ 425	**$ 5,057**
Prepaid expenses	**21**	32	**171**
Accrued income	**6,387**	5,919	**51,927**
Deferred hedge loses	**2,359**		**19,179**
Other	**9,113**	13,239	**74,089**
Total	**¥18,502**	¥19,617	**$150,423**

10. Premises and Equipment

Premises and equipment, as of March 31, 2001 and 2000, consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Land	**¥34,467**	¥33,419	**$280,220**
Buildings	**33,910**	33,871	**275,691**
Furniture and equipment	**17,501**	18,085	**142,252**
Leasehold deposits	**904**	838	**6,602**
Total	**86,784**	86,214	**704,764**
Less, accumulated depreciation	**(38,604)**	(37,606)	**(313,057)**
Net book value	**¥48,180**	¥48,608	**$391,707**

11. Assets Pledged

Assets pledged as collateral are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Securities	**¥30,141**	¥7,467	**$245,049**

Liabilities related to the above pledged assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deposits	**¥12,945**	¥26,826	**$105,244**

In addition, securities totaling ¥88,695 million ($721,098 thousand) and ¥86,289 million are pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin, etc. at March 31, 2001 and 2000, respectively.

12. Commitment Line Agreements Related to Overdrafts and Loans

Commitment line agreements relating to overdrafts and loans represent agreements to allow customers to extend overdrafts or loans up to agreed amounts at customers' request as long as no violation against the condition of the agreements exists. The amount of unused commitment line relating to such agreements amounted to ¥546,261 million ($4,441,146 thousand), all of which are original maturity within one year or cancelable by the Bank at any time without any penalty.

The amount of unexercised commitment line does not necessarily affect the future cash flows of the Bank and consolidated subsidiaries because many such agreements are terminated without being exercised. Many of these agreements have provisions which stipulate the Bank and consolidated subsidiaries may deny to extend loans or decrease the commitment line when there are certain changes in financial market, certain issues in securing loans and other reasons. The Bank requests collateral of premises or securities as deemed necessary upon providing such commitments. In addition, the Bank monitors the financial condition of customers in accordance with its internal rules on a regular basis (semi-annually) and takes necessary measures including revisiting the terms of commitment and other means to prevent credit losses.

13. Deposits

Deposits, as of March 31, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Current deposits	**¥ 81,736**	¥ 76,202	**$ 664,520**
Ordinary deposits	**871,874**	811,082	**7,088,407**
Deposits at notice	**26,032**	33,407	**211,642**
Time deposits	**1,720,006**	1,766,304	**13,983,789**
Installment savings	**16,409**	17,213	**133,407**
Negotiable certificates of deposit	**88,740**	40,590	**721,463**
Other deposits	**100,312**	105,576	**802,285**
Total	**¥2,903,478**	¥2,850,377	**$23,605,512**

14. Reserve for Retirement Benefits

The Bank has defined benefit retirement plans covering substantially all employees. Pension plans have been operating since April 1, 1970 (plan under the Japanese Welfare Pension Insurance Law) and since April 1, 1995 (tax qualified pension plan) in addition to the lump-sum retirement benefit plan.

The reserve for retirement benefits as of March 31, 2001 is analyzed as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligations	¥(51,869)	$(421,699)
Plan assets	26,880	218,537
	(24,989)	(203,163)
Unrecognized transition amount	—	—
Unrecognized prior service cost	—	—
Unrecognized actuarial differences	4,818	39,171
	(20,170)	(163,984)
Prepaid pension cost	—	—
	¥(20,170)	$(163,984)

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

2. Projected benefit obligation on Japanese Welfare Pension at beginning of the period was reduced following a change in the legislation.

3. Discretionary additional payments are not included.

4. Consolidated subsidiaries have adopted simplified methods to calculate projected benefit obligation.

Net pension expense related to the retirement benefits for the year ended March 31, 2001 was as follows:

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 1,605	$13,049
Interest cost	1,490	12,114
Expected return on plan assets	(1,409)	(11,455)
Amortization of transition amount	9,501	77,244
Other	7	57
Net pension expense	¥11,195	$91,016

Note: Net pension expense of certain consolidated subsidiaries adopting simplified methods is included in the service cost.

Assumptions used in calculation of the above information were as follows:

	As of March 31, 2001
Discount rate	3.0%
Expected rate of return on plan assets:	
Japanese Welfare Pension Insurance Law	5.0%
Tax qualified pension plan	3.5%
Method of attributing the projected benefits to periods of services	straight-line basis
Amortization of unrecognized actuarial differences	10 years from next fiscal year
Amortization of transition amount	1 year

15. Income taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2001 and 2000 was 41.7%.

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Deferred tax assets:			
Reserve for possible loan losses	**¥ 9,255**	¥ 7,307	**$ 75,244**
Reserve for retirement benefit	**7,490**	—	**60,894**
Reserve for retirement allowances	**—**	1,986	**—**
Depreciation	**2,361**	1,801	**19,195**
Past service liabilities	**—**	1,507	**—**
Other	**827**	1,533	**6,724**
Total	**19,935**	14,135	**162,073**
Valuation allowance	**—**	—	**—**
Deferred tax assets	**19,935**	14,135	**162,073**
Deferred tax liabilities:			
Unrealized gain on other securities	**(22,122)**	—	**(179,854)**
Reserve for deferred income tax of real estate	**(78)**	(39)	**(634)**
Other	**(0)**	—	**(0)**
Total	**(22,202)**	(39)	**(180,504)**
Net deferred tax assets (liabilities)	**¥ (2,266)**	¥14,096	**$ (18,423)**

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2001 and 2000 is as follows:

	2001	2000
Statutory tax rate	**41.7%**	41.7%
Increase (decrease) in taxes resulting from		
Permanent non-taxable items including dividend income	**(10.1)**	(2.3)
Permanent non-deductible items including entertainment expenses	**3.0**	0.8
Resident tax per capita levy	**2.5**	0.6
Other	**(1.8)**	(2.5)
Effective income tax rate	**35.3%**	38.3%

16. Other Liabilities

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

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Domestic exchange settlement account, credit	**¥ 1,469**	¥ 3,136	**$ 11,943**
Accrued income taxes	**3,447**	3,108	**28,024**
Accrued expenses	**5,714**	7,037	**46,455**
Unearned income	**1,472**	1,917	**11,967**
Employees' deposits	**1,276**	1,286	**10,374**
Reserve for interest on installment savings	**19**	23	**154**
Derivative	**3,312**	—	**26,927**
Other	**10,005**	12,081	**81,341**
Total	**¥26,714**	¥28,592	**$217,187**

17. 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.

18. Trading Revenue and Expenses

Trading income, for the years ended March 31, 2001 and 2000, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Revenue from trading securities and derivatives	**¥82**	¥44	**$667**
Other trading revenue	**7**	1	**57**
Total	**¥90**	¥45	**$732**

19. Leases

Information on finance lease contracts without an ownership transfer, for the years ended March 31, 2001 and 2000, 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
	2001	2000	**2001**
Acquisition cost	**¥4,881**	¥4,113	**$39,683**
Accumulated depreciation	**(1,670)**	(1,315)	**(13,577)**
Net book value	**¥3,210**	¥2,798	**$26,098**
Depreciation expenses	**¥ 878**	¥ 747	**$ 7,138**
Interest expenses	**¥ 152**	¥ 139	**$ 1,236**

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, 2001 and 2000, which excluded the portion of interest, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Future lease payments:			
Due within one year	**¥ 940**	¥ 749	**$ 7,642**
Due in over one year	**2,370**	2,117	**19,268**
Total	**¥3,311**	¥2,866	**$26,919**

(c) Lease expenses

	Millions of yen		Thousands of U.S. dollars
	2001	2000	**2001**
Lease rental expenses	**¥994**	¥850	**$8,081**

20. Derivative Financial Instruments

(1) Derivative financial instruments used by the Bank

The Bank enters into futures and options on interest rates, currencies, stocks and bonds, and interest rate swaps and currency swaps.

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. 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 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 a quantitative measurement method in order to capture market risk. The Bank monitors the outstanding balance and profit and loss for each type of transaction on a daily basis. In addition, the Bank applies a "Value-at-Risk" measurement method to transactions for which it is considered necessary to apply a more sophisticated method. The Bank manages credit risk by establishing credit limits for counterparties. Reviews of the adequacy of established credit lines are made on a regular basis and as deemed necessary.

The credit risk amounts calculated based on the capital adequacy rules as of March 31, 2001 and 2000 were ¥3,213 million ($26,122 thousand) and ¥6,628 million, respectively.

(3) Risk management system of the Bank

The Bank exercises and controls the derivative transactions using limits including position limits, credit lines for each counterparty and stop loss limits in accordance with the Bank's policy on derivative transactions. Risks quantified are reported to the department and the director responsible for monitoring the transactions and the board of directors.

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

Contract amounts or notional principal amounts of derivative financial instruments disclosed represent nominal contract amounts or the notional principal amounts set up for the calculation of the settlement amounts. Generally, they do not represent the amounts for which the actual assets are exchanged. These amounts do not represent, by themselves, the volume of market risk and credit risk related to the underlying derivative financial instruments.

(4) Market value of derivative financial instruments

(i) Interest Rate Related Transactions

	Millions of yen			
	March 31, 2001			
	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	¥45,000	¥11,000	¥ 425	¥ 425
Receipts floating-payments fixed	38,144	15,144	(925)	(925)
Total			¥(499)	¥(499)

	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	—	—	—
Total			¥(4,720)	¥(4,720)

	Thousands of U.S. dollars			
	March 31, 2001			
	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	$365,854	$ 89,431	$ 3,455	$ 3,455
Receipts floating-payments fixed	310,114	123,122	(7,520)	(7,520)
Total			$(4,057)	$(4,057)

Notes: 1. Market values of exchange traded instruments are based on 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. The balance as of March 31, 2001 disclosed above excludes derivatives accounted for as hedges. The derivatives disclosed are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income.

3. Supplementary information for interest rate swap contracts as of March 31, 2000 is as follows:

	Millions of yen		
	March 31, 2000		
Remaining contract 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%

(ii) Foreign exchange related transactions

(a) Balance as of March 31, 2001

	Millions of yen			
	Notional principal amount	Including over one year	Market value	Unrealized profit/loss
Over-the-counter	¥40,008	¥9,507	¥(19)	¥(19)

	Thousands of U.S. dollars			
	Notional principal amount	Including over one year	Market value	Unrealized profit/loss
Over-the-counter	$325,268	$77,293	$(154)	$(154)

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

2. Balance as of March 31, 2001 are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income. The balance disclosed above exclude derivatives accounted for as hedges.

3. Currency swaps accounted for using the accrual method in accordance with "tentative Accounting and Auditing Treatment relating to Adoption of 'Accounting for Financial Instruments' for Banks" have been excluded from the disclosure of balance as of March 31, 2001.

The balance of such currency swaps as of March 31, 2001 is as follows:

	Millions of yen		
	Notional principal amount	Market value	Unrealized profit/loss
Currency swaps	¥51,893	¥(3,147)	¥(3,147)

	Thousands of U.S. dollars		
	Notional principal amount	Market value	Unrealized profit/loss
Currency swaps	$421,894	$(25,585)	$(25,585)

In addition, foreign exchange forward contracts and currency options which are revalued at the end of the fiscal year and resulting profit and loss taken into the statement of income, which are reflected in the balance sheet amounts of foreign currency receivables and payables hedged, or those related hedged items eliminated in the consolidation have been excluded from the above disclosure.

The balance of foreign exchange related derivatives as of March 31, 2001 is as follows:

	Millions of yen	Thousands of U.S. dollars
Over-the-counter		
Foreign exchange forward contracts		
Sold	¥2,257	$18,350
Bought	666	5,415

b) Balance as of March 31, 2000

	Millions of yen			
	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
Euro	8,528	7,571	(19)	(19)
Total	¥99,510	¥23,400	¥943	¥943

	Thousands of U.S. dollars			
	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
Euro	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 Trade 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 the related unrealized gain (loss) of ¥999 million ($9,425 thousand) as of March 31, 2000. These contracts 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 as of March 31, 2000.

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

21. Subsequent Event

The annual shareholders' meeting, which was held on June 28, 2001, approved the following appropriations of retained earnings for the year ended March 31, 2001:

	Millions of yen		Thousands of U.S. dollars
	March 31,		March 31,
	2001	2000	**2001**
Cash dividends (¥3.00 per share)	**¥ 771**	¥ 771	**$6,268**
Transfer to legal reserve	**—**	698	**—**
Bonuses to directors and corporate auditors	**70**	71	**569**
Transfer to voluntary reserve	**1,055**	9,654	**8,577**

22. 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 to the Group.

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
	2001	2000	**2001**
Recurring income from international operations	**¥ 8,515**	¥ 9,162	**$ 69,228**
Total operating income	**79,767**	82,348	**648,512**
International operations' ratio	**10.6%**	11.1%	**10.6%**

REPORT OF INDEPENDENT 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, 2001 and 2000, and the related consolidated statements of income, shareholders’ equity and cash flows for the years then ended, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

As described in Note 2, effective for the year ended March 31, 2001, the Group has adopted new Japanese accounting standards for employees’ retirement benefits and financial instruments.

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

Tokyo, Japan
June 27, 2001

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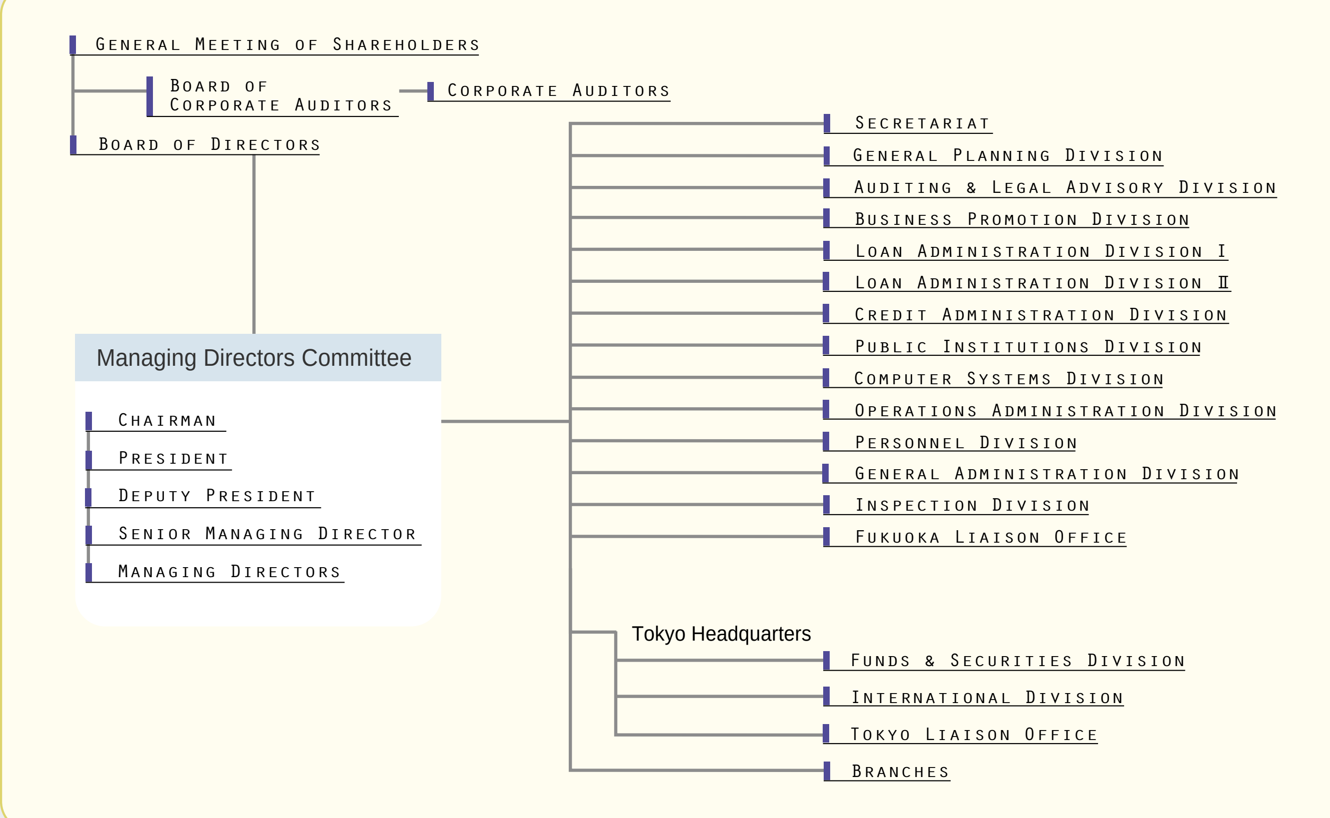
Organization



Board of Directors and Corporate Auditors

President & Representative Director	Hiroo Oguri
Senior Managing Director & Representative Director	Masaomi Mori
Managing Directors:	Koichiro Nishina Ken Inomata (General Manager, Business Administration Division) Hidenori Mito Kenichi Takaiwa
Directors:	Moriaki Yamada (General Manager, Head Office Business Division) Shozo Iwanaga Hiroo Nagata (General Manager, Personnel Division and Secretariat) Takahiro Kai (Loan Administration Division II)
Standing Corporate Auditors:	Masaaki Furuta Tomoyoshi Kuroda
Corporate Auditors:	Naosuke Tokuyama Akihisa Yoshida Jiro Yamada