

Annual Report 2002



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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 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.

These conditions offer many opportunities to vitalize the region by cultivating small and medium-sized mainstay businesses and promoting new businesses to support these new industries. Kumamoto is home to many new industries, and we have a support organization in which the public and private sectors work together, called the Kumamoto Prefecture Business Promotion Support Center. The center was established with funds from the Kumamoto prefectural government and the Higo Bank.

In addition to our main work of banking operations, we also put our energy into creating a better living environment for the prefecture’s citizens by supporting organizations such as The Distribution Economics Institute of Kumamoto Area and the Kumamoto Development Research Center. Higin Venture Capital Co., Ltd., established in 1996, also cooperates with these organizations to provide comprehensive support to match the growth stage of the venture companies.

The Bank has continued to be active in supporting cultural events such as concerts and art exhibits as well as in promoting environmental conservation efforts, with the establishment of the Higo Water Resources Protection Foundation. Believing that it will become all the more important for us to make broad social contributions, we set up a Regional Culture Department in our Head Office in 1995 to act as a organization specializing in social contributions.

Message from the President



Hiroo Oguri
President

Japan's finance industry continues to be restructured on a dramatic scale, including more business integrations and mergers of major money center banks and the entry of players from other industries into the banking business. Globalization, coupled with the progress of information technology, is expected to bring about further changes in the business environment as well as more intense competition.

To cope with these changes, all the staff of Higo Bank are ready to make a special, concerted effort to realize the fundamental objective of the Bank's first medium-term (three-year) management plan of the 21st century, launched in April 2000 — becoming a strong regional bank that will play a leading role in Kyushu in the new century by strengthening the bonds of mutual prosperity with its customers. This objective is based firmly on the three corporate principles that guide our progress — putting the customer first; contributing to the prosperity of the region we serve while maintaining a high level of corporate ethics; and fostering a free and creative corporate culture.

We have made every possible effort to create an annual report that excels in corporate transparency and is easy to understand. We hope you will find it useful.

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

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

Hiroo Oguri *President*

Excellent Financial Indicators

High Evaluations from the Ratings Institutions

Ratings are a concise, symbolic representation of credit risk, indicating a company's degree of trustworthiness or the reliability of their performance regarding liabilities. The ratings institution, as a disinterested third party, publishes its overall evaluation of a company's financial position and earning capability.

The Higo Bank has received official ratings from 3 ratings institutions in Japan and abroad, and we received high evaluations, ranking A, for each of the long-term ratings.

(Long-term credit rating: as of April 30, 2002)

| | |
|---|----|
| Moody's Investors Service | A2 |
| Standard & Poor's | A- |
| Rating and Investment Information, Inc. | A+ |

* A top-class regional bank in Kyushu, with high standards among the domestic banks.

| 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 | B |
| C | CC |

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, 2002 (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 | 14.8 | 11.6 | 3.2 | 100.0% |
| Loans at risk | 37.1 | 24.8 | 11.1 | 96.8% |
| Loans requiring caution | 27.5 | 19.4 | 4.7 | 87.6% |
| Sub-total | 79.6 | 55.8 | 19.1 | 94.2% |
| Normal loans | 1,893.4 | | | |
| Total | 1,973.0 | | | |

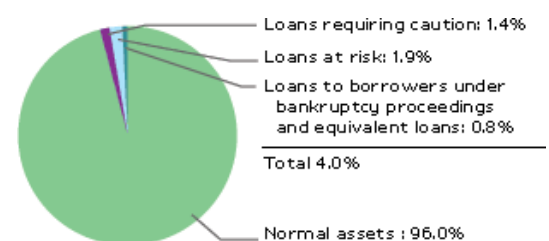
Note: Figures have been rounded down to the nearest ¥100 million.

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 ¥79,625 million as of the end of March 2001, representing 4.0% of the total loan balance. This is an extremely low level compared to Japan's other regional banks.

Of these non-performing loans, 94.2% are 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.



Explanations 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 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 ¥81,663 million, accounting for 4.1% of the group's total loan balance.

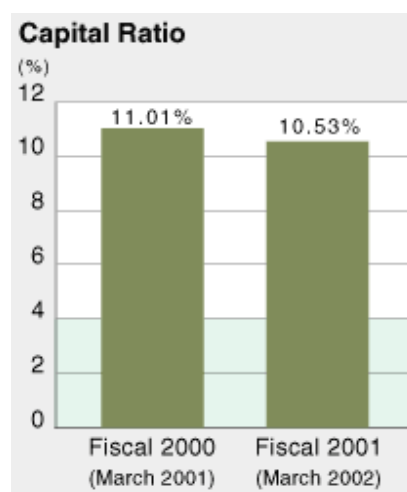
One of the Highest Capital Ratios Among Japan's Regional Banks

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, 2002, Higo Bank's capital ratio was 10.53% 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 9.50%.

When applying the BIS common minimum standard, Higo Bank's capital ratio remains at a high 11.33%.



*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.

THE HIGO BANK, LTD.
CONSOLIDATED BALANCE SHEETS
March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|--------------------|--------------------|------------------------------|
| | 2002 | 2001 | 2002 |
| ASSETS: | | | |
| Cash and due from banks | ¥ 79,691 | ¥ 163,324 | \$ 599,180 |
| Call loans and bills bought | 53,226 | 169,644 | 400,195 |
| Monetary claims purchased | 24,705 | 31,100 | 185,751 |
| Trading assets | 18,415 | 8,839 | 138,458 |
| Securities | 1,091,743 | 906,835 | 8,208,593 |
| Money held in trust | 10,010 | 10,073 | 75,263 |
| Loans | 1,918,378 | 1,834,671 | 14,423,894 |
| Foreign exchange | 537 | 300 | 4,037 |
| Other assets | 19,013 | 18,502 | 142,954 |
| Premises and equipment | 46,796 | 48,180 | 351,849 |
| Deferred tax assets | 7,589 | 142 | 57,060 |
| Customers' liabilities for acceptances and guarantees | 52,311 | 54,387 | 393,315 |
| Reserve for possible loan losses | (25,981) | (17,979) | (195,345) |
| Reserve for loss on investments | - | (29) | - |
| Total assets | <u>¥ 3,296,439</u> | <u>¥ 3,227,995</u> | <u>\$ 24,785,255</u> |
| LIABILITIES AND SHAREHOLDERS' | | | |
| EQUITY: | | | |
| Liabilities: | | | |
| Deposits | ¥ 2,970,945 | ¥ 2,903,477 | \$ 22,337,932 |
| Call money and bills sold | 28,515 | 9,416 | 214,398 |
| Borrowed money | 64 | 112 | 481 |
| Foreign exchange | 54 | 42 | 406 |
| Other liabilities | 23,564 | 26,714 | 177,172 |
| Reserve for retirement benefits | 20,079 | 20,170 | 150,969 |
| Deferred tax liabilities | 2 | 2,409 | 15 |
| Deferred tax liabilities related to Land revaluation | 6,419 | 6,464 | 48,263 |
| Acceptances and guarantees | 52,311 | 54,387 | 393,315 |
| Total liabilities | <u>3,101,956</u> | <u>3,023,196</u> | <u>23,322,977</u> |
| Minority interests: | | | |
| Minority interests | 978 | 821 | 7,353 |
| Total minority interests | <u>978</u> | <u>821</u> | <u>7,353</u> |
| Shareholders' equity: | | | |
| Common stock | 18,128 | 18,128 | 136,300 |
| Capital surplus | 8,133 | 8,133 | 61,150 |
| Excess of land revaluation | 8,974 | 9,038 | 67,473 |
| Retained earnings | 137,198 | 137,755 | 1,031,563 |
| Unrealized gain on securities, net of tax | 21,070 | 30,922 | 158,421 |
| Less: Treasury stock | 1 | 0 | 7 |
| Total shareholders' equity | <u>193,504</u> | <u>203,977</u> | <u>1,454,917</u> |
| Total liabilities, minority interests and shareholders' equity | <u>¥ 3,296,439</u> | <u>¥ 3,227,995</u> | <u>\$ 24,785,255</u> |

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

THE HIGO BANK, LTD.
CONSOLIDATED STATEMENTS OF INCOME
For the years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|----------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Income: | | | |
| Interest on loans | ¥ 39,827 | ¥ 42,239 | \$ 299,451 |
| Interest on and dividends from securities | 19,303 | 20,392 | 145,135 |
| Other interest | 2,149 | 3,230 | 16,157 |
| Fees and commissions | 8,578 | 8,333 | 64,496 |
| Trading revenue | 140 | 90 | 1,052 |
| Other operating income | 1,585 | 2,318 | 11,917 |
| Other income | 6,096 | 3,603 | 45,834 |
| Total income | <u>77,679.</u> | <u>80,208</u> | <u>584,052</u> |
| Expenses: | | | |
| Interest on deposits | 4,188 | 6,810 | 31,481 |
| Interest on borrowings and call money | 625 | 403 | 4,699 |
| Other interest | 4,994 | 6,153 | 37,548 |
| Fees and commissions | 1,205 | 1,113 | 9,060 |
| Other operating expenses | 2,509 | 3,024 | 18,864 |
| General and administrative expenses | 41,640 | 41,165 | 313,082 |
| Other expenses | 17,134 | 19,489 | 128,827 |
| Total expenses | <u>72,297</u> | <u>78,159</u> | <u>543,586</u> |
| Income before income taxes | 5,381 | 2,048 | 40,458 |
| Income taxes | | | |
| - Current | 6,311 | 6,497 | 47,451 |
| - Deferred | (2,849) | (5,774) | (21,421) |
| Minority interests | 163 | 92 | 1,225 |
| Net income | <u>¥ 1,755</u> | <u>¥ 1,233</u> | <u>\$ 13,195</u> |
| | Yen | | U.S. dollars |
| Per share amounts | | | |
| Primary net income | ¥6.82 | ¥4.79 | \$0.051 |

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

THE HIGO BANK, LTD.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Common stock: | | | |
| Balance at beginning of year | ¥ 18,128 | ¥ 18,128 | \$ 136,300 |
| Balance at end of year | 18,128 | 18,128 | 136,300 |
| Capital surplus: | | | |
| Balance at beginning of year | 8,133 | 8,133 | 61,150 |
| Balance at end of year | 8,133 | 8,133 | 61,150 |
| Excess of land revaluation: | | | |
| Balance at beginning of year | 9,038 | 9,059 | 67,954 |
| Reversal of excess of land revaluation | (63) | (21) | (473) |
| Balance at end of year | 8,974 | 9,038 | 67,473 |
| Retained earnings: | | | |
| Balance at beginning of year | 137,755 | 138,115 | 1,035,751 |
| Reversal of excess of land revaluation | 63 | 21 | 473 |
| Net income | 1,755 | 1,233 | 13,195 |
| Dividends paid | (1,542) | (1,542) | (11,593) |
| Bonuses to directors and corporate auditors | (70) | (71) | (526) |
| Retirement of treasury stock | (763) | - | (5,736) |
| Balance at end of year | 137,198 | 137,755 | 1,031,563 |
| Unrealized gain on securities: | | | |
| Balance at beginning of year | 30,922 | - | 232,496 |
| Unrealized gain on securities | (9,852) | 30,922 | (74,075) |
| Balance at end of year | 21,070 | 30,922 | 158,421 |
| Treasury stock: | | | |
| Balance at beginning of year | 0 | 0 | 0 |
| Net change during the year | 1 | 0 | 7 |
| Balance at end of year | 1 | 0 | 7 |
| Total shareholders' equity | ¥ 193,504 | ¥ 203,977 | \$ 1,454,917 |

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

THE HIGO BANK, LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the year ended March 31, 2002 and 2001

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Cash flows from operating activities: | | | |
| Income before income taxes | ¥ 5,381 | ¥ 2,048 | \$ 40,458 |
| Adjustments for: | | | |
| Depreciation and amortization | 2,365 | 2,513 | 17,781 |
| Allowance for possible loan losses | 8,001 | 4,127 | 60,157 |
| Reserve for retirement allowance | - | (7,141) | - |
| Reserve for retirement benefits | (91) | 20,170 | (684) |
| Interest and dividend income | (61,279) | (65,862) | (460,744) |
| Interest expenses | 9,807 | 13,366 | 73,736 |
| Investment securities gains | (740) | (2,656) | (5,563) |
| Loss on money held in trust | 17 | 1,452 | 127 |
| Increase in loans | (87,039) | (16,633) | (654,428) |
| Increase in deposits | 94,757 | 4,950 | 712,458 |
| Increase in negotiable certificates of deposit | (27,289) | 48,150 | (205,180) |
| Decrease in due from banks | 86,540 | 41,768 | 650,676 |
| Decrease in call loans | 122,814 | (83,106) | 923,413 |
| Increase in call money | 19,099 | 3,578 | 143,601 |
| Interest income (cash basis) | 62,759 | 65,615 | 471,872 |
| Interest expense (cash basis) | (12,296) | (14,520) | (92,451) |
| Other | (15,653) | (9,685) | (117,691) |
| Total | 207,153 | 8,136 | 1,557,541 |
| Payments for income taxes | (6,447) | (6,118) | (48,473) |
| Net cash provided by operating activities | 200,705 | 2,018 | 1,509,060 |
| Cash flows from investing activities: | | | |
| Payments for purchases of securities | (380,436) | (325,243) | (2,860,421) |
| Proceeds from sales of securities | 40,125 | 178,886 | 301,691 |
| Proceeds from redemption of securities | 145,086 | 106,815 | 1,090,872 |
| Payments for increase in money held in trust | - | (100) | - |
| Proceeds from decrease in money held in trust | - | 11,829 | - |
| Payments for purchases of premises and equipment | (572) | (1,816) | (4,300) |
| Proceeds from sales of premises and equipment | 281 | 236 | 2,112 |
| Net cash used in investing activities | (195,515) | (29,392) | (1,470,037) |
| Cash flows from financing activities: | | | |
| Cash dividends paid | (1,542) | (1,542) | (11,593) |
| Payment for purchase of treasury stock | (773) | (18) | (5,812) |
| Proceeds from sales of treasury stock | 8 | 18 | 60 |
| Net cash used in financing activities | (2,307) | (1,542) | (17,345) |
| Effect of exchange rate changes on cash and cash equivalents | 25 | 24 | 187 |
| Net increase in cash and cash equivalents | 2,908 | (28,891) | 21,864 |
| Cash and cash equivalents at beginning of year | 53,042 | 81,934 | 398,812 |
| Cash and cash equivalents at end of year | ¥ 55,950 | ¥ 53,042 | \$ 420,676 |

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

THE HIGO BANK, LTD.

NOTES TO CONSOLIDATED 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

(1) 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 unrealised 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, 2002 and 2001 was as follows:

| | 2002 | 2001 |
|--|------|------|
| Consolidated subsidiaries | 7 | 6 |
| Affiliates (accounted for under the equity method) | 1 | 1 |

(2) Fiscal year-ends of consolidated subsidiaries

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

March 31 7 consolidated subsidiaries

(3) 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” 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 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. Cost of sales of such securities are determined by the moving average method. 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.

The Bank utilizes Gensaki transactions, which involves the selling of securities to counterparties and agreeing to reacquire them from the counterparty on a specified date at a specified price. Gensaki transactions were treated as sales and repurchases of securities until fiscal year ended March 31, 2001. Effective April 1, 2001, Gensaki transactions are treated as financing transactions. The effect of this change was nil.

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

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 an 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 a "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. Net unrealized loss at March 31, 2002 is included in "Other assets". Gross unrealized loss and gain are ¥1,118 million (\$8,406 thousand) and ¥108 million (\$812 thousand), respectively. The Bank's consolidated subsidiaries do not apply hedge accounting.

(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.

However, depreciation on buildings acquired after April 1, 1998 (excluding annex facilities of buildings) is computed by the straight-line method.

Equipment: Depreciation is computed by the declining balance method over the estimated useful lives of the respective assets.

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 ¥6,736 million (\$50,646 thousand) and ¥5,067 million at March 31, 2002 and 2001, 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 ¥12,083 million (\$90,849 thousand) and ¥10,487 million for the years ended March 31, 2002 and 2001, respectively.

(h) Reserve for loss on investments

The provision for loss on investments was provided at the amount deemed necessary based on the estimation of losses on securities that are investments in counterparties who were 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 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) was expensed in the year ended March 31, 2001. As a result of adopting the new standard, income before income taxes 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.

(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 and related goodwill

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when the majority interest in the subsidiaries are purchased. Goodwill is charged to income in the year it arises.

(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 assets per share at March 31, 2002 and 2001 were ¥757.93 and ¥793.21, 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 ¥133 to US\$1, the approximate effective rate of exchange as of March 31, 2002. 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 |
|-----------------------------------|-----------------|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Cash and due from banks | ¥ 79,691 | ¥ 163,324 | \$ 599,180 |
| Foreign currency deposits | (17,934) | (99,390) | (134,842) |
| Negotiable certificate of deposit | (5,000) | (10,000) | (37,593) |
| Other deposits | (806) | (891) | (6,060) |
| Cash and cash equivalent | ¥ 55,950 | ¥ 53,042 | \$ 420,676 |

5. Securities

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.

(1) Carrying value and market value of securities

(a) Trading securities

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|--------|------------------------------|
| | 2002 | 2001 | 2002 |
| Carrying value | ¥18,415 | ¥8,839 | \$138,458 |
| Unrealized gain charged to income | 19 | 8 | 142 |

(b) Held-to-maturity debt securities with market value, which consist of municipal government bonds

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Carrying value | ¥43,274 | ¥55,139 | \$325,368 |
| Market value | 45,442 | 58,211 | 341,669 |
| Net unrealized gain | 2,167 | 3,072 | 16,293 |
| Gains | 2,167 | 3,072 | 16,293 |
| Losses | - | - | - |

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

(c) Other securities with market value

| | | Millions of yen | | | | |
|--------|------------------|-------------------|-------------------|---------------------|----------------|---------------|
| | | 2002 | | | | |
| | | Acquisition cost | Carrying value | Net Unrealized gain | Gains | Losses |
| Stocks | | ¥37,974 | ¥58,706 | ¥20,732 | ¥22,807 | ¥2,075 |
| Bonds | | | | | | |
| | Japanese | | | | | |
| | Government Bonds | 354,537 | 363,825 | 9,287 | 9,392 | 104 |
| | Municipal | | | | | |
| | Government Bonds | 149,857 | 154,074 | 4,216 | 4,628 | 411 |
| | Corporate Bonds | 268,112 | 271,288 | 3,176 | 3,479 | 303 |
| | | <u>772,507</u> | <u>789,187</u> | <u>16,680</u> | <u>17,500</u> | <u>819</u> |
| Others | | 201,160 | 199,893 | (1,267) | 1,101 | 2,368 |
| | Total | <u>¥1,011,642</u> | <u>¥1,047,788</u> | <u>¥36,145</u> | <u>¥41,409</u> | <u>¥5,264</u> |

| | | Millions of yen | | | | |
|--------|------------------|------------------|-----------------|---------------------|----------------|---------------|
| | | 2001 | | | | |
| | | 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 |
| | | <u>605,447</u> | <u>627,567</u> | <u>22,119</u> | <u>22,125</u> | <u>5</u> |
| Others | | 152,611 | 152,879 | 268 | 1,328 | 1,060 |
| | Total | <u>¥797,171</u> | <u>¥850,223</u> | <u>¥53,051</u> | <u>¥55,680</u> | <u>¥2,628</u> |

| Thousands of U.S. dollars | | | | | |
|---------------------------|---------------------|--------------------|--------------------|------------------|-----------------|
| 2002 | | | | | |
| Net | | | | | |
| | Acquisition cost | Carrying value | Unrealized gain | Gains | Losses |
| Stocks | \$285,518 | \$441,398 | \$155,879 | \$171,481 | \$15,601 |
| Bonds | | | | | |
| Japanese | | | | | |
| Government Bonds | 2,665,691 | 2,735,526 | 69,827 | 70,616 | 781 |
| Municipal | | | | | |
| Government Bonds | 1,126,744 | 1,158,451 | 31,699 | 34,796 | 3,090 |
| Corporate Bonds | 2,015,879 | 2,039,759 | 23,879 | 26,157 | 2,278 |
| | 5,808,323 | 5,933,736 | 125,413 | 131,578 | 6,157 |
| Others | 1,512,481 | 1,502,954 | (9,526) | 8,278 | 17,804 |
| Total | <u>\$7,606,330</u> | <u>\$7,878,105</u> | <u>\$271,766</u> | <u>\$311,345</u> | <u>\$39,578</u> |

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

In the fiscal year ended March 31, 2002, losses on impairment of ¥2,789 million (\$20,968 thousand) and ¥227 million (\$1,706 thousand) were recorded for stocks and bonds with market value, respectively.

Losses on impairment were recorded for all securities with market value whose market values at March 31, 2002 were less than 50% of those at March 31, 2001. In addition, loss on impairment were recorded for certain securities with market value whose market value at March 31, 2002 fell 30% or more but less than 50%, after assessment of price trends and credit risks of issuers.

- (2) Held-to-maturity debt securities sold during the two fiscal years ended March 31, 2001 and 2002.

No held-to-maturity debt securities were sold.

- (3) Other securities sold during fiscal years ended March 31, 2001 and 2002.

| | Millions of yen | | Thousands of U.S. dollars |
|--------------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Amounts sold | ¥38,362 | ¥175,635 | \$290,466 |
| Gross gains | 4,448 | 3,335 | 33,443 |
| Gross losses | 568 | 88 | 4,270 |

(4) Carrying value of securities without market value

| | Millions of yen | | Thousands of U.S. dollars |
|----------------------------------|-----------------|--------|------------------------------|
| | 2002 | 2001 | 2002 |
| Held-to-maturity Debt Securities | ¥8,767 | ¥9,215 | \$65,917 |
| Other Securities | 1,775 | 2,135 | 13,345 |

(5) Reclassified securities

The Bank and its consolidated subsidiaries had no reclassified securities.

(6) Maturities of held-to-maturity debt securities and other securities held.

| | Millions of yen | | | |
|-------------------------------|--------------------|--|--|------------------|
| | 2002 | | | |
| | Within one year | Over one year but within 5 years | Over 5 years but within 10 years | Over 10 years |
| Bonds | | | | |
| Japanese Government Bonds | ¥34,641 | ¥278,378 | ¥50,805 | ¥- |
| Municipal Government Bonds | 29,454 | 90,082 | 77,577 | 235 |
| Corporate Bonds | 38,786 | 222,135 | 15,187 | - |
| | <u>102,882</u> | <u>590,596</u> | <u>143,569</u> | <u>235</u> |
| Others | <u>28,449</u> | <u>111,375</u> | <u>48,557</u> | <u>-</u> |
| | <u>¥131,331</u> | <u>¥701,972</u> | <u>¥192,127</u> | <u>¥235</u> |

| Millions of yen | | | | |
|-------------------------------|--------------------|--|--|------------------|
| 2001 | | | | |
| | 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 | - |
| | <u>103,892</u> | <u>472,242</u> | <u>111,083</u> | <u>352</u> |
| Others | <u>30,825</u> | <u>86,911</u> | <u>36,545</u> | <u>-</u> |
| | <u>¥134,718</u> | <u>¥559,154</u> | <u>¥147,629</u> | <u>¥352</u> |

| Thousands of U.S. dollars | | | | |
|-------------------------------|--------------------|--|--|------------------|
| 2002 | | | | |
| | Within one year | Over one year but within 5 years | Over 5 years but within 10 years | Over 10 years |
| Bonds | | | | |
| Japanese Government Bonds | \$260,458 | \$2,093,067 | \$381,992 | \$- |
| Municipal Government Bonds | 221,458 | 677,308 | 583,285 | 1,766 |
| Corporate Bonds | 291,624 | 1,670,187 | 114,187 | - |
| | <u>773,548</u> | <u>4,440,571</u> | <u>1,079,466</u> | <u>1,766</u> |
| Others | <u>213,902</u> | <u>837,406</u> | <u>365,090</u> | <u>-</u> |
| | <u>\$987,451</u> | <u>\$5,277,984</u> | <u>\$1,444,563</u> | <u>\$1,766</u> |

(7) 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 |
|---|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Gross unrealized gain on Other securities | ¥36,145 | ¥53,051 | \$271,766 |
| Less: deferred tax liabilities | 15,072 | 22,122 | 113,323 |
| Net unrealized gain on other securities | 21,072 | 30,929 | 158,436 |
| Minority interest | 2 | 7 | 15 |
| Unrealized gain on Other securities of Affiliates attributable to the parent company | 0 | 0 | 0 |
| Unrealized gain on Other securities on the balance sheet | ¥21,070 | ¥30,922 | \$158,421 |

6. Money Held in Trust

The carrying and market values of money held in trust, as of March 31, 2002 and 2001, were as follows:

(1) Money Held in Trust Held for Investment

| | Millions of Yen | | Thousands of U.S. dollars |
|-----------------------------------|-----------------|--------|------------------------------|
| | 2002 | 2001 | 2002 |
| Carrying value | ¥9,710 | ¥9,773 | \$73,007 |
| Unrealized gain charged to income | ¥(149) | ¥(744) | \$(1,120) |

(2) Money Held in Trust Held to Maturity

| | Millions of Yen | | Thousands of U.S. dollars |
|----------------|-----------------|------|------------------------------|
| | 2002 | 2001 | 2002 |
| Carrying value | ¥300 | ¥300 | \$2,255 |
| Market value | ¥300 | ¥300 | \$2,255 |

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

None.

7. Loans

Loans at March 31, 2002 and 2001 includes the following:

| | Millions of Yen | | Thousands of US dollars |
|---|-----------------|----------|----------------------------|
| | 2002 | 2001 | 2002 |
| Bankruptcy loans (1) | ¥ 5,806 | ¥ 3,824 | \$ 43,654 |
| Non-accrual loans (2) | 42,611 | 28,185 | 320,383 |
| Accruing loans past due 3 months or more | 1,115 | 839 | 8,383 |
| Restructured loans (3) | 26,043 | 25,406 | 195,812 |
| Total | ¥ 75,577 | ¥ 58,255 | \$ 568,248 |

- (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.

8. Assets Pledged

Assets pledged as collateral are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Securities | ¥ 27,648 | ¥ 30,141 | \$ 207,879 |

Liabilities related to the above pledged assets are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|----------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Deposits | ¥ 11,006 | ¥ 12,945 | \$ 82,751 |

In addition, securities totaling ¥86,678 million (\$651,714 thousand) and ¥88,695 million are pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin, etc. at March 31, 2002 and 2001, respectively.

9. 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 conditions of the agreements exists. The amount of unused commitment lines relating to such agreements amounted to ¥586,564 million and ¥546,261 million at March 31, 2002 and 2001, respectively, all of which had an original maturity within one year or cancelable by the Bank at any time without any penalty.

The amount of unexercised commitment lines 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 markets, certain issues in securing loans and other reasons. The Bank requests collateral in the form 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 commitments and other means to prevent credit losses.

10. 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, 2002 and 2001 is analyzed as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|------------------------------------|-----------------|------------|------------------------------|
| | 2002 | 2001 | 2002 |
| Projected benefit obligations | ¥ (56,810) | ¥ (51,869) | \$ (427,142) |
| Plan assets | 26,006 | 26,880 | 195,533 |
| | (30,803) | (24,989) | (231,601) |
| Unrecognized transition amount | - | - | - |
| Unrecognized prior service cost | - | - | - |
| Unrecognized actuarial differences | 10,724 | 4,818 | 80,631 |
| | (20,079) | (20,170) | (150,969) |
| Prepaid pension cost | - | - | - |
| Reserve for retirement benefits | ¥ (20,079) | ¥ (20,170) | \$ (150,969) |

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 ended March 31, 2001 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 obligations.

Net pension expense related to the retirement benefits for the year ended March 31, 2002 and 2001 was as follows:

| | Millions of Yen | | Thousands of U.S. dollars |
|---------------------------------------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Service cost | ¥ 1,605 | ¥ 1,605 | \$ 12,067 |
| Interest cost | 1,551 | 1,490 | 11,661 |
| Expected return on plan assets | (1,272) | (1,409) | (9,563) |
| Amortization of actuarial differences | 481 | - | 3,616 |
| Amortization of transition amount | - | 9,501 | - |
| Other | 25 | 7 | 187 |
| Net pension expense | ¥ 2,391 | ¥ 11,195 | \$ 17,977 |

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

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

| | 2002 | 2001 |
|---|---|---|
| Discount rate | 2.5% | 3.0% |
| Expected rate of return on plan assets | | |
| Japanese Welfare Pension Insurance Law | 5.0% | 5.0% |
| Tax qualified pension plan | 3.5% | 3.5% |
| Method of attributing the projected benefits to periods of services | straight-line basis | straight-line basis |
| Amortization of unrecognized actuarial differences | 10 years from the year following the year differences arise | 10 years from the year following the year differences arise |
| Amortization of transition amount | - | 1 year |

11. Income taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2002 and 2001 was 41.7%.

At March 31, 2002 and 2001, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Deferred tax assets: | | | |
| Reserve for possible loan losses | ¥ 12,474 | ¥ 9,255 | \$ 93,789 |
| Reserve for retirement benefit | 7,550 | 7,490 | 56,766 |
| Depreciation | 2,177 | 2,361 | 16,368 |
| Loss on impairment of securities | 1,344 | - | 10,105 |
| Other | 591 | 827 | 4,443 |
| Total | 24,138 | 19,935 | 181,488 |
| Valuation allowance | (1,363) | - | (10,248) |
| Deferred tax assets | 22,774 | 19,935 | 171,233 |
| Deferred tax liabilities: | | | |
| Unrealized gain on Other securities | (15,072) | (22,122) | (113,323) |
| Reserve for deferred income tax of real estate | (114) | (78) | (857) |
| Other | (0) | (0) | (0) |
| Total | (15,187) | (22,202) | (114,187) |
| Net deferred tax assets (liabilities) | ¥ 7,587 | ¥ (2,266) | \$ 57,045 |

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2002 and 2001 is as follows:

| | 2002 | 2001 |
|---|-------|--------|
| Statutory tax rate | 41.7% | 41.7% |
| Increase (decrease) in taxes resulting from | | |
| Permanent non-taxable items including dividend income | (4.2) | (10.1) |
| Permanent non-deductible items including entertainment expenses | 1.1 | 3.0 |
| Resident tax per capita levy | 0.8 | 2.5 |
| Loss on impairment of securities | 25.0 | - |
| Other | (0.1) | (1.8) |
| Effective income tax rate | 64.3% | 35.3% |

12. 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.

13. Leases

(1) Information on finance lease contracts without an ownership transfer, for the years ended March 31, 2002 and 2001, was 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 |
|--------------------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Acquisition cost | ¥ 6,526 | ¥ 4,881 | \$ 49,067 |
| Accumulated depreciation | (2,701) | (1,670) | (20,308) |
| Net book value | ¥ 3,825 | ¥ 3,210 | \$ 28,759 |
| Depreciation expenses | ¥ 1,125 | ¥ 878 | \$ 8,458 |
| Interest expenses | ¥ 181 | ¥ 152 | \$ 1,360 |

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 future lease payments at March 31, 2002 and 2001, which excludes the interest portion were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|------------------------|-----------------|---------|------------------------------|
| | 2002 | 2001 | 2002 |
| Future lease payments: | | | |
| Due within one year | ¥ 1,240 | ¥ 940 | \$ 9,323 |
| Due in over one year | 2,716 | 2,370 | 20,421 |
| Total | ¥ 3,956 | ¥ 3,311 | \$ 29,744 |

(c) Lease expenses

| | Millions of yen | | Thousands of |
|-----------------------|-----------------|-------|--------------|
| | 2002 | 2001 | U.S. dollars |
| Lease rental expenses | ¥ 1,273 | ¥ 994 | \$ 9,571 |

- (2) The amount of future lease payments at March 31, 2002 and 2001 were on operating lease contracts as follows:

| | Millions of yen | | Thousands of |
|------------------------|-----------------|------|--------------|
| | 2002 | 2001 | U.S. dollars |
| Future lease payments: | | | |
| Due within one year | ¥ 0 | ¥ - | \$ 0 |
| Due in over one year | 2 | - | 15 |
| Total | ¥ 2 | ¥ - | \$ 15 |

14. 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 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, 2002 and 2001 were ¥4,567 million (\$34,338 thousand) and ¥3,213 million, respectively.

(3) Risk management system of the Bank

The Bank exercises and controls the derivative transactions using limits including position limits, credit limits 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

(a) Interest Rate Related Transactions

| | | Millions of yen | | | |
|---------------------|-------------------------------------|--|-------------------------------|-----------------|-----------------------------|
| | | 2002 | | | |
| | | 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 | ¥ 11,000 | ¥7,000 | ¥ 218 | ¥ 218 |
| | Receipts floating-payments fixed | 15,128 | 11,000 | (662) | (662) |
| Total | | | | ¥ (443) | ¥(443) |

| Millions of yen | | | | |
|-------------------------------------|--|-------------------------------|-----------------|-----------------------------|
| 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 | | | <u>¥(499)</u> | <u>¥ (499)</u> |

| Thousands of U.S. dollars | | | | |
|-------------------------------------|--|-------------------------------|------------------|-----------------------------|
| 2002 | | | | |
| | 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 | \$ 82,706 | \$ 52,631 | \$ 1,639 | \$ 1,639 |
| Receipts floating-payments fixed | 113,744 | 82,706 | (4,977) | (4,977) |
| Total | | | <u>\$(3,330)</u> | <u>\$ (3,330)</u> |

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, 2002 and 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.

(b) Foreign exchange related transactions

i) Balance as of March 31, 2002 and 2001

| Millions of yen | | | | |
|------------------------------------|------------------------------|----------------------------|-----------------|-----------------------------|
| 2002 | | | | |
| | Notional principal amount | Including Over one year | Market Value | Unrealized Profit/(Loss) |
| Over-the-counter currency swaps | ¥ 63,833 | ¥ 38,628 | ¥ (57) | ¥ (57) |

| Millions of yen | | | | |
|------------------------------------|------------------------------|----------------------------|-----------------|-----------------------------|
| 2001 | | | | |
| | Notional principal amount | Including Over one year | Market Value | Unrealized Profit/(Loss) |
| Over-the-counter currency swaps | ¥ 40,008 | ¥ 9,507 | ¥ (19) | ¥ (19) |

| Thousands of U.S. dollars | | | | |
|------------------------------------|------------------------------|----------------------------|-----------------|-----------------------------|
| 2002 | | | | |
| | Notional principal amount | Including Over one year | Market Value | Unrealized Profit/(Loss) |
| Over-the-counter currency swaps | \$ 479,947 | \$290,436 | \$ (428) | \$ (428) |

- 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, 2002 and 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 have been excluded from the disclosure of balance as of March 31, 2002 and 2001.

The balance of such currency swaps as of March 31, 2002 and 2001 is as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------|-----------------|----------|------------------------------|
| | 2002 | 2001 | 2002 |
| Notional principal | ¥ 22,728 | ¥ 51,893 | \$ 170,887 |
| Market value | (898) | (3,147) | (6,751) |
| Unrealized profit/(loss) | (898) | (3,147) | (6,751) |

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 which are marked to market as of March 31, 2002 and 2001 are as follows:

| | Millions of Yen | | Thousands of |
|------------------------------------|-----------------|---------|--------------|
| | 2002 | 2001 | U.S. dollars |
| | <hr/> | | <hr/> |
| Over-the-counter | | | |
| Foreign exchange forward contracts | | | |
| Sold | ¥ 4,097 | ¥ 2,257 | \$ 30,804 |
| Bought | 2,540 | 666 | 19,097 |

15. Subsequent Event

The annual shareholders' meeting, which was held on June 26, 2002, approved the following appropriations of retained earnings for the year ended March 31, 2002:

| | Millions of | Thousands of |
|---|-------------|--------------|
| | yen | U.S. dollars |
| | <hr/> | <hr/> |
| Cash dividends (¥3.00 per share) | ¥ 765 | \$ 5,751 |
| Bonuses to directors and corporate auditors | 46 | 345 |
| Transfer to voluntary reserve | 49 | 368 |

16. Segment information

(1) 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.

(2) Segment information by Geographic Area

All of the Group's operations are in Japan.

(3) Recurring income from international operations

| | Millions of Yen | | Thousands of US dollars |
|---|-----------------|---------|----------------------------|
| | 2002 | 2001 | 2002 |
| Recurring income from international operations | ¥ 8,222 | ¥ 8,515 | \$ 61,819 |
| Total operating income | 76,206 | 79,767 | 572,977 |
| International Operations' Ratio | 10.7% | 10.6% | 10.7% |

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3-28-12, Meieki, Nakamura-ku
Nagoya, 450-8565 Japan
Telephone 81-52-551-3001
Facsimile 81-52-551-3005

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, 2002 and 2001, 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, 2002 and 2001, 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.

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 26, 2002

Corporate Data

As of March 31, 2002

Established: July 25, 1925

Total Assets: ¥3,295.3 billion

Deposits: ¥2,910.7 billion

Loans and Bills Discounted: ¥1,918.4 billion

Capital Stock: ¥18.1 billion

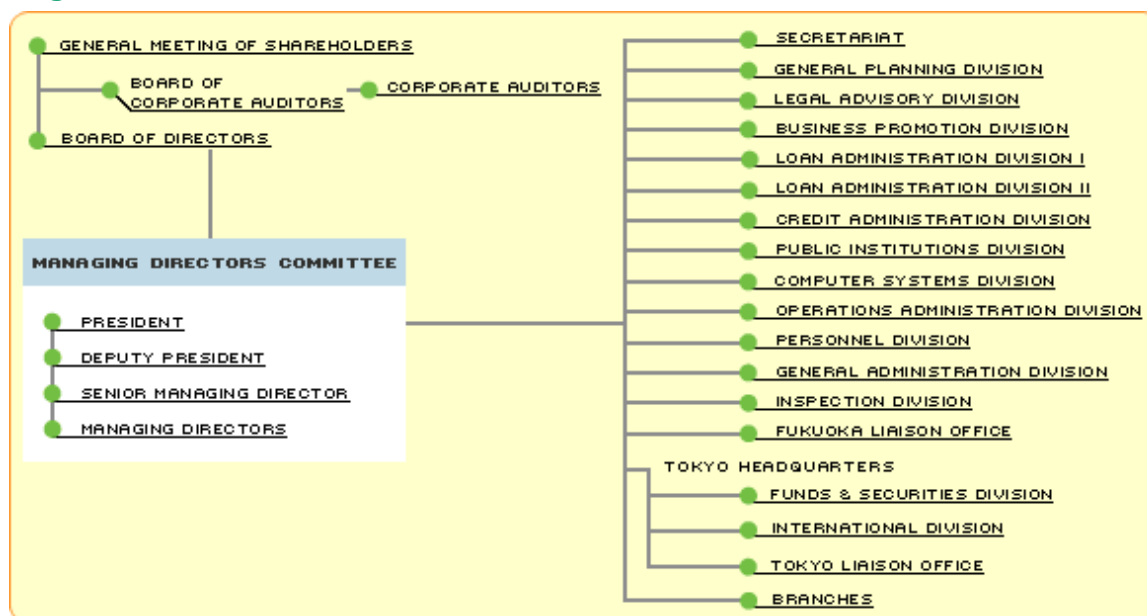
Capital Ratio: 10.53 % (domestic standards)

Number of Employees: 2,338

Number of Offices: 130

(Head Office and 113 domestic branches, 12 sub-branches, 3 agencies, and 1 overseas representative office)

Organization



Board of Directors and Corporate Auditors

President & Representative Director:

Hiroo Oguri

Senior Managing Director & Representative Director: Masaomi Mori

Managing Directors:

Ken Inomata

Hidenori Mito

Kenichi Takaiwa

Moriaki Yamada

Directors:

Shozo Iwanaga

Hiroo Nagata

Takahiro Kai

Takeshi Nakayama

Kenichi Hida

Standing Corporate Auditors:

Tomoyoshi Kuroda

Tetsuo Uemura

Corporate Auditors:

Naosuke Tokuyama

Jiro Yamada

Tadasu Yonawa

Service Network

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860-0017

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Representative Office

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Yatsushiro 866-0861

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Tamana Branch

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865-0025

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Suidocho Branch

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Kagoshima Branch

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Kagoshima 892-0844

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Amakusa Branch

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863-0037

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Phone: (096) 293-3131

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Matsubasemachi 869-
0502

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