



SHIZUOKA BANK



**ANNUAL REPORT 2001**

Year Ended March 31, 2001

# SHIZUOKA BANK

# Shizuoka Bank at a Glance

Nurturing the Vision of a Prosperous Community

## A FIRST-CLASS REGIONAL BANK

The Shizuoka Bank is one of Japan's largest regional banks, with 169 domestic branches and 13 sub-branches as of June 30, 2001. These branches serve the needs of customers within Shizuoka Prefecture, the Bank's home region, and also in Japan's three most important business centers: Tokyo, Osaka, and Nagoya. Outside Japan, the Bank's international network comprises operations in New York, Los Angeles, Brussels, Hong Kong, Shanghai, and Singapore.

## A SOLID FINANCIAL STRUCTURE

On March 31, 2001, Shizuoka Bank had non-consolidated total assets of ¥8,216.7 billion (US\$66,317 million), loans of ¥5,148.8 billion (US\$41,556 million), and deposits of ¥6,868.8 billion (US\$55,438 million). The Bank's consolidated capital ratio stood at 12.58%, one of the highest ratios among Japanese banks. The Tier I ratio was also at the high level of 10.47%, above the international standard.

## INTERNATIONAL CONFIDENCE

Shizuoka Bank has one of the strongest financial positions of any Japanese bank, gaining excellent credit ratings from three overseas rating agencies and one Japanese: Aa3 (long-term), P-1 (short-term), and B (financial strength) ratings from Moody's; A+ (long-term) and A-1 (short-term) ratings from Standard & Poor's; F1 (short-term) and B/C (financial strength) ratings from Fitch, and a AA (long-term) rating from Japan Rating and Investment Information, Inc.

(As of June 30, 2001)

	Long-Term	Short-Term	Financial Strength
Standard & Poor's	A+	A-1	—
Moody's	Aa3	P-1	B
Fitch	—	F1	B/C
Japan Rating and Investment Information, Inc.	AA	—	—

## A DYNAMIC REGION

Shizuoka Bank makes an ongoing contribution to the development of Shizuoka Prefecture, its principal base of operations, guided by its corporate mission of promoting the continued prosperity of its home territory. As the prefecture, located in the approximate center of Japan, is a key transportation hub, its industry has undergone strong development. It is renowned as accounting for 3% of the Japanese economy, reflected in the fact that it has a 3% share of many economic indices, such as the number of business establishments. In many other indices that are measures of affluence, such as prefectural income, it ranks around 10th among Japan's 47 prefectures.

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### Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to The Shizuoka Bank, Ltd.'s current plans, estimates, strategies and beliefs, and other statements that are not historical facts are forward-looking statements about the future performance of Shizuoka Bank. These statements are based on management's assumptions and beliefs in light of the information currently available to it and therefore readers should not

place undue reliance on them. Shizuoka Bank cautions readers that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to, (1) general economic conditions in Shizuoka Bank's market (particularly Shizuoka Prefecture) and (2) fluctuations of market rate of interest and the exchange rate.

# Consolidated Financial Highlights

THE SHIZUOKA BANK, LTD. and Subsidiaries

Years ended March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
Income before income taxes and minority interests	¥ 31,188	¥ 44,050	\$ 251,721
Net income	18,534	26,329	149,592

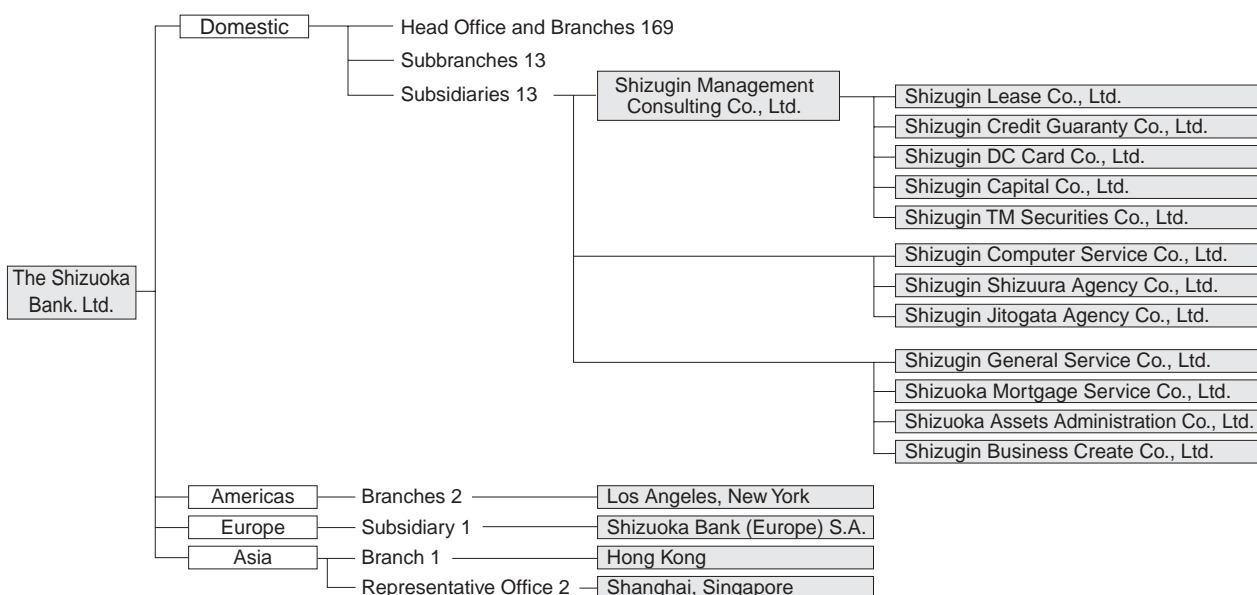
	Yen		U.S. Dollars (Note 1)
	2001	2000	2001
Net income per share	¥ 24.02	¥ 33.36	\$ 0.194
PER (Times, Non-consolidated)	41.18	25.49	
PBR (Times, Non-consolidated)		1.33	

March 31	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
Total assets	¥8,294,048	¥7,831,200	\$66,941,475
Deposits	6,886,912	6,705,135	55,584,440
Loans and bills discounted	5,141,189	5,133,248	41,494,671
Securities	1,862,008	1,384,489	15,028,314
Common stock	90,845	90,845	733,218
Total stockholders' equity	600,363	511,272	4,845,548
ROE (%)	3.33	5.21	
Capital adequacy ratio (BIS) (%)	12.58	13.94	
Tier I ratio (%)	10.47	11.05	

Notes: 1. Translation into U.S. dollars has been made solely for the convenience of readers outside Japan at the exchange rate of ¥123.9 to \$1, the approximate rate of exchange at March 31, 2001.

2. In this annual report, dollar figures are rounded off, but Japanese yen figures have been truncated in the process of calculation.

## The Structure of the Shizuoka Bank Group (As of June 30, 2001)





# A Message from the Management

Aiming to be a Regional Universal Bank that Meets the Needs of the Times



Soichiro Kamiya, *Chairman left*  
Yasuo Matsuura, *President*

As we stand on the threshold of the 21st century, we are confronted by major change in numerous spheres encompassing politics, the economy, and society. This tide of change is also affecting the financial industry.

We feel that, in these turbulent times, only those who adapt to the new environment by taking the initiative to reform themselves will be able to take fresh strides forward.

## **“TINA PRIME” MEDIUM-TERM PLAN LAUNCHED**

Inspired by this belief, in April 2001 Shizuoka Bank inaugurated TINA prime, its eighth medium-term management plan, which

covers a five-year period. “TINA,” an abbreviation for “There Is No Alternative,” indicates the strong will required for ongoing development. Meanwhile, “prime” is an acronym derived from four elements necessary for achieving the plan’s goals, namely “passion,” “rationality,” “ideas,” and “maximum effort.”

In addition to existing soundness, the plan also places emphasis on profitability and capacity for growth, calling for the combined strengths of the Group to be focused on the rapid and dynamic pursuit of business activities. It also lays out the vision of a “quality bank,” seeking to maximize corporate value. The “quality bank” that we envision has three principal components.

### **1. A bank that is most trusted by customers and the community**

We regard the Shizuoka Bank’s mission as being to contribute to the robust development of the local industrial sector and economy.

The Bank’s aim is to provide customers with all types of service under one roof, and to act as the most valuable partner both for local people in all aspects of their economic lives, and for corporate activity. To be such a bank, we must put ourselves in the shoes of our customers and conduct management in a way that meets their expectations. In this way, we will strengthen the bonds of trust that bind the two sides.

### **2. A local universal bank providing high-quality products and services**

Through a dynamic strategy of forming tie-ups with other leading institutions both within Japan and overseas, Shizuoka Bank has been able to provide high-quality products and services. In parallel with this, it has enhanced its Group’s corporate functions by establishing Shizugin Management Consulting Co., Ltd. and Shizugin TM Securities Co., Ltd.

### **3. A bank whose employees are constantly able to exercise their capabilities and show their individuality**

To develop human resources ever willing to take up the challenges posed by change, the Bank has completely overhauled its personnel system. It has introduced a system of management by objectives and has molded a corporate culture in tune with the 21st century, and will continue to place emphasis on imbuing staff with specialist expertise and placing them accordingly.

#### **MANAGEMENT TARGETS**

Two of the targets of the new medium-term plan are to achieve Group consolidated net income of ¥73 billion (US\$589 million) in the final year, fiscal 2005 (around double its level in fiscal 2000), and a return on equity (ROE) to Tier I capital of 14%. The Bank will also maintain a Tier I capital ratio, an indicator of soundness, of approximately 10%.

The Bank's capital ratio according to international standards was 12.58% in fiscal 2000, one of the highest among Japan's regional banks. We aim to ensure our soundness by maintaining this level, at the same time increasing ROE substantially and achieving profitability and growth in a balanced manner.

We are also targeting a return on assets, based on net operating profit, at the 1% level, and as for the overhead ratio, an indicator of efficiency that has been one of our weak points, we are targeting a level of 50% on a non-consolidated basis by cutting personnel and non-personnel expenses by ¥5 billion (US\$40 million) and ¥3 billion (US\$24 million) respectively.

#### **BUSINESS STRATEGIES**

There are five fundamental strategies upon which the Bank bases its attainment of business goals.

These are described in detail later in this report, so we will confine ourselves to a few brief remarks. First, in the corporate

and personal banking markets, our core business areas, we aim to further strengthen retail business by upgrading our earnings and risk-management techniques, and honing our marketing skills. We will also completely overhaul the ways in which we process our business activities, and immediately implement business process reengineering using the latest information technologies.

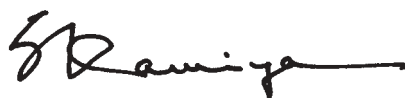
Through these strategies we will create a structure allowing us to offer more finely tuned services to meet customer needs, and will strengthen our business base.

#### **EARNING THE TRUST OF ALL OUR STAKEHOLDERS**

Amid the persistent harshness of the financial and economic environment, and calls for the reform of the economic structure, Shizuoka Bank is resolved to implement the TINA prime business plan. Through a process of tireless self-reform and renewal, we are determined to live up to the expectations and trust of the local community, customers, and stockholders.

We hope you will give us your continuing goodwill and support.

August 24, 2001



**Soichiro Kamiya**

*Chairman*



**Yasuo Matsuura**

*President*

# Mid-Term Plan “TINA prime”: Pursuing Further Advances in the New Century

## **Basic Strategy**

*The Bank’s 7th medium-term business plan, TINA 21, targeted the improvement of profitability to ensure triumph in the 21st century. TINA prime continues and develops the fundamental policies of that plan, to enhance corporate value still further. It sets out a vision of a “quality bank,” and through five basic strategies its objective is to raise profitability in the spheres of corporate and retail banking and treasury operations, and to build a low-cost structure.*

Shizuoka Bank and its Group companies will join together to implement their business strategies, seek to increase consolidated earnings, and engage in dynamic, fast-moving management that will enable them to address the severe changes in the operating environment.

## **4. Business Process Re-engineering**

- **Renovate channels.**
- **Centralize on branch administrative work.**
- **Reform lending operations.**

Corporate Banking  
Division

Retail Banking  
Division

Treasury  
Division

To achieve the targets set down in TINA prime, the Bank will adopt a dual approach: on the one hand it will seek to improve expenditure efficiency by reducing personnel and the number of branches, while on the other it will devise methods of ensuring sufficient personnel and time to permit the meticulous implementation of marketing and services. The difficult task of reconciling these conflicting elements will be conducted in three fields: the renovation of channels, the centralization of branch administrative work, and the reform of lending operations. In April 2001 a project team to manage business process reengineering was established under the direct control of the President, and has begun taking concrete action.

The area-specific marketing structure, in place since fiscal 2000, forms the pivot of the “renovation of channels,” which entails concentrating customers, marketing personnel, and

administrative work, thereby creating an efficient and effective marketing network. Greater use will also be made of such channels as the Internet and mobile phones so as to enhance customer convenience.

The “centralization of branch administrative work” entails the formation of an administrative-processing structure that uses information technologies such as image processing and workflow technologies. Through this, the back-office work of branch offices will be centralized, with the aim of eliminating this component of the branches’ business activities.

For the “reform of lending operations,” information technologies will be incorporated actively to shorten processing periods, and strengthen marketing. Internal documentation related to lending operations has been virtually paperless since August 2001.

## 1. Agile Management Style

- Reform administrative systems.
- Adopt advanced administration and control method.

Establishment of a business base in which small and medium-sized enterprises are the primary targets

Constructing an efficient business promotion structure through improved database marketing/Providing high-quality products and services geared to customer needs

Efficient investment of surplus funds/Structuring a securities portfolio that assures stable generation of earnings

## 5. Proactive Corporate Culture

- Firmly institute the new personnel system.
- Cultivate autonomous, quality personnel and professionals and experts in each division.

The Bank will upgrade its techniques for managing credit risk, such as methods of quantifying credit risk and scoring examinations. While exercising appropriate risk control, it will accumulate highly profitable assets, and increase earnings.

Taking advantage of its strong customer base, Shizuoka Bank will engage in a marketing program using databases. In the retail market, the Bank will build a continuous relationship marketing structure in which demand for funds is forecast on the basis of customers' individual life stages, and the optimum products and services provided.

## 2. Advanced Risk Management

- Level-up risk and profit management systems.

## 3. Enhanced Marketing Skills

- Introduce CRM (continuous relationship marketing) sales method.

The personnel management system has been radically reformed since April 2001. The former seniority system has been scrapped in favor of a system of performance-linked compensation. This has been accompanied by the introduction of a system of management by objectives that will clarify degrees of contribution to business performance. Overall Bank management targets will be linked with the targets of departments, branches, and individual employees, to ensure that management policies permeate the Bank. The degree to which these targets are attained will be reflected in the fairness of the treatment of those entities and individuals, stimulating the creation of a results-oriented corporate culture.

The Bank will also introduce an entry system that gives greater importance to independence for advancement to senior posts, and a system of skill recognition that evaluates expertise in every field. This will mold a system in which highly able members of staff with high aspirations are fairly evaluated and promoted. In addition, the Bank will develop staff who, instead of being generalists, will concentrate their expertise on corporate banking, retail banking, and treasury operations, and will function as groups of professionals dedicated to serving customer needs.

# Activities at the Divisional Level

## CORPORATE BANKING DIVISION

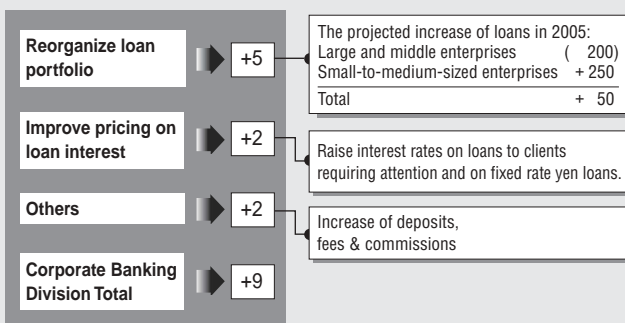
Under TINA prime, in the sphere of corporate banking, small and medium-sized enterprises (SMEs) are regarded as the most important targets. This is because, of the more than 210,000 SMEs operating in Shizuoka Prefecture, Shizuoka Bank currently does business with only 36,000 SMEs, or 17%, leaving a very substantial market still to be tapped. The aim is to widen the customer base by concentrating inputs of management resources on this market, and increase lending business by expanding market share of corporate banking within the region. The plan calls for net business profit from corporate banking to be augmented by ¥9 billion over its five-year period, by such means as changing the composition of the loan portfolio and improving pricing.

Given the great changes occurring in the operating environment, SMEs have a rapidly growing need for management consultancy. The type of assistance required covers the entire spectrum of corporate management, ranging from business mediation and financial diagnoses, to support for the introduction of IT, share listings, and mergers and acquisitions. These needs are served to support corporate customers' business growth, by using the capabilities of Group companies such as Shizugin Management Consulting and Shizugin TM Securities Co., Ltd.

The Bank will develop a structure in which the complete processes for bond issuance and share listings for SMEs and larger corporations operating in Shizuoka Prefecture can be carried out within the Group, including bond and share underwriting, public offerings, and secondary offerings.

### Plan for Increasing Gross Operating Income over 5 Years in the Corporate Banking Division

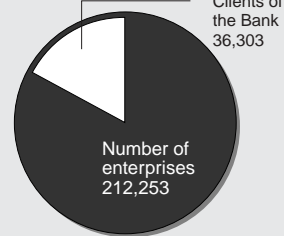
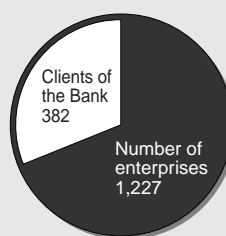
(Billions of Yen)



### Share of Corporation Customer Market in Shizuoka Prefecture

Large and 2nd-tier enterprises

Small-to-medium-sized enterprises



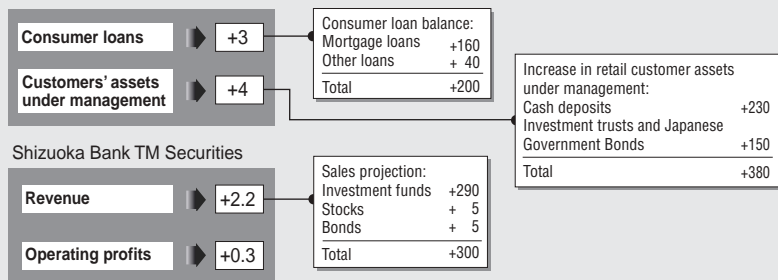
## RETAIL BANKING DIVISION

In the retail banking division there will be a shift from the existing approach of sales based on manpower, primarily at branches, to sophisticated database marketing using customer data. A one-stop shop for financial products will be created through the development of low-cost channels providing products efficiently, and a wide-ranging strategy of forming tie-ups, which will include Group companies. Priority

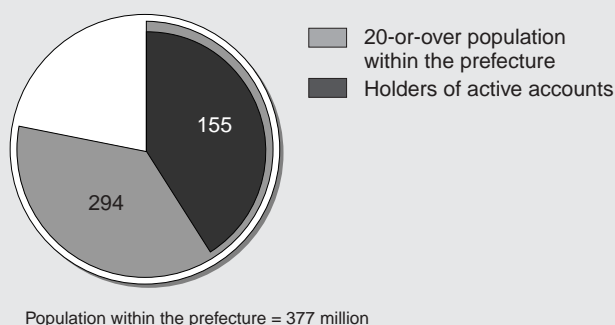
will also be given to increasing consumer loans and raising fee income by increasing sales of investment trusts and other financial products such as government bonds. The capabilities of Shizugin TM Securities Co., Ltd. will be deployed to help raise the balance of personal financial assets managed by the entire Group. The Bank will endeavor to increase net business profit from retail banking by ¥7 billion over the five-year period of the plan.



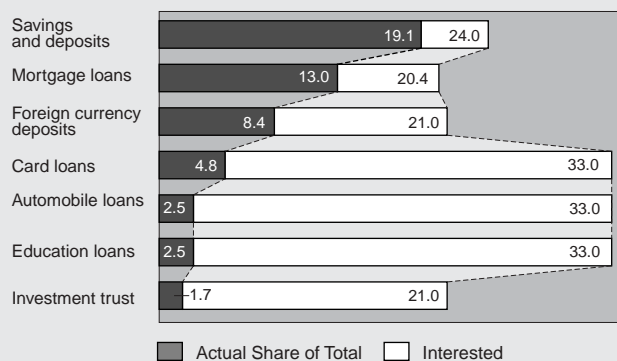
**Plan for Increasing Gross Business Profit over 5 Years in the Retail Banking Division** (Billions of Yen)



**The Bank's Retail Customers as a Percentage of Shizuoka Prefecture's Population**



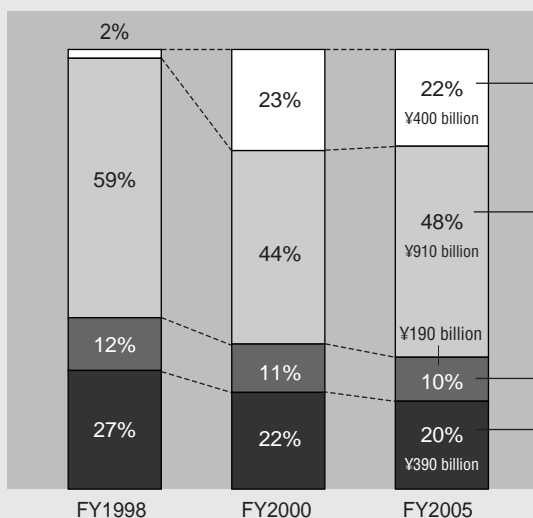
**Survey of Customers' Interest in Using Shizuoka Bank** (As of July 2000) (%)



**TREASURY DIVISION**

The range of investment instruments is being diversified to encompass instruments such as asset-backed securities, private investment trusts, and Euroyen bonds. Sources of earnings will be dispersed from interest-rate risk to cover such

risks as credit risk and liquidity risk. This has been prompted by the need, in today's low-interest-rate environment, to raise yields, however slightly. The Bank will endeavor to build a securities portfolio capable of generating stable earnings, and to train employees in securities investment.



- Diversified Investment Instruments Portfolio**
  - Maintaining share at 20-25% level
  - We are examining the feasibility of alternative forms of investment such as real estate investment trusts in addition to asset-backed securities, Euroyen bonds, and private-placement investment trusts.
- Portfolio of JGBs, Local Bonds and Government-Backed Securities**
  - Maintaining average maturity period of about 3 years when domestic interest rates are on the uptrend
- Equities Portfolio**
  - Cross-shareholdings will be dissolved except insofar as they are necessary to strengthen strategic relationships with the ultimate goal of improving corporate governance.
- Issue of Debentures Denominated in Foreign Currencies**
  - Making full use of the Bank's high credit rating to secure sufficient earnings level through low-cost funding

Note: Figures on book-value basis, excluding gains or losses on valuation

# Compliance and Risk Management Systems

## BASIC COMPLIANCE POLICY AND ORGANIZATIONAL STRUCTURE

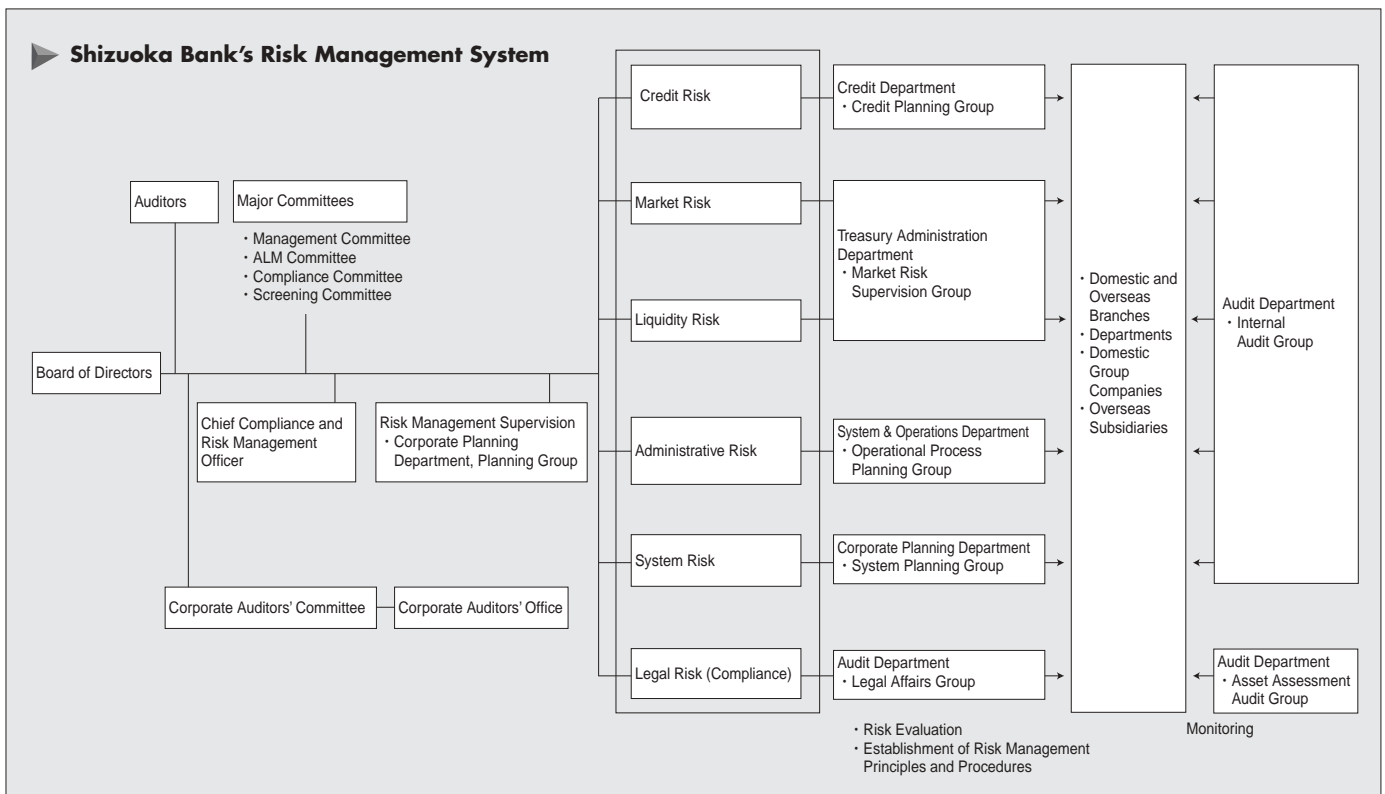
It is said that a company cannot survive without proper compliance, and it is therefore incumbent upon the managements of companies in whatever field to observe laws, ethical standards, and social norms. Given the public-service character of their mission, financial institutions in particular must be aware of the considerable responsibilities that they bear, and must live up to the trust of their stockholders and customers.

Shizuoka Bank was quick to start building a structure for compliance, and has taken steps to strengthen it subsequently. In fiscal 1998, the Bank drew up the Shizuoka Bank Ethical Charter and established the Compliance Committee, chaired by the President. Since then, it has remained highly active in this sphere. Steps that continue to be taken include an annual review of the compliance structure

and the formulation of plans for staff education.

In addition, a director with responsibility for compliance risk management has been designated; compliance officers have been appointed at all head-office departments, branches, and Group companies; and in conjunction with audits conducted by the Audit Department, the state of legal compliance is subjected constantly to spot checks. The Bank is endeavoring to ensure the spread of a corporate culture in which all employees always act in line with the requirements of compliance. Measures to this end include the distribution to all staff of a handbook explaining the rules, laws, and norms to be observed, and the holding of training sessions throughout the year.

In addition, as part of its steps to strengthen corporate governance, the Bank's audit functions have been further enhanced by the establishment of the Corporate Auditors' Office.



## **BASIC RISK MANAGEMENT POLICY AND ORGANIZATIONAL STRUCTURE**

In its business operations, the Bank is exposed to a variety of risks that include credit risk, market risk, liquidity risk, administrative risk, and system risk. Through the creation of an internal management structure that centrally identifies all of these risks, including those of Group companies, Shizuoka Bank aims both to ensure soundness and to raise profitability through the exercise of appropriate risk control.

### **(1) Credit Risk Management System**

Credit risk as defined here is the possibility that the Bank will suffer losses if the repayment of loan principal or interest becomes difficult for such reasons as the failure or deterioration of the financial position of customers.

In order to enhance the soundness of its loan assets, the Credit Supervision Department has been established as a unit entirely independent of all operating sections, and is charged with the management of all credit risk, in both domestic and overseas operations. The structure for the management of credit risk has been strengthened by the establishment of a number of internal units within the Credit Department. These units are Credit Group I and Credit Group II, in charge of screening customers' creditworthiness and borrowings; the Research Group, responsible for conducting research into industry trends; and the Credit Administration Group, in charge of administering and recovering problem loans. In addition, the Credit Planning Group was set up to oversee credit risk management, by such measures as analyzing the degree of risk exposure of the loan portfolio — the aggregation of the Bank's lending business — on a segment-specific basis, such as by industry and debtor credit rating.

In addition, the Asset Assessment Audit Group, which functions separately from the operating and credit supervision divisions, has also been established within the Audit

Department. This creates a system for monitoring credit risk management to confirm that it is conducted correctly, for example, by inspecting the implementation process for asset self-assessments.

### ***Borrowers' Credit Rating System***

The Bank has introduced a borrower credit rating system with the objective of gaining an accurate grasp of corporate creditworthiness and of ensuring meticulous credit risk management. To maintain objectivity, the system places emphasis on quantitative information. Based on financial data such as a company's financial condition and cash flow, borrowers are assigned to one of 12 rating categories. These borrower credit ratings form the basis of the self-assessment classification, which is carried out as part of the procedure for calculating capital ratios required by the "prompt corrective action" based on the Banking Law. They are also used widely for such purposes as providing the criteria for credit-approval limits and applicable interest rates for borrowers, criteria for the valuation of security, and criteria for administration of problem loans. As such, the ratings are indicators that are fundamental to credit risk management.

In principle, the Bank assigns such ratings to all companies, and reviews the ratings annually. By regularly assessing the state of companies through these procedures, the Bank's credit supervision capacity is enhanced.

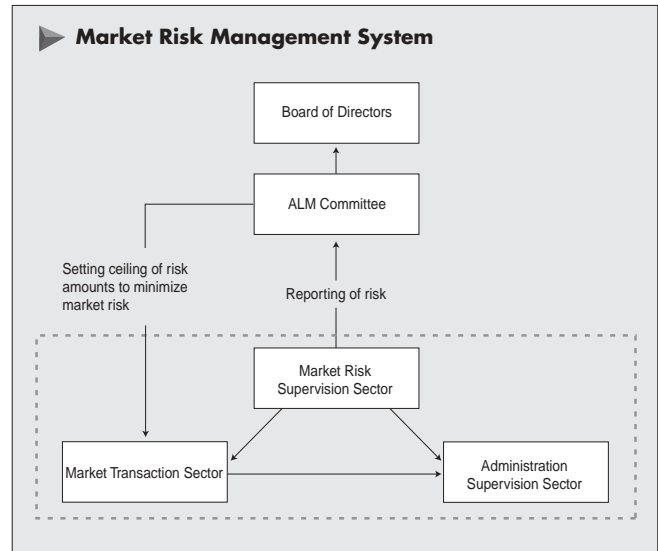
### **(2) Market Risk Management**

Market risk as defined here is the risk of suffering losses when the value of financial assets varies with fluctuations in market prices such as interest rates, exchange rates, and share prices. Market-related risk includes not only market risk but also credit risk associated with instruments such as derivatives.

Organizationally, divisions involved in market transactions are kept strictly separate from market risk management and

administrative divisions. The market risk management division measures and manages market-related risk, and checks the observance of regulations by the front office. The administrative division acts as a complementary restraint by checking the content of transactions made by the front office. With regard to the profit or loss and risk measured by the market risk management division, the Bank has created a structure through which senior management can monitor the situation via an intranet. Combined with regular reports, this makes it possible to gain an accurate understanding of market risk, and to take appropriate management decisions.

At the semiannual management meetings, the tolerable levels of market risk are decided using the VaR (Value at Risk) method, after taking into consideration the strength of the Bank in terms of such measures as stockholders' equity and profitability. This determines the market risk ceilings for divisions engaging in market transactions. Sections responsible for dealings endeavor to achieve profit targets while controlling risk within these market-risk limits, and their performance is measured and managed centrally by the market risk management division. At the monthly ALM Committee meetings, the Bank's entire risk exposure is assessed with the use of risk management methods such as VaR and EaR (Earnings at Risk). On the basis of these assessments, the policy for hedging the risk is decided upon, and hedging operations are implemented flexibly with the use of derivatives such as swaps. In this way, the Bank endeavors to control risk accurately and to assure a stable earnings flow.



### (3) Liquidity Risk Management

There are two forms of liquidity risk: first, the risk of loss when necessary funds cannot be procured as a result of factors such as changes in market conditions and cash flow declines, or the Bank can only secure the funds by paying far higher interest rates than normal (funding liquidity risk); second, the risk of loss when, owing to factors such as market turmoil, it becomes impossible to trade financial products such as bonds, or transactions must be concluded at far more disadvantageous prices than normal (market-liquidity risk).

With respect to funding liquidity risk, units have been made responsible for daily, weekly, and monthly cash-flow management, including at overseas branches. To prepare for all possible contingencies, four grades of emergency have been established. The staff empowered to act have been designated, and the measures to be taken have been set down for each such situation to enable them to be dealt with swiftly.

Market liquidity risk is managed by setting position limits for each product and each period. These position limits are reviewed every half term, taking factors such as market scale into consideration.

#### **(4) Administrative Risk Management**

Administrative risk as defined here is the risk of incurring losses as the result of accidents occurring because the administrative work for banking transactions is not carried out in a timely or appropriate manner. To cope properly with the increasing diversity and volume of banking business and avoid estimated administrative risk, Shizuoka Bank is improving its administrative infrastructure by investing actively in computerization and developing systems. It is also improving business efficiency and reducing costs by concentrating the back-office work conducted at branches at business centers located within and outside Shizuoka Prefecture.

To raise the level of administrative work conducted at branches, the Bank has made administrative rules available online to all staff. Moreover, staff education is being enhanced by such means as branch visits by head office instructors to provide administrative guidance, and regular administrative training programs for employees.

To prevent mishaps and ensure that branches are operated in a well-balanced manner, the Audit Department's Internal Audit Group, whose functions are independent of other operating divisions, conducts on-site inspections of domestic branches, head-office departments, and overseas units at least once a year. It rigorously inspects the state of risk management, the observance of regulations, and all administrative operations. Based on the methods prescribed by the Inspection Manual, the Internal Audit Group undertakes efficient and highly effective inspections according to the categories and extent of risk, properly addressing risk as it becomes more diverse and complex. Branches also conduct their own internal inspections once a month, to verify the level of their administrative operations and prevent errors.

#### **(5) System Risk Management**

System risk as defined here is: (1) the risk of incurring losses as a result of the failure of computer systems resulting from accidents or breakdowns of computer equipment or communications circuits; and (2) the risk of losses from human error or intentional acts such as the improper use of computers, malfunctioning resulting from operating errors, or information leaks. Also, with the progress made in recent years in the development of open systems such as the Internet, new risks have arisen in such forms as theft or tampering with data by illegal hacking into computers.

Shizuoka Bank is devoting extensive efforts to the development of safety measure to avoid this system risk. Specifically, it has a computer center — the Shizugin Kusanagi Center — with failsafe equipment using state-of-the-art earthquake-proofing techniques, and all computer equipment and communications circuits are duplicated. It also has a back-up center, preparing it for large-scale disasters, and it has installed satellite-communication equipment and SEAS on-line backup vehicles for times of emergency.

In the domain of electronic and Internet banking services, the Bank exercises very strict management of both its systems and administration. This includes the verification of identity and the conduct of checks on virus contamination of electronic media, the management of data use and the encryption of key data, and the formulation of contingency plans for unforeseeable emergencies.

Within the Audit Department, the Internal Audit Group audits computer systems and programs and conducts strict checks of the way in which system development and system operation are managed.



# Financial Position and Business Operations

With the impending end to the current system of unlimited guarantees on bank deposits at the end of March 2002, public attention is once again focusing on the soundness of banks. “Sound management” has always been the watchword for Shizuoka Bank’s policies. Its capital ratio according to BIS standards, the foremost indicator of bank soundness, and its credit ratings, the key indicators of a bank’s creditworthiness, have remained at the highest levels among Japanese financial institutions. Shizuoka Bank is committed to the ongoing enhancement of its management strengths.

## CAPITAL RATIOS

A bank’s capital ratio is the ratio of its equity capital to its risk-adjusted assets. This ratio is an important indicator of the soundness and credit standing of bank management. Banks such as Shizuoka Bank, which have overseas bases or business operations, are required to maintain this ratio, as computed by the formula laid down by the Bank for International Settlements as the common minimum standard, at 8% at least.

At the end of March 2001, Shizuoka Bank’s capital ratio according to the BIS standard stood at 12.58% on a consolidated basis. This figure was achieved excluding either subordinated loans or land revaluation measures. This ranks among the highest in Japan. The Tier I (shareholders’ equity, including paid-in capital, additional paid-in capital and retained earnings) ratio, a basic ratio not affected by factors such as securities valuation gains or losses, was 10.47%: this is above the international level. One of the Bank’s management goals will continue to be to maintain a Tier I ratio of at least 10%.

## CREDIT RATINGS

The credit rating is an internationally recognized indicator that uses letters, numbers, and other symbols to convey, at a glance, the degree of certainty that the principal and interest of bonds issued by a company or other entity will be paid in accordance with predetermined terms and conditions. In the case of banks, they also show the certainty that deposit principal and interest will be paid, and are thus used to indicate banks’ credit standing and safety. Credit ratings include long-term ratings for loans, bonds, and other obligations with an original maturity exceeding one year, short-term ratings for loans, bonds, and other obligations with an original maturity not exceeding one year, and financial strength ratings focusing on the financial condition of companies and other entities themselves. Shizuoka Bank has gained credit ratings from

three overseas rating agencies and one Japanese agency that are among the highest of any Japanese financial institution.

## STATUS OF NON-PERFORMING LOANS

Shizuoka Bank’s non-performing loans have hitherto been kept to a minimum, owing to the rich diversity of local industry and to the large proportion of its corporate customers that are soundly managed. The prospect of a difficult operating environment characterized by persistently low economic growth and changes in the industrial structure continues to prevail. In spite of this, the Bank will continue to maintain the soundness of its assets by preventing the occurrence of non-performing loans by means of appropriate credit risk management, and by expediting the writing-off of existing non-performing loans.

To maintain and enhance the soundness of its assets, the Bank write off or provided 100% reserves for the entire amount of loans to bankrupt borrowers and to virtually bankrupt borrowers, less the amount expected to be recovered using collateral and other means. With regard to loans to potentially bankrupt borrowers, the Bank wrote off or provided reserves calculated by multiplying the balance — less the amount expected to be recovered by using collateral and other means — by the projected loss ratio, that is, the ratio of past loan losses plus projected future losses. Reserves were also set aside for substandard loans within the category of loans to borrowers requiring caution, based on the projected loss ratio. These measures illustrate how the Bank is addressing non-performing loans in an active and appropriate manner.

The Bank adheres to a basic policy of disposing of non-performing loans whenever they arise. To expedite this, it is taking steps such as increasing the liquidity of these loans. Rapid action by branches in conjunction with the head-office department in charge is enabling the Bank to make progress in reducing non-performing loans.

## DISCLOSURE METHODS

In accordance with enforcement regulations for the Banking Law, loans categorized as “Loans to bankrupt borrowers,” “Non-accrual loans,” “Loans past due for 3 months or more,” and “Restructured loans” are disclosed in the form of a report on risk-monitored loans. As in the previous fiscal year, this report for the year ended March 31, 2001 discloses amounts belonging to risk-monitored loans on a consolidated basis. The six consolidated companies are The Shizuoka Bank, Ltd., Shizuoka Capital Co., Ltd., Shizugin Lease Co., Ltd., Shizugin DC Card Co., Ltd., Shizugin Credit Guaranty Co., Ltd., and Shizuoka Bank (Europe) S.A.

In line with the tenor of the Bank's financial inspection manual, since the interim term ended September 1999, the Bank has not posted any accrued interest receivable on loans to borrowers falling into the categories of bankrupt borrowers, virtually bankrupt borrowers, and potentially bankrupt borrowers.

With regard to the disclosed amounts of risk-monitored loans, loans to bankrupt customers are disclosed as "Loans to bankrupt borrowers," while loans to virtually bankrupt borrowers and potentially bankrupt borrowers are posted as "Non-accrual loans," whether or not they are in arrears. In addition, in accordance with enforcement regulations for the Financial Revitalization Law, when the results of self-assessments of assets, including credits other than loans, are known, the nature of the assets must be disclosed in four categories that are based on each borrower's financial condition: "Bankrupt and quasi-bankrupt assets," "Doubtful assets," "Substandard loans," and "Normal loans."

Shizuoka Bank remains committed to ongoing positive disclosure of the nature of its assets, so as to ensure highly transparent management that fully lives up to the confidence placed in it by its customers and other stakeholders.

## **AN OVERVIEW OF THE BANK'S PERFORMANCE IN FISCAL 2000**

The following sections present an outline of the non-consolidated fiscal 2000 results of Shizuoka Bank, the core of the Shizuoka Bank Group.

### **Earnings**

General and administrative expenses declined during the year as a result of steps taken by the Bank to enhance efficiency and create a low-cost structure. However, factors such as the redemption of bonds with high coupons led to a decline in interest income and there was also a fall in other operating income related to government bonds and other bonds.

To enhance soundness still further, disposals of non-performing loans were expedited on the basis of rigorous self-assessment of assets. In addition, differences arising from changes in accounting standards relating to accounting for pension and post-retirement benefits were fully amortized during the term under review. Primarily as a result of these factors, net income for the term fell by ¥8.6 billion, to ¥18.3 billion (US\$147 million).

### **Loans**

As a financial institution moving in step with the region that it serves, Shizuoka Bank once again adopted a vigorous approach to its lending business in order to cater appropriately to diverse local needs for funds.

The corporate market was affected by the increasingly adverse outlook for the economy. Loans to large and medium-sized

corporations declined as a result of factors such as the sluggishness of capital investment, but the Bank achieved ¥10.5 billion growth in loans to SMEs, principally within Shizuoka Prefecture.

Loans to consumers, particularly mortgage loans, increased by ¥46.5 billion. As a result, the total balance of outstanding loans at the year-end rose by ¥6.9 billion from the previous year-end, to ¥5,148.8 billion (US\$41,556 million).

### **Securities**

Against the backdrop of the persistent low-interest-rate environment within Japan, the Bank continued its efforts to diversify its investments, increasing its holdings both in yen and in foreign currencies. Moreover, in line with the adoption of mark to market accounting for financial instruments, valuation gain on specified marketable securities was added to the book value, and the term-end balance of securities increased of ¥464.6 billion over the previous term-end to stand at ¥1,824.2 billion (US\$14,723 million).

### **Deposits**

By catering to the needs of individuals and businesses for more diverse channels for investing their funds, the Bank sustained its efforts to increase the inflow of funds into deposits and other financial products. These were not merely in the form of deposits, but also in such forms as investment trusts and government bonds. In consequence, although personal deposits slipped by ¥25.6 billion, other financial products, such as investment trusts and government bonds, increased by ¥146.4 billion in the retail market. In the corporate market, meanwhile, deposits rose by ¥142.1 billion, mainly as a result of growth in liquid deposits. As a result of all of these factors, the total deposit balance at the end of the term stood at ¥6,868.8 billion (US\$55,438 million), up by ¥176.1 billion from the preceding term.

In order to diversify its funding methods, the Bank took advantage of its high credit ratings to issue corporate straight bonds both in Japan and overseas, pushing up the total of issued and outstanding corporate bonds to ¥154.3 billion (US\$1,245 million) at March 31, 2001.

### **Consolidated Cash Flow**

Within the Bank's consolidated cash flow during the term, net cash provided by operating activities came to ¥250.9 billion. This was mostly the result of funding from the issuance of straight corporate bonds and of the growth in deposits. However, due to purchases of securities and other factors, net cash used in investing activities came to ¥251.1 billion.

The cash flow from financing activities also came to a net outflow, in this case of ¥28.2 billion, owing primarily to the buy-back and retirement of own shares.

The net result of this was that the total of cash and cash equivalents at term-end declined by ¥28.3 billion, to ¥118.8 billion (US\$959 million).

# Independent Auditors' Report

**Tohmatsu & Co.**

Agora Shizuoka  
1-13, Ohtemachi, Shizuoka-shi  
Shizuoka 420-0853, Japan

Tel: +81 (54) 273 8091

Fax: +81 (54) 273 8166

**Deloitte  
Touche  
Tohmatsu**

To the Board of Directors of  
The Shizuoka Bank., Ltd.:

We have examined the consolidated balance sheets of The Shizuoka Bank., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards' procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Shizuoka Bank., Ltd. and subsidiaries as of March 31, 2001 and 2000, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 3, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employee's retirement benefits and financial instruments.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu*

June 28, 2001

# Consolidated Balance Sheets

THE SHIZUOKA BANK, LTD. and Subsidiaries March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
<b>Assets:</b>			
Cash and due from banks	¥ 713,513	¥ 616,724	\$ 5,758,782
Call loans and bills bought	66,188	232,896	534,210
Monetary claims bought	95,634	83,502	771,868
Trading assets (Note 4)	171,134	121,807	1,381,228
Money held in trust	30,371	32,500	245,130
Securities (Notes 5, 11)	1,862,008	1,384,489	15,028,314
Loans and bills discounted (Notes 6, 11)	5,141,189	5,133,248	41,494,671
Foreign exchanges (Note 7)	3,515	7,032	28,376
Other assets (Note 8)	71,523	45,218	577,270
Premises and equipment (Note 9)	127,693	134,811	1,030,618
Deferred tax assets	4,187	42,923	33,800
Customers' liabilities for acceptances and guarantees (Note 10)	106,380	87,488	858,598
Reserve for possible loan losses	(99,259)	(91,430)	(801,126)
Reserve for investment losses	(32)	(10)	(264)
Total Assets	¥8,294,048	¥7,831,200	\$66,941,475
<b>Liabilities, Minority Interests and Stockholders' Equity:</b>			
<b>Liabilities:</b>			
Deposits (Notes 11, 13)	¥6,886,912	¥6,705,135	\$55,584,440
Call money and bills sold (Note 11)	330,067	354,634	2,663,983
Trading liabilities (Note 4)	5,287	3,826	42,672
Borrowed money (Note 11)	37,513	39,714	302,776
Foreign exchanges (Note 7)	180	222	1,454
Corporate Bonds	154,340		1,245,682
Other liabilities (Notes 11, 14)	119,000	106,185	960,454
Reserve for retirement allowances		14,908	
Reserve for employees' retirement benefits (Note 15)	26,589		214,606
Deferred tax liabilities	19,839		160,123
Acceptances and guarantees (Note 10)	106,380	87,488	858,598
Total Liabilities	7,686,110	7,312,116	62,034,788
<b>Minority Interests</b>	<b>7,575</b>	<b>7,811</b>	<b>61,139</b>
<b>Stockholders' Equity:</b>			
Common stock (Note 16)	90,845	90,845	733,218
Capital surplus (Note 16)	54,884	54,884	442,971
Retained earnings (Note 17)	356,060	365,585	2,873,775
Net unrealized gains on available for sale securities (Note 18)	100,541		811,472
Foreign currency translation adjustment	(1,658)		(13,386)
Treasury stock	(271)	(4)	(2,190)
Shares of parent company held by subsidiaries	(38)	(38)	(312)
Total Stockholders' Equity	600,363	511,272	4,845,548
Total Liabilities, Minority Interests and Stockholders' Equity	¥8,294,048	¥7,831,200	\$66,941,475

See notes to consolidated financial statements.

# Consolidated Statements of Income

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
<b>Income:</b>			
<b>Interest Income:</b>			
Interest on loans and discounts	¥122,736	¥118,941	\$ 990,611
Interest and dividends on securities	47,303	46,471	381,787
Other interest income	23,331	20,587	188,308
Subtotal	193,371	186,000	1,560,706
<b>Fees and Commissions</b>	36,927	37,131	298,044
<b>Trading Income</b>	1,172	397	9,467
<b>Other Operating Income</b> (Note 19)	5,662	12,500	45,700
<b>Other Income</b> (Note 20)	56,193	28,568	453,542
Total Income	293,328	264,597	2,367,459
<b>Expenses:</b>			
<b>Interest Expenses:</b>			
Interest on deposits	49,225	36,704	397,303
Interest on borrowings and rediscounts	11,068	5,404	89,334
Other interest expenses	17,962	24,194	144,979
Subtotal	78,257	66,303	631,616
<b>Fees and Commissions</b>	20,877	20,988	168,500
<b>Trading Losses</b>	234	42	1,892
<b>Other Operating Expenses</b> (Note 21)	6,394	6,672	51,614
<b>General and Administrative Expenses</b>	89,991	92,871	726,323
<b>Other Expenses</b> (Note 22)	66,384	33,667	535,793
Total Expenses	262,139	220,546	2,115,738
<b>Income before Income Taxes and Minority Interests</b>	31,188	44,050	251,721
<b>Income Taxes:</b> (Note 23)			
Current	23,160	24,819	186,931
Deferred	(10,885)	(6,923)	(87,859)
<b>Minority Interests in Net Income of Consolidated Subsidiaries</b>	378	(173)	3,057
Net Income	¥ 18,534	¥ 26,329	\$ 149,592
<b>Per Share:</b>			
Net income	¥ 24.02	¥ 33.36	\$ 0.194

See notes to consolidated financial statements.



# Consolidated Statements of Stockholders' Equity

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
<b>Common Stock:</b> (Note 16)			
Balance at beginning of year	¥ 90,845	¥ 90,845	\$ 733,218
Balance at End of Year	¥ 90,845	¥ 90,845	\$ 733,218
<b>Capital Surplus:</b> (Note 16)			
Balance at beginning of year	¥ 54,884	¥ 54,884	\$ 442,971
Balance at End of Year	¥ 54,884	¥ 54,884	\$ 442,971
<b>Retained Earnings:</b> (Note 17)			
Balance at beginning of year	¥365,585	¥353,575	\$2,950,652
Increase in consolidated retained earnings	146	1	1,181
Increase due to sale of shares in consolidated subsidiaries	146		1,181
Increase due to merger of consolidated subsidiaries		1	
Decrease in consolidated retained earnings	(28,205)	(14,320)	(227,650)
Decrease due to sale of shares in consolidated subsidiaries		(383)	
Cash dividends	(4,658)	(4,742)	(37,595)
Bonuses to directors and corporate auditors	(59)	(51)	(481)
Value of shares retired	(23,281)	(9,143)	(187,906)
Decrease due to exclusion of affiliates from application of equity method	(206)		(1,667)
Net income for the fiscal year	18,534	26,329	149,592
Balance at End of Year	¥356,060	¥365,585	\$2,873,775
Net unrealized gains on available for sale securities (Note 18)	100,541		811,472
Foreign currency translation adjustment	(1,658)		(13,386)
<b>Treasury Stock and Shares of Parent Company Held by Subsidiaries:</b>			
Treasury stock at end of year	¥ (271)	¥ (4)	\$ (2,190)
Shares of parent company held by subsidiaries at end of year	(38)	(38)	(312)
Balance at End of Year	¥ (309)	¥ (42)	\$ (2,502)
<b>Total Stockholders' Equity:</b>			
Balance at beginning of year	¥511,272	¥498,621	\$4,126,496
Changes during the year, net	89,090	12,651	719,052
Balance at End of Year	¥600,363	¥511,272	\$4,845,548

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
<b>I. Operating Activities:</b>			
Income before income taxes and minority interests	¥ 31,188	¥ 44,050	\$ 251,721
Adjustments for:			
Income taxes paid	(26,277)	(26,020)	(212,090)
Depreciation and amortization	24,881	24,753	200,816
Equity in earnings of investments accounted for by the equity method		(29)	
Increase in reserve for possible loan losses	7,828	17,642	63,185
Increase in reserve for investment losses	22	10	181
Increase in reserve for retirement allowances	(14,908)	207	(120,328)
Increase in reserve for employees' retirement benefits	26,589		214,606
Bonuses to directors and corporate auditors	(75)	(83)	(612)
Gains on securities	(21,108)	(16,330)	(170,364)
Gains on money held in trust	(328)	(488)	(2,651)
Gains on sale of premises and equipment	(1,313)	(1,837)	(10,601)
Changes in assets and liabilities:			
Decrease (increase) in trading assets	(49,326)	33,225	(398,116)
Increase (decrease) in trading liabilities	1,460	(1,527)	11,784
Decrease (increase) in loans and bills discounted	28,061	(8,505)	226,485
Increase (decrease) in deposits	103,557	44,584	835,812
Increase (decrease) in borrowed money	(2,201)	(2,681)	(17,765)
Decrease (increase) in due from banks (excluding demand deposits with the Bank of Japan)	(73,714)	(633)	(594,955)
Decrease (increase) in call loans	175,502	(133,386)	1,416,484
Decrease (increase) in monetary claims bought	(12,132)	36,659	(97,919)
Increase (decrease) in call money	(53,017)	293,318	(427,903)
Increase (decrease) in deposits collateralized for securities lent	(1,118)	(60,754)	(9,030)
Decrease (increase) in foreign exchanges (assets)	3,517	(1,684)	28,386
Increase (decrease) in foreign exchanges (liabilities)	(42)	(31)	(346)
Net increase (decrease) from corporate bonds	153,035		1,235,151
Increase in interest and dividends receivable	(3,960)	(192)	(31,968)
Decrease in interest payable	(2,979)	(7,091)	(24,051)
Other net	(42,153)	3,655	(340,221)
Total Adjustments	219,794	192,776	1,773,969
Net Cash Provided by Operating Activities	250,983	236,826	2,025,690
<b>II. Investing Activities:</b>			
Purchase of securities	(935,561)	(838,623)	(7,550,944)
Purchase of shares in consolidated subsidiaries	(816)	(63)	(6,588)
Proceeds from sale of securities	436,296	456,001	3,521,364
Proceeds from redemption of securities	265,463	215,965	2,142,565
Increase in money held in trust	(10,612)	(23,987)	(85,652)
Decrease in money held in trust	13,069	53,015	105,481
Purchase of premises and equipment	(23,464)	(26,122)	(189,381)
Proceeds from sale of premises and equipment	4,457	4,821	35,979
Proceeds from sales of shares in subsidiaries with changes in consolidation scope		111	
Net Cash Used in Investing Activities	(251,167)	(158,881)	(2,027,176)
<b>III. Financing Activities:</b>			
Dividends paid	(4,658)	(4,742)	(37,595)
Dividends paid to minority interests	(35)	(25)	(285)
Buyback and retirement of outstanding common stock using retained earnings	(23,552)	(9,143)	(190,090)
Net Cash Used in Financing Activities	(28,245)	(13,910)	(227,970)
<b>IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	98	(76)	797
<b>V. Net Increase in Cash and Cash Equivalents</b>	(28,330)	63,958	(228,660)
<b>VI. Cash and Cash Equivalents, Beginning of Year</b>	147,167	83,214	1,187,795
<b>VII. Decrease in Cash and Cash Equivalents due to Exclusion of Certain Subsidiaries from Consolidation</b>		(4)	
<b>VIII. Cash and Cash Equivalents, End of Year</b>	¥118,836	¥147,167	\$ 959,135

See notes to consolidated financial statements.

Note: For the purpose of the consolidated statements of cash flows, cash and cash equivalents consists of cash and demand deposits with the Bank of Japan.

Cash and due from banks on the consolidated balance sheet at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2001	2000	2001
Cash and cash due from banks	¥713,513	¥616,724	\$5,758,782
Other due from banks	594,676	469,556	4,799,647
Cash and cash equivalents in the consolidated balance sheet	¥118,836	¥147,167	\$ 959,135

# Notes to Consolidated Financial Statements

THE SHIZUOKA BANK, LTD. and Subsidiaries

## 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared from the accounts maintained by The Shizuoka Bank, Ltd. (the "Bank") and its subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law of Japan, the Bank Law of Japan and the Uniform Accounting Standards for Banks in Japan stated by the Japanese Bankers' Association and accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

In order to facilitate an understanding by readers outside Japan, certain reclassifications and rearrangements have been made to the financial statements submitted to the stockholders in Japan.

## 2. YEN AND U.S. DOLLAR AMOUNTS

In accordance with the Bank Law of Japan and the Uniform Accounting Standards for Banks in Japan, yen amounts less than one million have been omitted. As a result, the totals in yen shown in the accompanying consolidated financial statements and the notes thereto do not necessarily agree with the sum of the individual account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥123.9 to \$1, the approximate rate of exchange at March 31, 2001. Such translations should not be construed as representations that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Consolidation:

The accompanying consolidated financial statements as of March 31, 2001 include the accounts of the Bank and 14 (15 in 2000) subsidiaries.

SHIZUGIN TM SECURITIES CO., LTD. was newly consolidated this fiscal year because of its foundation. SHIZUOKA PRINTING CO., LTD. changed its name to SHIZUGIN MANAGEMENT CONSULTING CO., LTD. to reflect its new business line, and began operations under the new name in July 2000. SHIZUOKA REAL ESTATE CO., LTD., SHIZUOKA INSURANCE SERVICES CO., LTD., SHIZUOKA LIFE INSURANCE CO., LTD. and SHIZUOKA RIX CO., LTD. were excluded from consolidation because they were no longer associated companies as a result of the disposal of a certain portion of the Bank's interests in their shares. SHIZUGIN BUSINESS SERVICE CO., LTD. was not consolidated because it was dissolved due to a merger. The resulting surviving company was SHIZUGIN BUSINESS CREATE CO., LTD.

The excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary at the date of acquisition is charged to income when incurred.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profits resulting from intercompany transactions are eliminated.

### Implementation of mark-to-market accounting for trading purpose transactions:

"Transactions for trading purposes" (the purpose of seeking to capture gains arising from short-term fluctuations in interest rates, currency exchange rates or market prices of securities and other market-related indices or from gaps among markets) are included in "Trading assets" and "Trading liabilities" on a trade-date basis. Trading securities and monetary claims purchased for trading purposes recorded in these accounts are stated at market value, and trading-related financial derivatives are stated at the amounts that would be settled if they were terminated at the end of the fiscal year.

Profits and losses on transactions for trading purposes are shown as "Trading income (losses)" on a trade-date basis.

### Securities:

Prior to April 1, 2000, securities quoted on stock exchanges (except foreign currency bonds) are valued at the lower of cost or market value. Securities other than quoted on stock exchanges are valued at cost. The cost of securities is computed by the weighted moving average method. Effective April 1, 2000, the Bank and its subsidiaries adopted a new accounting standard for financial instruments, including securities.

Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and available-for-sale securities, which are not classified as either trading account securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

For securities included in "Money held in trust," the same method as mentioned above was applied.

The effect of adopting the new standard was to decrease income before income taxes by ¥216 million (\$1,749 thousand).

### Premises and equipment:

Premises and equipment are carried at cost or cost less deferred gain on sales of certain fixed assets permitted under the Corporation Tax Law. Depreciation of premises and equipment is computed using the declining-balance method over the estimated useful lives.

The range of useful lives is principally from 3 to 38 years for buildings, and from 2 to 20 years for equipment.

### Other assets:

The Bank and its subsidiaries in Japan amortize internal-use software development costs by the straight-line method over the useful life (five years).

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**Reserve for possible loan losses:**

The amount of the reserve for possible loan losses is determined based on management's judgement and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

The Bank implemented a self-assessment system for its asset quality. The quality of all loans is assessed by branches and the Credit Supervision Department with a subsequent audit by the Credit Examination Department, in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes — "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

The reserve for possible loan losses is calculated based on the specific past actual loss ratio for normal and caution categories, and the fair value of collateral for collateral-dependent loans and other factors of solvency, including the value of future cash flows for other self-assessment categories.

The consolidated subsidiaries provide the "Reserve for possible loan losses" at the amount deemed necessary to cover such losses, principally based on past experience.

**Reserve for investment losses:**

The reserve for investment losses is provided at a necessary amount based on the assessment of financial conditions of companies in which the Bank has an interest and other factors.

**Retirement pension plans:**

Prior to April 1, 2000, the Banks and its subsidiaries in Japan established an unfunded lump-sum retirement allowance plan on which an accrual has been recorded annually to reflect the retirement allowance that would become payable should all employees retire on a voluntary basis at each balance sheet date. In addition, the Bank and its subsidiaries in Japan have a contributory funded pension plan and a non-contributory funded pension plan covering substantially all of their employees, which generally provide for an annuity payable for life upon retirement.

Effective April 1, 2000, the Bank and its subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The full amount of the transitional obligation of ¥34,233 million (\$276,297 thousand), determined as of the beginning of year, is charged to income and presented as other expense in the income statement.

In September 2000, the parent company contributed certain available-for-sale securities with a fair value of ¥19,845 million (\$160,169 thousand) to employee retirement benefit trust for the parent company's non-contributory pension plans, and recognized a non-cash gain of ¥17,418 million (\$140,587 thousand). The securities held in this trust are qualified as plan assets.

As a result, net periodic benefit costs as compared with the prior method, increased by ¥14,097 million (\$113,784 thousand) and income before income taxes decreased by ¥14,097 million (\$113,784 thousand).

**Leases:**

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as rental transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

**Foreign currency items:**

Assets and liabilities which are payable or receivable in foreign currencies are converted into Japanese yen at the rates prevailing at each balance sheet date, except for investment in overseas subsidiaries, which is translated at the historical exchange rates.

The financial statements of the consolidated subsidiaries outside of Japan are translated into Japanese yen at the current exchange rate at each balance sheet date, except for stockholders' equity, which is translated at the historical exchange rates.

Prior to April 1, 2000, differences arising from such translation were shown as "Foreign currency translation adjustments" on either asset or liability in the balance sheet. Effective April 1, 2000, such differences are shown as "Foreign currency translation adjustments" in a separate component of stockholders' equity in accordance with the revised accounting standard for foreign currency transactions.

**Income taxes:**

The Bank and its subsidiaries in Japan allocated income taxes based on the asset and liability method.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary difference.

**Derivatives and hedging activities:**

Effective April 1, 2000, the Bank and its subsidiaries adopted a new accounting standard for derivative financial instruments. Derivatives are recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the income statement.

The Bank's hedge accounting method is used to manage interest-rate risk arising on numerous financial assets and liabilities such as loans and deposits by aggregating them using derivative transactions, and carrying out a "macro hedge." This constitutes risk management by the risk-adjustment approach as laid down in report No.15 — on accounting and auditing practice in regard to the application of accounting standards for financial instruments in the banking business — of the industry-specific inspection committee of the Japanese Institute of Certified Public Accountants. In addition, upon ascertaining the quantity of the risk associated with the derivatives used as the means for risk adjustment within the upper limit of risk permissible under risk management policy, the effectiveness of

hedging is evaluated by verifying whether or not the hedged interest-rate risk is reduced.

With regard to certain assets and liabilities, individual deferral hedges and special treatment hedges to interest-rate swaps are utilized.

The method of hedge accounting for consolidated subsidiaries corresponds with the Bank's method.

As a result of adopting the new accounting standards for derivative financial instruments, income before income taxes decreased by ¥9 million (\$76 thousand).

#### Statement of cash flows:

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash and due from the Bank of Japan.

#### Per share information:

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

Cash dividends per share represent actual dividends applicable to earnings for each period.

#### 4. TRADING ASSETS AND LIABILITIES

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

##### (a) Trading assets

	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Trading securities:			
National government bonds	¥ 9,893	¥ 19,430	\$ 79,853
Local government bonds	42	31	343
Government-guaranteed bonds	0	131	1
Subtotal	9,936	19,593	80,197
Financial derivatives:			
Option premium	310	344	2,503
Other (Note)	5,064	3,388	40,872
Subtotal	5,374	3,732	43,375
Other trading assets:			
Commercial paper	155,756	98,470	1,257,111
Other (Note)	67	10	544
Subtotal	155,823	98,481	1,257,655
Total	¥171,134	¥121,807	\$1,381,228

##### (b) Trading liabilities

	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Derivative trading securities		¥ 2	
Financial derivatives:			
Option premium	¥ 357	360	\$ 2,887
Other (Note)	4,929	3,464	39,785
Total	¥5,287	¥3,826	\$42,672

Note: Other in assets and liabilities represents unrealized gains and losses, respectively.

#### 5. SECURITIES

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

	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
National government bonds	¥ 334,628	¥ 178,677	\$ 2,700,796
Local government bonds	46,725	63,737	377,123
Corporate debentures	428,041	432,526	3,454,733
Corporate stocks	318,085	161,345	2,567,279
Other securities	734,526	548,202	5,928,383
Total	¥1,862,008	¥1,384,489	\$15,028,314

Note: Corporate stocks and other securities include shares in associated companies of ¥506 million at March 31, 2000.

In addition to "Securities" in the consolidated balance sheet, also posted are trading account securities and commercial paper within the item "Trading assets," negotiable certificates of deposit within the item "Cash and due from banks," and miscellaneous monetary claims purchased within the item "Monetary claims bought."

Information regarding each category of the securities classified as trading, available-for-sale and held-to-maturity at March 31 was as follows:

March 31, 2001	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥165,759
Available-for-sale:				
Equity securities	¥164,341	¥150,761	¥4,033	311,069
Debt securities	779,265	21,897	72	801,089
Others	726,815	5,472	3,987	728,299
Held-to-maturity	3,571	36	0	3,608

March 31, 2001	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				\$1,337,852
Available-for-sale:				
Equity securities	\$1,326,401	\$1,216,802	\$32,556	2,510,648
Debt securities	6,289,469	176,735	588	6,465,616
Others	5,866,148	44,165	32,187	5,878,126
Held-to-maturity	28,824	298	0	29,122

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2001 were as follows:

	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Equity securities	¥ 6,939	\$ 56,012
Debt securities	6,713	54,181
Held-to-maturity	106,134	856,613
Total	¥119,787	\$966,806

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥388,691 million (\$3,137 million). Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥33,614 million (\$271,300 thousand) and ¥6,425 million (\$51,862 thousand), respectively.



The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2001 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 100,965	¥ 98,693	\$ 814,894	\$796,560
Due after one year				
through five years	957,397	7,137	7,727,179	57,608
Due after five years				
through ten years	173,729	3,874	1,402,176	31,269
Due after ten years	206,703		1,668,309	
<b>Total</b>	<b>¥1,438,795</b>	<b>¥109,705</b>	<b>\$11,612,558</b>	<b>\$885,437</b>

The carrying and aggregate market values of the securities, which are listed on stock exchanges or over-the-counter markets, at March 31, 2000 was as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2000		2000	
Securities:				
Carrying value		¥ 880,122		\$ 8,291,307
Aggregate market value		1,152,576		10,858,000
Securities excluded from above				
are principally unlisted securities:				
Securities		504,367		4,751,461

## 6. LOANS AND BILLS DISCOUNTED

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

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Bills discounted	¥ 159,896	¥ 148,608	\$ 1,290,531	
Loans on bills	564,331	553,324	4,554,735	
Loans on deeds	3,347,188	3,247,740	27,015,244	
Overdrafts	1,069,772	1,183,575	8,634,161	
<b>Total</b>	<b>¥5,141,189</b>	<b>¥5,133,248</b>	<b>\$41,494,671</b>	

In accordance with the Uniform Accounting Standards for Banks in Japan, loans under bankruptcy proceedings, past due loans on which interest payment is waived to borrowers who are financially assisted by the Bank, loans past due for three months or more (except for loans under bankruptcy proceedings and past due loans) and loans with relaxed conditions at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Loans under bankruptcy proceedings	¥ 25,810	¥ 34,181	\$ 208,318	
Past due loans	176,095	133,499	1,421,273	
Loans past due for three months or more	708	363	5,719	
Loans with relaxed conditions	37,883	18,866	305,760	
<b>Total</b>	<b>¥240,498</b>	<b>¥186,910</b>	<b>\$1,941,070</b>	

Notes: 1. Loans past due for three months or more include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include loans under bankruptcy proceedings or past due loans.

2. Loans with relaxed conditions include loans for which certain conditions have been relaxed for the benefit of the borrower (through means such as the reduction or elimination of interest payments, the deferral of principal repayments and the relinquishment of a portion of liabilities) with the goal of supporting the recuperation of borrowers that have fallen into financial difficulties and thereby promoting the recovery of the loan. Loans with relaxed conditions include loans in the previous restructured loans category.

## 7. FOREIGN EXCHANGES

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

(a) Assets

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Due from foreign banks	¥ 449	¥ 512	\$ 3,625	
Foreign exchange bills bought	690	1,026	5,577	
Foreign exchange bills receivable	2,375	5,492	19,174	
<b>Total</b>	<b>¥3,515</b>	<b>¥7,032</b>	<b>\$28,376</b>	

(b) Liabilities

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Due to foreign banks	¥ 0		\$ 0	
Foreign exchange bills sold	160	¥ 211	1,299	
Foreign exchange bills payable	19	11	155	
<b>Total</b>	<b>¥ 180</b>	<b>¥ 222</b>	<b>\$ 1,454</b>	

## 8. OTHER ASSETS

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

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Accrued income	¥23,011	¥20,187	\$185,728	
Deferral hedging loss	11,717		94,569	
Derivative products	3,699		29,857	
Bond issue cost	826		6,668	
Prepaid expenses	335	299	2,711	
Others	31,933	24,731	257,737	
<b>Total</b>	<b>¥71,523</b>	<b>¥45,218</b>	<b>\$577,270</b>	

## 9. PREMISES AND EQUIPMENT

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

	Millions of Yen		Thousands of U.S. Dollars	
	2001	2000	2001	
Land, buildings and equipment	¥125,351	¥131,867	\$1,011,713	
Construction in progress	129	540	1,046	
Guarantee deposits on office space	2,212	2,403	17,859	
<b>Total</b>	<b>¥127,693</b>	<b>¥134,811</b>	<b>\$1,030,618</b>	

Premises and equipment are stated at cost less accumulated depreciation of ¥157,453 million (\$1,270,813 thousand) and ¥152,369 million in 2001 and 2000, respectively.

## 10. CUSTOMERS' LIABILITIES FOR ACCEPTANCES AND GUARANTEES

All contingent liabilities for acceptances and guarantees are recorded and reflected in acceptances and guarantees. Customers' liabilities for acceptances and guarantees have been recorded and reflected as assets in the consolidated balance sheet, representing the Bank's right of indemnity from the applicant.

## 11. ASSETS PLEDGED

Assets pledged as collateral and their relevant liabilities at March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets pledged as collateral:			
Securities	<b>¥393,582</b>	¥298,308	<b>\$3,176,610</b>
Loans and bills discounted	<b>162</b>	14,327	<b>1,314</b>
Unearned lease	<b>20,421</b>	21,070	<b>164,819</b>
Relevant liabilities to above assets:			
Deposits	<b>¥179,292</b>	¥208,420	<b>\$1,447,073</b>
Call money and bills sold	<b>190,318</b>	93,826	<b>1,536,062</b>
Borrowed money	<b>22,216</b>	14,709	<b>179,307</b>
Other liabilities	<b>3,810</b>	3,000	<b>30,751</b>

In addition to the above, the Bank has provided ¥180,040 million in securities and ¥3,221 million in NCDs as collateral for foreign exchange settlements and certain other transactions and as security for futures transactions.

## 12. LOAN COMMITMENT

Beginning with the term under review, loan commitments were subject to mandatory disclosure. Breakdown of the loan commitments were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Unexecuted loan commitments outstanding	<b>¥1,418,021</b>		<b>\$11,444,884</b>
Loans due within one year	<b>1,381,404</b>		<b>11,149,352</b>

Overdraft agreements and agreements for loan commitments are agreements under which the Bank pledges to lend funds up to a certain limit when applications for advances of loans are received from customers, provided there are no violations of the terms laid down in the agreements. The balance of loans as yet undisbursed under these agreements stands at ¥1,418,021 million (\$11,445 million). Of this total, ¥1,381,404 million (\$11,149 million) relates to agreements under which the period remaining is no more than one year.

Many of these agreements terminate without loans being disbursed, and thus the balance of loans as yet undisbursed will not necessarily affect the future cash flow of the Bank or its consolidated subsidiaries. Many of these agreements contain stipulations providing numerous reasons, such as changes in the financial situation and the preservation of credit, for the Bank or its consolidated subsidiaries to refuse to advance loans for which applications have been received, or to reduce the maximum amounts under the agreements. In addition, at the time of agreements, borrowers can, when necessary, be required to provide collateral such as real estate or securities, and after the agreements have been signed, the state of the customer's business and other factors may be assessed regularly in accordance with in-house procedures. Moreover, agreements can be revised if necessary, and steps, such as the formulation of measures to preserve credit may be taken.

## 13. DEPOSITS

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current deposits	<b>¥ 296,799</b>	¥ 233,666	<b>\$ 2,395,477</b>
Savings deposits	<b>2,084,600</b>	1,895,222	<b>16,824,862</b>
Deposits at notice	<b>49,058</b>	66,638	<b>395,953</b>
Time deposits	<b>3,671,738</b>	3,934,889	<b>29,634,690</b>
Negotiable certificates of deposit	<b>74,599</b>	111,396	<b>602,090</b>
Other	<b>710,116</b>	463,323	<b>5,731,368</b>
Total	<b>¥6,886,912</b>	¥6,705,135	<b>\$55,584,440</b>

## 14. OTHER LIABILITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Income taxes payable	<b>¥ 10,497</b>	¥ 13,614	<b>\$ 84,725</b>
Accrued expenses	<b>19,231</b>	22,424	<b>155,219</b>
Deposits from employees	<b>4,137</b>	4,243	<b>33,394</b>
Unearned income	<b>11,795</b>	12,261	<b>95,204</b>
Derivative products	<b>14,566</b>		<b>117,563</b>
Other	<b>58,771</b>	53,640	<b>474,349</b>
Total	<b>¥119,000</b>	¥106,185	<b>\$960,454</b>

## 15. RETIREMENT AND PENSION PLANS

The Bank and its subsidiaries in Japan have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Bank or from subsidiaries in Japan and annuity payments from a trustee.

Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or voluntary retirement at certain specific ages prior to the mandatory retirement age.

Effective April 1, 2000, the Bank and its subsidiaries adopted a new accounting standard for employees' retirement benefits.

The liability (asset) from employees' retirement benefits at March 31, 2001 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	Projected benefit obligation	¥108,204
Fair value of plan assets	(70,714)	(570,741)
Unrecognized actuarial loss (gain)	(10,900)	(87,974)
Net liability (asset)	¥ 26,589	\$214,606

The components of net periodic benefit costs for the year ended March 31, 2001 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Service cost	¥ 3,147
Interest cost	3,208	25,896
Expected return on plan assets	(1,745)	(14,089)
Amortization of prior service cost	(2,328)	(18,796)
Amortization of transitional obligation	34,233	276,297
Other	599	4,835
Net periodic benefit costs	¥37,114	\$299,550

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	3.0%
Expected rate of return on plan assets	3.0%
Amortization period of prior service cost	1 year
Recognition period of actuarial gain/loss	10 years
Amortization period of transitional obligation	1 year

## 16. COMMON STOCK

(a) Common stock consists of the following:

- (i) Par value: ¥50 per share
- (ii) Authorized: 2,452,830,000 shares in 2001  
2,477,784,000 shares in 2000
- (iii) Issued and outstanding: 758,363,069 shares in 2001  
783,317,069 shares in 2000

(b) 24,954,000 shares (¥23,281 million) of common stock have been retired in the fiscal year ended March 31, 2001.

In accordance with provisions of the Code, at least 50 percent of the issue price of new shares, with a minimum of the par value, is to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to capital surplus.

The Code permits, upon approval of the Board of Directors, the transfer of amounts from capital surplus to the common stock account.

The Code permits, upon approval of the stockholders, the transfer of a portion of unappropriated retained earnings available for dividends to the common stock account.

The Code permits the amount available for dividends to be appropriated for retirement of stock provided that it is stated in the Articles of Incorporation of the Bank.

## 17. LEGAL RESERVE

Under the Bank Law of Japan, the Bank is required to appropriate as a legal reserve a portion of retained earnings in an amount equal to at least 20 percent of cash payments, including dividends and officers' bonuses, in each financial period until the reserve equals 100 percent of the Bank's common stock. This reserve amount, which is included in retained earnings, totals ¥90,845 million (\$733,218 thousand) and ¥90,845 million as of March 31, 2001 and 2000, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the stockholders or transferred to the stated capital by resolution of the Board of Directors.

Cash dividends for a fiscal year-end must be approved by the stockholders at an annual meeting to be held subsequent to the fiscal year-end, while interim dividends may be paid after the interim period upon resolution of the Board of Directors, subject to limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Bank's books. At March 31, 2001, retained earnings recorded on the Bank's books were ¥263,671 million (\$2,128,099 thousand), which is available for future dividends subject to the approval of the stockholders and legal reserve requirements.

## 18. NET UNREALIZED GAIN ON AVAILABLE FOR SALE SECURITIES

Breakdown of "Net unrealized gain on available for sale securities" posted in Balance Sheets is as follows.

End of the term under review (As of March 31, 2001)	Millions of Yen	Thousands of U.S. Dollars
Valuation difference	¥170,036	\$1,372,372
available for sale securities	170,036	1,372,372
available for sale money held in trusts		
Differed tax liabilities	(69,443)	(560,481)
Amounts equivalent to difference on valuation on available for sale securities (before deduction of a portion of minority interests)	¥100,593	\$ 811,891
Minority interests adjustment	¥ (52)	\$ (419)
Amounts equivalent to a portion belonging to the parent company of difference on valuation on available for sale securities held by equity-method subsidiaries		
Net unrealized gain on available for sale securities	¥100,541	\$ 811,472

## 19. OTHER OPERATING INCOME

Other operating 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
Gains on foreign exchange transactions	¥ 49	¥ 1,463	\$ 398
Gains on sales of bonds	5,600	10,782	45,201
Gains on redemption of bonds		251	
Other	12	1	101
Total	¥5,662	¥12,500	\$45,700

## 20. OTHER INCOME

Other 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
Gains on sales of stocks and other securities	¥28,094	¥19,781	\$226,755
Gains on money held in trust	410	508	3,312
Other	27,688	8,278	223,475
Total	¥56,193	¥28,568	\$453,542

## 21. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Losses on sales of bonds	¥5,473	¥2,965	\$44,178
Losses on redemption of bonds		3,681	
Losses on devaluation of bonds	1	1	14
Expenses for derivatives transactions	506		4,088
Amortized bond issue cost	413		3,334
Transfer to reserve for investment losses		10	
Other		13	
Total	¥6,394	¥6,672	\$51,614

## 22. OTHER EXPENSES

Other expenses for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Provision for reserve for possible loan losses	<b>¥22,944</b>	¥19,829	<b>\$185,186</b>
Loans on written-off claims	<b>636</b>	418	<b>5,135</b>
Losses on sales of stocks and other securities	<b>954</b>	133	<b>7,704</b>
Losses on devaluation of stocks and other securities	<b>2,917</b>	7,703	<b>23,550</b>
Losses on money held in trust	<b>81</b>	19	<b>661</b>
Losses on disposition of premises and equipment	<b>920</b>	1,392	<b>7,430</b>
Other	<b>37,929</b>	4,169	<b>306,127</b>
Total	<b>¥66,384</b>	¥33,667	<b>\$535,793</b>

## 23. INCOME TAXES

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.8% and 40.9% for the years ended March 31, 2001 and 2000, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities, at March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Deferred tax assets:			
Reserve for possible loan losses	<b>¥ 34,072</b>	¥28,852	<b>\$ 275,004</b>
Depreciation	<b>3,919</b>	3,896	<b>31,635</b>
Reserve for retirement allowances	<b>17,018</b>	4,089	<b>137,355</b>
Other	<b>7,549</b>	7,104	<b>60,935</b>
Deferred tax assets	<b>62,560</b>	43,942	<b>504,929</b>
Deferred tax liabilities:			
Net unrealized gains, net of taxes on available for sale securities	<b>(69,443)</b>		<b>(560,481)</b>
Gain of establishment of employee retirement benefit trust	<b>(7,113)</b>		<b>(57,416)</b>
Revaluation reserve for premises and equipment	<b>(1,222)</b>	(939)	<b>(9,865)</b>
Other	<b>(432)</b>	(79)	<b>(3,490)</b>
Deferred tax liabilities	<b>(78,212)</b>	(1,019)	<b>(631,252)</b>
Net deferred tax assets	<b>¥(15,651)</b>	¥42,923	<b>\$(126,323)</b>

On March 31, 2001, the "Ordinance Relating to the Special Case for Tax Standards Regarding the Business Tax on Banking Businesses Operating in the Osaka Prefecture" (Ordinance 131 of the Osaka Prefecture of June 9, 2000) was approved and enacted in Japan, which decreased the normal effective statutory tax rate by 0.0%, effective from the year beginning April 1, 2001. The effect of this change on deferred taxes in the consolidated statements of income for the year ended March 31, 2001 is approximately ¥72 million (\$586 thousand).

## 24. LEASES

### (a) Lessee

Lease payments under finance leases for the year ended March 31, 2001 were ¥23 million (\$192 thousand).

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2000 was as follows:

Equipment	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Acquisition cost	<b>¥107</b>	¥71	<b>\$864</b>
Accumulated depreciation	<b>53</b>	36	<b>433</b>
Net leased property	<b>¥ 53</b>	¥35	<b>\$431</b>

Obligations under finance leases:

Equipment	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Due within one year	<b>¥31</b>	¥ 59	<b>\$254</b>
Due after one year	<b>37</b>	86	<b>306</b>
Total	<b>¥69</b>	¥146	<b>\$560</b>

### (b) Lessor

Lease revenue under finance leases for the year ended March 31, 2001 was ¥16,598 million (\$133,965 thousand).

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation revenue and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2000 was as follows:

Equipment	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Acquisition cost	<b>¥104,267</b>	¥104,766	<b>\$841,542</b>
Accumulated depreciation	<b>65,096</b>	63,835	<b>525,399</b>
Net leased property	<b>¥ 39,170</b>	¥ 40,931	<b>\$316,143</b>

Obligations under finance leases:

Equipment	Millions of Yen		Thousands of
	2001	2000	U.S. Dollars
			2001
Due within one year	<b>¥15,935</b>	¥16,414	<b>\$128,618</b>
Due after one year	<b>32,330</b>	33,988	<b>260,937</b>
Total	<b>¥48,265</b>	¥50,402	<b>\$389,555</b>

## 25. SEGMENT INFORMATION

Information regarding business segments and its subsidiaries for the years ended March 31, 2000 and 2001 were as follows:

The domestic share of both total income and total assets exceeds 90%; thus, geographic segment information is not presented.

Year ended March 31, 2001	Millions of Yen				
	Bank Operations	Other Operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:					
Total income from outside customers	¥ 268,326	¥ 25,001	¥ 293,328		¥ 293,328
Total income from intersegment transactions	557	11,481	12,039	¥(12,039)	
Total	268,883	36,483	305,367	(12,039)	293,328
Total expenses	239,025	35,451	274,477	(12,337)	262,139
Income before income taxes and minority interests	29,858	1,031	30,889	298	31,188
Total assets, depreciation and amortization and capital expenditure:					
Total assets	8,250,957	101,155	8,352,113	(58,064)	8,294,048
Depreciation and amortization	10,012	14,928	24,941	(60)	24,881
Capital expenditure	9,110	14,452	23,563	(98)	23,464

Year ended March 31, 2001	Thousands of U.S. Dollars				
	Bank Operations	Other Operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:					
Total income from outside customers	\$ 2,165,671	\$201,788	\$ 2,367,459		\$ 2,367,459
Total income from intersegment transactions	4,496	92,671	97,167	\$ (97,167)	
Total	2,170,167	294,459	2,464,626	(97,167)	2,367,459
Total expenses	1,929,181	286,133	2,215,314	(99,576)	2,115,738
Income before income taxes and minority interests	240,986	8,326	249,312	2,409	251,721
Total assets, depreciation and amortization and capital expenditure:					
Total assets	66,593,685	816,431	67,410,117	(468,641)	66,941,475
Depreciation and amortization	80,815	120,490	201,305	(489)	200,816
Capital expenditure	73,534	116,646	190,179	(798)	189,381

Year ended March 31, 2000	Millions of Yen				
	Bank Operations	Other Operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:					
Total income from outside customers	¥ 240,474	¥ 24,122	¥ 264,597		¥ 264,597
Total income from intersegment transactions	565	11,775	12,341	¥(12,341)	
Total	241,040	35,898	276,938	(12,341)	264,597
Total expenses	196,465	35,701	232,166	(11,620)	220,546
Income before income taxes and minority interests	44,574	196	44,771	(721)	44,050
Total assets, depreciation and amortization and capital expenditure:					
Total assets	7,787,214	101,395	7,888,609	(57,409)	7,831,200
Depreciation and amortization	9,793	14,959	24,753	(0)	24,753
Capital expenditure	13,259	12,918	26,178	(56)	26,122

Notes: 1. Business segments:

(1) Bank Operations

(2) Other Operations—Leasing operations, commissioned computer processing operations, etc.

2. Changes in accounting standards (Year ended March 31, 2000)

(1) The changes of indicating items: The presentation method of reserve for possible loan losses was changed as stated in Note 3. As a result of this change, assets decreased by ¥81,620 million in bank operations, and ¥9,833 million lower than in other operations compared with the assets calculated under the previous method.

(2) Software purchased for Bank use is recorded under other assets, and the average useful life has been changed to five years. As a result, had the previous method been applied, recurring expenses for the year ended March 31, 2000 would have been ¥1,620 million lower for bank operations. Furthermore, income before income taxes and minority interest and total assets would have increased by ¥1,620 million and ¥1,633 million, respectively, for bank operations. The effect of this change on depreciation expenses was negligible.



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(3) Regarding the reduction entry cost of the premises account, previously this account was calculated by subtracting the maximum amount allowable under tax law criteria directly from the acquisition cost. Beginning with the current fiscal year, Shizuoka Bank has applied a different method based on the JIPCA First Auditing Committee Report No. 43, "Treatment of the Reduction Entry Cost of Premises Account in Audits." Under the new method applied for the current fiscal year, Shizuoka Bank has set aside an allowance for the reduction entry cost of premises through the appropriation of profit. Accompanying this change, ordinary expenses of the bank operations segment were ¥107 million higher than under the previous method of accounting. As a consequence, ordinary profits of the bank operations segment were ¥107 million lower. Moreover, assets of the bank operations segment were ¥107 million higher. Depreciation of the bank operations segment increased by ¥107 million. The impact of this change on other operations was immaterial.

### 3. Changes in accounting standards (Year ended March 31, 2001)

As described in the Material Facts for the Basis of Presenting Consolidated Financial Statements and Additional Information, the Bank and its subsidiaries adopted the following new accounting standards in the consolidated fiscal year under review. The resulting effects on business segments were as follows.

- (1) As a result of the implementation of the Accounting Standards for Retirement Benefits (Business Accounting Deliberation Council (BADC)'s Statement on the Setting of Accounting Standards relating to Retirement Benefits, June 16, 1998), consolidated total revenues for the term under review expanded by ¥19,754 million for the banking business; total expenses increased by ¥33,816 million for the banking business and ¥35 million for other businesses; and, therefore, income before income taxes decreased by ¥14,061 million for the banking business and ¥35 million for other businesses, compared with figures using the previous method. These amounts are adjusted for the effects of setting up the retirement benefit trust.
- (2) As a result of the implementation of the Accounting Standards for Financial Instruments (BADC's Statement on the Setting of Accounting Standards relating to Financial Instruments, January 22, 1999), consolidated total revenues for the term under review decreased by ¥3,136 million for the banking business and were unchanged for other businesses; total expenses decreased by ¥2,861 million for the banking business and ¥1 million for other businesses; and, therefore, income before income taxes decreased by ¥274 million for the banking business and increased by ¥1 million for other businesses, compared with figures using the previous method.
- (3) The Bank and its subsidiaries also adopted the Accounting Standards for Foreign Currency Transactions, etc. (BADC's Statement on the Revision of Accounting Standards relating to Foreign Currency Transactions, October 22, 1999), for consolidated subsidiaries located in Japan, but there were no significant effects on consolidated income before income taxes for the term under review, compared with figures using the previous method.

## 26. DERIVATIVES

Reporting fiscal year (April 1, 2000 to March 31, 2001)

### (1) Nature of trading

The Bank and its consolidated subsidiaries use the following derivative transactions: Interest rate-related transactions using interest futures, interest rate swaps and interest rate caps; currency related transactions using currency swaps, currency options and forward exchange contracts; and bond-related transactions using bond futures and bond future options.

### (2) Trading policy

In response to risk-hedging needs related to foreign exchange rates and interest rates for customers, the Bank and its consolidated subsidiaries use derivatives transactions for hedging risk under asset/liability management (ALM) and individual transactions with the aim of appropriate market risk management. In addition, they have set certain position limits and established loss-cutting rules for short-term transactions.

The Bank and its subsidiaries do not enter into derivative transactions for speculative purposes.

### (3) Purpose

Derivative transactions are used on the basis of the trading policy indicated above.

Hedge accounting is applied to certain derivative transactions.

#### 1) Accounting for hedging activities

The deferral method and exceptional interest rate swap handling method were adopted for hedging activities.

Periodic accounting of profit and loss is used for currency swaps, etc. that are considered similar in nature to hedge accounting.

#### 2) Hedging policy (including hedging instruments and hedged items)

In accordance with the internal rules of the Bank that comply with the "Practical guideline concerning accounting of derivative products (interim report)" and other regulations, interest rate risk and risk from price fluctuations of bonds and equities are hedged.

Hedging instruments and hedged items to which a hedging account was applied for the fiscal year under review are as follows:

Hedge instruments: Interest rate swaps, interest rate caps

Hedge items: Yen denominated items; Deposits, loans, corporate bonds, etc. (so-called "macro hedged" items)

Foreign currency denominated items; Deposits, corporate bonds, securities (items subject to "individual hedging" method)

#### 3) Assessment of the effectiveness of hedging instruments

For the fiscal year under review, so-called "macro hedged" items have been confirmed to meet the requirements of the "risk-adjusting approach" according to a preliminary test. Others have been confirmed to meet the requirements of the exceptional interest rate swap handling method.



## Market Value of Derivatives

	Millions of Yen			
	Contract or Notional Amount		Market Value	Unrealized Losses
	Total	More than One Year		
	2001	2001	2001	2001
Listed:				
Interest rate futures				
Over-the-counter:				
Interest rate swaps	¥393,676	¥271,268	¥(311)	¥(311)
Currency swaps	51,653	51,653	147	147
Other	18,712	18,712	(15)	32

- Notes: 1. Forward exchange and currency option contracted amounts are reflected in the consolidated statements of income and are not subject to the disclosure of the above information.
2. The contract or notional amounts of derivatives shown in the above table do not represent the amounts exchanged by the parties and do not measure the Bank's exposure to credit or market risk.
3. Credit risk equivalent amounts computed according to BIS standards were ¥24.4 billion by the current exposure method at fiscal year-end.
4. Please refer to page 8 for information on the Bank's risk management policy.

## 27. STOCK OPTION PLAN

At the Ordinary General Stockholders' Meeting held on June 28, 2000, the Bank's stockholders approved the following stock option plan for the Bank's directors and key employees and the purchase of treasury stock for retirement.

The plan provides for granting options to directors and key employees to purchase the Bank's common stock in an aggregate maximum of 225 thousand shares for 10 directors and an aggregate maximum of 70 thousand shares for seven key employees in the period from June 28, 2002 to June 27, 2004. The options will be granted at an exercise price of 105 percent of the fair market value of the Bank's common stock at the date of option grant. The Bank plans to issue acquired treasury stock upon exercise of the stock options.

## 28. SUBSEQUENT EVENT

### (a) Appropriations of Retained Earnings

The following appropriations of retained earnings were authorized at the Ordinary General Stockholders' Meeting held on June 27, 2001:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥3 (\$0.02) per share	¥2,274	\$18,355
Bonuses to directors and corporate auditors	40	323
Total	¥2,314	\$18,678

### (b) Issue of Unsecured Ordinary Corporate Bonds

Based on a decision made at the meeting of the Board of Directors of The Shizuoka Bank, Ltd. held on March 30, 2001, the Bank issued ¥30 billion of domestic unsecured ordinary corporate bonds on May 16, 2001, with the intention of securing long-term and stable funds and diversifying its fund procurement mechanisms.

	5th issuance	6th issuance	7th issuance
Total amount issued	¥20 billion	¥5 billion	¥5 billion
Issued price	¥100 per par- value of ¥100	¥100 per par- value of ¥100	¥100 per par- value of ¥100
Interest rate	0.75% annually	1.11% annually	1.65% annually
Redemption method	Lump-sum redemption	Lump-sum redemption	Lump-sum redemption
Redemption date	May 16, 2006	May 16, 2008	May 16, 2011

# Non-Consolidated Balance Sheets

THE SHIZUOKA BANK, LTD. March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>Assets:</b>			
Cash and due from banks	¥ 713,682	¥ 617,128	\$ 5,760,149
Call loans	66,188	112,596	534,210
Bills bought		120,300	
Monetary claims bought	95,634	83,502	771,868
Trading assets	171,134	121,807	1,381,228
Money held in trust	30,371	32,500	245,130
Securities	1,824,265	1,359,566	14,723,691
Loans and bills discounted	5,148,897	5,141,923	41,556,881
Foreign exchanges	3,511	7,021	28,338
Other assets	58,325	31,351	470,744
Premises and equipment	82,401	87,489	665,068
Deferred tax assets		38,734	
Customers' liabilities for acceptances and guarantees	111,802	91,235	902,365
Reserve for possible loan losses	(89,409)	(81,620)	(721,624)
Reserve for investment losses	(30)	(10)	(244)
<b>Total Assets</b>	<b>¥8,216,775</b>	<b>¥7,763,525</b>	<b>\$66,317,804</b>
<b>Liabilities and Stockholders' Equity:</b>			
<b>Liabilities:</b>			
Deposits	¥6,868,831	¥6,692,637	\$55,438,512
Call money	168,848	285,912	1,362,783
Bills sold	148,800	63,400	1,200,968
Trading liabilities	5,287	3,826	42,672
Borrowed money	12,117	12,096	97,803
Foreign exchanges	180	223	1,461
Corporate bonds	154,340		1,245,682
Other liabilities	99,884	89,612	806,173
Reserve for retirement allowances		14,681	
Reserve for employees' retirement benefits	26,317		212,412
Deferred tax liabilities	19,618		158,339
Acceptances and guarantees	111,802	91,235	902,365
<b>Total Liabilities</b>	<b>7,616,030</b>	<b>7,253,627</b>	<b>61,469,170</b>
<b>Stockholders' Equity:</b>			
Common stock	90,845	90,845	733,218
Capital surplus	54,884	54,884	442,971
Legal reserve	90,845	90,845	733,218
Retained earnings	263,671	273,322	2,128,100
Net unrealized gains on available for sale securities	100,498		811,127
<b>Total Stockholders' Equity</b>	<b>600,745</b>	<b>509,898</b>	<b>4,848,634</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>¥8,216,775</b>	<b>¥7,763,525</b>	<b>\$66,317,804</b>

Notes: 1. Translation into U.S. dollars has been made solely for the convenience of readers outside Japan at the exchange rate of ¥123.9 to \$1, the approximate rate of exchange at March 31, 2001.

2. In this annual report, dollar figures are rounded off, but Japanese yen figures have been truncated in the process of calculation.

# Non-Consolidated Statements of Income

THE SHIZUOKA BANK, LTD. Years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>Income:</b>			
<b>Interest Income:</b>			
Interest on loans and discounts	¥122,214	¥118,608	\$ 986,398
Interest and dividends on securities	44,816	45,326	361,719
Other interest income	23,211	20,604	187,340
Subtotal	190,243	184,539	1,535,457
<b>Fees and Commissions</b>	16,904	16,929	136,438
<b>Trading Income</b>	1,173	397	9,467
<b>Other Operating Income</b>	5,657	12,402	45,659
<b>Other Income</b>	51,904	25,180	418,923
Total Income	265,882	239,449	2,145,944
<b>Expenses:</b>			
<b>Interest Expenses:</b>			
Interest on deposits	47,074	35,998	379,942
Interest on borrowings and rediscounts	9,989	4,263	80,629
Other interest expenses	17,888	24,097	144,376
Subtotal	74,952	64,359	604,947
<b>Fees and Commissions</b>	5,182	5,133	41,830
<b>Trading Losses</b>		42	
<b>Other Operating Expenses</b>	6,353	6,245	51,279
<b>General and Administrative Expenses</b>	86,891	90,205	701,305
<b>Other Expenses</b>	62,540	28,617	504,769
Total Expenses	235,921	194,604	1,904,130
<b>Income before Income Taxes</b>	29,960	44,845	241,814
<b>Income Taxes:</b>			
Current	22,657	24,166	182,865
Deferred	(11,024)	(6,260)	(88,981)
Net Income	¥ 18,328	¥ 26,939	\$ 147,930

	Yen		U.S. Dollars (Note 1)
	2001	2000	2001
<b>Per Share:</b>			
Net income	¥ 23.72	¥ 34.13	\$ 0.191
Cash dividends applicable to the year	6.00	6.00	0.05

Notes: 1. Translation into U.S. dollars has been made solely for the convenience of readers outside Japan at the exchange rate of ¥123.9 to \$1, the approximate rate of exchange at March 31, 2001.

2. In this annual report, dollar figures are rounded off, but Japanese yen figures have been truncated in the process of calculation.

# Non-Consolidated Statements of Stockholders' Equity

THE SHIZUOKA BANK, LTD. Years ended March 31, 2001 and 2000

	Number of Shares		
	2001	2000	
<b>Number of Shares:</b>			
Balance at beginning of year	783,317,069	791,674,069	
Shares retired	(24,954,000)	(8,357,000)	
Balance at End of Year	758,363,069	783,317,069	
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001
<b>Common Stock:</b>			
Balance at beginning of year	¥ 90,845	¥ 90,845	\$ 733,218
Balance at End of Year	¥ 90,845	¥ 90,845	\$ 733,218
<b>Capital Surplus:</b>			
Balance at beginning of year	¥ 54,884	¥ 54,884	\$ 442,971
Balance at End of Year	¥ 54,884	¥ 54,884	\$ 442,971
<b>Legal Reserve:</b>			
Balance at beginning of year	¥ 90,845	¥ 90,845	\$ 733,218
Balance at End of Year	¥ 90,845	¥ 90,845	\$ 733,218
<b>Retained Earnings:</b>			
Balance at beginning of year	¥273,322	¥260,308	\$2,205,996
Net income	18,328	26,939	147,930
Shares retired	(23,281)	(9,143)	(187,906)
Cash dividends	(4,658)	(4,742)	(37,598)
Bonuses to directors and corporate auditors	(40)	(40)	(322)
Balance at End of Year	¥263,671	¥273,322	\$2,128,100
<b>Net Unrealized Gains on Available for Sale Securities</b>	<b>100,498</b>		<b>811,127</b>
<b>Total Stockholders' Equity:</b>			
Balance at beginning of year	¥509,898	¥496,884	\$4,115,403
Changes during the year, net	90,847	13,014	733,231
Balance at End of Year	¥600,745	¥509,898	\$4,848,634

Notes: 1. Translation into U.S. dollars has been made solely for the convenience of readers outside Japan at the exchange rate of ¥123.9 to \$1, the approximate rate of exchange at March 31, 2001.

2. In this annual report, dollar figures are rounded off, but Japanese yen figures have been truncated in the process of calculation.

# Key Consolidated Financial Indicators

## Summary of Profits (Losses)

Years ended March 31	Millions of Yen			Percentage Change
	2001	2000	Increase (Decrease)	
Net interest income	¥ 115,376	¥120,094	¥ (4,717)	(3.9)%
Net fees and commissions	16,049	16,140	(92)	(0.5)
Net trading income	938	354	584	164.9
Net other operating profits	(732)	5,827	(6,560)	(112.5)
General and administrative expenses	89,991	92,871	(2,880)	(3.1)
Net other recurring losses	(11,504)	(6,924)	(4,580)	(66.1)
Recurring profits	29,874	42,225	(12,351)	(29.2)
Income before income taxes and minority interests	31,188	44,050	(12,862)	(29.1)
Income taxes:				
Current	23,160	24,819	(1,658)	(6.6)
Deferred	(10,885)	(6,923)	(3,962)	(57.2)
Minority interest in net income of consolidated subsidiaries	378	(173)	552	317.6
Net income	18,534	26,329	(7,794)	(29.6)

## Breakdown of Net Interest Margin

March 31	Billions of Yen
	2001
Interest income	¥ 193.3
Average interest-earning assets	7,365.9
Average interest rate of interest-earning assets (%)	2.62
Interest expenses (Note)	77.9
Average interest-bearing liabilities	7,163.8
Average interest rate of interest-bearing liabilities (%)	1.08
Net interest income	115.3

Note: Interest expenses here excludes interest paid in relation to investment in money held in trust.

## Net Other Operating Profits

Years ended March 31	Millions of Yen		
	2001	2000	Increase (Decrease)
Gain on foreign exchange transactions	¥ 49	¥ 1,463	¥(1,414)
Gain/loss on government bonds	124	4,386	(4,261)
Gain on sale	5,600	10,782	(5,182)
Redemption gain		251	(251)
Loss on sale	(5,473)	(2,965)	(2,508)
Redemption loss		(3,681)	3,681
Amortization	(1)	(1)	(0)
Amortized bond issue cost	(413)		(413)
Provision for investment loss reserve	10	(10)	21
Gain/loss on derivatives transactions	(504)		(504)
Proceeds from derivatives transaction	1		1
Expenses for derivative products	(506)		(506)
Others		(11)	11
Gain/loss on other business	(732)	5,827	(6,560)
Other operating revenue	5,662	12,500	(6,837)
Other operating expenses	(6,395)	(6,672)	277

## Loans Outstanding by Type of Borrower

March 31	Billions of Yen, % Share			
	2001		2000	
Domestic branches:				
Manufacturing	¥1,007.1	20.0%	¥1,116.5	22.1%
Agriculture	9.5	0.2	10.1	0.2
Forestry	0.6	0.0	0.8	0.0
Fishery	7.9	0.2	8.4	0.2
Mining	10.3	0.2	9.8	0.2
Construction	324.1	6.4	326.0	6.4
Utilities	64.7	1.3	65.1	1.3
Transportation and communication	236.6	4.7	224.3	4.4
Wholesaling and retailing	770.8	15.3	793.7	15.7
Finance and security	289.8	5.8	262.4	5.2
Real estate	325.8	6.5	320.8	6.3
Services	559.8	11.1	554.4	11.0
Local governments	149.3	3.0	151.3	3.0
Other	1,273.1	25.3	1,211.1	24.0
Subtotal	5,030.0	100.0	5,055.3	100.0
Overseas branches and offshore accounts:				
Governments and official institutions				
Banks and other financial institutions			0.3	0.4
Commercial and industrial	111.1	100.0	77.5	99.6
Subtotal	111.1	100.0	77.8	100.0
Total	¥5,141.1		¥5,133.2	

## Risk Management Asset Information

March 31	Millions of Yen		
	2001	2000	Increase (Decrease)
Loans under bankruptcy proceedings A	¥ 25,810	¥ 34,181	¥ (8,370)
% of loans and bills discounted	0.50	0.66	(0.16)
Past due loans B	176,095	133,499	42,596
% of loans and bills discounted	3.42	2.60	0.82
Loans past due for three months or more C	708	363	344
% of loans and bills discounted	0.01	0.00	0.00
Loans with relaxed conditions D (D=E+F+G)	37,883	18,866	19,017
% of loans and bills discounted	0.73	0.36	0.36
Restructured loans (Old category) E	624	1,186	(562)
% of loans and bills discounted	0.01	0.02	(0.01)
Claims for which interest payments have been deferred F		415	(415)
% of loans and bills discounted		0.00	(0.00)
Principal repayment postponed loans G	37,259	17,264	19,995
% of loans and bills discounted	0.72	0.33	0.38
Risk management loan total H (H=A+B+C+D)	240,498	186,910	53,588
% of loans and bills discounted	4.67	3.64	1.03
Value covered with collateral, guarantees, etc. I	213,854	164,774	49,080
Cover ratio (%) I/H	88.9	88.1	0.7

- Notes: 1. Risk management loans are based on Article 19-2 of the Regulations for Execution of the Bank Law. Because these loans are disclosed regardless of the presence or absence of collateral, guarantees or other coverage, the figures shown do not represent unrecoverable amounts.
2. Loans past due for three months or more include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include loans to bankrupt borrowers or past due loans.
3. Loans with relaxed conditions include loans for which certain conditions have been relaxed for the benefit of the borrower (through such means as the reduction or elimination of interest payments, the deferral of principal repayments and the relinquishment of a portion of liabilities) with the goal of supporting the recuperation of borrowers that have fallen into financial difficulties and thereby promoting the recovery of the loan. Loans with relaxed conditions include loans in the previous restructured loans category.
4. Value covered with collateral, guarantees, etc., includes provisions in the specific reserve for possible loan losses. The covered value was stated on a valuation basis through the end of September 30, 1999, but has been stated on a possible disposal basis at March 31, 2000.



## Reserve for Possible Loan Losses

March 31	Millions of Yen	
	2001	2000
General reserve	¥25,385	¥22,198
Specific reserve	73,678	68,908
Reserve for specific foreign credit	195	323
Total	¥99,259	¥91,430
[Loans on written-off claims for the year]	¥ [636]	¥ [418]

## Financial Index

Years ended March 31	Consolidated			Non-Consolidated		
	2001	2000	Increase (Decrease)	2001	2000	Increase (Decrease)
Per share (Yen):						
Net income	¥ 24.02	¥ 33.36	¥ (9.34)	¥ 23.72	¥ 34.13	¥ (10.41)
Net assets	792.02	652.75	139.27	792.16	650.94	141.22
Cash dividends	6.00	6.00		6.00	6.00	
Dividend payout ratio (%)				25.29	17.57	7.72
Return on equity (ROE) (%) (Note)	3.33	5.21	(1.88)	3.67	5.48	(1.81)
Price earnings ratio (PER) (%)	40.67	26.07	14.6	41.18	25.49	15.69

Note: Net income as a percentage of average balance of stockholders' equity.

## Capital Adequacy Ratio

March 31	Billions of Yen			
	Consolidated		Non-Consolidated	
	2001	2000	2001	2000
<b>Tier I:</b>				
Common stockholders' equity	¥ 504.9	¥ 516.6	¥ 497.6	¥ 507.5
Tier II capital included as Tier I				
Total adjusted Tier I capital	504.9	516.6	497.6	507.5
<b>Tier II:</b>				
Unrealized valuation gains on securities, after 55% discount		113.0		113.0
45% of an aggregate amount equivalent to the balance sheet value of available for sale securities with relevant aggregate book value deducted	76.5		76.4	
Reserve for possible loan losses, excluding specific reserve	25.3	22.1	25.0	21.1
Others				
Tier II capital included as Tier I				
Total adjusted Tier II capital	101.9	135.2	101.5	134.2
Tier II capital included as qualifying capital	101.9	135.2	101.5	134.2
<b>Tier III (Note 1):</b>				
Short-term subordinated debt (Capital for covering market risks)			0.1	
Deduction Items	0.1		0.1	
Total capital	606.7	651.9	599.0	641.7
Total risk-adjusted assets (Notes 1, 3)	4,820.2	4,673.9	4,766.6	4,613.5
Capital adequacy ratio (%) (Note 2)	12.58	13.94	12.56	13.90
Tier I ratio (%) (Note 2)	10.47	11.05	10.44	11.00

Notes: 1. The ratio of capital to risk-adjusted assets is based on Ministry of Finance guidelines formulated in accordance with the BIS agreement.  
2. The capital adequacy ratio and the Tier I ratio were calculated on a consolidated basis. On a non-consolidated basis, based on Article 14-2 of the Bank Law.  
3. Subordinated debt with two or more years remaining to redemption may be counted as Tier III capital for covering market risks. Accompanying the January 1, 1998 introduction of BIS market risk regulations, the Bank has recorded quasi-supplementary items and amounts corresponding to market risk beginning in the fiscal year ended March 31, 2000.

## Credit-Related Financial Instruments

March 31	Billions of Yen	
	Contract Amount	
	2001	2000
Commitments to extend credit	¥2,607.9	¥2,448.7
Guarantees	104.6	87.4
Total	¥2,712.5	¥2,536.2

# Overseas Service Network

## Los Angeles Branch

801 South Figueroa Street, Suite 800,  
Los Angeles, CA 90017, U.S.A.  
Phone: (1) 213-622-3233  
Telex: 6738575 SHIZBK LSA

## New York Agency

One World Trade Center, Suite 8025,  
New York, NY 10048, U.S.A.  
Phone: (1) 212-466-0082  
Telex: 408358 SHIZBK NY

## Hong Kong Branch

Room 3306, Gloucester Tower,  
11 Pedder Street, Central, Hong Kong,  
People's Republic of China  
Phone: (852) 2521-6547  
Telex: 89566 SIZBK HX

## Singapore Representative Office

20, Collyer Quay, #10-03,  
Tung Centre, Singapore 049319  
Phone: (65) 225-3600  
Telex: 26019 SHIZBK RS

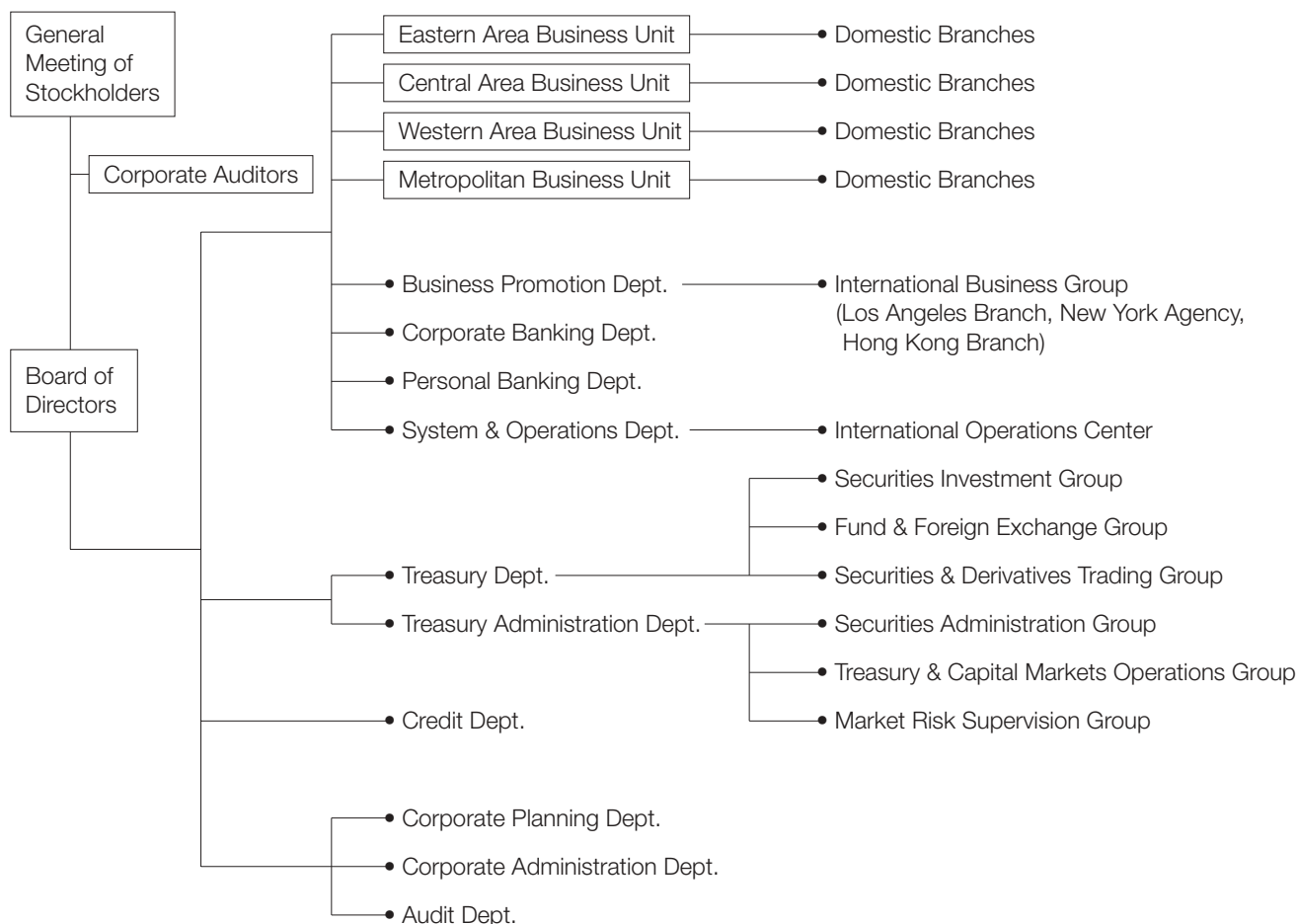
## Shanghai Representative Office

Room 1813, Shanghai  
International Trade Centre,  
2201 Yan-An Road (West),  
Chang Ning Qu, Shanghai,  
People's Republic of China  
Phone: (86) 21-6209-8115

## Shizuoka Bank (Europe) S.A.

283 Avenue Louise, Bte. 13,  
1050 Brussels, Belgium  
Phone: (32) 2-646-0470  
Telex: 23330 SHIZBR B

# Organization Chart



(As of June 30, 2001)

# Corporate Data

## HEAD OFFICE

10, Gofukucho 1-chome, Shizuoka-shi,  
Shizuoka 420-8760, Japan

## HEADQUARTERS

2-1, Kusanagi-Kita, Shimizu-shi,  
Shizuoka 424-8677, Japan  
Phone: 0543-45-5411  
URL: <http://www.shizuokabank.co.jp/>

## BUSINESS PROMOTION DEPARTMENT INTERNATIONAL BUSINESS GROUP

Phone: 0543-45-5411  
Fax: 0543-44-0090

## SYSTEM & OPERATIONS DEPARTMENT INTERNATIONAL OPERATIONS CENTER

Phone: 0543-45-5700  
Fax: 0543-49-5501  
Telex: 3965603 SHIZBK J  
SWIFT address: SHIZJPJT

## NUMBER OF EMPLOYEES

(As of March 31, 2001)  
4,304

## DATE OF ESTABLISHMENT

March 1, 1943

## DOMESTIC NETWORK

(As of June 30, 2001)  
Head Office and 182 branches  
(including 13 subbranches)

## OVERSEAS NETWORK

(As of June 30, 2001)  
3 branches, 2 representative offices

# The Shizuoka Bank Group

## SHIZUGIN MANAGEMENT CONSULTING CO., LTD.

Corporate and financial management advisory services

## SHIZUGIN LEASE CO., LTD.

Leasing; Factoring services

## SHIZUOKA COMPUTER SERVICE CO., LTD.

Software development and sales

## SHIZUGIN CREDIT GUARANTY CO., LTD.

Guarantee of housing loans, etc.

## SHIZUGIN DC CARD CO., LTD.

Credit card and guarantee of consumer loans

## SHIZUOKA CAPITAL CO., LTD.

Public-offering assistance

## SHIZUGIN TM SECURITIES CO., LTD.

Securities

## SHIZUGIN SHIZUURA AGENCY CO., LTD.

Banking services

## SHIZUGIN JITOGATA AGENCY CO., LTD.

Banking services

## SHIZUGIN GENERAL SERVICE CO., LTD.

Part-time employee management; Inventory management

## SHIZUOKA MORTGAGE SERVICE CO., LTD.

Appraisal of real estate for loan collateral

## SHIZUOKA ASSETS ADMINISTRATION CO., LTD.

Acquisition by auction of real estate held as collateral by the Bank; Disposal, leasing, and sale of such assets

## SHIZUGIN BUSINESS CREATE CO., LTD.

Operation center for remittance and bill collection

## SHIZUOKA BANK (EUROPE) S.A.

Finance and securities-related services

# Board of Directors and Corporate Auditors

Chairman

**Soichiro Kamiya**

President

**Yasuo Matsuura**

Directors

**Nobuo Ikeda**

**Masakazu Oishi**

**Hiroyuki Kochi**

**Yasuhisa Komatsubara**

**Toshiaki Sugiyama**

**Katsunori Nakanishi**

**Yoshitaka Nishikawa**

**Masakuni Nakayama**

Corporate Auditors

**Shigeru Masugi**

**Hiroshi Okamoto**

**Yasuhiko Saito**

**Isokichi Goto**

(As of June 27, 2001)

# Investor Information

THE SHIZUOKA BANK, LTD.

## STOCKHOLDERS' EQUITY (As of March 31, 2001)

Common stock .....	¥90,845 million
Capital surplus .....	¥54,884 million
Legal reserve.....	¥90,845 million
Retained earnings .....	¥263,671 million
Total stockholders' equity.....	¥600,745 million

## NUMBER OF SHARES (As of March 31, 2001)

Authorized.....	2,452,830,000 shares
Issued and outstanding .....	758,363,069 shares

## NUMBER OF STOCKHOLDERS (As of March 31, 2001)

28,021

## STOCK LISTING

First Section of the Tokyo Stock Exchange

## PRINCIPAL STOCKHOLDERS

The 10 largest stockholders of the Bank and their respective stockholdings at March 31, 2001 were as follows:

	Number of Shares in Thousands	Percentage of Total Shares Outstanding
The Bank of Tokyo-Mitsubishi, Ltd.	31,584	4.16%
The Meiji Mutual Life Insurance Company	29,117	3.83
Nippon Life Insurance Company	27,401	3.61
Sumitomo Life Insurance Company	26,932	3.55
The Dai-ichi Mutual Life Insurance Company	23,546	3.10
The Yasuda Mutual Life Insurance Company	21,309	2.80
The Industrial Bank of Japan, Limited	16,604	2.18
The Mitsubishi Trust & Banking Co., Ltd. (in trust account)	16,515	2.17
The Tokio Marine & Fire Insurance Company, Limited	14,527	1.91
The Nisshin Fire and Marine Insurance Company, Limited	14,431	1.90
Total	221,972	29.26%

## STOCK PRICE, TURNOVER

Annual high/low stock price (five years) (Yen)

Years ended March 31	1997	1998	1999	2000	2001
High	1,450	1,510	1,500	1,460	<b>1,076</b>
Low	985	1,030	1,075	830	<b>841</b>

Monthly high/low stock price, turnover (six months) (Yen)

Month	Oct. 2000	Nov. 2000	Dec. 2000	Jan. 2001	Feb. 2001	Mar. 2001
High	994	1,020	1,054	1,050	1,029	<b>1,018</b>
Low	903	906	971	945	902	<b>903</b>
Turnover (thousands of shares)	11,084	11,466	13,427	9,209	21,598	<b>18,555</b>

## CONTACT

Investor Relations Section at Corporate Planning Dept.  
2-1, Kusanagi-Kita, Shimizu-shi, Shizuoka 424-8677, Japan  
Phone: 0543-45-5411 Fax: 0543-46-9775  
URL: <http://www.shizuokabank.co.jp/>

# Our Operation Base: Shizuoka Prefecture

## LAND AND POPULATION

Shizuoka Prefecture is the heart of The Shizuoka Bank's operating region. Situated near the geographical center of Japan, the prefecture is a strategically important transportation crossroads between two of Japan's major commercial centers — Osaka to the southwest and Tokyo to the northeast. Offering a warm climate, endowed with an abundance of nature's gifts including agricultural and marine resources, home to world-class manufacturers, and dotted with numerous tourist-drawing hot-spring resorts, Shizuoka has a reputation as one of Japan's more affluent prefectures. In fact, because Shizuoka ranks consistently among Japan's top ten prefectures and accounts for 3% in terms of percentage of the country's total population, prefectural income, number of businesses, and numerous other economic measures, it is sometimes referred to as "the 3% Economic Bloc." Shizuoka's total land area of 7,779 square kilometers ranks 13th among Japan's prefectures. With 3,767 thousand residents, it is the nation's 10th most populous prefecture.

## ECONOMIC SCALE

With annual economic output of ¥14.6 trillion — equivalent to about one half the gross domestic product of Switzerland— Shizuoka Prefecture has a powerful economic base. Another characteristic of Shizuoka is a solid infrastructure that appeals to those devoted to the pursuit of crafting fine products. The

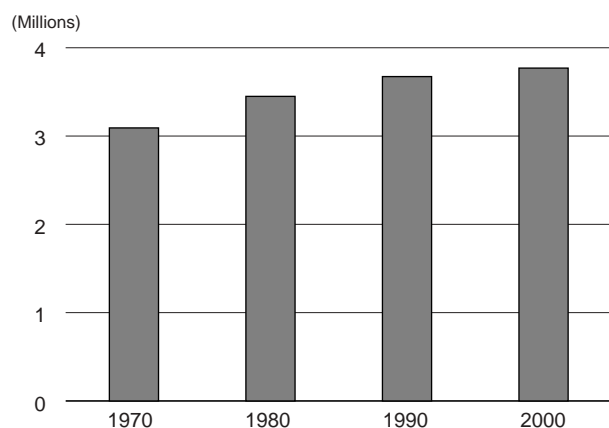
prefecture's social climate has produced some of the world's leading manufacturing corporations, including companies in the musical instruments and automotive industries. Shizuoka is one of Japan's most popular bases of operation for foreign companies, and many firms choose to establish a management base within the prefecture and engage in manufacturing overseas.

There were a total of 203 thousand business establishments (private businesses) in Shizuoka Prefecture in 1999. Breaking down the data by industry reveals that 82 thousand businesses (40.5% of the total) were engaged in the wholesaling, retailing, and food services industries, 53 thousand businesses (26.2%) were engaged in other service industries, and 28 thousand businesses (14.1%) were engaged in manufacturing. These three sectors accounted for 80.7% of all businesses in the prefecture. Companies in the manufacturing sector employed the most people, 544 thousand or 31.8% of the total. Next came the wholesaling, retailing, and food services industry, with 471 thousand employees (27.6%), followed by other service industries with 374 thousand employees (21.9%).

## INDUSTRY CHARACTERISTICS

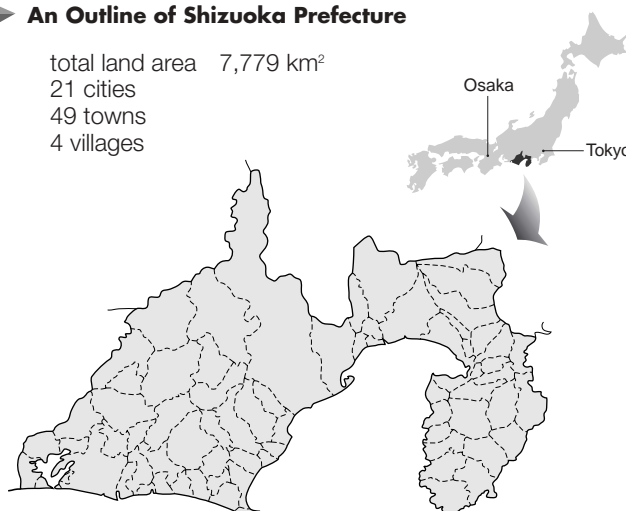
Shizuoka Prefecture can be broadly divided into Eastern Shizuoka, Central Shizuoka, and Western Shizuoka. Each area is developing with its own distinctive characteristics. The Eastern Shizuoka area is home to many companies in the

### ► Change in Prefectural Population



### ► An Outline of Shizuoka Prefecture

total land area 7,779 km<sup>2</sup>  
21 cities  
49 towns  
4 villages



paper and pulp industry, and migration of capital from the Tokyo metropolitan area into Eastern Shizuoka is on the rise. The area also boasts one of Japan's leading tourist destinations year-round: the Izu Peninsula with its beautiful natural scenery and hot-spring resorts. The Central Shizuoka area is centered on Shizuoka City, the prefectural capital. The area has a high concentration of trading and service businesses and is home to a number of thriving industries including the manufacture of furniture and traditional handicrafts such as hina dolls and decorative items, green tea production, and food processing and canning. A manufacturing center for motorcycles, musical instruments and other products, Western Shizuoka is a wellspring of industry where many world-leading manufacturers got their start. The area ranks fifth in Japan in the value of shipments of manufactured goods, commanding a share of more than 5% of the national total. As such, it is the source of Shizuoka's preeminence as a heavily industrialized prefecture with a high concentration of export industries. Taking advantage of this concentration of industrial activity, industry, academia, and the government are engaged in cooperative research and development undertakings in cutting-edge sectors that will lead the way into the next generation of economic activity, including the Eastern Shizuoka's Fuji Pharm Valley Plan (medical and pharmaceutical industries) and Western Shizuoka's Photon Valley Plan (optical science industries).

### Large-scale Projects

Taking advantage of its fortuitous location, Shizuoka Prefecture played a leadership role in twentieth century Japan in both industry and culture. Aiming for further growth in the twenty-first century, Shizuoka is involved in numerous large-scale projects.

#### Ogasayama General Athletics Complex

This is a project for an expansive public park to provide athletic facilities capable of hosting national and world-class sporting events. Scheduled events include the Football World Cup (2002) and the National Sports Festival (2003). Total project cost is about ¥120 billion.

#### Second Tomei Expressway

A segment of approximately 146 kilometers of the 330-kilometer expressway to link Tokyo and Nagoya is to be constructed within Shizuoka Prefecture.

#### Shizuoka Airport

The cost of the airport itself will be ¥50 billion. Including social infrastructure construction in the area, the total investment in this project will be ¥190 billion. Completion is scheduled for spring 2006.

### ► Areas in which Shizuoka Prefecture Leads Japan

Item	Shipment value		Nationwide share
	Shizuoka Pre.	Entire nation	
Pulp, paper, processed paper products	579,185	3,045,036	17.7%
Plastic models	13,791	19,917	69.2%
Perfume, eau de cologne	3,132	8,458	37.0%
Air conditioners	316,360	789,430	40.1%
Portable communication devices	27,014	91,870	29.4%
Green tea (manufactured tea)	195,125	332,066	58.8%
Sawing and woodworking machinery	22,498	59,893	37.6%
Musical instruments	306,413	345,214	80.0%