

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2001 AND 2000

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Chukyo Bank, Ltd. (the “Bank”) and its consolidated subsidiaries (together, the “Group”) have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

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 ¥123.90 to \$1, the approximate rate of exchange at March 30, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of March 31, 2001 include the accounts of the Bank and its 5 significant (6 in 2000) subsidiaries including The Chukyo Business Service Co., Ltd., The Chukyo Million Card Co., Ltd., Takara Fudosan Co., Ltd., Kikyo Co., Ltd. and The Chukyo Finance Co., Ltd. The Chukyo Capital, Ltd., which was a previously consolidated subsidiary, was liquidated on March 15, 2001, however, its results of operation were included in the consolidated financial statements of income.

The consolidated financial statements as of March 31, 2000 and 2001 do not include the accounts of a subsidiary, CMI Co., Ltd., as its consolidation would not have a material effect on the accompanying consolidated financial statements. Investment in the subsidiary is stated at cost. If the equity method of accounting had been applied to the investment in the subsidiary, the effect on the accompanying consolidated financial statements would not be material.

The investment in an affiliated company, The Chukyo Sogo Leasing Co., Ltd., is accounted for by the equity method for the years ended March 31, 2001 and 2000.

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

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The fiscal years of all consolidated subsidiaries are the same as the Bank's.

b. Cash and Cash Equivalents

Cash and cash equivalents, in the consolidated statements of cash flows, consist of cash and due from the Bank of Japan, included in "cash and due from banks" in the consolidated balance sheets.

c. Trading Securities

Prior to April 1, 2000, quoted trading securities were stated at the lower of cost, determined by the moving-average method, or market. Other trading securities were stated at cost determined by the moving-average method.

Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including trading securities. Under this standard, trading securities are stated at fair value, and the related unrealized gains and losses are included in earnings. The cost of trading securities sold is determined based on the moving-average method.

The effect of adopting the new standard was to increase income before income taxes and minority interests by ¥9 million (\$73 thousand).

d. Securities and Money Held in Trust

Prior to April 1, 2000, securities are stated at cost, determined by the moving-average method. Money held in trust is stated at the lower of cost, determined by the moving-average method, or market.

Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including securities. Under this standard, all applicable securities other than trading securities are classified and accounted for, depending on management's intent, as follows:

i) 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 ii) available-for-sale securities, which are not classified as 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 shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

Money held in trust is stated at fair value, and the related gains and losses are included in earnings.

The effect of adopting the new standard was to increase income before income taxes and minority interests by ¥28 million (\$226 thousand).

e. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation of premises and equipment of the Bank is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to the buildings acquired after April 1, 1998.

Premises and equipment held by the consolidated subsidiaries are depreciated mainly using the straight-line method.

The range of useful lives is principally from 7 to 50 years for buildings, from 3 to 20 years for other premises and equipment.

f. Software

Software for internal use is charged to income as incurred because of the uncertainty of it contributing to revenues or the reduction of expenses in the future.

g. Reserve for Possible Loan Losses

The Bank implemented a self-assessment system for asset quality. The quality of all loans is assessed by the related lending division and subsequently audited by the asset audit division in accordance with the Bank's policies 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 such as "normal", "caution", "possible bankruptcy", "virtual bankruptcy" and "legal bankruptcy". The credit rating system is used for self-assessment of asset quality.

For normal and caution loans, the reserve for possible loan losses is provided for based on actual past loss ratios. In case of loans to customers classified as possible bankruptcy, the reserve is provided for in an amount deemed necessary to cover possible loan losses. The amount is determined by considering the customer's solvency and other factors, after the estimated fair value of the collateral real estate or guaranteed amount has been deducted. In the case of loans to customers classified as virtual bankruptcy or legal bankruptcy, the reserve is provided for in an amount deemed necessary to cover possible loan losses after the estimated fair value of the collateral real estate or guaranteed amount has been deducted.

For loans to specific foreign borrowers, the reserve for possible loan losses is provided for based on the amount of possible losses due to political and economic conditions of respective countries that may affect the borrowers' ability to pay.

Reserve for possible loan losses of consolidated subsidiaries is provided based on actual past loss ratios and estimated collectivity of specific claims.

h. Reserve for Possible Losses on Collateralized Real Estate Loans Sold

The reserve for possible losses on loans collateralized by real estate sold to the Cooperative Credit Purchasing Company ("CCPC") is provided for in an amount deemed necessary to cover possible losses based on the estimated fair value of the real estate. In accordance with the terms of the loans collateralized by real estate sales contracts, the Bank is required to cover certain portions of losses incurred as defined in the contract, when CCPC disposes of real estate in satisfaction of debts.

i. Retirement and Pension Plan

Prior to April 1, 2000, the annual provision for retirement benefits was calculated to state the liabilities at the amount that would be required if all employees voluntarily terminated their employment at the balance sheet date. In addition, the Bank has contributory funded pension plan. The amounts contributed to the funds, including the amortization of past service costs, were charged to income when paid.

Effective April 1, 2000, the Group adopted a new accounting standard for retirement benefits and accounted for the liability for employees' retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥8,427 million (\$68,015 thousand) at the beginning of the year is being amortized over fifteen years and the annual amortization is presented as other expenses in the consolidated statement of income for the year ended March 31, 2001. As a result, net periodic benefit costs as compared with the prior method increased by ¥988 million (\$7,974 thousand) and income before income taxes and minority interests decreased by the same amount.

j. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

l. Foreign Currency Translations

Foreign currency assets and liabilities of the Group are translated into yen amounts at the exchange rates prevailing at the fiscal year end.

m. Derivatives and Hedging Activities

The Group uses variety of derivative financial instruments including foreign currency forward contracts, currency swaps, currency options, interest rate swaps, interest rate options, bond options and bond futures.

Effective April 1, 2000, the Group adopted a new accounting standard for derivative instruments. This standard requires that:

a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the statement of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are applied for hedge accounting.

In applying the hedge accounting, the Bank adopts 'macro hedge' which is the method to manage aggregate interest rate risks arising from numerous financial assets and liabilities such as loans and deposits by using derivatives. The method is a type of the deferral hedge accounting method and based on risk management strategy called the risk-adjusted approach defined in "Tentative Accounting and Auditing Treatments in Applying Accounting Standard for Financial Instruments to the Banking Industry" published by Japanese Institute of Certified Public Accountants. We evaluate effectiveness of hedges by examining whether risk exposures of derivatives, serving as the means to adjust risks, are within risk limits determined in the risk-management policy and also whether hedged interest rate risk exposure are reduced.

In addition to macro hedge accounting, the hedge accounting is individually applied to a portion of assets and liabilities of the Bank and the consolidated subsidiaries.

n. Appropriation of Retained Earnings

Appropriations of retained earnings at each year-end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

o. Per Share Information

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was 137,163,000 shares for 2001 and 136,610,141 shares for 2000.

Diluted net income per share is not disclosed because shares are anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

3. Cash and Due from Banks

Cash and due from banks as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash on hand	¥ 17,598	¥ 23,311	\$ 142,034
Due from banks	37,109	27,250	299,508
Total	¥ 54,707	¥ 50,561	\$ 441,542

A reconciliation of the cash and due from banks in the consolidated balance sheets to the cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cash and due from banks	¥ 54,707	¥ 50,561	\$ 441,542
Due from banks other than The Bank of Japan	(4,376)	(23,374)	(35,319)
Cash and cash equivalents	¥ 50,331	¥ 27,187	\$ 406,223

4. Call Loans

This account consists of the Bank's short-term inter-bank lending including the balances of its transactions on the Tokyo Dollar Call Market.

5. Trading Securities and Securities

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
National government bonds	¥ 387	¥ 189	\$ 3,124
Total	¥ 387	¥ 189	\$ 3,124

Valuation gain of trading securities included in income before income taxes and minority interests was ¥8 million (\$65 thousand) for the year ended March 31, 2001.

The amount of equity securities of an unconsolidated subsidiary and an affiliated company, which is included in securities, for the years ended March 31, 2001 and 2000 was ¥620 million (\$5,004 thousand) and ¥550 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
National government bonds	¥ 47,961	¥ 84,109	\$ 387,094
Local government bonds	8,908	17,558	71,897
Corporate bonds	71,026	69,415	573,253
Stock shares	43,479	45,353	350,920
Other securities	35,667	32,942	287,869
Total	¥ 207,041	¥ 249,377	\$ 1,671,033

Information regarding each category of the securities classified as available-for-sale at March 31, 2001 was as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 44,547	¥ 4,329	¥ 7,804	¥ 41,072
Debt securities	122,431	3,573	23	125,981
Other	21,203	494	1,411	20,286

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$ 359,540	\$ 34,939	\$ 62,986	\$ 331,493
Debt securities	988,144	28,838	186	1,016,796
Other	171,130	3,987	11,388	163,729

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	¥ 1,795	\$ 14,487
Held-to-maturity	17,296	139,597
Total	¥ 19,091	\$ 154,084

Proceeds from sales of available-for-sale securities for the year ended March 31, 2001 were ¥68,711 million (\$554,568 thousand). Gross realized gains and losses on these sales, computed on the moving-average cost basis, were ¥2,595 million (\$20,944 thousand) and ¥69 million (\$557 thousand), respectively.

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

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 26,743	\$ 215,843
Due after one year		
Through five years	62,774	506,651
Due after five years		
Through ten years	72,908	588,442
Due after ten years	238	1,921
Total	¥ 162,663	\$ 1,312,857

The carrying values and aggregate market values of the trading securities and securities, which were listed on stock exchanges or over-the-counter markets, as of March 31, 2000 consisted of the following:

	Millions of Yen
Trading securities:	
Carrying value	¥ 176
Aggregate market value	180
Securities:	
Carrying value	¥ 188,968
Aggregate market value	191,938

The carrying values of trading securities and securities not included above, which were generally not listed on stock exchanges or over-the-counter markets, as of March 31, 2000 were as follows:

	<u>Millions of Yen</u>	
Trading securities	¥	13
Securities		60,409

6. Money Held in Trust

Information of money held in trust at March 31, 2001 was as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Amount in the balance sheet	¥ 1,924	\$ 15,529
Valuation loss included in income before income taxes and minority interests	164	1,324

The carrying values and aggregate market values of the money held in trust, which are based on the prices listed on stock exchanges or the over-the-counter markets, as of March 31, 2000 were as follows:

	<u>Millions of Yen</u>	
Money held in trust:		
Carrying value	¥	1,497
Aggregate market value		1,506

7. Loans and Bills Discounted

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	2001	2000	2001
Bills discounted	¥ 49,164	¥ 48,958	\$ 396,804
Loans on bills	196,512	195,189	1,586,053
Loans on deeds	757,496	756,236	6,113,769
Overdrafts	181,846	216,966	1,467,684
Total	<u>¥ 1,185,018</u>	<u>¥ 1,217,349</u>	<u>\$ 9,564,310</u>

Nonaccrual loans are defined as loans which the Bank and its subsidiaries discontinue the accrual of interest income. Borrowers are generally placed on nonaccrual status when substantial doubt is deemed to exist as to ultimate collectibility of either the principal or interest, and if the loans are past due for certain period or for other reasons.

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, which are defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of Enforcement Ordinance for the Corporation Tax Law.

Loans to borrowers in legal bankruptcy as of March 31, 2001 and 2000 were ¥12,193 million (\$98,410 thousand) and ¥11,453 million, respectively.

Past due loans are nonaccrual loans other than loans to borrowers in bankruptcy and loans of which interest payments are deferred in order to assist the financial recovery of debtor in financial difficulties. Past due loans as of March 31, 2001 and 2000 were ¥34,353 million (\$277,264 thousand) and ¥38,233 million, respectively.

Accruing loans past due three months or more are defined as loans on which principal or interest is past due more than three months. Loans classified as loans to borrowers in bankruptcy or past due loans are excluded from accruing loans past due three months or more. The balance of accruing loans past due three months or more as of March 31, 2001 and 2000 were ¥938 million (\$7,570 thousand) and ¥984 million, respectively.

Restructured loans are defined as loans which the lender is providing financial support to a borrower by a reduction of the interest rate, deferral of interest payment, extension of maturity date, or reduction of the face or maturity amount of the debt or accrued interest. Loans classified as loans to borrowers in bankruptcy, past due loans, or accruing loans past due three months or more are excluded from restructured loans. The balance of restructured loans as of March 31, 2001 and 2000 were ¥21,591 million (\$174,262 thousand) and ¥15,386 million, respectively.

Total amount of loans to borrowers in bankruptcy, past due loans, accruing loans past due three months or more and restructured loans as of March 31, 2001 and 2000 were ¥69,075 million (\$557,506 thousand) and ¥66,056 million, respectively.

The total principal balance of loans transferred to participating entities under loan participation agreements, which are accounted for as sales due to their nonrecourse nature, was ¥10,700 million (\$86,360 thousand) as of March 31, 2001.

Amounts of loans mentioned above represent amounts prior to the deduction of reserve for possible loan losses.

8. Foreign Exchanges

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets:			
Due from foreign correspondent account	¥ 634	¥ 614	\$ 5,117
Foreign bills of exchange bought	456	168	3,680
Foreign bills of exchange receivable	2,798	2,214	22,583
Total	¥ 3,888	¥ 2,996	\$ 31,380
Liabilities:			
Due from foreign correspondent account	¥ 5	-	\$ 40
Foreign bills of exchange sold	6	¥ 21	49
Foreign bills of exchange payable	1	16	8
Total	¥ 12	¥ 37	\$ 97

9. Other Assets

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Domestic exchange Settlement, debit	¥ 619	¥ 512	\$ 4,996
Accrued income	2,027	2,221	16,360
Prepaid expenses	109	129	880
Other	11,440	9,540	92,332
Total	¥ 14,195	¥ 12,402	\$ 114,568

10. Premises and Equipment

The accumulated depreciation of premises and equipment at March 31, 2001 and 2000 amounted to ¥18,198 million (\$146,877 thousand) and ¥17,936 million, respectively.

11. Customers' Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are presented as assets, representing the Bank's right of indemnity from applicants.

12. Assets Pledged

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

	Carrying amount	
	Millions of Yen	Thousands of U.S. Dollars
Assets pledged as collateral:		
Securities	¥ 1,827	\$ 14,746
Total	¥ 1,827	\$ 14,746
Relevant liabilities to above assets:		
Deposits	¥ 1,363	\$ 11,001
Total	¥ 1,363	\$ 11,001

In addition, securities of ¥33,746 million (\$272,365 thousand) were pledged as collateral for settlement of exchange, and securities of ¥186 million (\$1,501 thousand) and the Bank's treasury stock of ¥195 million (\$1,574 thousand) were pledged as collateral for borrowed money of ¥330 million (\$2,663 thousand).

13. Land Revaluation

Under the "Law of Land Revaluation", promulgated and revised on March 31, 1998 and 1999, respectively, the Bank elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1998.

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the consolidated statements of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

At March 31, 2001, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥4,735 million (\$38,216 thousand).

14. Income Taxes

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets:			
Reserve for possible loan losses	¥ 6,589	¥ 7,840	\$ 53,180
Elimination of unrealized gain	1,140	1,141	9,201
Liability for retirement benefits	1,025	661	8,273
Depreciation	802	636	6,473
Accrued interest expense	516	364	4,164
Other	1,451	1,381	11,711
Unrealized loss on available-for-sale securities	356	-	2,873
Subtotal	11,879	12,023	95,875
Less valuation allowance	(47)	(389)	(379)
Total	¥ 11,832	¥ 11,634	\$ 95,496
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ (11)	-	\$ (89)
Land revaluation excess	(4,343)	¥ (4,382)	(35,052)
Total	¥ (4,354)	¥ (4,382)	\$ (35,141)
Net deferred tax assets	¥ 7,478	¥ 7,252	\$ 60,355

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000 and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2001	2000
Normal effective statutory tax rate	40.9 %	40.9 %
Entertainment expenses and other expenses not deductible permanently for income tax purpose	5.2	4.6
Dividend income and other income excluded permanently for income tax purpose	(10.3)	(5.5)
Inhabitants tax per capita	4.1	2.7
Special credit for expropriation	(2.2)	-
Other	(0.2)	0.7
Actual effective tax rate	37.5 %	43.4 %

15. 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	¥ 60,154	¥ 53,103	\$ 485,505
Ordinary deposits	282,946	255,180	2,283,664
Saving deposits	16,815	15,743	135,714
Deposits at notice	18,142	32,047	146,425
Time deposits	975,968	1,007,709	7,877,062
Installment savings	45,142	47,484	364,342
Other	22,311	29,285	180,073
Total	¥ 1,421,478	¥ 1,440,551	\$ 11,472,785

16. Borrowed Money

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Borrowings due serially to 2007	¥ 27,231	¥ 34,454	\$ 219,782
Total	¥ 27,231	¥ 34,454	\$ 219,782

The weighted-average interest rate of the borrowings was 2.10% at March 31, 2001.

Annual maturities of borrowings as of March 31, 2001 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 11,198	\$ 90,380
2003	4,015	32,405
2004	3,512	28,345
2005	5	40
2006	3,001	24,221
2007	5,500	44,391
Total	¥ 27,231	\$ 219,782

17. Liability for Retirement Benefits

The Bank has unfunded retirement benefit plans, a non-contributory funded pension plan and a contributory funded pension plan for employees, and the consolidated subsidiaries have unfunded retirement benefit plans.

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 or in the form of an annuity from the Bank or consolidated subsidiaries.

Effective April 1, 2000, the Bank and consolidated subsidiaries adopted new accounting standards for employees' retirement benefits.

The liability for retirement benefits at March 31, 2001 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Projected benefit obligation	¥ 31,415	\$ 253,551
Fair value of plan assets	(18,932)	(152,800)
Unrecognized transitional obligation	(7,865)	(63,479)
Unrecognized actuarial loss	(1,567)	(12,647)
Net liability	<u>¥ 3,051</u>	<u>\$ 24,625</u>

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

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Service cost	¥ 931	\$ 7,514
Interest cost	1,083	8,741
Expected return on plan assets	(814)	(6,570)
Amortization of transitional obligation	562	4,536
Net periodic benefit costs	<u>¥ 1,762</u>	<u>\$ 14,221</u>

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

Discount rate	3.5 %
Expected rate of return on plan assets	4.0 %
Amortization period of actuarial loss	13 years: Straight-line amortization over average remaining service period beginning the year ending March 31, 2002
Amortization period of transitional obligation	15 years

18. Other Liabilities

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Domestic exchange settlement, credit	¥ 404	¥ 403	\$ 3,261
Accrued income taxes	566	2,007	4,568
Accrued expenses	5,587	6,363	45,093
Unearned income	2,387	2,754	19,265
Other	7,064	5,483	57,014
Total	¥ 16,008	¥ 17,010	\$ 129,201

19. Commitments and Contingent Liabilities

Effective April 1, 2000, the Group adopted a new accounting standard for financial instruments, including notes related to loan commitments. This standard required the Group to disclose information about loan commitments.

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to the prescribed amount as long as there is no violation of any condition established in the contracts. The amount of unused commitments is ¥252,401 million (\$2,037,135 thousand), including ¥214,542 million (\$1,731,574 thousand) of unused commitments whose original contract terms are within one year.

Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments have clauses that the Bank and consolidated subsidiaries can reject the application from customers or reduce the contract amounts in case economic conditions are changed, the Bank and consolidated subsidiaries need to secure claims or other events occur. In addition, the Bank and consolidated subsidiaries request the customers to pledge collateral such as premises and securities at the conclusion of the contracts, and take necessary measures such as grasping customers' financial positions based upon procedures predetermined in the Bank and subsidiaries, revising contracts when the need arises and securing claims after conclusion of the contracts.

20. Shareholders' Equity

Under the Commercial Code of Japan (the "Code"), at least 50% 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 the amounts designated as stated capital are credited to capital surplus.

The Bank may transfer portions of capital surplus and legal reserve to stated capital by resolution of the Board of Directors. The Bank may also transfer portions of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Bank may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Bank may make such a stock split to the extent that the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity

by the number of outstanding shares after stock split cannot be less than ¥50.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the books of the Bank. At March 31, 2001, retained earnings recorded on the Bank's books excluding net unrealized loss on available-for-sale securities were ¥20,874 million (\$168,475 thousand), which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

The Bank is authorized to repurchase, by resolution of the Board of Directors, up to 13 million shares of the Bank's stock for the purpose of canceling the shares and charging such amounts to retained earnings. The Bank is also authorized to repurchase, by resolution of the Board of Directors, up to 10 million shares of the Bank's stock or acquisition cost of 5 billion yen, whichever comes first, for the purpose of canceling the shares and charging such amounts to capital surplus.

21. Retained Earnings

Under the Japanese Banking Law, an amount equivalent to at least 20% of cash payments, including dividends and bonuses to directors and corporate auditors must be appropriated as a legal reserve, until such reserve equals 100% of the Bank's stated capital. The Bank's reserve amount, which is included in retained earnings, totals ¥3,853 million (\$31,098 thousand) and ¥3,684 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 shareholders or may be capitalized by resolution of the Board of Directors.

22. 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
Gain on sales of stocks and other securities	¥ 928	¥ 2,077	\$ 7,490
Gain on money held in trust	5	115	40
Gain on discount of subordinated loan due to early repayment	2,300	-	18,563
Other	438	511	3,536
Total	¥ 3,671	¥ 2,703	\$ 29,629

23. Other Expenses

Other 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
Loss on sales of stocks and other securities	¥ 69	¥ 1,737	\$ 557
Write-down of loans	406	487	3,277
Write-down of investment securities	461	91	3,721
Loss on money held in trust	76	3	613
Other	1,319	670	10,646
Total	¥ 2,331	¥ 2,988	\$ 18,814

24. Leases

The Group leases certain equipment under finance leases.

Total rental expenses under the above leases for the years ended March 31, 2001 and 2000 were ¥744 million (\$6,005 thousand) and ¥833 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Acquisition cost	¥ 4,995	¥ 4,671	\$ 40,315
Accumulated depreciation	(2,770)	(2,988)	(22,357)
Net leased property	¥ 2,225	¥ 1,683	\$ 17,958

Obligations under finance leases as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year	¥ 699	¥ 595	\$ 5,642
Due after one year	1,526	1,088	12,316
Total	¥ 2,225	¥ 1,683	\$ 17,958

* The amount of obligations under finance leases includes the imputed interest expense portion.

Depreciation expense, which was not reflected in the accompanying consolidated statements of income, was computed by the straight-line method with useful lives being equal to the lease period and all residual values at zero. Depreciation expense for the years ended March 31, 2001 and 2000 was ¥ 744 million (\$6,005 thousand) and ¥833 million, respectively.

25. Derivative Financial Instruments

The Group enters into swap and option agreements related to interest rates, forward exchange contracts, swap and option contracts related to currencies, and bond futures and bond options contracts related to securities. The Group enters into derivative transactions as a means of managing its interest rate exposures on certain assets and liabilities.

The Group mainly uses derivative transactions to reduce market risks on fixed rate assets in the event the interest rates increase and on the fluctuation of foreign exchange rates. The Group also enters into derivative transactions for trading purposes under certain risk limitations to gain income.

Derivatives are subject to market risk and credit risk. The Group's exposure to market risk is limited, since derivative transactions are primarily used for hedging purposes, and exposure to credit risk is also limited, since the counterparties to those derivatives are limited to major financial institutions and the amount of transactions is restricted.

Internal policies of derivative transactions are formulated by the ALM committee, which consists of the management and dealing sections. Derivative transactions for hedging purposes are individually controlled, and those for trading purposes are managed under internal policies, which regulate the amount of transactions, acceptable losses and report to management.

Derivative transactions, which were valued at market values and accounted for in the consolidated statement of income for the year ended March 31, 2001, were as follows:

	Millions of Yen		
	Contract or Notional Amount	Fair Value	Unrealized Gain
Currency swap	¥ 7,338	¥ 37	¥ 37

	Thousands of U.S. Dollars		
	Contract or Notional Amount	Fair Value	Unrealized Gain
Currency swap	\$ 59,225	\$ 299	\$ 299

Derivative transactions which qualify for hedge accounting for the year ended March 31, 2001 were excluded from the disclosure of market value information.

Forward exchange contracts were assigned to the related assets and liabilities as of March 31, 2001 and 2000, and reflected on the consolidated statements of income for the years ended March 31, 2001 and 2000. The Group had the following forward exchange contracts outstanding at March 31, 2001:

	Contract or Notional Amount	
	Millions of Yen	Thousands of U.S. Dollars
Forward exchange contracts	¥ 8,629	\$ 69,645

The Group had the following derivative contracts outstanding at March 31, 2000:

	Millions of Yen		
	Contract or Notional Amount	Fair Value	Unrealized Loss
Interest rate swap:			
Floating rate receipt, fixed rate payment	¥ 56,132	¥ (1,256)	¥ (1,256)
Currency swap	8,121	(79)	(79)
Forward exchange contracts	18,194	-	-

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risks.

26. Related Party Transactions

The financial statements for the years ended March 31, 2001 and 2000 include the following related party transactions:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans to The Chukyo Sogo Leasing Co., Ltd.	¥ 4,910	¥ 8,050	\$ 39,629
Interest earned from The Chukyo Sogo Leasing Co., Ltd.	141	154	1,138
Rental expenses to The Chukyo Sogo Leasing Co., Ltd.	738	762	5,956

27. Subsequent Event

On June 28, 2001, the Bank's shareholders authorized the appropriation of retained earnings as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Dividends, ¥2.50 (\$0.020) per share	¥ 345	\$ 2,785
Transfer to legal reserve	100	807
Total appropriations	<u>¥ 445</u>	<u>\$ 3,592</u>

28. Segment Information

The Bank and its subsidiaries operate primarily in one operation, banking, which constitutes most of their consolidated ordinary income and total assets. Accordingly, the figures for ordinary income and assets by business segment for the Bank and its subsidiaries are not presented.

The Bank and its subsidiaries operate primarily in Japan, constituting more than 90% of the consolidated ordinary income and total assets. Accordingly, the figures for ordinary income and assets by geographical segment for the Bank and its subsidiaries are not presented.

Ordinary income arising from international operations both inside and outside of Japan constitutes less than 10% of the consolidated ordinary income. Accordingly, the figures for ordinary income arising from international operations are not presented.

INDEPENDENT AUDITORS' REPORT



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

We have examined the consolidated balance sheets of The Chukyo Bank, Ltd. and consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our 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 Chukyo Bank, Ltd. and consolidated 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 discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' 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.

June 28, 2001

Deloitte Touche Tohmatsu