

## CONSOLIDATED BALANCE SHEETS

The Chugoku Bank, Ltd. and Consolidated Subsidiaries  
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
<b>ASSETS:</b>			
Cash and due from banks .....	¥ 130,638	¥ 120,508	\$ 1,086,839
Call loans .....	41,817	88,712	347,895
Commercial paper and other debt purchased .....	63,013	168,429	524,235
Trading account securities .....	22,376	41,620	186,156
Money trusts (Note 7) .....	60,635	64,559	504,451
Securities (Note 6) .....	1,943,813	1,581,669	16,171,489
Loans and bills discounted (Note 9) .....	3,058,182	3,217,823	25,442,446
Foreign exchanges .....	2,746	2,634	22,845
Other assets .....	70,676	68,253	587,987
Premises and equipment (Note 11) .....	49,339	50,208	410,474
Deferred income tax assets (Note 13) .....	18,816	13,500	156,539
Customers' liabilities for acceptances and guarantees .....	62,979	67,483	523,952
Reserve for possible loan losses .....	(56,731)	(49,064)	(471,972)
<b>Total assets .....</b>	<b>¥5,468,299</b>	<b>¥5,436,334</b>	<b>\$45,493,336</b>
<b>LIABILITIES, MINORITY INTEREST, AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits .....	¥4,810,291	¥4,826,105	\$40,019,060
Call money .....	78,199	54,623	650,574
Payables under repurchase agreements .....	—	668	—
Payables for securities lending transactions (Note 5) .....	108,395	71,185	901,789
Borrowed money .....	24,015	25,696	199,792
Foreign exchanges .....	86	36	715
Other liabilities (Note 5) .....	52,230	59,504	434,525
Accrued employee bonuses .....	1,768	1,790	14,709
Liability for employees' severance and retirement benefits (Note 14) .....	15,469	14,936	128,694
Deferred income tax liabilities .....	1	—	8
Acceptances and guarantees .....	62,979	67,483	523,952
<b>Total liabilities .....</b>	<b>5,153,433</b>	<b>5,122,026</b>	<b>42,873,818</b>
<b>Minority interest .....</b>	<b>7,349</b>	<b>6,905</b>	<b>61,140</b>
<b>Shareholders' equity (Notes 18 and 19):</b>			
Common stock .....	15,149	15,149	126,032
Capital surplus .....	6,287	6,287	52,304
Retained earnings .....	268,082	265,816	2,230,300
Net unrealized holding gains on securities (Note 8) .....	18,270	20,258	151,997
Less: Common stock in treasury .....	(271)	(107)	(2,255)
<b>Total shareholders' equity .....</b>	<b>307,517</b>	<b>307,403</b>	<b>2,558,378</b>
<b>Total liabilities, minority interest, and shareholders' equity .....</b>	<b>¥5,468,299</b>	<b>¥5,436,334</b>	<b>\$45,493,336</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF INCOME

The Chugoku Bank, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
<b>Income:</b>			
Interest and dividends on:			
Loans and discounts .....	¥55,556	¥57,912	\$462,196
Securities .....	23,429	27,104	194,917
Other .....	1,396	4,135	11,614
Fees and commissions .....	13,404	12,034	111,514
Other operating income .....	21,776	22,929	181,165
Other income .....	2,615	3,519	21,755
<b>Total income .....</b>	<b>118,176</b>	<b>127,633</b>	<b>983,161</b>
<b>Expenses:</b>			
Interest on:			
Deposits .....	3,061	6,148	25,466
Borrowings and rediscounts .....	291	389	2,421
Other .....	4,498	9,835	37,421
Fees and commissions .....	2,749	2,565	22,870
Other operating expenses .....	19,932	22,401	165,824
General and administrative expenses .....	52,571	53,475	437,363
Provision of reserve for possible loan losses .....	19,516	13,571	162,363
Other expenses .....	6,701	7,989	55,748
<b>Total expenses .....</b>	<b>109,319</b>	<b>116,373</b>	<b>909,476</b>
Income before income taxes .....	8,857	11,260	73,685
Income taxes			
Current .....	7,958	8,674	66,206
Deferred .....	(3,749)	(4,131)	(31,190)
Minority interest in net income .....	657	839	5,466
<b>Net income .....</b>	<b>¥3,991</b>	<b>¥5,878</b>	<b>\$33,203</b>

	Yen		U.S. Dollars (Note 2)
	2003	2002	2003
Net income per share .....	¥16.30	¥23.97	\$0.14
Cash dividends applicable to the year .....	7.00	7.00	0.06

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

The Chugoku Bank, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
Retained earnings at the beginning of the year .....	¥265,816	¥261,685	\$2,211,448
Net income .....	3,991	5,878	33,203
Cash dividends .....	(1,702)	(1,701)	(14,160)
Bonuses to directors and statutory auditors .....	(23)	(46)	(191)
<b>Balance at the end of the year .....</b>	<b>¥268,082</b>	<b>¥265,816</b>	<b>\$2,230,300</b>

See notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

The Chugoku Bank, Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
<b>Cash flows from operating activities:</b>			
Income before income taxes .....	¥ 8,857	¥ 11,260	\$ 73,685
Depreciation .....	14,385	15,339	119,676
Increase in reserve for possible loan losses .....	19,516	13,570	162,363
Increase (decrease) in accrued employee bonuses .....	(22)	1,790	(183)
Increase (decrease) in liability for severance and retirement benefits .....	532	(897)	4,426
Interest and dividend income .....	(80,381)	(89,151)	(668,727)
Interest expense .....	7,849	16,373	65,300
Losses on sale of securities, net .....	3,643	4,615	30,308
Losses on money trusts, net .....	132	466	1,098
Foreign exchange losses (gains), net .....	17,127	(12,530)	142,487
Losses on disposal of premises and equipment, net .....	170	282	1,414
Decrease in trading account securities, excluding foreign exchange contracts .....	19,245	9,528	160,108
Decrease in call loans, commercial paper and other debt purchased .....	152,310	66,920	1,267,138
Decrease (increase) in due from banks, excluding the Bank of Japan .....	(20,925)	280,043	(174,085)
Increase in foreign exchange assets .....	(112)	(521)	(932)
Decrease (increase) in loans and bills discounted .....	147,791	(300,874)	1,229,543
Increase in other assets .....	(12,044)	(8,925)	(100,200)
Increase in deposits, call money and borrowed money .....	5,412	150,740	45,025
Increase (decrease) in foreign exchange liabilities .....	49	(39)	408
Increase in other liabilities .....	31,451	67,017	261,656
Interest and dividends received .....	87,743	92,889	729,975
Interest paid .....	(8,604)	(18,760)	(71,581)
Payment of bonuses to directors and statutory auditors .....	(26)	(49)	(216)
Income taxes paid .....	(10,037)	(6,323)	(83,503)
<b>Net cash provided by operating activities .....</b>	<b>384,061</b>	<b>292,763</b>	<b>3,195,183</b>
<b>Cash flows from investing activities:</b>			
Purchases of securities .....	(1,013,006)	(1,059,405)	(8,427,671)
Proceeds from sales of securities .....	369,423	589,859	3,073,403
Proceeds from redemption of securities .....	250,561	197,666	2,084,534
Purchases of money trusts .....	(11,000)	(30,050)	(91,514)
Proceeds from money trusts .....	14,792	24,395	123,062
Purchases of premises and equipment .....	(4,247)	(3,659)	(35,333)
Proceeds from sales of premises and equipment .....	514	161	4,276
<b>Net cash used in investing activities .....</b>	<b>(392,963)</b>	<b>(281,033)</b>	<b>(3,269,243)</b>
<b>Cash flows from financing activities:</b>			
Cash dividends paid .....	(1,702)	(1,701)	(14,160)
Cash dividends, paid to minority shareholders .....	(9)	(9)	(75)
Purchases of treasury stock .....	(166)	(75)	(1,381)
Proceeds from sales of common stock .....	—	39	—
<b>Net cash used in financing activities .....</b>	<b>(1,877)</b>	<b>(1,746)</b>	<b>(15,616)</b>
Effect of exchange rate changes on cash and cash equivalents .....	(11)	10	(91)
<b>Net increase (decrease) in cash and cash equivalents .....</b>	<b>(10,790)</b>	<b>9,994</b>	<b>(89,767)</b>
Cash and cash equivalents at beginning of year .....	86,048	76,054	715,873
<b>Cash and cash equivalents at end of year .....</b>	<b>¥ 75,258</b>	<b>¥ 86,048</b>	<b>\$ 626,106</b>

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Chugoku Bank, Ltd. and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The Chugoku Bank, Ltd. (the “Bank”) and its subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Banking Law, the Japanese Uniform Rules For Bank Accounting and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying consolidated financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

## 2. Yen and U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 3. Significant Accounting Policies

### (a) Principles of Consolidation

#### (1) Consolidated Subsidiaries and an Affiliate

The consolidated financial statements include the accounts of the Bank and its eight significant subsidiaries after the elimination of all significant inter-company transactions, balances, and unrealized profit.

Investments in an affiliate are not accounted for under the equity method, since they would have no significant effect on the consolidated financial statements.

#### (2) Balance Sheet Date of Subsidiaries

All consolidated subsidiaries have fiscal years ending March 31, which is the same as the fiscal year of the Bank.

### (b) Securities and Money Trusts

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and

unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

Securities held for trading purpose in separately managed money trusts are stated at fair market value.

If the market value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (c) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and the changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

Pursuant to the temporary treatment regulated by “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (Industry Audit Committee Report No. 24) issued by the Japanese Institute of Certified Public Accountants (“JICPA”), the Bank adopted “macro hedge” accounting, 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 hedge accounting method is a type of the deferral hedge accounting method and based on the risk management strategy called the risk-adjusted approach defined in the “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” published by the JICPA.

The effectiveness of hedges is evaluated 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 is reduced.

In order to hedge risk arising from volatility of exchange rates for other securities (excluding bonds) denominated in foreign currency, the Bank applies fair value hedge accounting, on the conditions that the hedged security is specified in advance and that enough on-balance (actual) or offbalance (forward) liability exposure exists to cover the cost of the hedged security in foreign currency base.

For certain assets and liabilities, the deferral hedge accounting method or the mark-to-market method is applied.

### (d) Premises and Equipment

Premises and equipment owned by the Bank and consolidated subsidiaries are generally stated at cost less accumulated depreciation and deferred gains on sale of real estate. Depreciation is computed on the declining balance method over the estimated useful lives of properties.

The estimated useful lives at the Bank are mainly as follows:

Buildings .....	From 4 years to 40 years
Premises .....	From 2 years to 20 years

At consolidated subsidiaries, useful lives are based on the Corporation Tax Law of Japan.

Leased assets, included in other assets, are depreciated over the lease term using the straight-line method.

#### **(e) Foreign Currency Translation**

Assets and liabilities in foreign currencies of the Bank are translated into Japanese yen at the exchange rates prevailing at the end of each fiscal year.

In prior years, in the case of transactions etc. denominated in foreign currencies, the Bank had adopted “Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 20). Effective for this consolidated fiscal year, “Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 25) has been adopted.

For this consolidated fiscal year, the Bank treated fund-related swap transactions and, currency-swap transactions, on the basis of JICPA Industry Audit Committee Report No. 20 applying the transitional methods mentioned in JICPA Industry Audit Committee Report No. 25. The net amount of yen exchange difference relating to forward foreign exchange transactions etc. is recorded in the consolidated balance sheet.

Fund-related swap transactions are accounted for as follows on the basis of the transitional methods mentioned in JICPA Industry Audit Committee Report No. 25:

1. Amounts equal to the principal amounts of the lending/borrowing transactions to which the relevant fund-related swap transaction applies are translated into Japanese yen using exchange rates in effect at the consolidated balance sheet date and the net amount is recorded on the consolidated balance sheet.
2. The spot/forward differences which reflect the differences in interest rates between the different currencies are recognized as gains or losses on an accrual basis for the period from the date of the spot leg to the forward leg, and recorded in the consolidated statement of income, together with the accrued income and expense amounts on the consolidated balance sheet.

Fund-related swap transactions are originated for the purpose of lending and borrowing in different currencies, where (1) the notional amounts of lending and borrowing are equal to the amounts of foreign exchange purchased or sold as a spot transaction and (2) the amounts of future payment for and proceeds from borrowing and lending, respectively, with the contractual interest payment or receipt denominated in foreign currency, are equal to the amounts of foreign exchange purchased or sold as a forward transaction.

Flat currency swap transactions, in which the transactions are (1) originated for the purpose of lending and borrowing in different currencies, (2) amounts payable / receivable at the maturity date are equal to amounts receivable / payable at the contract date and (3) the swap rates applied to principal and interest are rational, are accounted for as follows on the basis of the transitional methods mentioned in JICPA Industry Audit Committee Report No. 25 (includes those flat currency swap transactions in which the amount of currency equivalent to the principal of one of the currencies is changed on each date the amount equivalent to the interest is paid, in order to reflect market exchange rates at the time, and in which moreover the principal swapped at the beginning of each interest payment period is equal to the principal swapped at the end of the interest payment period):

1. Principal amounts of lending/borrowing transactions are translated into Japanese yen using exchange rates in effect at the consolidated balance sheet date and the net amount is recorded on the consolidated balance sheet.

2. The amount of foreign currency equivalent to the interest is recognized as gains or losses on an accrual basis for the period from the date of the spot leg to the forward leg, and recorded in the consolidated statement of income, together with the accrued income and expense amounts on the consolidated balance sheet.

There is no impact on the financial statements of adopting this new accounting treatment.

#### **(f) Reserve for Possible Loan Losses**

The Bank writes off loans and makes provisions for possible losses on loans in accordance with the Uniform Accounting Standard for Banks issued by the Bankers' Association of Japan.

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the existence of security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans such as normal loans and loans requiring special attention. The reserve for possible loan losses is provided based the Bank's actual rate of loan losses in the past.

The specific reserve for loans to certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans to such countries.

The self-assessment and classification has been made by each business department and credit supervision department and has been audited by the Credit Administration Department, an independent department. The reserve for possible loan losses is provided based on such auditing results.

Reserves for possible loan losses of consolidated subsidiaries are provided for general claims by the amount deemed necessary based on the historical loanless ratio, and for doubtful claims by the amount deemed uncollectable based on the individual assessments.

#### **(g) Accrued Employee Bonuses**

Accrued employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses which are attributable to the fiscal year.

#### **(h) Liability for Severance and Retirement Benefits**

The Bank and its consolidated subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Bank and its consolidated subsidiaries provide the liabilities for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

#### **(i) Finance Leases**

Finance leases, which do not transfer ownership, are accounted for in the same manner as operating leases under Japanese GAAP.

### (j) Income Taxes

Deferred income taxes are recognized for timing differences between income for financial and tax reporting purposes. Income taxes in Japan applicable to the Bank and consolidated subsidiaries consist of corporation tax (national), inhabitants taxes (local), and enterprise taxes (local).

### (k) Cash and Cash Equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents.

The differences between "cash and cash equivalents" in the consolidated statements of cash flows and "cash and due from banks" in the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Cash and due from banks .....	¥130,638	¥120,508	\$1,086,839
Deposits with banks .....	(41,002)	(20,006)	(341,115)
Due from banks excluding the Bank of Japan .....	(14,378)	(14,454)	(119,618)
Cash and cash equivalents .....	¥ 75,258	¥ 86,048	\$ 626,106

### (l) Net Income per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year (excluding "treasury stock"). Effective April 1, 2002, the Bank adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for

## 6. Securities

Securities at March 31, 2003 and 2002, include shares of an affiliate of ¥32 million (U.S. \$266 thousand) and ¥56 million, respectively.

Lent securities which are included in 'Securities' at March 31, 2003 and 2002, amount to ¥81 million (U.S. \$674 thousand) and ¥577 million, respectively.

(1) The following tables summarizes acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2003 and 2002:

#### Available-for-sale securities

Type	Millions of Yen				
	2003				
	Acquisition Cost	Book Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Equity securities .....	¥ 49,198	¥ 50,657	¥ 1,459	¥ 6,607	¥5,148
Bonds: .....	1,512,659	1,539,384	26,725	29,040	2,315
Japanese government bonds .....	642,063	645,946	3,883	6,111	2,228
Japanese local government bonds .....	393,890	408,007	14,117	14,152	35
Japanese corporate bonds .....	476,706	485,431	8,725	8,777	52
Others .....	374,830	378,003	3,173	5,098	1,925
Total .....	¥1,936,687	¥1,968,044	¥31,357	¥40,745	¥9,388

Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

In accordance with this new accounting standard, net income per share for the year ended March 31, 2002, is restated at ¥ 23.97. Under the old standard it was ¥ 24.17.

## 4. Additional Information

Effective April 1, 2002, the Bank's stock held by subsidiaries is included in "Treasury stock" in accordance with the application of "Accounting Standard for Treasury Stock and Reversal of Legal Reserves" (issued by Accounting Standard Board of Japan on February 21, 2002).

## 5. Change in Method of Presentation

In accordance with the amendment of the Consolidated Financial Statement Regulations and Banking Law ordinances, the changes in financial statement presentations are as follows:

"Payables for securities lending transactions" that was formerly included in "Other liabilities" is separately reported, effective April 1, 2002. Consequently, at March 31, 2003, "Other liabilities" decreased by ¥108,395 million (U.S. \$901,789 thousand) and "Payables for securities lending transactions" increased by the same amount as compared with the former manner.

In addition to the securities account in the consolidated balance sheets, certificates of deposits bought are included in cash and due from banks and commercial paper and trust certificates are included in commercial paper and other debt purchased.

Type	Millions of Yen				
	2002				
	Acquisition Cost	Book Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Equity securities .....	¥ 51,024	¥ 62,572	¥11,548	¥14,632	¥3,084
Bonds: .....	1,244,937	1,270,388	25,451	25,946	495
Japanese government bonds .....	501,750	506,560	4,810	4,983	173
Japanese local government bonds .....	363,265	377,561	14,296	14,345	49
Japanese corporate bonds .....	379,922	386,267	6,345	6,618	273
Others .....	256,097	254,209	(1,888)	1,405	3,293
<b>Total .....</b>	<b>¥1,552,058</b>	<b>¥1,587,169</b>	<b>¥35,111</b>	<b>¥41,983</b>	<b>¥6,872</b>

Type	Thousands of U.S. Dollars				
	2003				
	Acquisition Cost	Book Value	Net Unrealized Gain	Unrealized Gain	Unrealized Loss
Equity securities .....	\$ 409,301	\$ 421,439	\$ 12,138	\$ 54,967	\$42,829
Bonds: .....	12,584,517	12,806,855	222,338	241,597	19,259
Japanese government bonds .....	5,341,622	5,373,927	32,305	50,840	18,535
Japanese local government bonds .....	3,276,955	3,394,401	117,446	117,737	291
Japanese corporate bonds .....	3,965,940	4,038,527	72,587	73,020	433
Others .....	3,118,386	3,144,784	26,398	42,413	16,015
<b>Total .....</b>	<b>\$16,112,204</b>	<b>\$16,373,078</b>	<b>\$260,874</b>	<b>\$338,977</b>	<b>\$78,103</b>

(2) Impairment losses of ¥4,633 million (U.S. \$38,544 thousand) and ¥6,069 million for shares included in available-for-sale securities were recognized in the year ended March 31, 2003 and 2002, respectively. Impairment losses of ¥266 million (U.S. \$2,213 thousand) and ¥1,277 million for securities investment trust included in available-for-sale securities were recognized in the year ended March 31, 2003 and 2002, respectively.

Impairment losses are recognized for the full amount of the loss when the loss is 50% or more of the acquisition cost. For losses of 30% to 50% of acquisition cost, the impairment is determined based on the possibility of recovery, past market values and fluctuations in profits of the investee and the investee's industry.

(3) The following table summarizes book values of securities with no available fair values as of March 31, 2003 and 2002:

Type	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Book Value	Book Value	Book Value
Non-listed equity securities .....	¥ 5,070	¥ 5,644	\$ 42,180
Enterprise bonds .....	11,833	9,036	98,444
Trust certificates .....	60,457	166,586	502,970
Investments in subsidiaries .....	—	38	—
Investments in related companies .....	32	18	266
<b>Total .....</b>	<b>¥77,392</b>	<b>¥181,322</b>	<b>\$643,860</b>

(4) Available-for-sale securities with maturities mature as follows:

Type	Millions of Yen			
	2003			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds .....	¥133,469	¥ 966,679	¥296,762	¥154,307
Japanese government bonds .....	27,740	379,754	84,748	153,704
Japanese local government bonds .....	12,847	246,096	149,064	—
Japanese corporate bonds .....	92,882	340,829	62,950	603
Others .....	151,376	212,655	32,276	9,007
<b>Total .....</b>	<b>¥284,845</b>	<b>¥1,179,334</b>	<b>¥329,038</b>	<b>¥163,314</b>

Type	Millions of Yen			
	2002			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds: .....	¥125,819	¥761,637	¥363,157	¥28,811
Japanese government bonds .....	87,629	323,473	66,648	28,811
Japanese local government bonds .....	4,113	136,212	237,235	—
Japanese corporate bonds .....	34,077	301,952	59,274	—
Others .....	193,189	166,144	44,711	6,958
<b>Total .....</b>	<b>¥319,008</b>	<b>¥927,781</b>	<b>¥407,868</b>	<b>¥35,769</b>

Type	Thousands of U.S. Dollars			
	2003			
	Within 1 Year	Over 1 Year but Within 5 Years	Over 5 Years but Within 10 years	Over 10 Years
Bonds .....	<b>\$1,110,391</b>	<b>\$8,042,255</b>	<b>\$2,468,902</b>	<b>\$1,283,752</b>
Japanese government bonds .....	230,782	3,159,351	705,058	1,278,735
Japanese local government bonds .....	106,880	2,047,388	1,240,133	—
Japanese corporate bonds .....	772,729	2,835,516	523,711	5,017
Others .....	1,259,368	1,769,176	268,519	74,934
<b>Total .....</b>	<b>\$2,369,759</b>	<b>\$9,811,431</b>	<b>\$2,737,421</b>	<b>\$1,358,686</b>

(5) Total sales of available-for-sale securities in the year ended March 31, 2003 amounted to ¥368,800 million (U.S.\$3,068,220 thousand) and the related gains and losses amounted to ¥3,919 million (U.S.\$32,604 thousand) and ¥2,363 million (U.S.\$19,659 thousand), respectively. Total sales of available-for-sale securities in the year ended March 31, 2002 amounted to ¥596,934 million and the related gains and losses amounted to ¥5,520 million and ¥3,197 million, respectively.

## 7. Money Trusts

Money trusts, classified as trading account securities, at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Book value (fair value) .....	<b>¥60,635</b>	¥64,559	<b>\$504,451</b>
Amount of net unrealized gain or losses included in the income statement .....	—	—	—

## 8. Net Unrealized Holding Gains on Securities

Net unrealized holding gains are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Net unrealized holding gains on available-for-sale securities .....	<b>¥31,357</b>	¥35,111	<b>\$260,874</b>
Deferred tax liabilities .....	<b>(13,076)</b>	(14,641)	<b>(108,785)</b>
Net unrealized holding gains, net of taxes (before the following adjustment) .....	<b>18,281</b>	20,470	<b>152,089</b>
Minority interests .....	<b>(11)</b>	(212)	<b>(92)</b>
<b>Net unrealized holding gains, net of taxes .....</b>	<b>¥18,270</b>	¥20,258	<b>\$151,997</b>

## 9. Loans and Bills Discounted

Loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans to bankrupt customers .....	<b>¥ 18,957</b>	¥ 24,340	<b>\$ 157,712</b>
Loans past due six months or more .....	<b>84,988</b>	53,052	<b>707,055</b>
Loans past due three months or more .....	<b>208</b>	725	<b>1,730</b>
Restructured loans .....	<b>103,243</b>	35,915	<b>858,927</b>
<b>Total .....</b>	<b>¥207,396</b>	¥114,032	<b>\$1,725,424</b>

Loans to bankrupt customers are loans to customers undergoing bankruptcy, similar proceedings, or in similar financial condition. Interest is not being accrued on these loans as there is a strong likelihood that the principal and interest are uncollectible.

Loans past due six months or more are loans, not included in the above category or in restructured loans, for which payments are past due six months or more. Interest is not being accrued on these loans.

Loans past due three months or more are loans, not included in the above categories, or in restructured loans, for which payments are past due three months or more.

Restructured loans are loans, not included in the above categories, for which the Bank has granted concessions, such as reduced interest rates, and deferral or waiver of interest or principal payments in support of customers in financial difficulties.

Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 24), issued by the JICPA. The Bank has rights to sell or pledge commercial bills discounted and foreign exchanges bought without restrictions, and their total face amounts at March 31, 2003 and 2002 were ¥107,134 million (U.S.\$891,298 thousand) and ¥139,159 million, respectively.

## 10. Commitment Lines

Loan agreements and commitment line agreements are agreements, which oblige the Bank and its consolidated subsidiaries to lend funds up to a certain limit, agreed in advance. The Bank and its consolidated subsidiaries make loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balance relating to these loan agreements at March 31, 2003 and 2002 amounted to ¥1,134,282 million (U.S.\$9,436,622 thousand) and ¥1,067,920 million, respectively. Of this amount, ¥1,132,782 million (U.S.\$9,424,143 thousand) and ¥1,066,504 million, respectively, relates to loans where the term of the agreement is one year or less, or un-conditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank and its consolidated subsidiaries either to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial conditions, or when it is necessary to do so in order to protect the Bank and its consolidated subsidiaries' credit. The Bank and its consolidated subsidiaries take various measures to protect their credit. Such measures include having the obligor pledge collateral to the Bank and its consolidated subsidiaries in the form of real estate, securities etc. on signing the loan agreements, or in accordance with the Bank and its consolidated subsidiaries' established internal procedures confirming the obligor's financial condition etc. at regular intervals.

## 11. Premises and Equipment

Premises and equipment at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Acquisition value .....	¥120,878	¥120,039	\$1,005,640
Less accumulated depreciation .....	71,539	69,831	595,166
Net book value .....	¥ 49,339	¥ 50,208	\$ 410,474

## 12. Pledged Assets

Pledged assets at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Assets:</b>			
Trading account securities .....	¥ —	¥ 668	\$ —
Securities .....	112,367	109,952	934,834
Other assets .....	1,374	1,950	11,431
Future lease receipts .....	13,458	15,519	111,963
<b>Liabilities secured by the above were as follows:</b>			
Deposits .....	¥ 39,760	¥ 22,262	\$330,782
Call money .....	2,064	6,984	17,171
Payables under repurchase agreements ..	—	668	—
Payables for securities lending transactions .....	108,395	71,185	901,789
Borrowed money .....	12,504	14,585	104,027
Other liabilities .....	35	40	291

At March 31, 2003, certain trading account securities, aggregating ¥200 million (U.S. \$1,664 thousand) and certain securities, aggregating ¥237,646 million (U.S. \$1,977,088 thousand), were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

At March 31, 2002, certain trading securities, aggregating ¥210 million and certain securities, aggregating ¥196,188 million, were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

## 13. Deferred Income Tax Assets

Significant components of deferred income taxes assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
<b>Deferred income tax assets:</b>			
Reserve for possible loan losses .....	¥15,896	¥10,977	\$132,246
Severance and retirement benefits .....	6,625	5,413	55,116
Depreciation .....	5,120	5,326	42,596
Write-off of securities .....	2,206	3,472	18,353
Other .....	2,139	3,002	17,795
Total .....	31,986	28,190	266,106
<b>Deferred income tax liabilities:</b>			
Net unrealized holding gains on securities .....	13,078	14,641	108,802
Other .....	92	49	765
Total .....	13,170	14,690	109,567
Net deferred income tax assets .....	¥18,816	¥13,500	\$156,539

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Bank and consolidated subsidiaries applied the reduced aggregate statutory income tax rate of 40.4% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥ 572 million (U.S. \$4,759 thousand) and provision for deferred income taxes increased by the same amount compared with what would be reported using the currently applicable tax rate of 41.7%.

For the year ended March 31, 2003 differences between the statutory tax rate and the effective tax rate are as follows:

	2003
Statutory tax rate .....	41.7%
Increase (decrease) in taxes resulting from:	
Permanently nontaxable dividends received .....	(2.3)
Permanently nondeductible expenses .....	0.6
Change of aggregate statutory income tax rate .....	6.5
Per capita inhabitants' taxes .....	0.8
Other .....	0.2
Effective income tax rate .....	47.5%

The differences between the statutory tax rate and the effective tax rate are not disclosed, for the year ended March 31, 2002, since the total difference was less than 5 percent of the statutory tax rate.

#### 14. Liability for Employees' Severance and Retirement Benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2003 and 2002 consists of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation .....	<b>¥51,224</b>	¥48,734	<b>\$426,156</b>
Unrecognized actuarial differences .....	<b>(16,243)</b>	(12,014)	<b>(135,133)</b>
Less fair value of pension assets .....	<b>(19,521)</b>	(21,784)	<b>(162,404)</b>
Prepaid Pension Costs .....	<b>(9)</b>	(—)	<b>(75)</b>
Liability for severance and retirement benefits .....	<b>¥15,469</b>	¥14,936	<b>\$128,694</b>

Included in the consolidated statements of income for the years ended March 31, 2003 and 2002 are severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service costs — benefits earned during the year .....	<b>¥2,224</b>	¥2,011	<b>\$18,502</b>
Interest cost on projected benefit obligation ....	<b>1,215</b>	1,297	<b>10,108</b>
Expected return on plan assets .....	<b>(228)</b>	(839)	<b>(1,897)</b>
Amortization of net actuarial loss .....	<b>1,254</b>	523	<b>10,433</b>
Severance and retirement benefit expenses .....	<b>¥4,465</b>	¥2,992	<b>\$37,146</b>

The discount rate used by the Bank is 2.50%. The rates of expected return on plan assets used by the Bank are 3.693%, 1.110% and 0.464% at March 31, 2003. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

#### 15. Derivative Transactions

The Bank enters into various contracts, including swaps, futures and options covering interest rates, foreign currencies, stocks and bonds in order to meet customers' needs and manage risk of market fluctuations related to the Bank's assets, liabilities and interest rates. The Bank has established procedures and controls to minimize market and credit risk including limits on transaction levels, hedging exposed positions, reporting to management, and outside review of trading department activities.

Credit risk is the potential loss to the Bank should counter parties to transactions not perform in accordance with the agreements. Total credit risk, including offsetting positions, at March 31, 2003 and 2002 were ¥14,976 million (U.S. \$124,592 thousand) and ¥8,674 million, respectively. These amounts at March 31, 2003 and 2002 were calculated using the current exposure method.

The following tables summarize market value information as of March 31, 2003 and 2002 of derivative transactions for which hedge accounting has not been applied:

#### Interest Rate Derivatives:

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	<b>¥1,919</b>	<b>¥1,919</b>	<b>¥(139)</b>	<b>¥(139)</b>

Type	Millions of Yen			
	2002			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	¥10,500	¥—	¥(88)	¥(88)

Type	Thousands of U.S. Dollars			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Interest rate swap:				
Pay fixed, receive variable .....	<b>\$15,965</b>	<b>\$15,965</b>	<b>\$(1,156)</b>	<b>\$(1,156)</b>

Note: The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.

#### Currency Derivatives:

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions:				
Currency swaps .....	<b>¥275,891</b>	<b>¥153,008</b>	<b>¥(108)</b>	<b>¥(108)</b>

Type	Millions of Yen			
	2002			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions:				
Currency swaps .....	¥219,373	¥78,816	¥(215)	¥(215)

Type	Thousands of U.S. Dollars			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions:				
Currency swaps .....	<b>\$2,295,266</b>	<b>\$1,272,945</b>	<b>\$(899)</b>	<b>\$(899)</b>

Note: 1. The above transactions are valued at market value and the gains (losses) are recognized in the consolidated statements of income.  
2. Currency swap transactions which adopt accrual accounting in accordance with "Tentative Accounting and Auditing Treatment relating to Adoption of Accounting for Foreign Currency Transaction for Banks" (JICPA Industry Audit Committee Report No. 20), are excluded from the above table.

Market value information as of March 31, 2003 and 2002 of such currency swaps are as follows:

Type	Millions of Yen		
	2003		
	Contract Amount	Market Value	Unrealized Gains (Losses)
Currency swaps .....	¥48,423	¥(184)	¥(184)

Type	Millions of Yen		
	2002		
	Contract Amount	Market Value	Unrealized Gains (Losses)
Currency swaps .....	¥77,992	¥(922)	¥(922)

Type	Thousands of U.S. Dollars		
	2003		
	Contract Amount	Market Value	Unrealized Gains (Losses)
Currency swaps .....	\$402,854	\$(1,531)	\$(1,531)

3. Forward foreign exchange and currency options which are of the following types are not included in the figures above.
- Those that are revalued at the consolidated balance sheet date and revalued gains (losses) are accounted for in the consolidated statements of income.
  - Those that were allotted to financial assets/liabilities in foreign currency and whose market values are already reflected in the amount of the financial assets/liabilities in the consolidated balance sheet.

The contract amounts of currency derivatives which are revalued in the consolidated balance sheet date at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Contract Amount	Contract Amount	Contract Amount
Over-the-counter transactions:			
Currency futures:			
Sell futures .....	¥14,255	¥14,235	\$118,594
Buy futures .....	¥14,826	¥13,975	\$123,344

#### Credit Derivative Transactions:

Type	Millions of Yen			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Credit Default Options .....	¥1,000	¥1,000	¥0	¥0

Type	Thousands of U.S. Dollars			
	2003			
	Contract Amount	Over 1 Year	Market Value	Recognized Gains (Losses)
Over-the-counter transactions				
Credit Default Options .....	\$8,319	\$8,319	\$0	\$0

Note: The above transactions are valued at market value and the gains (losses) are recognized for in the consolidated statements of income.

## 16. Lease Transactions

Information for finance leases at March 31, 2003 and 2002 is as follows:

- (1) The Bank, and subsidiaries as lessee under non-capitalized leases :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Original lease obligations for equipment (including finance charges) .....	¥89	¥42
Accumulated depreciation .....	34	27	282
Net book value .....	¥55	¥15	\$458
Payments remaining:			
Payments due within one year .....	¥15	¥ 8	\$125
Payments due after one year .....	40	7	333
Total .....	¥55	¥15	\$458

Lease payments for such leases for the years ended March 31, 2003 and 2002 were ¥11 million (U.S. \$92 thousand) and ¥10 million, respectively.

- (2) Subsidiary as lessor :

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
	Original lease obligations for equipment (including finance charges) .....	¥55,679	¥57,561
Accumulated depreciation .....	29,466	30,142	245,142
Net book value .....	¥26,213	¥27,419	\$218,078
Payments remaining:			
Payments due within one year .....	¥10,024	¥10,566	\$83,394
Payments due after one year .....	20,497	21,378	170,524
Total .....	¥30,521	¥31,944	\$253,918

Lease payments received for such leases for the years ended March 31, 2003 and 2002 were ¥10,406 million (U.S. \$ 86,572 thousand) and ¥10,880 million, respectively. Depreciation of leased assets for the years ended March 31, 2003 and 2002 were ¥8,972 million (U.S. \$ 74,642 thousand) and ¥9,332 million, respectively.

## 17. Segment Information

Segment information at March 31, 2003 and 2002 were as follows:

### (a) Segment Information by Type of Business

	Millions of Yen					
	2003					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income:						
Recurring income from outside customers .....	¥ 101,146	¥16,809	¥ 28	¥ 117,983	¥ —	¥ 117,983
Inter-segments .....	282	659	76	1,017	(1,017)	—
	101,428	17,468	104	119,000	(1,017)	117,983
Recurring expenses .....	93,532	16,419	62	110,013	(1,012)	109,001
Recurring profit .....	¥ 7,896	¥ 1,049	¥ 42	¥ 8,987	¥ (5)	¥ 8,982
Assets .....	¥5,443,800	¥40,215	¥468	¥5,484,483	¥(16,184)	¥5,468,299
Depreciation .....	3,964	10,421	0	14,385	—	14,385
Capital expenditure .....	2,966	9,483	—	12,449	—	12,449

	Millions of Yen					
	2002					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income:						
Recurring income from outside customers .....	¥ 109,537	¥17,833	¥ 132	¥ 127,502	¥ —	¥ 127,502
Inter-segments .....	322	693	72	1,087	(1,087)	—
	109,859	18,526	204	128,589	(1,087)	127,502
Recurring expenses .....	99,623	17,371	78	117,072	(1,080)	115,992
Recurring profit .....	¥ 10,236	¥ 1,155	¥ 126	¥ 11,517	¥ 0(7)	¥11,510
Assets .....	¥5,410,883	¥42,139	¥501	¥5,453,523	¥(17,189)	¥5,436,334
Depreciation .....	4,341	10,998	0	15,339	—	15,339
Capital expenditure .....	3,097	9,635	0	12,732	—	12,732

	Thousands of U.S. Dollars					
	2003					
	Banking	Leases, Installment Sales	Securities Investment Advisor	Total	Elimination or Corporate	Consolidated
Recurring income:						
Recurring income from outside customers .....	\$ 841,481	\$139,842	\$ 233	\$ 981,556	\$ —	\$ 981,556
Inter-segments .....	2,346	5,483	632	8,461	(8,461)	—
	843,827	145,325	865	990,017	(8,461)	981,556
Recurring expenses .....	778,136	136,598	516	915,250	(8,419)	906,831
Recurring profit .....	\$ 65,691	\$ 8,727	\$ 349	\$ 74,767	\$ (42)	\$ 74,725
Assets .....	\$45,289,517	\$334,567	\$3,894	\$45,627,978	\$(134,642)	\$45,493,336
Depreciation .....	32,978	86,697	0	119,675	—	119,675
Capital expenditure .....	24,676	78,893	—	103,569	—	103,569

Recurring income represents total income excluding gains on disposal of premises and equipment and collection of written-off claims. Recurring expenses represents total expenses excluding losses on disposal of premises and equipment.

**(b) Segment information by location**

Segment information by location is not disclosed, since recurring income and assets in Japan of the Bank and consolidated subsidiaries are more than 90 percent of the consolidated amounts.

**(c) Recurring income from international operations**

Recurring income from international operations is not disclosed since it is less than 10 percent of the consolidated recurring income.

**18. Shareholders' Equity**

**(a) Common Stock and Capital Surplus**

At March 31, 2003 and 2002 the authorized share capital of the Bank consisted of 400 million common shares, of which 244,272,106 shares were issued and outstanding.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to additional paid-in capital which is included in capital surplus.

**(b) Legal Reserve**

The Japanese Banking Law provides that an amount equivalent to at least 20 percent of cash dividends and other cash appropriations of retained earnings must be appropriated to a legal reserve until the total amount of legal reserve and additional paid-in capital equals the amount of the Bank's stated capital. The legal reserve and additional paid-in capital may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding the amount of common stock, they are available for distributions and certain other purposes by the resolution of shareholders. The legal reserve is included in consolidated retained earnings.

**(c) Cash Dividends**

Cash dividends are paid semiannually. An interim dividend may be approved by the Board of Directors and a year-end dividend may be approved by the shareholders after the end of each fiscal year. The year-end dividends and the related appropriations of retained earnings are not reflected in the financial statements at the fiscal year-end but are recorded at the time they are approved.

However, dividends per share shown in the accompanying statement of income include dividends approved by the shareholders after the end of the fiscal year.

The maximum amount that the Bank can distribute as dividends is calculated based on the non-consolidated financial statements of the Bank in accordance with the Commercial Code.

**19. Subsequent Events**

**(a) Appropriations of unappropriated retained earnings**

The following appropriations of the non-consolidated retaining earnings of the Bank at March 31, 2003 were approved at the shareholders' meeting held on June 27, 2003.

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Cash dividends (¥3.50 per share) .....	¥854	\$7,150
Bonuses to directors and statutory auditors .....	12	100

**(b) Repurchase of shares**

The Bank repurchased its shares from the market pursuant to the provisions of Article 210 of the Commercial Code, as follows.

1. Purchase period .....	April 1, 2003 through June 26, 2003
2. Number of shares repurchased .....	3,857,000 shares
3. Aggregate purchase price .....	¥2,822 million (U.S. \$23,478 thousand)
4. Method of repurchase .....	Purchase on the Tokyo Stock Exchange

## INDEPENDENT AUDITORS' REPORT

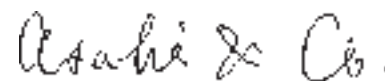
To the Board of Directors of  
The Chugoku Bank, Ltd.:

We have audited the accompanying consolidated balance sheets of The Chugoku Bank, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Chugoku Bank, Ltd. and subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the consolidated financial statements.

The consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 2 to the consolidated financial statements.



Asahi & Co.

Okayama, Japan  
June 27, 2003

## NON-CONSOLIDATED BALANCE SHEETS

The Chugoku Bank, Ltd.  
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
<b>ASSETS:</b>			
Cash and due from banks .....	¥ 130,300	¥ 120,172	\$ 1,084,027
Call loans .....	41,817	88,712	347,895
Commercial paper and other debt purchased .....	63,013	168,416	524,235
Trading account securities (Note 6) .....	22,376	41,620	186,156
Money trusts .....	60,355	64,283	502,121
Securities (Note 7) .....	1,939,640	1,578,071	16,136,772
Loans and bills discounted (Note 8) .....	3,070,439	3,230,738	25,544,418
Foreign exchanges (Note 10) .....	2,746	2,634	22,845
Other assets (Note 12) .....	32,477	29,189	270,191
Premises and equipment (Note 13) .....	47,990	48,794	399,251
Deferred income tax assets (Note 14) .....	17,196	12,303	143,062
Customers' liabilities for acceptances and guarantees (Note 18) .....	62,979	67,483	523,952
Reserve for possible loan losses .....	( 53,051)	( 46,029)	( 441,356)
<b>Total assets .....</b>	<b>¥5,438,277</b>	<b>¥5,406,386</b>	<b>\$45,243,569</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Deposits (Note 15) .....	¥4,816,168	¥4,832,113	\$40,067,953
Call money .....	78,199	54,623	650,574
Payables under repurchase agreements .....	—	668	—
Payables for securities lending transactions .....	108,395	71,185	901,789
Borrowed money (Note 16) .....	7,799	7,835	64,884
Foreign exchanges (Note 11) .....	85	36	707
Other liabilities (Note 17) .....	40,798	49,114	339,418
Accrued employee bonuses .....	1,650	1,686	13,727
Liability for employees' severance and retirement benefits .....	15,370	14,843	127,870
Acceptances and guarantees (Note 18) .....	62,979	67,483	523,952
<b>Total liabilities .....</b>	<b>5,131,443</b>	<b>5,099,586</b>	<b>42,690,874</b>
<b>Shareholders' equity (Notes 20 and 21):</b>			
Common stock .....	15,149	15,149	126,032
Capital surplus .....	6,287	6,287	52,304
Retained earnings:			
Legal reserve .....	15,149	15,149	126,032
General reserve .....	247,369	243,325	2,057,978
Unappropriated retained earnings .....	4,816	6,691	40,066
Net unrealized holding gains on securities .....	18,270	20,241	151,997
Treasury stock .....	(206)	( 42)	(1,714)
<b>Total shareholders' equity .....</b>	<b>306,834</b>	<b>306,800</b>	<b>2,552,695</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥5,438,277</b>	<b>¥5,406,386</b>	<b>\$45,243,569</b>

See notes to non-consolidated financial statements.

## NON-CONSOLIDATED STATEMENTS OF INCOME AND UNAPPROPRIATED RETAINED EARNINGS

The Chugoku Bank, Ltd.  
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
<b>Income:</b>			
Interest and dividends on:			
Loans and discounts .....	¥55,018	¥57,002	\$457,720
Securities .....	23,367	27,086	194,401
Other .....	1,372	4,109	11,414
Fees and commissions .....	13,473	12,085	112,088
Other operating income:			
Gains on sales and redemptions of other securities .....	3,260	4,197	27,121
Other .....	850	354	7,072
Other income:			
Gains on sales of shares .....	863	1,515	7,180
Gains on money trusts .....	421	258	3,502
Other .....	1,146	1,080	9,535
<b>Total income .....</b>	<b>99,770</b>	<b>107,686</b>	<b>830,033</b>
<b>Expenses:</b>			
Interest on:			
Deposits .....	3,061	6,151	25,466
Borrowings and rediscounts .....	31	46	258
Other .....	4,498	9,835	37,421
Fees and commissions .....	2,749	2,634	22,870
Other operating expenses:			
Losses on sales, redemptions and write-down of bonds .....	2,516	4,373	20,932
Other .....	2,140	1,964	17,804
General and administrative expenses .....	52,582	52,811	437,454
Other expenses:			
Losses on sales and write-down of shares .....	5,041	6,207	41,938
Losses on money trusts .....	560	736	4,659
Provision of Reserve for Possible Loan Losses .....	18,210	12,400	151,498
Other .....	791	918	6,580
<b>Total expenses .....</b>	<b>92,179</b>	<b>98,075</b>	<b>766,880</b>
<b>Income before income taxes .....</b>	<b>7,591</b>	<b>9,611</b>	<b>63,153</b>
<b>Income taxes:</b>			
Current .....	7,172	7,538	59,667
Deferred .....	(3,483)	(3,680)	(28,977)
<b>Net income .....</b>	<b>3,902</b>	<b>5,753</b>	<b>32,463</b>
<b>Unappropriated retained earnings:</b>			
Balance at the beginning of the year .....	6,691	6,718	55,665
<b>Appropriations:</b>			
Cash dividends .....	(1,709)	(1,710)	(14,218)
Bonuses to directors and statutory auditors .....	(23)	(45)	(191)
<b>Transfer to general reserve .....</b>	<b>(4,045)</b>	<b>(4,025)</b>	<b>(33,653)</b>
<b>Balance at the end of the year .....</b>	<b>¥ 4,816</b>	<b>¥ 6,691</b>	<b>\$ 40,066</b>
Yen			
2003		2002	U.S. Dollars (Note 2) 2003
<b>Per share of common stock:</b>			
Net income .....	¥15.93	¥23.45	\$0.13
Cash dividends applicable to the year (Note 20) .....	7.00	7.00	0.06

See notes to non-consolidated financial statements.

# NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

The Chugoku Bank, Ltd.

## 1. Basis of Presenting Non-Consolidated Financial Statements

The Chugoku Bank, Ltd. (the “Bank”) maintains its official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Banking Law, the Japanese Uniform Rules For Bank Accounting and in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English with some expanded descriptions from the non-consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

In preparing the accompanying non-consolidated financial statements, certain reclassifications have been made in the non-consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

## 2. Yen and U.S. Dollar Amounts

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2003, which was ¥120.20 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 3. Significant Accounting Policies

### (a) Securities and Money Trusts

Trading securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

Securities held for trading purpose in separately managed money trusts are stated at fair market value.

If the market value of held-to-maturity debt securities, equity securities issued by subsidiaries and affiliated companies, and available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by subsidiaries and affiliated companies is not readily available, such securities

should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

### (b) Derivatives and Hedge Accounting

Derivative financial instruments are stated at fair value and the changes in the fair value are recognized as gains or losses unless derivative financial instruments are used for hedging purposes.

Pursuant to the temporary treatment regulated by “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (Industry Audit Committee Report No. 24) issued by the Japanese Institute of Certified Public Accountants (“JICPA”), the Bank adopted “macro hedge” accounting, 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 hedge accounting method is a type of the deferral hedge accounting method and based on the risk management strategy called the risk-adjusted approach defined in the “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” published by the JICPA.

The effectiveness of hedges is evaluated 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 is reduced.

In order to hedge risk arising from volatility of exchange rates for other securities (excluding bonds) denominated in foreign currency, the Bank applies fair value hedge accounting, on the conditions that the hedged security is specified in advance and that enough on-balance (actual) or offbalance (forward) liability exposure exists to cover the cost of the hedged security in foreign currency base.

For certain assets and liabilities, the deferral hedge accounting method or the mark-to-market method is applied.

### (c) Premises and Equipment

Premises and equipment are generally stated at cost less accumulated depreciation and deferred gains on sale of real estate. Depreciation is computed on the declining balance method over the estimated useful lives of properties.

The estimated useful lives are mainly as follows:

Buildings .....	From 4 years to 40 years
Premises .....	From 2 years to 20 years

### (d) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of each fiscal year.

In prior years, in the case of transactions etc. denominated in foreign currencies, the Bank had adopted “Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 20). Effective for this fiscal year, “Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry” (JICPA Industry Audit Committee Report No. 25) has been adopted.

For this fiscal year, the Bank treated fund-related swap transactions and, currency-swap transactions, on the basis of JICPA Industry Audit Committee Report No. 20 applying the transitional methods mentioned in JICPA Industry Audit Committee Report No. 25. The net amount of yen exchange difference relating to forward foreign exchange transactions etc. is recorded in the non-consolidated balance sheet.

Fund-related swap transactions are accounted for as follows on the basis of the transitional methods mentioned in JICPA Industry Audit Committee Report No.25:

1. Amounts equal to the principal amounts of the lending/borrowing transactions to which the relevant fund-related swap transaction applies are translated into Japanese yen using exchange rates in effect at the balance sheet date and the net amount is recorded in the non-consolidated balance sheet.
2. The spot/forward differences which reflect the differences in interest rates between the different currencies are recognized as gains or losses on an accrual basis for the period from the date of the spot leg to the forward leg, and recorded in the non-consolidated statement of income, together with the accrued income and expense amounts on the non-consolidated balance sheet.

Fund-related swap transactions are originated for the purpose of lending and borrowing in different currencies, where (1) the notional amounts of lending and borrowing are equal to the amounts of foreign exchange purchased or sold as a spot transaction and (2) the amounts of future payment for and proceed from borrowing and lending, respectively, with the contractual interest payment or receipt denominated in foreign currency, are equal to the amounts of foreign exchange purchased or sold as a forward transaction.

Flat currency swap transactions, in which the transactions are (1) originated for the purpose of lending and borrowing in different currencies, (2) amounts payable/receivable at the maturity date are equal to amounts receivable/payable at the contract date and (3) the swap rates applied to principal and interest are rational, are accounted for as follows on the basis of the transitional methods mentioned in JICPA Industry Audit Committee Report No. 25 (includes those flat currency swap transactions in which the amount of currency equivalent to the principal of one of the currencies is changed on each date the amount equivalent to the interest is paid, in order to reflect market exchange rates at the time, and in which moreover the principal swapped at the beginning of each interest payment period is equal to the principal swapped at the end of the interest payment period):

1. Principal amounts of lending/borrowing transactions are translated into Japanese yen using exchange rates in effect at the balance sheet date and the net amount is recorded in the non-consolidated balance sheet.
2. The amount of foreign currency equivalent to the interest is recognized as gains or losses on an accrual basis for the period from the date of the spot leg to the forward leg, and recorded in the non-consolidated statement of income, together with the accrued income and expense amounts on the non-consolidated balance sheet.

There is no impact on the financial statements of adopting this new accounting treatment.

#### **(e) Reserve for Possible Loan Losses**

The Bank writes off loans and makes provisions for possible losses on loans in accordance with the Uniform Accounting Standard for Banks issued by the Bankers' Association of Japan.

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the existence of security interests or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans such as normal loans and loans requiring special attention. The reserve for possible loan losses is provided based the Bank's actual rate of loan losses in the past.

The specific reserve for loans to certain countries has been established in accordance with the regulations of the Ministry of Finance to cover potential losses from specific overseas loans to such countries.

The self-assessment and classification has been made by each business department and credit supervision department and has been audited by the Credit Administration Department, an independent department. The above reserve for possible loan losses is provided based on such auditing results.

#### **(f) Accrued employee bonuses**

Accrued employee bonuses is provided for payment of bonuses to employees, in the amount of estimated bonuses which are attributable to the fiscal year.

#### **(g) Liability for Employees' Severance and Retirement Benefits**

The Bank provides two types of post-employment benefit plans, an unfunded lump-sum payment plan and a funded non-contributory pension plan, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Bank provides the liability for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

Actuarial gains and losses are recognized in expenses using the straight-line method over ten years, within the average of the estimated remaining service lives, commencing with the following period.

#### **(h) Finance Leases**

Finance leases, which do not transfer ownership, are accounted for in the same manner as operating leases under Japanese GAAP.

#### **(i) Income Taxes**

Deferred income taxes are recognized for timing differences between income for financial and tax reporting purposes. Income taxes in Japan applicable to the Bank consist of corporation tax (national), inhabitants taxes (local), and enterprise taxes (local).

#### **(j) Net Income per Share**

Net income per share is based on the weighted average number of shares of common stock outstanding during the year, (excluding "treasury stock"). Effective April 1, 2002, the Bank adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002).

In accordance with this new accounting standard, net income per share for the year ended March 31, 2002, is restated at ¥23.45. Under the old standard it was ¥23.55.

#### 4. Additional Information

From this fiscal year, the Bank applies "Accounting Standard for Treasury Stock and Reversal of Legal Reserves" (issued by Accounting Standard Board of Japan on February 21, 2002).

There is no impact on the financial statements.

#### 5. Change in Method of Presentation

In accordance with the amendment of the Financial Statement Regulations and Banking Law ordinances, the changes in financial statement presentations are as follows:

"Payables for securities lending transactions" that was formerly included in "Other liabilities" is separately reported, effective April 1, 2002. Consequently, "Other liabilities" decreased by ¥108,395 million (U.S. \$901,789 thousand) and "Payables for securities lending transactions" increased by the same amount as compared with the former manner.

#### 6. Trading Account Securities

Trading account securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
National government bonds .....	¥20,708	¥15,103	\$172,280
Local government bonds .....	668	1	5,557
Other trading account securities .....	1,000	26,516	8,319
<b>Total .....</b>	<b>¥22,376</b>	<b>¥41,620</b>	<b>\$186,156</b>

#### 7. Securities

Securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
National government bonds .....	¥ 643,222	¥ 504,835	\$ 5,351,265
Local government bonds .....	408,007	377,561	3,394,401
Corporate bonds .....	497,230	395,244	4,136,689
Shares .....	54,345	66,459	452,121
Other securities .....	336,836	233,972	2,802,296
<b>Total .....</b>	<b>¥1,939,640</b>	<b>¥1,578,071</b>	<b>\$16,136,772</b>

Lent securities which were included in 'Securities' at March 31 2003 and 2002, were ¥81 million (U.S. \$674 thousand) and ¥577 million, respectively.

#### 8. Loans and Bills Discounted

Loans and bills discounted at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Bills discounted .....	¥ 106,572	¥ 139,159	\$ 886,623
Loans on bills .....	394,547	498,554	3,282,421
Loans on deeds .....	2,001,143	2,090,081	16,648,444
Overdrafts .....	568,177	502,944	4,726,930
<b>Total .....</b>	<b>¥3,070,439</b>	<b>¥3,230,738</b>	<b>\$25,544,418</b>

Loans and bills discounted include the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans to bankrupt customers .....	¥ 18,685	¥ 23,915	\$ 155,449
Loans past due six months or more .....	83,901	51,814	698,012
Loans past due three months or more .....	208	725	1,730
Restructured loans .....	103,236	35,898	858,869
<b>Total .....</b>	<b>¥206,030</b>	<b>¥112,352</b>	<b>\$1,714,060</b>

Loans to bankrupt customers are loans to customers undergoing bankruptcy, similar proceedings, or in similar financial condition. Interest is not being accrued on these loans as there is a strong likelihood that the principal and interest are uncollectible.

Loans past due six months or more are loans, not included in the above category or in restructured loans, for which payments are past due six months or more. Interest is not being accrued on these loans.

Loans past due three months or more are loans, not included in the above categories, or in restructured loans, for which payments are past due three months or more.

Restructured loans are loans, not included in the above categories, for which the Bank has granted concessions, such as reduced interest rates, and deferral or waiver of interest or principal payments in support of customers in financial difficulties.

Bills discounted are accounted for as financial transactions in accordance with "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (Industry Audit Committee Report No. 24), issued by the JICPA. The bank has rights to sell or pledge commercial bills discounted and foreign exchanges bought without restrictions, and their total face amount at March 31, 2003 and 2002 were ¥107,134 million (U.S. \$891,298 thousand) and ¥139,159 million, respectively.

Loan participation agreements, under which the Bank has acquired economic benefits and risks of the underlying loans from the original lender, at March 31, 2003 and 2002 were ¥144,755 million (U.S.\$1,204,285 thousand) and ¥78,093 million, respectively.

#### 9. Commitment Lines

Loan agreements and commitment line agreements are agreements, which oblige the Bank to lend funds up to a certain limit, agreed in advance. The Bank makes the loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balance relating to these loan agreements at March 31, 2003 and 2002 amounted to ¥1,102,166 million (U.S.\$9,169,434 thousand) and ¥1,040,486 million, respectively. Of this amount, ¥1,100,666 million (U.S.\$9,156,955 thousand) and ¥1,039,069 million, respectively, relates to loans where the term of the agreement is one year or less, or unconditional cancellation of the agreement is allowed at any time.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank either to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial conditions, or when it is necessary to do so in order to protect the Bank's credit. The Bank takes various measures to protect its credit. Such measures include having the obligor pledge collateral to the Bank in the form of real estate, securities etc. on signing the loan agreements, or in accordance with the Bank's established internal procedures confirming the obligor's financial condition etc. at regular intervals.

## 10. Pledged Assets

Pledged assets at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Pledged assets:			
Trading account securities .....	¥ —	¥ 668	\$ —
Securities .....	112,331	109,913	934,534
<b>Total .....</b>	<b>¥112,331</b>	<b>¥110,581</b>	<b>\$934,534</b>
Liabilities secured by the above were as follows:			
Deposits .....	¥ 39,760	¥ 22,263	\$ 330,782
Call money .....	2,064	6,984	17,171
Payables under repurchase agreements .....	—	668	—
Payables for securities lending transactions .....	108,395	71,185	901,789
<b>Total .....</b>	<b>¥150,219</b>	<b>¥101,100</b>	<b>\$1,249,742</b>

At March 31, 2003, certain trading account securities, aggregating ¥200 million (U.S. \$1,664 thousand), and certain securities, aggregating ¥237,621 million (U.S. \$1,976,880 thousand), were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

At March 31, 2002, certain trading account securities, aggregating ¥210 million and certain securities, aggregating ¥196,163 million were pledged as collateral for settlement of exchange at the Bank of Japan and for other purposes.

## 11. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets:			
Due from foreign banks .....	¥ 856	¥ 906	\$ 7,121
Foreign exchange bills purchased .....	562	439	4,676
Foreign exchange bills receivable .....	1,328	1,289	11,048
<b>Total .....</b>	<b>¥2,746</b>	<b>¥2,634</b>	<b>\$22,845</b>
Liabilities:			
Foreign exchange bills sold .....	¥62	¥27	\$516
Foreign exchange bills payable .....	23	9	191
<b>Total .....</b>	<b>¥85</b>	<b>¥36</b>	<b>\$707</b>

## 12. Other Assets

Other assets at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Domestic exchange settlement			
account debit .....	¥ 2	¥ 3	\$ 17
Prepaid expenses .....	75	77	624
Accrued income .....	9,701	10,060	80,707
Deposit margin paid on futures contracts ...	66	63	549
Variation margin on futures .....	—	2	—
Derivative financial instruments .....	733	421	6,098
Deferred hedge losses .....	7,080	5,637	58,902
Other .....	14,820	12,926	123,294
<b>Total .....</b>	<b>¥32,477</b>	<b>¥29,189</b>	<b>\$270,191</b>

## 13. Premises and Equipment

Premises and equipment at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Land, buildings and equipment .....	¥113,070	¥112,626	\$940,682
Construction in progress .....	965	163	8,028
Other .....	788	815	6,556
<b>Total .....</b>	<b>114,823</b>	<b>113,604</b>	<b>955,266</b>
Less accumulated depreciation .....	66,833	64,810	556,015
<b>Net book value .....</b>	<b>¥ 47,990</b>	<b>¥ 48,794</b>	<b>\$399,251</b>

## 14. Deferred Income Tax Assets

Significant components of deferred income tax assets at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred income tax assets:			
Reserve for possible loan losses .....	¥14,737	¥10,067	\$122,604
Severance and retirement benefits .....	6,596	6,277	54,875
Depreciation .....	4,877	5,108	40,574
Securities .....	2,199	3,467	18,295
Other .....	1,947	1,911	16,198
<b>Total deferred income tax assets .....</b>	<b>30,356</b>	<b>26,830</b>	<b>252,546</b>
Deferred income tax liabilities:			
Net unrealized holding gains			
on securities .....	13,068	14,478	108,719
Other .....	92	49	765
<b>Total deferred income tax liabilities .....</b>	<b>13,160</b>	<b>14,527</b>	<b>109,484</b>
<b>Net deferred income tax assets .....</b>	<b>¥17,196</b>	<b>¥12,303</b>	<b>\$143,062</b>

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Bank applied the reduced aggregate statutory income tax rate of 40.4% for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, deferred taxes assets decreased by ¥572 million (U.S. \$4,759 thousand) and provision for deferred income taxes increased by the same amount compared with what would be reported using the currently applicable tax rate of 41.7%.

For the year ended March 31, 2003 differences between the statutory tax rate and the effective tax rate were as follows:

	2003
Statutory tax rate .....	41.7%
Increase (decrease) in taxes resulting from:	
Permanently nontaxable dividends received .....	(2.5)
Permanently nondeductible expenses .....	0.6
Change of aggregate statutory income tax rate .....	7.5
Per capita inhabitants' taxes .....	0.9
Other .....	0.3
Effective income tax rate .....	48.5%

The differences between the statutory tax rate and the effective tax rate are not disclosed, for the year ended March 31, 2002, since the total difference was less than 5 percent of the statutory tax rate.

## 15. Deposits

Deposits at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current deposits .....	¥ 155,584	¥ 183,820	\$ 1,294,376
Ordinary deposits .....	1,860,226	1,721,425	15,476,090
Savings deposits .....	297,903	336,536	2,478,394
Deposits at notice .....	37,289	28,030	310,225
Time deposits .....	2,130,061	2,332,156	17,720,973
Installment time deposits .....	13,390	16,019	111,398
Other deposits .....	123,291	77,816	1,025,715
Sub-total .....	4,617,744	4,695,802	38,417,171
Negotiable certificates of deposit .....	198,424	136,311	1,650,782
Total .....	¥4,816,168	¥4,832,113	\$40,067,953

## 16. Borrowed Money

Borrowed money at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Loans from banks and insurance companies .....	¥7,799	¥7,835	\$64,884
Bills rediscounted .....	—	—	—
Total .....	¥7,799	¥7,835	\$64,884

## 17. Other Liabilities

Other liabilities at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Domestic exchange settlement account credit .....	¥ 108	¥ 104	\$ 899
Income taxes payable .....	3,267	4,990	27,180
Accrued expenses .....	4,008	4,729	33,344
Unearned income .....	3,324	2,109	27,654
Employees' deposits .....	2,452	2,583	20,399
Reserve for interest on installment savings .....	5	10	42
Derivative financial instruments .....	8,057	6,335	67,030
Deferred hedge gains .....	3	27	25
Other .....	19,574	28,227	162,845
Total .....	¥40,798	¥49,114	\$339,418

## 18. Acceptances and Guarantees (Contingent Liabilities)

All contingent liabilities arising in compliance with customers' needs in foreign trade and other transactions are included in "Acceptances and guarantees".

As a contra account, "Customers' liabilities for acceptances and guarantees" is shown on the assets side, representing the contingent claim of the Bank's right of indemnity from customers.

## 19. Leases Transactions

Information for non-capitalized finance leases as lessee, at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Original lease obligations for equipment (including finance charges) .....	¥2,568	¥2,732	\$ 21,364
Accumulated depreciation .....	1,373	1,481	11,422
Net book value .....	1,195	1,251	9,942
Payments remaining:			
Payments due within one year .....	¥ 457	¥ 491	\$ 3,802
Payments due after one year .....	738	760	6,140
Total .....	¥1,195	¥1,251	\$ 9,942

Lease payments for such leases for the years ended March 31, 2003 and 2002 were ¥541 million (U.S. \$4,501 thousand) and ¥579 million, respectively.

## 20. Shareholders' Equity

### (a) Common Stock and Capital Surplus

At March 31, 2003 and 2002, the authorized share capital of the Bank consisted of 400 million common shares, of which 244,272,106 shares were issued and outstanding.

Under the Japanese Commercial Code, at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to additional paid-in capital which is included in capital surplus.

### (b) Legal Reserve

The Japanese Banking Law provides that an amount equivalent to at least 20 percent of cash dividends and other cash appropriations of retained earnings must be appropriated to a legal reserve until the total amount of legal reserve and additional paid-in capital equals the amount of the Bank's stated capital. The legal reserve and additional paid-in capital may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding the amount of common stock, they are available for distributions and certain other purposes by the resolution of shareholders.

### (c) Cash Dividends

Cash dividends are paid semiannually. An interim dividend may be approved by the Board of Directors and a year-end dividend may be approved by the shareholders after the end of each fiscal year. The year-end dividends and the related appropriations of retained earnings are not reflected in the financial statements at the fiscal year-end but are recorded at the time they are approved.

However, dividends per share shown in the accompanying statements of income and unappropriated retained earnings include dividends approved by shareholders after the end of the fiscal year.

## 21. Subsequent events

### (a) Appropriation of Unappropriated Retained Earnings

The ordinary shareholders' meeting, which was held on June 27, 2003, approved the following year-end appropriation of unappropriated retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Unappropriated retained earnings at March 31, 2003 .....	¥4,816	\$40,066
Appropriations:		
Cash dividends (¥3.50 per share) .....	854	7,105
Bonuses to directors and statutory auditors .....	12	100
Transfer to general reserve .....	2,167	18,028
	3,033	25,233
Unappropriated retained earnings carried forward .....	¥1,783	\$14,833

### (b) Repurchase of shares

The Bank repurchased its shares from the market as follows pursuant to the provisions of Article 210 of the Commercial Code.

1. Purchase period .....	April 1, 2003 through June 26, 2003
2. Number of shares repurchased .....	3,857,000 shares
3. Aggregate purchase price .....	¥2,822 million (U.S. \$23,478 thousand)
4. Method of repurchase .....	Purchase on the Tokyo Stock Ex- change

## INDEPENDENT AUDITORS' REPORT

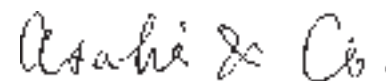
To the Board of Directors of  
The Chugoku Bank, Ltd.:

We have audited the accompanying non-consolidated balance sheets of The Chugoku Bank, Ltd. as of March 31, 2003 and 2002, and the related non-consolidated statements of income and unappropriated retained earnings for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Chugoku Bank, Ltd. as of March 31, 2003 and 2002, and the non-consolidated results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the non-consolidated financial statements.

The non-consolidated financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the non-consolidated financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 2 to the non-consolidated financial statements.



Asahi & Co.

Okayama, Japan  
June 27, 2003