

# THE HOKKAIDO BANK

**Annual Report 2002**



**THE HOKKAIDO BANK, LTD.**

## PROFILE

The Hokkaido Bank, Ltd., was established in 1951 with the cooperation of business operators and the people of Hokkaido. Based on our guiding principles of putting the customer first and earning the trust of the local community, we are fully aware of our role and responsibilities to the people of Hokkaido, our business territory. To this end, we are committed to growing in tandem with the region we serve as we demonstrate our corporate philosophy, which emphasizes four key priorities: sound business management, customer-oriented policies, regional harmony, and respect for employees.

Hokkaido Bank celebrated its 50th anniversary in March 2001. At this juncture, directors and employees will unite to fulfill our mission as a regionally-oriented financial institution. Here, we will hark back to the original spirit of our establishment and enhance our position as the bank of choice that earns the unwavering trust and support of the people of the region.

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## MESSAGE FROM THE PRESIDENT

### Business Environment

During fiscal 2001, ended March 31, 2002, the Japanese economy continued to stagnate against the background of a worsening overseas situation, with the slowing down of the economies of East Asian countries triggered by the deceleration of the U.S. economy and exacerbated by the terrorist attacks on the U.S. on September 11, 2001. This situation led to declines in Japanese exports. Capital investment remained low, and increases in corporate bankruptcies reflected the difficult earnings situation as represented by the decrease in production volumes, mainly for IT-related goods and transport machinery and equipment. In the household sector, consumer spending and housing investments were down. Despite signs that U.S. economy was ready to spring back, the outlook for Japan's economy remained uncertain. On the policy front, the Japanese government implemented another series of financial deregulations and passed a second supplementary budget.

The economy of Hokkaido, the Bank's operating base, brightened somewhat due to a steady increase in tourists from other East Asian countries, but apart from this, remained in as difficult a situation as the national economy, with low consumer spending and housing investments. Some capital investments were seen in large-scale commercial facilities by companies headquartered outside Hokkaido, but these were limited to a narrow range of industries, and the overall level remained quite low. Under these conditions, corporations' long-term fund demand was restrained.

### Medium-to-Long-Term Strategies and Issues to Address

With the continuing deflationary trend, financial institutions were faced with increasingly difficult circumstances. Moreover, with the advances being made in information technology and the progress of financial deregulation, competition has further intensified, and now transcends conventional industry boundaries. In order to come out ahead in this competitive environment, we will enhance our earning power, which is one of our strengths, adopt new ideas instead of sticking to outmoded concepts, and develop as many business opportunities as possible from this situation. At the same time, we will do our best to promote further efficiency.

We will rebuild the Bank's corporate value and reinvigorate its spirit in ways that match the realities of the new financial era. Based on these ideas, the Bank adopted a new long-term vision called Progress Plan 10 in April 2001. The vision incorporates two basic policies:

1. To undertake regionally-oriented marketing to provide financial services and funds that meet the needs of small and medium-sized companies and individuals in Hokkaido
2. To embrace innovative concepts in order to foster the creation of a new corporate value and culture

In pursuing these policies, the Bank has set down the two firm goals of strengthening earning power and increasing efficiency. By making use of effective alliances that transcend conventional industry boundaries, the Bank will establish a stable earnings base and enhance its corporate value.

We continue to effectively utilize the public funds received in March 2000 as we steadily implement measures aimed at ensuring management soundness. By properly performing our financial functions, we intend to fulfill our mission of rejuvenating economic activity in Hokkaido and contributing to the prosperity of regional society.

### **Specific Measures and Marketing Operations**

The Bank marked its 50th anniversary in March 2001. In celebration, we inaugurated a special campaign offering attractive interest rates to customers in appreciation of their long-term loyalty. We also launched the “50 Thanks” campaign and raised customer satisfaction by improving our basic responsiveness and service attitudes.

To meet diversified customer needs in the year under review, we launched the 24-7 consumer loan application service via the Internet, telephone, post and fax called “Rapid Branch.” We were also the first financial institution in Hokkaido to establish what we call the Money Exchange Plaza.

We also expanded our network of Hokkaido Bank Home Loan Plazas from Sapporo to Asahikawa and Hakodate in order to upgrade our region-specific management system.

To enhance the convenience of our banking services, we expanded our telephone banking services and started to handle foreign exchange services as well as Internet banking services for corporate customers.

The Bank reorganized its structure, replacing the former system where the marketing section was divided by conventional functions by one in which it is divided into separate retail and corporate markets. In order to improve the marketing function of the head office, we established a corporate support team under the direct control of an executive officer in charge of all public relations.

With regard to employee training, the Bank held study meetings designed to cultivate employee specialists in the marketing of loan products, and promoted on-the-job-training for employees at our branches with the close cooperation of head office divisions.

### **Building a Management Organization for Improved Corporate Governance**

Hokkaido Bank continues to reassess its management system with a view to responding more appropriately and swiftly to the rapidly changing operating environment.

In fiscal 1999, we improved our system of checks-and-balances by hiring external directors. We also reinforced the functions of the Board of Directors, reducing their number significantly, and introduced an executive officer system. In these ways, we have clarified the roles and responsibilities of management and business enforcement while making the latter swifter and more flexible.

We have improved the transparency of our management through IR activities and positive disclosure, and from April 2002 we plan to publish our business results (in Japanese) on a quarterly basis.

In the future, we will continue to promote faster decision-making and more efficient management while building secure risk management systems and enforcing rigorous corporate compliance measures.



TSUNEO FUJITA *President*

A handwritten signature in black ink, reading "Tsuneo Fujita". The signature is written in a cursive, flowing style.

## REVIEW OF OPERATIONS (CONSOLIDATED)

### Deposits

The term-end balance of deposits, including certificates of deposit, was ¥3,191.9 billion, a decrease of ¥177.5 billion from the previous year, because the Bank refrained from accepting new large-amount time deposits.

### Loans

Despite efforts to strengthen our retail transaction base and acquire new corporate customers, corporate demand for funds declined and many companies moved toward financial restructuring. Accordingly, the year-end loan balance fell ¥117.6 billion to ¥2,507.0 billion.

### Securities

During the term under review, the Bank's holdings of shares and investment trusts declined. At the same time, however, we increased the balance of national and corporate bonds. As a result, the balance increased by ¥26.2 billion to ¥563.6 billion at the term-end.

### Earnings

The parent company accounts for practically all of the Bank's consolidated earnings. In the year under review, the Bank maintained steady interest income through efficient fund operations and modest procurement sufficient for its fund operation requirements. The Bank also enjoyed increased income from fees and commissions thanks to the strengthening of our business base, and expenses were reduced through streamlining. As a result of these efforts to strengthen

profitability, net operating profit (the sum of interest income, fees and commissions, and other operating income, minus expenses) came to ¥31,140 million.

In addition to carrying out write-offs and bulk sales of bad debts, the Bank increased reserves to take into account the deterioration of borrowers' business conditions. The Bank registered a ¥6,201 million loss on the valuation of securities for the term in accordance with the full application of fair value accounting. As a result, consolidated net income for the year declined ¥1,716 million to ¥4,635 million.

### Cash Flows

Net cash provided by operating activities came to the substantial amount of ¥248,477 million due to decreased market operations in the form of call loans and due from banks, and an increase in call money.

Net cash used in investing activities was ¥49,371 million, due primarily to larger amounts for the acquisition of securities than net sale and repayment amounts of securities.

Net cash used in financing activities was ¥1,072 million, mainly due to the payment of dividends for preferred shares.

As a result, cash and cash equivalents at fiscal year-end amounted to ¥344,843 million, up ¥197,996 million from the previous year.

### Capital Ratio

The consolidated capital ratio based on domestic standards was 8.17%, down 0.02 of a percentage point from the previous year.

### Net Operating Profit

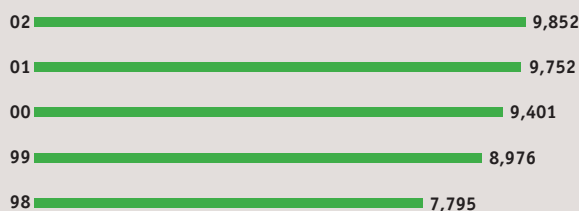
(Excluding Provision for Reserve for Possible Loan Losses)

(¥ Million)



### Net Fees and Commissions Income

(¥ Million)



### Treasury Profit

(Mainly Net Interest Income)

(¥ Million)



### General and Administrative Expenses

(¥ Million)



Non-Consolidated Basis

## FOUR-YEAR SUMMARY (CONSOLIDATED)

The Hokkaido Bank, Ltd. and Subsidiary  
Years Ended March 31

	Millions of Yen			
	2002	2001	2000	1999
Total Income .....	¥ 85,748	¥ 101,714	¥ 100,846	¥ 111,002
Total Expenses .....	72,924	91,560	87,675	192,511
Income (Loss) before Income Taxes .....	12,823	10,153	13,170	(81,508)
Income Taxes .....	8,187	3,802	5,829	(34,644)
Net Income (Loss) .....	4,635	6,351	7,341	(46,864)
Investment Securities .....	¥ 563,684	¥ 537,439	¥ 568,097	¥ 516,044
Loans and Bills Discounted .....	2,507,064	2,624,688	2,596,687	2,779,444
Total Assets* .....	3,608,513	3,727,569	3,611,850	3,611,310
Deposits .....	¥3,191,931	¥3,369,451	¥3,295,831	¥3,324,300
Capital Stock .....	93,524	93,524	71,009	44,151
Shareholders' Equity .....	157,046	164,281	114,789	53,732

\* Certain reclassifications have been made in 1999 financial statements to conform to the classifications used in 2002.

## FIVE-YEAR SUMMARY (NON-CONSOLIDATED)

The Hokkaido Bank, Ltd.  
Years Ended March 31

	Millions of Yen				
	2002	2001	2000	1999	1998
Total Income .....	¥ 85,566	¥ 101,651	¥ 100,719	¥ 110,839	¥ 102,901
Total Expenses .....	72,875	91,237	87,510	192,451	154,358
Income (Loss) before Income Taxes .....	12,691	10,413	13,209	(81,612)	(51,457)
Income Taxes .....	8,186	4,278	5,436	(34,732)	86
Net Income (Loss) .....	4,504	6,134	7,772	(46,879)	(51,544)
Investment Securities .....	¥ 563,812	¥ 537,693	¥ 568,091	¥ 515,999	¥ 455,759
Loans and Bills Discounted .....	2,507,064	2,624,688	2,597,832	2,779,652	2,673,804
Total Assets* .....	3,608,638	3,727,815	3,612,309	3,611,323	3,414,692
Deposits .....	¥3,192,024	¥3,369,535	¥3,295,907	¥3,324,419	¥3,121,180
Capital Stock .....	93,524	93,524	71,009	44,151	44,151
Shareholders' Equity .....	157,108	164,469	115,194	53,706	53,705

\* Certain reclassifications have been made in 1998 and 1999, financial statements to conform to the classifications used in 2002.

## CONSOLIDATED BALANCE SHEETS

The Hokkaido Bank, Ltd. and Subsidiary  
March 31, 2002 and 2001

	Millions of Yen	
	2002	2001
<b>ASSETS</b>		
Cash and Due from Banks .....	¥ 347,417	¥ 267,857
Call Loans and Bills Purchased .....	50,011	90,258
Monetary Claims Bought .....	1	20,001
Trading Account Securities (Note 20) .....	6,441	2,150
Money Held in Trust (Note 21) .....	4,845	4,979
Investment Securities (Notes 4, 15 and 20) .....	563,684	537,439
Loans and Bills Discounted (Note 5) .....	2,507,064	2,624,688
Foreign Exchange (Note 6) .....	3,557	4,049
Other Assets .....	17,043	57,818
Premises and Equipment (Note 7) .....	30,644	31,769
Deferred Tax Assets (Note 16) .....	71,709	72,113
Customers' Liabilities for Acceptances and Guarantees .....	52,032	59,110
Reserve for Possible Loan Losses .....	(45,941)	(44,667)
<b>Total Assets</b> .....	<b>¥3,608,513</b>	<b>¥3,727,569</b>

### LIABILITIES AND SHAREHOLDERS' EQUITY

<b>Liabilities:</b>		
Deposits (Notes 8 and 15) .....	¥3,191,931	¥3,369,451
Call Money and Bills Sold (Note 15) .....	158,100	50,000
Foreign Exchange (Note 6) .....	73	28
Convertible Bonds (Note 9) .....	106	99
Other Liabilities .....	37,319	69,968
Reserve for Retirement Benefits (Note 22)...	9,278	8,763
Reserve for Possible Losses on Collateralized Real Estate Loans Sold (to CCPC) .....	2,624	5,866
Acceptances and Guarantees .....	52,030	59,110
<b>Total Liabilities</b> .....	<b>3,451,466</b>	<b>3,563,287</b>

### Shareholders' Equity (Note 10):

<b>Capital Stock:</b>		
Preferred Stock .....	49,373	49,373
Common Stock .....	44,151	44,151
Additional Paid-in Capital .....	58,928	58,928
Retained Earnings .....	15,395	11,829
Net Unrealized Losses on Available-for-Sale Securities .....	(10,798)	—
Treasury Stock—at cost .....	(3)	(0)
<b>Total Shareholders' Equity</b> .....	<b>157,046</b>	<b>164,281</b>
<b>Total Liabilities and Shareholders' Equity</b> ...	<b>¥3,608,513</b>	<b>¥3,727,569</b>

	Yen	
Net Shareholders' Equity per Common Share .....	¥155.75	¥175.06

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF INCOME

The Hokkaido Bank, Ltd. and Subsidiary  
For the Years Ended March 31, 2002 and 2001

	Millions of Yen	
	2002	2001
<b>Income:</b>		
Interest on Loans and Bills Discounted .....	¥57,864	¥ 60,360
Interest and Dividends from Securities .....	5,583	9,223
Other Interest Income .....	1,461	707
Fees and Commissions .....	13,533	13,225
Other Operating Income (Note 11) .....	2,335	7,675
Other Income (Note 12) .....	4,970	10,522
<b>Total Income</b> .....	<b>85,748</b>	<b>101,714</b>
<b>Expenses:</b>		
Interest on Deposits .....	6,011	8,184
Interest on Borrowings and Rediscounts ...	8	14
Other Interest Expenses .....	78	379
Fees and Commissions .....	3,679	3,461
Other Operating Expenses (Note 13) .....	517	463
General and Administrative Expenses .....	39,905	40,515
Other Expenses (Note 14) .....	22,723	38,540
<b>Total Expenses</b> .....	<b>72,924</b>	<b>91,560</b>
<b>Income before Income Taxes</b> .....	<b>12,823</b>	<b>10,153</b>
<b>Income Taxes (Note 16):</b>		
Current .....	65	65
Deferred .....	8,122	3,737
<b>Net Income</b> .....	<b>¥ 4,635</b>	<b>¥ 6,351</b>

	Yen	
<b>Per Share Data:</b>		
Net Income per Common Share .....	¥ 6.68	¥11.96
Diluted Net Income per Common Share ...	4.90	—
<b>Cash Dividends:</b>		
Common Stock .....	1.00	—
Preferred Stock (Class I) .....	6.62	3.34
Preferred Stock (Class II) .....	15.00	15.00

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

The Hokkaido Bank, Ltd. and Subsidiary  
For the Years Ended March 31, 2002 and 2001

	Thousands		Millions of Yen						
	Issued Number of Shares of Common Stock	Issued Number of Shares of Preferred Stock	Capital Stock		Additional Paid-in Capital	Retained Earnings	Net Unrealized Losses on Available-for- Sale Securities	Treasury Stock	Total
Balance at April 1, 2000 .....	374,354	107,432	¥44,151	¥26,858	¥36,413	¥ 7,368	¥ —	¥(0)	¥114,789
Conversion of Convertible Bonds* .....	—	79,000	—	22,515	22,515	—	—	—	45,030
Cash Dividend on Class II, ¥17.59 per Share.....	—	—	—	—	—	(1,889)	—	—	(1,889)
Net Income .....	—	—	—	—	—	6,351	—	—	6,351
Balance at March 31, 2001 .....	374,354	186,432	44,151	49,373	58,928	11,829	—	(0)	164,281
Cash Dividends .....	—	—	—	—	—	(1,069)	—	—	(1,069)
Net Income .....	—	—	—	—	—	4,635	—	—	4,635
Net Unrealized Losses on Available-for-Sale Securities .....	—	—	—	—	—	—	(10,798)	—	(10,798)
Increase of Treasury Stock .....	—	—	—	—	—	—	—	(3)	(3)
<b>Balance at March 31, 2002</b> .....	<b>374,354</b>	<b>186,432</b>	<b>¥44,151</b>	<b>¥49,373</b>	<b>¥58,928</b>	<b>¥15,395</b>	<b>¥(10,798)</b>	<b>¥(3)</b>	<b>¥157,046</b>

\* On September 29, 2000, the Bank issued 79,000 thousand shares of Class I no-par value preferred stock by conversion of convertible bonds.  
The issue price is ¥570 per share, ¥285 of which was credited to the additional paid-in capital account.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

The Hokkaido Bank, Ltd. and Subsidiary  
For the Years Ended March 31, 2002 and 2001

	Millions of Yen	
	2002	2001
<b>Cash Flows from Operating Activities:</b>		
Income before Income Taxes.....	¥ 12,823	¥ 10,153
Adjustment for:		
Depreciation and Amortization .....	1,697	1,754
Investment Losses (Gains) under the Equity Method .....	(136)	511
Increase (Decrease) in Reserve for Possible Loan Losses .....	1,273	(25,071)
Decrease in Reserve for Possible Losses on Investment Securities.....	—	(103)
Decrease in Reserve for Possible Losses on the Sale of Credit ...	(3,242)	(2,545)
Decrease in Reserve for Retirement Allowance.....	—	(7,222)
Increase in Reserve for Retirement Benefits.....	514	8,763
Decrease in other Reserves .....	(1)	(1)
Interest and Dividend Income.....	(64,908)	(70,290)
Interest Expense .....	6,098	8,579
Securities Losses (Gains)—Net .....	5,087	(5,648)
Money Held in Trust Loss (Gain)—Net ...	201	(43)
Foreign Exchange Losses (Gains)—Net....	(800)	(1,916)
Premises and Equipment Losses (Gains)...	(186)	6
Net Decrease (Increase) in Loans .....	117,624	(28,001)
Net (Decrease) Increase in Deposits.....	(177,519)	73,620
Net Decrease (Increase) in Due from the Banks, Excluding Due from the Bank of Japan.....	118,436	(119,179)
Net Decrease in Call Loans, Bills Purchased and Monetary Claims Bought...	60,246	18,744
Net Increase (Decrease) in Cash Collateral for Bonds Borrowed .....	20,203	(20,203)
Net Increase in Call Money and Bills Sold .....	108,100	50,000
Net Decrease in Cash Collateral for Bonds Lent .....	(13,504)	(17,548)
Net Decrease (Increase) in Foreign Exchange (Assets) .....	492	(256)
Net Increase (Decrease) in Foreign Exchange (Liabilities).....	45	(13)
Interest Receivable .....	66,329	69,989
Interest Payable .....	(3,244)	(6,362)
Net Increase in Trading Account Securities....	(4,291)	(1,727)
Other—Net .....	(2,798)	(14,134)
Sub-Total.....	248,541	(78,148)
Cash Paid for Income Taxes.....	(64)	(73)
Net Cash Provided by (Used in) Operating Activities.....	248,477	(78,221)
<b>Cash Flows from Investing Activities:</b>		
Purchases of Investment Securities .....	(407,790)	(697,462)
Proceeds from Sales of Investment Securities .....	157,377	443,487
Proceeds from Maturities of Investment Securities .....	201,500	291,636
Purchases of Money Held in Trust.....	(72)	—
Interest Income Provided by Investing Activities.....	—	63
Purchases of Premises and Equipment ...	(1,376)	(2,238)
Proceeds from Sales of Premises and Equipment .....	991	889
Net Cash (Used in) Provided by Investing Activities.....	(49,371)	36,375
<b>Cash Flows from Financing Activities:</b>		
Cash Dividend Paid.....	(1,069)	(1,889)
Purchase for Retirement of Treasury Stock...	(5)	—
Proceeds from Sales of Treasury Stock...	2	—
Net Cash Used in Financing Activities .....	(1,072)	(1,889)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents .....</b>	(36)	32
<b>Net Increase (Decrease) in Cash and Cash Equivalents .....</b>	197,996	(43,703)
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	146,847	190,551
<b>Cash and Cash Equivalents at End of Year .....</b>	¥344,843	¥146,847

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Hokkaido Bank, Ltd. and Subsidiary

### 1. BASIS OF PRESENTATION

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

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

The Japanese yen amounts are presented in millions of yen. Actual amounts are rounded down to the nearest million of yen, except for per share data and, accordingly, certain totals may not foot due to such rounding down.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (1) Consolidation

The consolidated financial statements include the accounts of the Bank and its subsidiary over which substantial control is exercised either majority ownership of voting stock and/or other means, The Dogin Business Service Limited.

Investments in its affiliate company over which significant influence is exercised, Dogin Card Co., Ltd. are accounted for under the equity method.

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

All significant intercompany balances and transactions, and unrealized profit included in assets resulting from intercompany transactions have been eliminated in consolidation.

Appropriations of retained earnings approved by the shareholders after the end of the year are recorded in the consolidated financial statements in the year of approval.

### *(2) Trading Account Securities and Investment Securities*

Prior to April 1, 2000, quoted trading account securities listed on exchanges were stated at the lower of moving average cost or market, and unquoted trading account securities were stated at cost determined by the moving average method.

Investment securities were stated at cost determined by the moving average method. Securities held in individually managed money trusts for asset management purposes were stated at the lower of cost or market on an aggregate basis by money trust.

Effective April 1, 2000, the Bank and its consolidated subsidiary adopted a new accounting standard for financial instruments, including trading account securities and investment securities.

The standard requires all applicable securities to be classified and accounted for, depending on management's intent, as follows:

*I)* trading account securities which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings. *II)* held-to-maturity debt securities, which are held with the positive intent and abilities to hold to maturity, are reported at amortized cost, and *III)* available-for-sale securities, which are not classified as either of trading securities and held-to-maturity securities, are reported at cost determined by the moving average method or at amortized cost for the year ended March 31, 2001, and at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity for the year ended March 31, 2002.

Held in individually managed money trusts for asset management purposes are stated at fair market value and the related unrealized gains and losses are included in earnings.

### *(3) Depreciation*

a. Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of premises and equipment of the Bank is computed using the declining-balance method. However, buildings acquired after April 1, 1998 are depreciated using the straight-line method. The estimated useful lives of the assets are mainly 6-50 years and 3-20 years for buildings and equipment, respectively.

Estimated useful lives of computers had been 6 years, but have been changed to 4 years for personal computers (except computers used as servers) and 5 years for other computers commencing in the current fiscal year. As a result, income before income taxes decreased by ¥2 million.

Depreciation of premises and equipment of the consolidated subsidiary is recorded using the declining-balance method based on the estimated useful lives.

b. Amortization of costs of computer software for internal use is computed by the straight-line method based on estimated useful lives (mainly 5 years).

### *(4) Translation of Foreign Currency*

Foreign currency assets and liabilities of the Bank and its consolidated subsidiary are translated into yen at the current rates prevailing at the consolidated balance sheet date.

Prior April 1, 2001, the Bank applied the accounting standards for foreign currency transactions in the banking industry introduced in 1990. Effective April 1, 2001, the Bank applied the revised accounting standard for foreign currency transactions ("Opinion Concerning Revision of Accounting Standard for Foreign Currency Transactions" issued by Business Accounting Deliberation Council on October 22, 1999), with the exception of "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 20).

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

The reserve for possible loan losses is provided in accordance with the Bank's policies regarding write-offs and reserve. The reserve for loans to borrowers who are classified as substantially bankrupt or legally bankrupt is equivalent to the amount remaining after deduction of the anticipated proceeds from sales of collateral pledged against such loans and the anticipated amounts recoverable under guarantees. In addition, a reserve is provided for loans to borrowers who, although not actually bankrupt in the legal sense, are experiencing serious management difficulties and whose failure is judged to be eminent. In such cases, a portion of the reserve is provided based on the amount remaining after deduction of the anticipated proceeds from sales collateral pledged against such loans and the anticipated amounts recoverable under guarantees, and the balance of this reserve is provided after giving full consideration to the amount the borrower is capable of repaying.

In the case of all other loans, the amount provided as a reserve is based on the ratio of actual defaults occurring during a certain observation period in the past.

The Bank charged off the unsecured portion of loans to borrowers who are classified as substantially bankrupt or who are legally bankrupt from the consolidated balance sheet rather than recording reserves. The amounts of charged-off loans are ¥94,319 million and ¥97,484 million at March 31, 2002 and 2001, respectively.

#### *(6) Reserve for Retirement Benefits*

Prior to April 1, 2000, the Bank and its consolidated subsidiary recorded reserve for retirement benefits at the amount that would be required if all employees voluntarily terminated their employment at each balance sheet date. The Bank and its consolidated subsidiary recognized pension expense when, and to the extent, payments were made to the pension funds. Effective April 1, 2000, the Bank and its consolidated subsidiary adopted the new accounting standard, "Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" (Business Accounting Deliberation Council, June 16, 1998).

Under the new accounting standard, the liabilities and expenses for retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Bank and its consolidated subsidiary provided the reserve for retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date. Prior service costs are recognized as expenses using the straight-line method over certain years (10 years) within estimated average remaining service life commencing from the succeeding period. Actuarial gains or losses are amortized using the straight-line method over 10 years. The remaining net transition obligation amounting to ¥17,303 million are recognized as expenses in equal amounts primarily over 15 years commencing with the year ended March 31, 2001.

#### *(7) Reserve for Possible Losses on Collateralized Real Estate Loans Sold*

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

#### *(8) Leases*

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

#### *(9) Derivatives and Hedge Accounting*

The Bank uses derivative financial instruments in trading activities to generate trading revenues and fee income. Also, in order to manage its exposures to fluctuations in interest and foreign exchange rates associated with its assets and liabilities, the Bank uses derivative financial instruments. The Bank enters into interest rate swaps as a means of hedging its interest rate risk on certain loans. The Bank also enters into currency swaps and foreign exchange forward contracts to hedge exchange risks associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Effective April 1, 2000, the Bank adopted a new accounting standard for derivative financial instruments and stated derivative financial instruments at fair value. However, the interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

#### *(10) Consumption Taxes*

Consumption tax and municipal consumption tax are primarily accounted for using the tax-excluded method.

#### *(11) Income Taxes*

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

#### *(12) Per Share Information*

Net income per common share is computed by deducting dividends for preferred stock from net income, divided by the weighted average number of shares of common stock outstanding during the fiscal year.

Net shareholders' equity per common share is computed by deducting the number of shares of preferred stock outstanding at fiscal year-end multiplied by the issue price from shareholders' equity, divided by the number of shares of common stock outstanding at the fiscal year-end.

Diluted net income per common share is not disclosed because of anti-dilutive effects for the year ended March 31, 2001.

### (13) Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash and demand deposits with The Bank of Japan included in the consolidated balance sheets under the caption Cash and Due from Banks.

Significant non-cash transactions for the year ended March 31, 2001 are as follows:

	Millions of Yen
Increase in Capital Stock on Conversion of Convertible Bonds .....	¥22,515
Increase in Additional Paid-in Capital on Conversion of Convertible Bonds .....	¥22,515
Decrease in Convertible Bonds .....	¥45,030

### 3. CHANGES IN ACCOUNTING STANDARD AND PRESENTATION

- a. Effective April 1, 2000, the Bank and its subsidiary have adopted the new accounting standards for employee retirement benefits outlined in "Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" (Business Accounting Deliberation Council, June 16, 1998). The effect of this application results in a decrease in income before income taxes and minority interests of ¥1,720 million, compared with the previous standards. Reserve for Retirement Allowances in prior years' consolidated balance sheets is included in Reserve for Retirement Benefits.
- b. Effective April 1, 2000, the Bank and its subsidiary have adopted the new accounting standards for financial instruments outlined in "Opinion Concerning the Establishment of Accounting Standard for Financial Instruments" (Business Accounting Deliberation Council, January 22, 1999) and modified the evaluation methods used for securities, derivative contracts and hedge accounting treatment. As a result, there were decreases in income before income taxes and minority interests of ¥1,246 million, compared with the previous standards.
- c. Effective April 1, 2001, the Bank and its subsidiary have adopted mark-to-market accounting principles for the valuation of available-for-sale securities. The difference between market value and cost is posted under net unrealized gains (losses) on available-for-sale securities, with deduction of relevant income taxes under tax-effect accounting. This change has caused securities to decrease by ¥18,556 million and other assets to increase by ¥39 million. Unrealized losses on available-for-sale securities, with deduction of relevant income taxes, amounted to ¥10,798 million at March 31, 2002.

### 4. INVESTMENT SECURITIES

	Millions of Yen	
	2002	2001
National Government Bonds .....	¥247,591	¥211,657
Local Government Bonds .....	22,761	18,525
Corporate Bonds .....	195,490	184,345
Corporate Stock .....	49,352	70,412
Foreign Securities .....	25,095	18,142
Other Securities .....	23,391	34,356
Total .....	¥563,684	¥537,439

The amount of shares of affiliated companies included in the corporate stock above was ¥454 million and ¥329 million at March 31, 2002 and 2001, respectively.

### 5. LOANS AND BILLS DISCOUNTED

(1) The breakdown of loans and bills discounted are as follows:

	Millions of Yen	
	2002	2001
Bills Discounted .....	¥ 78,646	¥ 89,986
Loans on Notes .....	511,114	591,769
Loans on Deeds .....	1,567,235	1,578,982
Overdrafts .....	350,067	363,949
Total .....	¥2,507,064	¥2,624,688

(2) Non-Performing Loans:

	Millions of Yen	
	2002	2001
Loans to Bankrupt Borrowers .....	¥ 9,974	¥ 10,867
Non-Accrual Other Delinquent Loans .....	135,136	118,249
Loans Past Due 3 Months or more .....	—	—
Restructured Loans .....	87,197	89,115
Total .....	¥232,307	¥218,231

#### a. Loans to Bankrupt Borrowers

Loans to Bankrupt Borrowers consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower or from a third party guaranteeing the loan (does not include the charged-off loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

b. Non-Accrual Delinquent Loans

Non-Accrual Delinquent Loans are non-accrual loans, other than loans to bankrupt borrowers and loans of which the payment of interest has been suspended for the purpose of business rehabilitation or debtor assistance.

c. Loans Past Due 3 Months or more

Loans Past Due 3 Months or more are classified in this category when 3 months or more has elapsed since the due date without the payment of principal or interest. The balance of loans to bankrupt borrowers and the balance of non-accrual delinquent loans are not included in this category.

d. Restructured Loans

Restructured Loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring collections of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to bankrupt borrowers, the balance of non-accrual delinquent loans and the balance of loans past due 3 months or more.

## 6. FOREIGN EXCHANGE

	Millions of Yen	
	2002	2001
Assets:		
Due from Foreign Correspondents .....	¥2,305	¥2,810
Foreign Exchange Bills Bought .....	83	42
Foreign Exchange Bills Receivable .....	1,168	1,197
<b>Total .....</b>	<b>¥3,557</b>	<b>¥4,049</b>

	Millions of Yen	
	2002	2001
Liabilities:		
Due to Foreign Correspondents .....	¥ 0	¥ 0
Foreign Exchange Bills Sold .....	71	24
Foreign Exchange Bills Payable .....	1	3
<b>Total .....</b>	<b>¥73</b>	<b>¥28</b>

## 7. PREMISES AND EQUIPMENT

	Millions of Yen	
	2002	2001
Land, Buildings and Equipment .....	¥28,513	¥29,412
Construction in Progress .....	0	66
Lease Deposits .....	2,129	2,290
<b>Total .....</b>	<b>¥30,644</b>	<b>¥31,769</b>

The balances of accumulated depreciation at March 31, 2002 and 2001 were ¥36,053 million and ¥35,685 million, respectively. Besides premises and equipment in the consolidated balance sheets, electronic computers and cars are used through lease contracts in part.

## 8. DEPOSITS

	Millions of Yen	
	2002	2001
Current Deposits .....	¥ 196,005	¥ 192,887
Ordinary Deposits .....	1,343,156	935,073
Deposits at Notice .....	25,293	57,298
Time Deposits .....	1,494,918	2,013,044
Other Deposits .....	107,657	166,476
Sub-total .....	3,167,031	3,364,781
Negotiable Certificates of Deposit .....	24,900	4,670
<b>Total .....</b>	<b>¥3,191,931</b>	<b>¥3,369,451</b>

## 9. CONVERTIBLE BONDS

Convertible bonds at March 31, 2002 and 2001 consisted of the following:

	Millions of Yen	
	2002	2001
Unsecured 2.125% U.S. Dollar Convertible Bond, Convertible into Common Stock		
at ¥581.20* per Share, Due 2002 .....	¥106	¥99
<b>Total .....</b>	<b>¥106</b>	<b>¥99</b>

\*The conversion price is subject to adjustments in certain circumstances. The U.S. dollar convertible bonds in the table above, which became due on March 31, 2002, were fully redeemed on the following day, as the due date fell on a bank holiday.

## 10. SHAREHOLDERS' EQUITY

### (1) Capital Stock

Information with respect to shares of the Bank's capital stock as of March 31, 2002 and 2001 is as follows:

(Common Stock)

	Thousands of Shares	
	2002	2001
Number of Shares:		
Authorized.....	<b>1,263,000</b>	1,263,000
Issued .....	<b>374,354</b>	374,354
Outstanding.....	<b>374,321</b>	374,351

(Preferred Stock)

	Thousands of Shares	
	2002	2001
Number of Shares:		
(Class I)		
Authorized.....	<b>79,000</b>	79,000
Issued and Outstanding.....	<b>79,000</b>	79,000
(Class II)		
Authorized.....	<b>108,000</b>	108,000
Issued and Outstanding.....	<b>107,432</b>	107,432

### (2) Preferred Stock

The Bank is authorized to issue 79 million shares of Class I preferred stock and 108 million shares of Class II preferred stock, with no par value.

All classes of preferred stock to be issued are non-voting and have equal preference over the Bank's common stock for the payment of dividends and the distribution of assets in the event of a liquidation or dissolution of the Bank. They are all non-cumulative and non-participating for dividend payments. Preferred stock shareholders receive a liquidation distribution at ¥570 (Class I) or ¥500 (Class II) per share and do not have the right to participate in any further liquidation distributions.

Class I preferred stock is convertible into common stock at the option of preferred stock shareholders during a conversion period. The conversion is mandatorily required on the date immediately following the closing date of the conversion period. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥37.50 per share), and conversion terms, including a conversion period.

Class II preferred stock is redeemable at the option of the Bank. At the time of issuance, the Board of Directors determines an issue price, an annual dividend (not to exceed ¥50.00 per share), and redemption terms, including a redemption price.

On July 30, 1999, the Bank issued 107,432 thousand shares of Class II preferred stock at ¥500 per share (¥53,716 million in the aggregate). Annual dividends are ¥15.00 per share.

On September 29, 2000, the Bank issued 79,000 thousand shares of Class I preferred stock at ¥570 per share (¥45,030 million in the aggregate). Annual dividends are ¥6.62 per share.

In accordance with the provisions of the Japanese Commercial Code (the "Code"), the issuance was accounted for by crediting equal amounts of the issue price to capital stock account and to the additional paid-in capital account.

### (3) Legal Reserve

In accordance with the Japanese Banking Law, at least an amount equal to 20% of the term's cash dividends must be put aside as a legal reserve to the cumulative extent of the amount equal to the paid-up capital. Although this reserve is not available for dividends, it may be used to reduce a deficit by resolution of the shareholders or may be transferred to the capital account by resolution of the Board of Directors. The Bank's reserve amount is included in retained earnings, the remaining amount was ¥661 million and ¥411 million at March 31, 2002 and 2001, respectively.

### (4) Retained Earnings

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Bank's books. At March 31, 2002, retained earnings recorded on the Bank's books were ¥14,791 million, which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

## 11. OTHER OPERATING INCOME

	Millions of Yen	
	2002	2001
Gains on Sales of		
Trading Account Securities.....	<b>¥ 7</b>	¥ 53
Gains of Sales of Bonds.....	<b>2,054</b>	7,546
Gains on Redemption of Bonds.....	<b>4</b>	1
Others .....	<b>267</b>	73
Total .....	<b>¥2,335</b>	¥7,675

## 12. OTHER INCOME

	Millions of Yen	
	2002	2001
Gains on Sales of Stock and Other Securities .....	¥1,216	¥ 986
Gains on Dispositions of Premises and Equipment.....	411	323
Discount on Purchased Loans .....	1,363	2,453
Recoveries of Charged-off Claims .....	28	3,495
Other .....	1,950	3,263
<b>Total .....</b>	<b>¥4,970</b>	<b>¥10,522</b>

## 13. OTHER OPERATING EXPENSES

	Millions of Yen	
	2002	2001
Losses on Foreign Exchange Transactions...	¥ —	¥160
Losses on Sales of Bonds.....	10	1
Losses on Redemption of Bonds.....	5	60
Losses on Derivatives Transactions.....	95	178
Losses on Devaluation of Bonds.....	346	—
Other .....	60	63
<b>Total .....</b>	<b>¥517</b>	<b>¥463</b>

## 14. OTHER EXPENSES

	Millions of Yen	
	2002	2001
Provision for Possible Loan Losses .....	¥12,239	¥24,200
Provision for Losses on Sales of Loans .....	193	2,046
Write-offs of Loans .....	1,049	2,760
Losses on Sales of Stock and Other Securities .....	1,643	52
Losses on Devaluation of Stock and Other Securities .....	5,855	2,932
Other .....	1,741	6,549
<b>Total .....</b>	<b>¥22,723</b>	<b>¥38,540</b>

## 15. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral at March 31, 2002 and 2001 are as follows:

	Millions of Yen	
	2002	2001
Assets Pledged as Collateral:		
Investment Securities .....	¥221,056	¥141,959
Other .....	—	20,203
The Above Pledged Assets Secure the Following Liabilities:		
Deposits .....	¥ 9,020	¥ 9,179
Call Money.....	—	50,000
Bills Sold.....	158,100	—

Besides the above-mentioned, investment securities amounted to at ¥64,407 million and ¥63,436 million, respectively, at March 31, 2002 and 2001, were pledged as collateral for settlement of exchange at The Bank of Japan and the reserve funds for forward dealings.

## 16. INCOME TAXES

The Bank is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of 41.70% for the years ended March 31, 2002 and 2001.

The tax effects of significant temporary differences and loss carryforwards which result in deferred tax assets at March 31, 2002 and 2001 were as follows:

	Millions of Yen	
	2002	2001
Deferred Tax Assets:		
Reserve for Possible Loan Losses .....	¥36,167	¥37,499
Tax Loss Carryforwards .....	23,617	26,672
Net Unrealized Losses on		
Available-for-Sale Securities .....	7,719	—
Reserve for Retirement Benefit.....	3,208	2,795
Reserve for Losses on Sales of Loans.....	1,094	2,446
Depreciation .....	1,469	1,606
Other .....	1,429	1,093
Sub-total .....	74,706	72,113
Valuation Allowance .....	(2,996)	—
<b>Net Deferred Tax Assets .....</b>	<b>¥71,709</b>	<b>¥72,113</b>

The major reasons for the significant differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2002 are summarized as follows:

Statutory Tax Rate .....	41.7%
Gains and Losses on Equity-method	
Investment in Affiliate .....	1.0%
Items Not Permanently Included in Income, such as Dividends Received .....	(4.0%)
Items Not Permanently Included in Expense, such as Corporate Entertainment Expenses.....	1.1%
Increase of Valuation Allowance .....	23.3%
Other.....	0.6%
<b>Effective Tax Rate .....</b>	<b>63.8%</b>

## 17. LEASES

### (1) Finance Leases

Total lease payments, for finance leases other than those where the ownership of leased property is transferred, were ¥294 million and ¥446 million for the years ended March 31, 2002 and 2001, respectively.

The pro forma information on the leased property under such finance leases as lessee at March 31, 2002 and 2001 assuming that it was capitalized, were as follows:

	Millions of Yen	
	2002	2001
Acquisition Cost:		
Equipment .....	<b>¥2,183</b>	¥2,310
Other.....	<b>19</b>	53
Total .....	<b>2,203</b>	2,364
Accumulated Depreciation:		
Equipment .....	<b>(1,963)</b>	(1,931)
Other.....	<b>(16)</b>	(46)
Total .....	<b>(1,979)</b>	(1,977)
Net Leased Property:		
Equipment .....	<b>220</b>	379
Other.....	<b>2</b>	7
Total .....	<b>¥ 223</b>	¥ 386

Depreciation expense, which was not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥294 million and ¥446 million for the years ended March 31, 2002 and 2001, respectively.

The related obligations under such finance leases at March 31, 2002 and 2001, were as follows:

	Millions of Yen	
	2002	2001
Due within One Year.....	<b>¥137</b>	¥287
Due after One Year.....	<b>86</b>	99
Total .....	<b>¥223</b>	¥386

### (2) Operating Leases

Obligations under operating leases at March 31, 2002 and 2001, were as follows:

	Millions of Yen	
	2002	2001
Due within One Year.....	<b>¥13</b>	¥0
Due after One Year.....	<b>3</b>	—
Total .....	<b>¥16</b>	¥0

## 18. DERIVATIVES

The Bank enters into: currency swaps and options and foreign exchange forward contracts; interest rate futures and options, swaps, and caps; stock price index futures and options; and bond futures and their options.

It is the Bank's policy to use derivative financial instruments ("derivatives") primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities.

Derivatives are subject to market risk and credit risk.

Market risk is the exposure created by potential fluctuations of market conditions, including interest and foreign exchange rates. The Bank sets limits for credit risk by limiting the counterparties to those derivatives to domestic or foreign exchanges and major financial institutions.

Derivatives transactions entered into by the Bank have been made in accordance with its risk management policies and procedures. Limits to allowable maximum risk exposures and losses are established by the Assets and Liabilities Committee periodically.

The Bank's positions, gain-and-loss amounts, risk amounts and other information regarding the status of trading transactions are reported daily to the management board.

### (1) Interest Rate Derivatives as of March 31, 2002 and 2001

#### a. Interest Rate Derivatives as of March 31, 2002

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains (Losses)
<b>2002</b>			
Over-the-Counter Transactions:			
Interest Rate Swaps:			
Fixed Rate Receipt,			
Floating Rate Payment .....	<b>¥ 3,706</b>	<b>¥ 20</b>	<b>¥ 20</b>
Floating Rate Receipt,			
Fixed Rate Payment.....	<b>13,706</b>	<b>(282)</b>	<b>(282)</b>
Total .....	<b>¥ —</b>	<b>¥(261)</b>	<b>¥(261)</b>

#### b. Interest Rate Derivatives as of March 31, 2001

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains (Losses)
<b>2001</b>			
Over-the-Counter Transactions:			
Interest Rate Swaps:			
Fixed Rate Receipt,			
Floating Rate Payment .....	¥ 6,101	¥ 30	¥ 30
Floating Rate Receipt,			
Fixed Rate Payment.....	16,101	(227)	(227)
Total .....	<b>¥ —</b>	<b>¥(196)</b>	<b>¥(196)</b>

(2) Currency Swaps as of March 31, 2002 and 2001

a. Currency Swaps as of March 31, 2002

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains
<b>2002</b>			
Over-the-Counter Transactions:			
Currency Swaps .....	<b>¥542</b>	<b>¥2</b>	<b>¥2</b>

b. Currency Swaps as of March 31, 2001

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains
<b>2001</b>			
Over-the-Counter Transactions:			
Currency Swaps .....	¥229	¥0	¥0

Note: Foreign exchange forward contracts and currency options are excluded from the above table, because they are revalued at the end of the fiscal year and their related profits or losses are reflected in the consolidated statements of income.

The contract amount of the re-evaluated currency derivatives as of March 31, 2002 and 2001 are as follows:

	Millions of Yen	
	Contract Amount	
	2002	2001
Over-the-Counter Transactions:		
Foreign Exchange Forward Contracts:		
Selling .....	<b>¥15,781</b>	¥15,126
Buying .....	<b>4,204</b>	2,851
Currency Options:		
Selling .....	<b>802</b>	81
Buying .....	<b>388</b>	—

## 19. COMMITMENT LINE

Loan agreements and commitment line agreements relating to loans are agreements, which oblige the Bank to lend funds up to a certain limit, agreed to in advance. The Bank makes the loan upon the request of an obligor to draw down funds under such a loan agreement, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused commitment balance relating to these loan agreements at March 31, 2002 and 2001 amounted to ¥780,797 million, ¥750,288 million, respectively. This amount 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 flows. Conditions are included in certain loan agreements which allow the Bank 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 the 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 or other collateral. On signing the loan agreement, or in accordance with the Bank established internal procedures confirming the obligor's financial condition at regular intervals after signing the loan agreement.

## 20. SECURITIES INFORMATION

### a. Trading Securities

	Millions of Yen	
	2002	2001
Book Value .....	<b>¥6,441</b>	¥2,150
Revaluation Difference		
Recognized in Income Statement.....	<b>¥ 2</b>	¥ 28

### b. Available-for-Sale Securities

	Millions of Yen		
	Cost	Book Value	Valuation Difference
<b>March 31, 2002</b>			
Stock .....	<b>¥ 60,196</b>	<b>¥ 44,889</b>	<b>¥(15,306)</b>
Bond:			
National Government Bonds...	<b>246,872</b>	<b>247,591</b>	<b>718</b>
Local Government Bonds.....	<b>22,626</b>	<b>22,761</b>	<b>134</b>
Corporate Bonds.....	<b>191,564</b>	<b>191,191</b>	<b>(373)</b>
Other.....	<b>50,642</b>	<b>46,957</b>	<b>(3,684)</b>
Total.....	<b>¥571,903</b>	<b>¥553,391</b>	<b>¥(18,511)</b>

	Millions of Yen		
	Book Value	Market Value	Valuation Difference
March 31, 2001			
Stock .....	¥ 66,012	¥ 51,329	¥(14,682)
Bond:			
National Government Bonds...	211,657	213,906	2,248
Local Government Bonds.....	18,525	18,898	372
Corporate Bonds.....	180,445	182,467	2,022
Other.....	72,496	69,515	(2,981)
Total.....	¥549,137	¥536,116	¥(13,020)

### c. Total Sales of Available-for-Sale Securities

For the years ended March 31, 2002 and 2001, proceeds from sales of available-for-sale securities amounted to ¥143,878 million and ¥443,492 million, respectively. For the years ended March 31, 2002 and 2001, the related gross gains amounted to ¥3,282 million and ¥8,532 million, respectively, the related gross losses amounted to ¥1,654 million and ¥53 million, respectively.

d. Book Values of Non-Marketable Securities

	Millions of Yen	
	Book Value	
	2002	2001
Held-to-Maturity Debt Securities:		
Non-Public Offering Corporate Bond .....	<b>¥4,299</b>	¥3,899
Available-for-Sale Securities:		
Unlisted Stock.....	<b>4,011</b>	4,070

e. Available-for-Sale Securities with Maturities and Held-to-Maturity Debt Securities are as follows:

March 31, 2002	Millions of Yen			
	Within 1 Year	Over 1 Year	Over 5 Years	Over 10 Years
		Within 5 Years	Within 10 Years	
Bonds:				
National Government				
Bonds .....	<b>¥53,697</b>	<b>¥151,384</b>	<b>¥22,324</b>	<b>¥20,185</b>
Local Government				
Bonds .....	<b>2,467</b>	<b>5,164</b>	<b>15,128</b>	—
Corporate Bonds .....	<b>39,030</b>	<b>142,269</b>	<b>14,190</b>	—
Other .....	<b>112</b>	<b>23,314</b>	<b>1,733</b>	<b>938</b>
Total .....	<b>¥95,308</b>	<b>¥322,133</b>	<b>¥53,377</b>	<b>¥21,124</b>

March 31, 2001	Millions of Yen			
	Within 1 Year	Over 1 Year	Over 5 Years	Over 10 Years
		Within 5 Years	Within 10 Years	
Bonds:				
National Government				
Bonds .....	¥ 74,856	¥122,438	¥ 3,262	¥11,100
Local Government				
Bonds .....	2,394	6,463	9,666	—
Corporate Bonds .....	52,709	116,448	15,187	—
Other .....	1,194	16,328	503	737
Total .....	¥131,155	¥261,679	¥28,620	¥11,837

f. Net Unrealized Losses on Available-for-Sale Securities

2002	Millions of Yen
Net Valuation Difference on	
Available-for-Sale Securities .....	<b>¥(18,511)</b>
Deferred Tax Assets .....	<b>7,719</b>
Net Valuation Difference Excluding Minority Interests ....	<b>(10,792)</b>
Minority Interests .....	—
The Bank's Interests of Net Unrealized Losses on	
Available-for-Sale Securities Held by	
Affiliate Being Applied Equity Method .....	<b>(6)</b>
Net Unrealized Losses on	
Available-for-Sale Securities .....	<b>¥(10,798)</b>

21. OTHER MONEY HELD IN TRUST

Other money held in trust for asset management purposes is as follows:

	Millions of Yen	
	2002	2001
Book Value .....	<b>¥4,845</b>	¥4,979
Revaluation Gain Recognized		
in Income Statement .....	—	39

22. RETIREMENT BENEFIT

*Outline of current system on retirement benefits*

The Bank has unfunded lump-sum payment and defined benefit pension plans on employees of retirement benefits.

Most of the employees of the Bank are covered by a pension plan. The plan provides for a lump-sum payment to terminated employees with less than 15 years of participation in the plan. For those employees with participation of 15 years or more, either a lump-sum payment or an annuity are available at the option of the employee. Retirement and pension benefits are determined by reference to basic rates of pay at the time of termination, length of service and conditions under which the termination occurs.

The consolidated subsidiary has also adopted a lump-sum payment system for retirement benefits. The following table sets forth the changes in benefit obligation, plan assets and funded status of the Bank and its consolidated subsidiary at March 31, 2002 and 2001.

	Millions of Yen	
	2002	2001
Projected Benefit Obligation		
at End of Year .....	<b>¥(56,443)</b>	¥(54,009)
Fair Value of Plan Assets		
at End of Year .....	<b>32,493</b>	34,645
Benefit Obligation in Excess of		
Plan Assets .....	<b>(23,950)</b>	(19,363)
Unrecognized Net Transitional		
Obligation .....	<b>14,996</b>	16,150
Unrecognized Actuarial Loss .....	<b>8,310</b>	4,071
Unrecognized Prior Service Costs .....	<b>(8,635)</b>	(9,622)
Accrued Retirement Benefits		
in the Consolidated Balance Sheet .....	<b>9,278</b>	(8,763)
Reserve for Retirement Benefit .....	<b>¥ (9,278)</b>	¥ (8,763)

*Note: The Bank's consolidated subsidiary has adopted allowed alternative treatment of the accounting standards for retirement benefits for small business entities.*

Expenses for retirement benefits of the Bank and its consolidated subsidiary included the following components for the years ended March 31, 2002 and 2001.

	Millions of Yen	
	2002	2001
Service Cost .....	<b>¥1,128</b>	¥1,751
Interest Cost .....	<b>1,619</b>	1,920
Expected Return on Plan Assets .....	<b>(1,385)</b>	(1,579)
Amortization:		
Amortization of Net		
Transitional Obligation .....	<b>1,153</b>	1,153
Amortization of Prior Service Costs .....	<b>(986)</b>	(453)
Amortization of Unrecognized		
Actual Loss .....	<b>407</b>	—
Net Periodic Retirement Benefit Cost .....	<b>¥1,936</b>	¥2,791

*Note: Contributions of employees to the funded contributory pension plan are deducted from service costs. Retirement benefit expenses for the consolidated subsidiary was included in service cost.*

Assumption used in the accounting for the defined benefit plans for the years ended March 31, 2002 and 2001, is as follows:

Discount Rate .....	3.00%
Long-Term Rate of Return on Plan Assets .....	4.00%
Method of Attributing Benefit	
to Periods of Service .....	Straight-line basis
Amortization Period for Prior Service Cost .....	10 years
Amortization Period for Actuarial Loss .....	10 years
Amortization Period for Transitional	
Obligation at Date of Adoption .....	15 years

### 23. SUBSEQUENT EVENTS

On June 27, 2002, the shareholders authorized appropriations of the Bank's retained earnings as follows:

	Millions of Yen
Transfer to Legal Reserve .....	¥ 510
Cash Dividends:	
¥1.00 per Share of Common Stock .....	374
¥6.62 per Share of Class I Preferred Stock .....	522
¥15.00 per Share of Class II Preferred Stock .....	1,611

To the Board of Directors and Shareholders of  
The Hokkaido Bank, Ltd.:

We have examined the consolidated balance sheets of The Hokkaido Bank, Ltd. and its subsidiary as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Hokkaido Bank, Ltd. and its subsidiary as of March 31, 2002 and 2001, the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period, except for the change, with which we concur, in the accounting for the valuation of available-for-sale securities, as discussed in Note 3.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

Sapporo, Japan

June 27, 2002

## NON-CONSOLIDATED FINANCIAL STATEMENTS (SUPPLEMENTAL INFORMATION)

### Non-consolidated Balance Sheets

The Hokkaido Bank, Ltd.  
March 31, 2002 and 2001

	Millions of Yen	
	2002	2001
<b>ASSETS:</b>		
Cash and Due from Banks.....	¥ 347,417	¥ 267,857
Call Loans and Bills Purchased.....	50,011	90,258
Monetary Claims Bought.....	1	20,001
Trading Account Securities .....	6,441	2,150
Money Held in Trust .....	4,845	4,979
Investment Securities .....	563,812	537,693
Loans and Bills Discounted .....	2,507,064	2,624,688
Foreign Exchange.....	3,557	4,049
Other Assets.....	17,042	57,812
Premises and Equipment .....	30,643	31,768
Deferred Tax Assets .....	71,709	72,113
Customers' Liabilities for Acceptances and Guarantees.....	52,032	59,110
Reserve for Possible Loan Losses .....	(45,941)	(44,667)
<b>Total Assets.....</b>	<b>¥3,608,638</b>	<b>¥3,727,815</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Deposits .....	¥3,192,024	¥3,369,535
Call Money and Bills Sold.....	158,100	50,000
Foreign Exchange.....	73	28
Convertible Bonds.....	106	99
Other Liabilities .....	37,301	69,952
Reserve for Retirement Benefits .....	9,266	8,753
Reserve for Possible Losses on Collateralized Real Estate Loans Sold (to CCPC) .....	2,624	5,866
Acceptances and Guarantees.....	52,032	59,110
<b>Total Liabilities .....</b>	<b>3,451,529</b>	<b>3,563,346</b>
<b>Shareholders' Equity:</b>		
Capital Stock.....	93,524	93,524
Additional Paid-in Capital.....	58,928	58,928
Legal Reserve.....	661	411
Retained Earnings.....	14,791	11,606
Net Unrealized Losses on Available-for-sale Securities.....	(10,792)	—
Treasury Stock .....	(3)	(0)
<b>Total Shareholders' Equity .....</b>	<b>157,108</b>	<b>164,469</b>
<b>Total Liabilities and Shareholders' Equity ...</b>	<b>¥3,608,638</b>	<b>¥3,727,815</b>
Yen		
Net Shareholders' Equity per Common Share.....	¥155.92	¥175.57

### Non-consolidated Statements of Income and Retained Earnings

The Hokkaido Bank, Ltd.  
For the Years Ended March 31, 2002 and 2001

	Millions of Yen	
	2002	2001
<b>Income:</b>		
Interest on Loans and Bills Discounted.....	¥57,864	¥ 60,360
Interest and Dividends from Securities .....	5,587	9,223
Other Interest Income .....	1,461	707
Fees and Commissions.....	13,531	13,214
Other Operating Income .....	2,264	7,601
Other Income.....	4,856	10,544
<b>Total Income.....</b>	<b>85,566</b>	<b>101,651</b>
<b>Expenses:</b>		
Interest on Deposits .....	6,011	8,184
Interest on Borrowings and Rediscounts .....	7	14
Other Interest Expenses .....	79	379
Fees and Commissions.....	3,679	3,461
Other Operating Expenses.....	457	400
General and Administrative Expenses.....	39,916	40,519
Other Expenses.....	22,723	38,276
<b>Total Expenses.....</b>	<b>72,875</b>	<b>91,237</b>
<b>Income before Income Taxes.....</b>	<b>12,691</b>	<b>10,413</b>
<b>Income Taxes:</b>		
Current .....	64	64
Deferred .....	8,122	4,214
<b>Net Income.....</b>	<b>¥ 4,504</b>	<b>¥ 6,134</b>
Retained Earnings, Beginning of the Year .....	11,606	7,772
Transfer to Legal Reserve.....	(250)	(411)
Cash Dividends.....	(1,069)	(1,889)
<b>Retained Earnings, End of the Year.....</b>	<b>¥14,791</b>	<b>¥ 11,606</b>
Yen		
<b>Per Share Data:</b>		
Net Income per Common Share.....	¥6.33	¥11.38
Diluted Net Income per Common Share .....	4.68	—
<b>Cash Dividends:</b>		
Common Stock .....	1.00	—
Preferred Stock (Class I) .....	6.62	3.34
Preferred Stock (Class II) .....	15.00	15.00

## CORPORATE DATA

### Stock Information

#### Authorized Shares

Common stock: 1,263,000 thousand shares  
 Preferred stock:  
   (Class I) 79,000 thousand shares  
   (Class II) 108,000 thousand shares

#### Issued Shares

Common stock: 374,354 thousand shares  
 Preferred stock:  
   (Class I) 79,000 thousand shares  
   (Class II) 107,432 thousand shares

#### Paid-in Capital

93,524 million yen

#### Number of Shareholders

Common stock: 23,996  
 Preferred stock (Class I): 1  
 Preferred stock (Class II): 2,027

### Board of Directors

#### President

Tsuneo Fujita

#### Representative Director

Yoshihiro Sekihachi

#### Directors

Akira Ibayashi  
 Kiyoshi Nitta  
 Kiyoshi Yokoyama

### Corporate Auditors

#### Standing Auditor

Hiroshi Shimizu

#### Auditors

Hiroyasu Sugihara  
 Kazuo Shoyu  
 Kazuoki Adachi

### Executive Officer

#### President Executive Officer

Tsuneo Fujita (Supervisor)

### Affiliated Companies

Name	Line of business	Capital (Millions of yen)	Bank's share in capital	Establishment
The Dogin Business Service Limited	Collection and delivery of cash	50	100%	1979
Dogin Card Co., Ltd.	Credit card, loan guarantees, appraisal of real estate for loan collateral	122	39.97%	1977

(As of March 31, 2002)

### International Correspondence

#### Foreign Business Support Center

1, Nishi 4-chome, Odori, Chuo-ku, Sapporo 060-8676  
 Phone: (011) 233-1093  
 Fax: (011) 233-1093  
 S.W.I.F.T. Address: HKDB JP JT  
 E-mail: hbkaigai@poplar.ocn.ne.jp

#### Treasury & Securities Group

4-20, Nihombashi-Hongokuchou 4-chome, Chuo-ku, Tokyo 103-0021  
 Phone: (03) 3241-3457 Fax: (03) 3245-1779

### International Correspondent Banking Network

136 Banks 553 Offices

### Principal Shareholders (Common Stock)

	Shareholding
The Yasuda Mutual Life Insurance Company	4.19%
Sumitomo Life Insurance Company	3.20%
The Hokkaido Bank Employees' Shareholding Association	3.08%
The Fuji Bank, Limited	2.79%
The Bank of Tokyo-Mitsubishi, Ltd.	2.76%
The Dai-ichi Mutual Life Insurance Company	2.40%
T.O.Ogasawara Company Limited	2.20%
The Hokkaido Fire Insurance Cooperative Society	2.17%
Asahi Mutual Life Insurance Company	2.01%
The Mitsui Sumitomo Insurance Co., Ltd.	1.95%

(As of March 31, 2002)

### Corporate Planning & Management

#### President Executive Officer

Tsuneo Fujita (Supervisor of Corporate Planning & Management)

#### Executive Officers

Yoshihiro Sekihachi (Corporate Planning)  
 Kiyoshi Nitta (Risk Management)

### Business Promotion

#### Deputy Vice President Executive Officer

Akira Ibayashi (Supervisor of Business Promotion)

#### Senior Executive Officers

Masao Hoshi (Business Promotion)  
 Nobuyoshi Nakamura (Business Promotion)  
 Yoshimi Kawahara (Asahikawa Area)

#### Executive Officers

Toshihiko Kobayashi (Credit Administration)  
 Koichi Sato (Kushiro Area)  
 Atsuhito Mito (Hakodate Area)  
 Keizi Okuda (Obihiro Area)  
 Masamichi Kondo (Head Office)  
 Shinichi Ushirogi (Sapporo Ekimae Branch)

(As of July 1, 2002)

### Number of Domestic Offices

Hokkaido 129  
 Tohoku District 1  
 Tokyo 1  
 Osaka 1  
 Total 132  
 (Foreign Exchange Office 12)  
 (Money Exchange Office 52)

(As of July 1, 2002)

### Organization



(As of July 1, 2002)