

THE HOKKAIDO BANK

Annual Report 2003



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.

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MESSAGE FROM THE PRESIDENT

Business Environment

The Japanese economy showed some signs of recovery supported by exports in the term under review, but the severe personal income and employment environment depressed overall demand. Stagnation in manufacturing, plunging stock prices and war in Iraq dampened corporate capital investment sentiment and raised the specter of further deterioration in the economy. During the period, easing of monetary policy continued and a supplementary budget of approximately ¥3 trillion was appropriated as a measure to combat deflation. However, Hokkaido is in significantly more difficult economic straits than the nation as a whole. Despite the positive effects of rising manufacturing production for export to continental Asia and an increase in tourism from East Asia, and the fillip provided by the opening of the JR Tower office and hotel complex in Sapporo in March, the region suffers from structural problems such as a paucity of export-oriented industries and high vulnerability to the cutbacks in government investment. These problems have blunted corporate demand for funds.

Medium- to Long-Term Management Strategy, and Issues to be Addressed

The operating environment for financial institutions remains harsh, with fund demand weak due to prolonged deflation. In response, the government has compiled a "Program for Financial Revival" to bolster the national economy by stabilizing the financial system. Within it, a "program for strengthening of relationship banking functions" is proposed for regional financial institutions. Under these circumstances, we need to reconsider our role.

In this environment, we designated fiscal 2002 as a period for the concerted reinforcement of our financial base and undertook drastic measures to this end, beginning with disposal of bad debts. In addition, we have brought forward by half a year the launch of the second medium-term management plan under "Progress Plan 10," the new long-term vision launched in fiscal 2001, and began the following initiatives in the second half of fiscal 2002.

1. Building up retained earnings by strengthening earning power
2. Bolstering operational soundness through rigorous risk management
3. Consolidating shareholder and customer confidence through transparent management
4. Improving staff morale, skills and management capabilities

By stepping up measures in these areas, we aim to assure a smooth fund supply and a consistently full range of financial services. In this way the Bank will become a trusted, close partner of its host community and customers.

Policies and Initiatives to Meet Targets

Since bringing forward to November 2002 the launch of the second medium-term management plan incorporating the proposals contained in the Program for Financial Revival and the concept of relationship banking, the Bank has been carrying out a wide range of measures, as detailed below.

In banking operations, we started selling *Numbers*, *Minilot* and *Lot 6* lottery tickets at ATMs and cash dispensers, and, in partnership with Credit Guarantee Corporation of Hokkaido, began offering the “Advance” range of financial products for small and medium-sized businesses to stimulate the local economy. To forge closer links with the community, the Bank expanded the number of its Hokkaido Home Loan Plazas from three in Sapporo to 12 around the island, enabling us to offer a broad-based mortgage consultation service.

The Bank recognizes the importance of categorizing borrowers more carefully as it contributes to regeneration of local business. To this end, the Bank’s Enterprise Support Team was dissolved on April 1, 2003, and replaced by a new Enterprise Support Group set up in the Business Promotion Department.

Corporate Governance: Concepts and Policies

With the operating environment for banking becoming more complex, Hokkaido Bank recognizes the importance in terms of soundness of management of achieving the highest standards of corporate governance. While speeding up decision-making and improving management efficiency to raise the level of corporate governance, the Bank is creating a robust risk management framework and ensuring thorough compliance to build shareholder and customer confidence through greater transparency of management. After beginning a cut-back in the number of Board members in fiscal 1999, we introduced an executive officer system as an efficiency measure. Now the Board of Directors rigorously monitors management decision-making and policy-making, and executive officers are responsible for implementation.

Further measures include having auditors attend management meetings to strengthen internal regulation, and establishment of a compliance committee.

In addition, we will step up IR briefings for shareholders and customers, in the interests of greater transparency.

Looking forward, we will continue to speed up decision-making and improve the efficiency of management, while setting up a robust risk management framework and rigorous compliance mechanisms.



Yoshihiro Sekihachi, *President*

A handwritten signature in black ink that reads "Y. Sekihachi". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

REVIEW OF OPERATIONS (CONSOLIDATED)

Deposits

The term-end balance of deposits, including certificates of deposit, declined ¥102.6 billion to ¥3,089.3 billion, because the Bank restricted acceptance of high-cost large-amount time deposits.

Loans

The term-end loan balance rose ¥4.5 billion to ¥2,511.6 billion as a slackening of demand for financing at general industrial corporations was more than offset by a rise in individual demand for mortgage loans and increased public sector borrowing.

Securities

The balance of securities increased by ¥26.8 billion to ¥590.5 billion at the term-end, chiefly as a result of an increase in corporate bond holdings.

Earnings

The parent company accounts for the bulk of the Bank's profit and loss accounts on a consolidated basis. For the term under review, adjusted net operating profit (net operating profit before provision of general reserve for possible loan losses, with elimination of profits or losses on securities) came to ¥30,519 million on a non-consolidated basis, reflecting steady provision of loans to local companies, increased commission earnings from entry into new businesses, and further rationalization of business operations.

At the same time, to improve our asset portfolio, we substantially increased provision for possible loan losses, based on more rigorous asset self-assessment with a more cautious stance on borrowers' future performance, as well as writing down securities. After careful consideration for future earnings goals, deferred tax assets were run down to a reasonable level. As a result, a net loss on a consolidated basis of ¥55,028 million was recorded for the term.

Cash Flows

Net cash used in operating activities came to ¥46,914 million, compared with a net cash inflow of ¥295,391 million for the previous term, chiefly reflecting an increase in fund provision for mortgage loans and public sector borrowing and a decrease in procurement of call money on the market.

Net cash used in investing activities was ¥30,372 million, a decrease of ¥18,999 million from the previous term, due primarily to reduced expenditures for the acquisition of securities.

Net cash used in financing activities was ¥2,630 million, an increase of ¥1,558 million over the previous term, chiefly due to the payment of dividends for ordinary and preferred shares. As a result, cash and cash equivalents at term-end amounted to ¥264,880 million, a decrease of ¥79,963 million from the previous term-end.

Capital Ratio

The capital ratio on a consolidated basis stood at 6.07% at the term-end by domestic standards, down 2.1 percentage points from the previous term-end.

Business Profit on Core Banking Operations*



Treasury Profit

(Mainly Net Interest Income)



Net Fees and Commissions Income



General and Administrative Expenses



Note: All graphs data is on a non-consolidated Basis.

* Business profit on core banking operations = Net interest income + Net fees and commissions + Other net operating income (excluding profit/loss on securities) - General and Administrative Expenses

FIVE-YEAR SUMMARY (CONSOLIDATED)

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

	Millions of Yen				
	2003	2002	2001	2000	1999
Total Income	¥ 82,674	¥ 85,748	¥ 101,714	¥ 100,846	¥ 111,002
Total Expenses	134,335	72,924	91,560	87,675	192,511
Income (Loss) before Income Taxes	(51,661)	12,823	10,153	13,170	(81,508)
Income Taxes	3,367	8,187	3,802	5,829	(34,644)
Net Income (Loss)	(55,028)	4,635	6,351	7,341	(46,864)
Investment Securities	¥ 590,531	¥ 563,684	¥ 537,439	¥ 568,097	¥ 516,044
Loans and Bills Discounted	2,511,603	2,507,064	2,624,688	2,596,687	2,779,444
Total Assets*	3,448,342	3,608,513	3,727,569	3,611,850	3,611,310
Deposits	¥3,089,330	¥3,191,931	¥3,369,451	¥3,295,831	¥3,324,300
Capital Stock	93,524	93,524	93,524	71,009	44,151
Shareholders' Equity	108,452	157,046	164,281	114,789	53,732

* Certain reclassifications have been made to 1999 financial statements to conform to the classifications used in 2003.

FIVE-YEAR SUMMARY (NON-CONSOLIDATED)

The Hokkaido Bank, Ltd.
Years Ended March 31

	Millions of Yen				
	2003	2002	2001	2000	1999
Total Income	¥ 82,569	¥ 85,566	¥ 101,651	¥ 100,719	¥ 110,839
Total Expenses	134,280	72,875	91,237	87,510	192,451
Income (Loss) before Income Taxes	(51,711)	12,691	10,413	13,209	(81,612)
Income Taxes	3,365	8,186	4,278	5,436	(34,732)
Net Income (Loss)	(55,076)	4,504	6,134	7,772	(46,879)
Investment Securities	¥ 590,650	¥ 563,812	¥ 537,693	¥ 568,091	¥ 515,999
Loans and Bills Discounted	2,511,603	2,507,064	2,624,688	2,597,832	2,779,652
Total Assets*	3,448,459	3,608,638	3,727,815	3,612,309	3,611,323
Deposits	¥3,089,431	¥3,192,024	¥3,369,535	¥3,295,907	¥3,324,419
Capital Stock	93,524	93,524	93,524	71,009	44,151
Shareholders' Equity	108,503	157,108	164,469	115,194	53,706

* Certain reclassifications have been made to 1999 financial statements to conform to the classifications used in 2003.

CONSOLIDATED BALANCE SHEETS

The Hokkaido Bank, Ltd. and Subsidiary
March 31, 2003 and 2002

	Millions of Yen	
	2003	2002
ASSETS		
Cash and Due from Banks	¥ 267,472	¥ 347,417
Call Loans and Bills Purchased	50	50,011
Monetary Claims Bought	3	1
Trading Account Securities (Note 19)	5,447	6,441
Money Held in Trust (Note 20)	4,978	4,845
Investment Securities (Notes 3, 14 and 19)	590,531	563,684
Loans and Bills Discounted (Note 4)	2,511,603	2,507,064
Foreign Exchange (Note 5)	3,934	3,557
Other Assets	11,310	17,043
Premises and Equipment (Note 6)	29,827	30,644
Deferred Tax Assets (Note 15)	61,910	71,709
Customers' Liabilities for Acceptances and Guarantees	50,137	52,032
Reserve for Possible Loan Losses	(88,865)	(45,941)
Total Assets	¥3,448,342	¥3,608,513

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities:

Deposits (Notes 7 and 14)	¥3,089,330	¥3,191,931
Call Money and Bills Sold (Note 14)	86,400	158,100
Pledged Money for Securities Lending Transactions (Note 14)	87,924	—
Foreign Exchange (Note 5)	22	73
Convertible Bonds (Note 8)	—	106
Other Liabilities	14,256	37,319
Reserve for Retirement Benefits (Note 21)	10,546	9,278
Reserve for Possible Losses on Collateralized Real Estate Loans Sold (to CCPC)	1,270	2,624
Acceptances and Guarantees	50,137	52,032
Total Liabilities	3,339,889	3,451,466

Shareholders' Equity (Notes 9 and 22):

Capital Stock:		
Preferred Stock	49,373	49,373
Common Stock	44,151	44,151
Additional Paid-in Capital	58,928	58,928
Retained Earnings (Deficit)	(42,141)	15,395
Net Unrealized Losses on		
Available-for-Sale Securities	(1,802)	(10,798)
Treasury Stock—at cost	(55)	(3)
Total Shareholders' Equity	108,452	157,046
Total Liabilities and Shareholders' Equity	¥3,448,342	¥3,608,513

	Yen	
Net Shareholders' Equity per Common Share	¥25.96	¥155.75

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

The Hokkaido Bank, Ltd. and Subsidiary
For the Years Ended March 31, 2003 and 2002

	Millions of Yen	
	2003	2002
Income:		
Interest on Loans and Bills Discounted	¥ 56,388	¥57,864
Interest and Dividends from Securities	4,823	5,583
Other Interest Income	203	1,461
Fees and Commissions	13,695	13,533
Other Operating Income (Note 10)	833	2,335
Other Income (Note 11)	6,730	4,970
Total Income	82,674	85,748
Expenses:		
Interest on Deposits	2,261	6,011
Interest on Borrowings and Rediscounts	6	8
Other Interest Expenses	6	78
Fees and Commissions	4,247	3,679
Other Operating Expenses (Note 12)	768	517
General and Administrative Expenses	39,674	39,905
Other Expenses (Note 13)	87,370	22,723
Total Expenses	134,335	72,924
Income (Loss) before Income Taxes	(51,661)	12,823
Income Taxes (Note 15):		
Current	68	65
Deferred	3,298	8,122
Net Income (Loss)	¥(55,028)	¥ 4,635

Per Share Data:

	Yen	
Net Income (Loss) per Common Share	¥(147.13)	¥ 6.68
Diluted Net Income per Common Share	—	4.90

Cash Dividends:

Common Stock	—	1.00
Preferred Stock (Class I)	—	6.62
Preferred Stock (Class II)	—	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, 2003 and 2002

	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 (Deficit)	Net Unrealized Losses on		Total
			Common Stock	Preferred Stock			Available-for- Sale Securities	Treasury Stock	
Balance at April 1, 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)
Balance at March 31, 2002	374,354	186,432	44,151	49,373	58,928	15,395	(10,798)	(3)	157,046
Cash Dividends	—	—	—	—	—	(2,508)	—	—	(2,508)
Change in Valuation	—	—	—	—	—	—	8,995	—	8,995
Purchase	—	—	—	—	—	—	—	(51)	(51)
Net Loss	—	—	—	—	—	(55,028)	—	—	(55,028)
Balance at March 31, 2003	374,354	186,432	¥44,151	¥49,373	¥58,928	¥(42,141)	¥(1,802)	¥(55)	¥108,452

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Hokkaido Bank, Ltd. and Subsidiary
For the Years Ended March 31, 2003 and 2002

	Millions of Yen	
	2003	2002
Cash Flows from Operating Activities:		
Income (Loss) before Income Taxes.....	¥(51,661)	¥ 12,823
Adjustment for:		
Depreciation and Amortization	1,595	1,697
Investment Losses (Gains) under the Equity Method	455	(136)
Increase in Reserve for Possible Loan Losses	42,924	1,273
Decrease in Reserve for Possible Losses on the Sale of Credit ...	(1,353)	(3,242)
Increase in Reserve for Retirement Benefits.....	1,267	514
Decrease in other Reserves	(1)	(1)
Interest and Dividend Income.....	(61,415)	(64,908)
Interest Expense	2,274	6,098
Securities Losses-Net	20,837	5,087
Money Held in Trust Loss-Net.....	14	201
Foreign Exchange Losses (Gains)-Net....	1,257	(800)
Premises and Equipment Gains.....	(4,392)	(186)
Net (Increase) Decrease in Loans	(4,538)	117,624
Net Decrease in Deposits	(102,601)	(177,519)
Net (Increase) Decrease in Due from the Banks, Excluding Due from the Bank of Japan.....	(18)	118,436
Net Decrease in Call Loans, Bills Purchased and Monetary Claims Bought...	49,958	60,246
Net Increase (Decrease) in Cash Collateral for Bonds Borrowed.....	—	20,203
Net (Decrease) Increase in Call Money and Bills Sold	(71,700)	108,100
Net Decrease in Cash Collateral for Bonds Lent.....	—	(13,504)
Net Increase in Pledged Money for Securities Lending Transactions	68,292	—
Net (Increase) Decrease in Foreign Exchange (Assets)	(376)	492
Net (Decrease) Increase in Foreign Exchange (Liabilities).....	(50)	45
Interest Receivable	63,733	66,329
Interest Payable	(3,087)	(3,244)
Net Decrease (Increase) in Trading Account Securities.....	993	(4,291)
Other-Net	741	(2,798)
Sub-Total.....	(46,849)	248,541
Cash Paid for Income Taxes.....	(65)	(64)
Net Cash (Used in) Provided by Operating Activities.....	(46,914)	248,477
Cash Flows from Investing Activities:		
Purchases of Investment Securities	(240,361)	(407,790)
Proceeds from Sales of Investment Securities.....	96,718	157,377
Proceeds from Maturities of Investment Securities	109,811	201,500
Purchases of Money Held in Trust.....	(154)	(72)
Purchases of Premises and Equipment...	(2,130)	(1,376)
Proceeds from Sales of Premises and Equipment	5,743	991
Net Cash Used in Investing Activities	(30,372)	(49,371)
Cash Flows from Financing Activities:		
Redemption of Convertible Bonds.....	(106)	—
Cash Dividend Paid.....	(2,508)	(1,069)
Purchases for Retirement of Treasury Stock...	(14)	(5)
Proceeds from Sales of Treasury Stock...	—	2
Net Cash Used in Financing Activities	(2,630)	(1,072)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(45)	(36)
Net (Decrease) Increase in Cash and Cash Equivalents	(79,963)	197,996
Cash and Cash Equivalents at Beginning of Year	344,843	146,847
Cash and Cash Equivalents at End of Year	¥264,880	¥344,843

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 Financial Reporting 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 yen, except for per share data and, accordingly, certain totals may not match due to such rounding down.

2. SIGNIFICANT ACCOUNTING POLICIES

(1) Consolidation

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

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

The accounting 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 trading securities or held-to-maturity securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Securities 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 six years, but have been changed to four years for personal computers (except computers used as servers) and five years for other computers commencing in the year ended March 31, 2002.

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 five 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 to April 1, 2002, the Bank applied "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (Japanese Institute of Certified Public Accountant ("JICPA") Industry Audit Committee Report No.20).

Effective from the year ended March 31, 2003, the Bank

applies "Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No.25). However, for the year ended March 31, 2003 the Bank applies the prior methods for fund swap transactions and currency swap transactions based on the transition measures of Report No.25.

(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 reserves. 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 imminent. In such cases, a portion of the reserve is provided based on the amount remaining after deduction of the anticipated proceeds from sales of 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 ¥79,443 million and ¥94,319 million at March 31, 2003 and 2002, respectively.

(6) Reserve for Retirement Benefits

Under the accounting standard, "Opinion Concerning the Establishment of Accounting Standard for Retirement Benefits" (Business Accounting Deliberation Council, June 16, 1998), 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 nine years within estimated average remaining service life commencing from the succeeding period. Actuarial gains or losses are amortized using the straight-line method over

nine years. The remaining net transition obligation amounting to ¥17,303 million is recognized as an expense 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, Limited (“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 are deemed 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.

Derivative financial instruments are stated 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 is 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 operations. 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 the 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, 2003.

(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 title Cash and Due from Banks.

3. INVESTMENT SECURITIES

	Millions of Yen	
	2003	2002
National Government Bonds	¥236,053	¥247,591
Local Government Bonds	27,713	22,761
Corporate Bonds	216,671	195,490
Corporate Stock	40,033	49,352
Foreign Securities	38,133	25,095
Other Securities	31,926	23,391
Total	¥590,531	¥563,684

The amount of shares of affiliated companies included in the corporate stock above was ¥22 million and ¥454 million at March 31, 2003 and 2002, respectively.

4. LOANS AND BILLS DISCOUNTED

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

	Millions of Yen	
	2003	2002
Bills Discounted	¥ 58,037	¥ 78,646
Loans on Notes	451,835	511,114
Loans on Deeds	1,638,303	1,567,235
Overdrafts	363,426	350,067
Total	¥2,511,603	¥2,507,064

(2) Non-Performing Loans:

	Millions of Yen	
	2003	2002
Loans to Bankrupt Borrowers	¥ 14,361	¥ 9,974
Non-Accrual Other Delinquent Loans	161,901	135,136
Loans Past Due 3 Months or more	—	—
Restructured Loans	107,723	87,197
Total	¥283,987	¥232,307

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 have 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.

5. FOREIGN EXCHANGE

	Millions of Yen	
	2003	2002
Assets:		
Due from Foreign Correspondents	¥2,773	¥2,305
Foreign Exchange Bills Bought	120	83
Foreign Exchange Bills Receivable	1,040	1,168
Total	¥3,934	¥3,557

	Millions of Yen	
	2003	2002
Liabilities:		
Due to Foreign Correspondents	¥—	¥ 0
Foreign Exchange Bills Sold	22	71
Foreign Exchange Bills Payable	0	1
Total	¥22	¥73

6. PREMISES AND EQUIPMENT

	Millions of Yen	
	2003	2002
Land, Buildings and Equipment	¥27,273	¥28,513
Construction in Progress	—	0
Lease Deposits	2,554	2,129
Total	¥29,827	¥30,644

The balances of accumulated depreciation at March 31, 2003 and 2002 were ¥35,007 million and ¥36,053 million, respectively. Besides premises and equipment in the consolidated balance sheets, electronic computers and cars are used through lease contracts in part.

7. DEPOSITS

	Millions of Yen	
	2003	2002
Current Deposits	¥ 170,005	¥ 196,005
Ordinary Deposits	1,343,765	1,343,156
Deposits at Notice	19,258	25,293
Time Deposits	1,395,246	1,494,918
Other Deposits	161,053	107,657
Sub-total	3,089,330	3,167,031
Negotiable Certificates of Deposit	—	24,900
Total	¥3,089,330	¥3,191,931

8. CONVERTIBLE BONDS

Convertible bonds, amounting to ¥106 million as of March 31, 2002, were fully redeemed on April 1, 2002.

9. SHAREHOLDERS' EQUITY

(1) Capital Stock

Information with respect to shares of the Bank's capital stock as of March 31, 2003 and 2002 is as follows:

(Common Stock)

	Thousands of Shares	
	2003	2002
Number of Shares:		
Authorized	1,263,000	1,263,000
Issued	374,354	374,354
Outstanding	374,170	374,321

(Preferred Stock)

	Thousands of Shares	
	2003	2002
Number of Shares:		
(Class I)		
Authorized	79,000	79,000
Issued and Outstanding	79,000	79,000
(Class II)		
Authorized	108,000	108,000
Issued and Outstanding	107,432	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, an amount equal to at least 20% of the term's cash dividends must be put aside as a legal reserve to bring the cumulative total up to an 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 ¥1,171 million and ¥661 million at March 31, 2003 and 2002, respectively.

10. OTHER OPERATING INCOME

	Millions of Yen	
	2003	2002
Gains on Sales of		
Trading Account Securities.....	¥156	¥ 7
Gains of Sales of Bonds.....	132	2,054
Gains on Redemption of Bonds.....	3	4
Gains on Foreign Exchange Transactions...	475	197
Others	65	70
Total	¥833	¥2,335

11. OTHER INCOME

	Millions of Yen	
	2003	2002
Gains on Sales of Stock		
and Other Securities	¥ 42	¥1,216
Gains on Dispositions of Premises		
and Equipment.....	4,537	411
Discount on Purchased Loans	—	1,363
Recoveries of Charged-off Claims	197	28
Other	1,952	1,950
Total	¥6,730	¥4,970

12. OTHER OPERATING EXPENSES

	Millions of Yen	
	2003	2002
Losses on Sales of Bonds.....	¥ 22	¥ 10
Losses on Redemption of Bonds.....	—	5
Losses on Derivatives Transactions	33	95
Losses on Devaluation of Bonds.....	658	346
Other	55	60
Total	¥768	¥517

13. OTHER EXPENSES

	Millions of Yen	
	2003	2002
Provision for Possible Loan Losses	¥65,842	¥12,239
Provision for Losses on Sales of Loans	—	193
Write-offs of Loans	—	1,049
Losses on Sales of Stock		
and Other Securities	53	1,643
Losses on Devaluation of Stock		
and Other Securities	19,848	5,855
Other	1,625	1,741
Total	¥87,370	¥22,723

14. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral at March 31, 2003 and 2002 are as follows:

	Millions of Yen	
	2003	2002
Assets Pledged as Collateral:		
Investment Securities	¥238,056	¥221,056
The Above Pledged Assets Secure		
the Following Liabilities:		
Pledged Money for Securities Lending		
Transactions	¥ 87,924	¥ —
Bills Sold	86,400	158,100
Deposits	12,780	9,020

Besides the above-mentioned, investment securities amounting to ¥85,612 million and ¥64,407 million, respectively, at March 31, 2003 and 2002, were pledged as collateral for settlement of exchange at The Bank of Japan and the reserve funds for forward dealings.

15. INCOME TAXES

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Deferred Tax Assets:		
Reserve for Possible Loan Losses	¥53,953	¥36,167
Tax Loss Carryforwards	18,798	23,617
Reserve for Retirement Benefit.....	3,810	3,208
Loss on Securities Devaluation.....	1,692	—
Depreciation	1,289	1,469
Net Unrealized Losses on		
Available-for-Sale Securities	1,218	7,719
Other	1,452	2,523
Sub-total.....	82,215	74,706
Valuation Allowance	(20,305)	(2,996)
Net Deferred Tax Assets	¥61,910	¥71,709

The major reasons for the significant differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2003 are summarized as follows:

Statutory Tax Rate.....	41.7%
Gains and Losses on Equity-method	
Investment in Affiliate	(0.8)
Items Not Permanently Included in Income,	
such as Dividends Received	(0.6)
Items Not Permanently Included in Expense,	
such as Corporate Entertainment Expenses.....	0.2
Increase of Valuation Allowance	(39.3)
Decrease in Statutory Tax Rate	(3.2)
Other.....	(4.5)
Effective Tax Rate	(6.5)%

The Bank and its subsidiary are 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, 2003 and 2002. On March 24, 2003, the Japanese Diet approved amendments to local tax law which will reduce the standard tax rates for the income-based business tax, as well as add business tax based on corporate size, effective for the years beginning on or after April 1, 2004.

Consequently, the effective statutory tax rate will be reduced to 40.40% for the years beginning on or after April 1, 2004.

As a result of the change in the effective statutory tax rate, deferred income tax assets decreased by ¥1,657 million, income taxes-deferred increased by ¥1,618 million and net unrealized losses on available-for-sale securities increased ¥39 million compared with what would have been recorded under the previous local tax law.

16. LEASES

(1) Finance Leases

Total lease payments, for finance leases other than those where the ownership of leased property is transferred, were ¥145 million and ¥294 million for the years ended March 31, 2003 and 2002, respectively.

The pro forma information on the leased property under such finance leases as lessee at March 31, 2003 and 2002 assuming that it was capitalized, were as follows:

	Millions of Yen	
	2003	2002
Acquisition Cost:		
Equipment	¥380	¥2,183
Other	—	19
Total	380	2,203
Accumulated Depreciation:		
Equipment	(165)	(1,963)
Other	—	(16)
Total	(165)	(1,979)
Net Leased Property:		
Equipment	215	220
Other	—	2
Total	¥215	¥ 223

Depreciation expense, which was not reflected in the accompanying consolidated statements of operations, computed by the straight-line method was ¥145 million and ¥294 million for the years ended March 31, 2003 and 2002, respectively.

The related obligations under such finance leases at March 31, 2003 and 2002, were as follows:

	Millions of Yen	
	2003	2002
Due within One Year.....	¥ 85	¥137
Due after One Year.....	130	86
Total	¥215	¥223

(2) Operating Leases

Obligations under operating leases at March 31, 2003 and 2002 were as follows:

	Millions of Yen	
	2003	2002
Due within One Year.....	¥15	¥13
Due after One Year.....	3	3
Total	¥19	¥16

17. 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, 2003 and 2002

a. Interest Rate Derivatives as of March 31, 2003

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains (Losses)
2003			
Over-the-Counter Transactions:			
Interest Rate Swaps:			
Fixed Rate Receipt,			
Floating Rate Payment	¥13,986	¥ 217	¥ 217
Floating Rate Receipt,			
Fixed Rate Payment.....	28,986	(396)	(396)
Total.....	¥ —	¥(178)	¥(178)

b. Interest Rate Derivatives as of March 31, 2002

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

(2) Currency Swaps as of March 31, 2003 and 2002

a. Currency Swaps as of March 31, 2003

	Millions of Yen		
	Notional or Contract Amount	Market Value	Unrealized Gains
2003			
Over-the-Counter Transactions:			
Currency Swaps	¥360	¥1	¥1

b. Currency Swaps as of March 31, 2002

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

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 operations.

The contract amounts of the re-evaluated currency derivatives as of March 31, 2003 and 2002 are as follows:

	Millions of Yen	
	Contract Amount	
	2003	2002
Over-the-Counter Transactions:		
Foreign Exchange Forward Contracts:		
Selling	¥10,376	¥15,781
Buying.....	2,289	4,204
Currency Options:		
Selling	822	802
Buying.....	96	388

18. 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, 2003 and 2002 amounted to ¥803,069 million and ¥780,797 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's established internal procedures confirming the obligor's financial condition at regular intervals after signing the loan agreement.

19. SECURITIES INFORMATION

a. Trading Securities

	Millions of Yen	
	2003	2002
Book Value	¥5,447	¥6,441
Revaluation Difference		
Recognized in Income Statement.....	¥ 35	¥ 2

b. Available-for-Sale Securities

	Millions of Yen		
	Cost	Book Value	Valuation Difference
March 31, 2003			
Stock	¥ 41,099	¥ 36,346	¥(4,753)
Bond:			
National Government Bonds...	234,456	236,053	1,596
Local Government Bonds.....	26,725	27,713	987
Corporate Bonds.....	207,173	209,861	2,688
Other.....	59,475	55,942	(3,533)
Total.....	¥568,931	¥565,916	¥(3,014)

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

c. Total Sales of Available-for-Sale Securities

For the years ended March 31, 2003 and 2002, proceeds from sales of available-for-sale securities amounted to ¥96,715 million and ¥143,878 million, respectively. For the years ended March 31, 2003 and 2002, the related gross gains amounted to ¥174 million and ¥3,282 million, respectively, and the related gross losses amounted to ¥74 million and ¥1,654 million, respectively.

d. Book Values of Non-Marketable Securities

	Millions of Yen	
	2003	2002
Held-to-Maturity Debt Securities:		
Non-Public Offering Corporate Bonds....	¥6,809	¥4,299
Available-for-Sale Securities:		
Unlisted Stock.....	3,667	4,011

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

	Millions of Yen			
	Within 1 Year	Over 1 Year Within 5 Years	Over 5 Years Within 10 Years	Over 10 Years
March 31, 2003				
Bonds:				
National Government Bonds	¥ 68,378	¥103,486	¥22,614	¥41,572
Local Government Bonds	2,567	6,667	18,478	—
Corporate Bonds	56,866	141,112	18,692	—
Other.....	6,617	22,460	15,740	1,625
Total	¥134,429	¥273,728	¥75,526	¥43,197

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

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

	Millions of Yen	
	2003	2002
Net Valuation Difference on Available-for-Sale Securities	¥(3,014)	¥(18,511)
Deferred Tax Assets	1,218	7,719
Net Valuation Difference Excluding Minority Interests	(1,796)	(10,792)
Minority Interests.....	0	0
The Bank's Interests of Net Unrealized Losses on Available-for-Sale Securities Held by Equity Method Affiliate	(6)	(6)
Net Unrealized Losses on Available-for-Sale Securities	¥(1,802)	¥(10,798)

20. MONEY HELD IN TRUST

Money held in trust for asset management purposes is as follows:

	Millions of Yen	
	2003	2002
Book Value.....	¥4,978	¥4,845
Revaluation Gain (Loss) Recognized in Income Statement.....	(5)	—

21. RETIREMENT BENEFITS

Outline of current system on retirement benefits

The Bank has unfunded lump-sum payment and defined benefit pension plans.

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, 2003 and 2002.

	Millions of Yen	
	2003	2002
Projected Benefit Obligation at End of Year.....	¥(61,484)	¥(56,443)
Fair Value of Plan Assets at End of Year.....	28,444	32,493
Benefit Obligation in Excess of Plan Assets	(33,040)	(23,950)
Unrecognized Net Transitional Obligation.....	13,842	14,996
Unrecognized Actuarial Loss	16,172	8,310
Unrecognized Prior Service Costs	(7,521)	(8,635)
Accrued Retirement Benefits in the Consolidated Balance Sheet	(10,546)	(9,278)
Reserve for Retirement Benefits	¥(10,546)	¥ (9,278)

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, 2003 and 2002.

	Millions of Yen	
	2003	2002
Service Cost	¥1,102	¥1,128
Interest Cost.....	1,692	1,619
Expected Return on Plan Assets.....	(1,299)	(1,385)
Amortization:		
Amortization of Net Transitional Obligation.....	1,153	1,153
Amortization of Prior Service Costs.....	(1,114)	(986)
Amortization of Unrecognized Actual Loss	974	407
Net Periodic Retirement Benefit Cost.....	¥2,509	¥1,936

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

Assumptions used in the accounting for the defined benefit plans for the years ended March 31, 2003 and 2002, are as follows:

	2003	2002
Discount Rate	2.50%	3.00%
Long-Term Rate of Return on Plan Assets.....	4.00%	4.00%
Method of Attributing Benefit to Periods of Service	Straight-line basis	Straight-line basis
Amortization Period for Prior Service Cost.....	9 years	10 years
Amortization Period for Actuarial Loss.....	9 years	10 years
Amortization Period for Transitional Obligation at Date of Adoption.....	15 years	15 years

22. SUBSEQUENT EVENT

On June 26, 2003, the shareholders authorized compensation for the Bank's deficit as follows:

	Millions of Yen
Reversal of Legal Reserve	¥ 1,171
Reversal of Additional Paid-in Capital.....	42,133

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

We have audited the consolidated balance sheets of The Hokkaido Bank, Ltd. and its subsidiary as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended.

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, procedures and practices generally accepted and applied 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 Hokkaido Bank, Ltd. and its subsidiary 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 and practices generally accepted in Japan.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Sapporo, Japan
June 26, 2003

NON-CONSOLIDATED FINANCIAL STATEMENTS (SUPPLEMENTAL INFORMATION)

Non-consolidated Balance Sheets

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

	Millions of Yen	
	2003	2002
ASSETS:		
Cash and Due from Banks.....	¥ 267,472	¥ 347,417
Call Loans and Bills Purchased.....	50	50,011
Monetary Claims Bought.....	3	1
Trading Account Securities	5,447	6,441
Money Held in Trust	4,978	4,845
Investment Securities	590,650	563,812
Loans and Bills Discounted	2,511,603	2,507,064
Foreign Exchange.....	3,934	3,557
Other Assets.....	11,308	17,042
Premises and Equipment	29,826	30,643
Deferred Tax Assets	61,910	71,709
Customers' Liabilities for Acceptances and Guarantees.....	50,137	52,032
Reserve for Possible Loan Losses	(88,865)	(45,941)
Total Assets.....	¥3,448,459	¥3,608,638
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Deposits	¥3,089,431	¥3,192,024
Pledged Money for Securities Lending Transactions	87,924	—
Call Money and Bills Sold.....	86,400	158,100
Foreign Exchange.....	22	73
Convertible Bonds.....	—	106
Other Liabilities	14,234	37,301
Reserve for Retirement Benefits	10,533	9,266
Reserve for Possible Losses on Collateralized Real Estate Loans Sold (to CCPC)	1,270	2,624
Acceptances and Guarantees.....	50,137	52,032
Total Liabilities	3,339,955	3,451,529
Shareholders' Equity:		
Capital Stock.....	93,524	93,524
Additional Paid-in Capital	58,928	58,928
Legal Reserve.....	1,171	661
Retained Earnings (Deficit).....	(43,304)	14,791
Net Unrealized Losses on Available-for-sale Securities.....	(1,796)	(10,792)
Treasury Stock	(18)	(3)
Total Shareholders' Equity	108,503	157,108
Total Liabilities and Shareholders' Equity ...	¥3,448,459	¥3,608,638
Yen		
Net Shareholders' Equity per Common Share.....	¥26.08	¥155.92

Non-consolidated Statements of Operations and Retained Earnings (Deficit)

The Hokkaido Bank, Ltd.
For the Years Ended March 31, 2003 and 2002

	Millions of Yen	
	2003	2002
Income:		
Interest on Loans and Bills Discounted.....	¥ 56,388	¥57,864
Interest and Dividends from Securities	4,828	5,587
Other Interest Income	203	1,461
Fees and Commissions.....	13,694	13,531
Other Operating Income	768	2,264
Other Income.....	6,686	4,856
Total Income	82,569	85,566
Expenses:		
Interest on Deposits	2,261	6,011
Interest on Borrowings and Rediscounts	6	7
Other Interest Expenses	6	79
Fees and Commissions.....	4,247	3,679
Other Operating Expenses.....	713	457
General and Administrative Expenses.....	39,690	39,916
Other Expenses.....	87,355	22,723
Total Expenses.....	134,280	72,875
Income (Loss) before Income Taxes.....	(51,711)	12,691
Income Taxes:		
Current	66	64
Deferred	3,298	8,122
Net Income (Loss)	¥(55,076)	¥ 4,504
Retained Earnings, Beginning of the Year	14,791	11,606
Transfer to Legal Reserve.....	(510)	(250)
Cash Dividends.....	(2,508)	(1,069)
Retained Earnings (Deficit), End of the Year	¥(43,304)	¥14,791

	Yen	
Per Share Data:		
Net Income (Loss) per Common Share.....	¥(147.16)	¥ 6.33
Diluted Net Income per Common Share	—	4.68
Cash Dividends:		
Common Stock	—	1.00
Preferred Stock (Class I)	—	6.62
Preferred Stock (Class II)	—	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: 23,534
 Preferred stock (Class I): 1
 Preferred stock (Class II): 2,027

Board of Directors

President

Yoshihiro Sekihachi

Representative Director

Kiyoshi Nitta

Directors

Masamichi Kondo
 Masahiro Sasahara

Corporate Auditors

Standing Auditor

Hiroshi Shimizu

Auditors

Tatsuhiro Ishikawa
 Kazuo Shoyu
 Kazuoki Adachi

Executive Officer

President Executive Officer

Yoshihiro Sekihachi (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, 2003)

International Correspondence

Foreign Business Support Center

1, Nishi 4-chome, Odori, Chuo-ku, Sapporo 060-8676
 Phone: (011) 233-1093
 Fax: (011) 231-3133
 S.W.I.F.T. Address: HKDB JP JT
 E-mail: scikaku@cello.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

139 Banks 556 Offices

Principal Shareholders (Common Stock)

	Shareholding
The Yasuda Mutual Life Insurance Company	4.19%
Sumitomo Life Insurance Company	3.20%
Mizuho Corporate Bank, Ltd.	3.18%
The Hokkaido Bank Employees' Shareholding Association	3.14%
T. O. Ogasawara Company Limited	2.81%
The Bank of Tokyo-Mitsubishi, Ltd.	2.61%
The Dai-ichi Mutual Life Insurance Company	2.40%
The Hokkaido Fire Insurance Cooperative Society	2.17%
Mitsui Sumitomo Insurance Co., Ltd.	1.95%
Shinsei Bank, Limited	1.71%

(As of March 31, 2003)

Management & Planning

President Executive Officer

Yoshihiro Sekihachi

Risk Management

Executive Officers

Kiyoshi Nitta

Business Promotion

● Area Marketing Officers:

Deputy Vice President Executive Officer

Masamichi Kondo (Supervisor of Business Promotion)

Senior Executive Officers

Nobuyoshi Nakamura
 Naotake Ogasawara
 Masataka Shikanai
 Yoshimi Kawahara (Asahikawa Branch)

Executive Officers

Koichi Sato (Kushiro Branch)
 Atsuhito Mito (Hakodate Branch)
 Keiji Okuda (Obihiro Branch)

● Marketing Planning Officer:

Executive Officer

Masahiro Sasahara

Credit Administration

Executive Officer

Toshihiko Kobayashi

(As of June 26, 2003)

Number of Domestic Offices

Hokkaido 130
 Tohoku District 1
 Tokyo 1
 Osaka 1
 Total 133
 (Foreign Exchange Office 11)
 (Money Exchange Office 52)

(As of March 31, 2003)

Organization



(As of July 1, 2003)



THE HOKKAIDO BANK, LTD.

1, Nishi 4-chome, Odori, Chuo-ku, Sapporo 060-8676

Phone: (011) 233-1093

Fax: (011) 231-3811