

# ANNUAL REPORT

April 1, 2004 - March 31, 2005

THE HOKUETSU BANK, LTD.

## **Review of 2004 Fiscal Result**

The Hokuetsu Bank has been engaged in enhancing the profitability structure and reducing the non- performing loans. As a result, the Bank could achieve all targets successfully, with net income amounting to 3.1 billion yen, 0.8 billion yen more than intended.

The capital adequacy ratio, because of net income more than expected and issue of convertible bond, substantially rose by 0.9% to 9.37%.

The non- performing loan, as a result of our supporting customers for business reform, fell by 31.2 billion yen, making its ratio down to 5.13%.

The deferred tax assets fell by 5.9 billion yen compared with the previous fiscal year. Consequently, the ratio of deferred tax assets to Tier 1 in the stockholder's equity significantly fell to 29%, a decrease in 12 points from the previous fiscal year.

The unrealized gains on securities at the end of March, 2005 rose to 14.2 billion yen, an increase in 6.5 billion yen compared with the previous fiscal year, which was attributable to favourable rise in stock prices and turnaround from unrealized loss to gain on bonds.

## **Management Strategy in the Future**

The Bank instituted three- year term Management Plan named "Power Up 100" in fiscal 2005, where the Bank aims at an increase in 10 billion yen of Tier 1 in the stockholder's equity.

In order to realize this target, the Bank will be engaged in

- i) supply of needed financial products and services,
- ii) expansion of market trading and fee- business transactions, and
- iii) proper allotment of business resources to proper offices.

In March, 2005, the Financial Service Agency disclosed an Action Program, consisting of reasonable finance- supply to small- and medium sized enterprises, enhancement of management structure and fulfilling customer's satisfaction.

Each financial institution is required to pursue this action program. Along with the Bank's own policy, The Hokuetsu Bank will focus on the cooperation with its community in line with the Action Program by the Financial Service Agency.

Last year, our local community experienced two big natural disasters,

earthquake and flood after heavy rain. After one year, however, the community has successfully reconstructed itself, and the Bank took the leading role in its reconstruction.

We believe that the Bank will contribute to the development of the community from now on.

### **Risk management**

Today risk management is one of the most important issues the Bank faces, and to cope with various risks, we instituted "Contingency Risk Management Guidance", under which each risk is monitored and controlled.

#### <Credit Risk Management>

"Credit Rating" system is now introduced. The purpose of this introduction is to supervise each credit objectively.

#### <Market- Related Risk management>

Approaches of Basis Point Value and Value at Risk are applied to predict the volume of market- related risks, and the outcome of this prediction is monthly argued in the Committee of Asset and Liability Management.

#### <Liquidity Risk Management>

The structure to administer daily cash flow and to control cash flow position is established and well functioned.

#### <Operational Risk Management>

To promote efficient operation, the training schedule is arranged. Moreover, operational records are regularly investigated by a independent division to avoid misconduct.

#### <System Risk Management>

The Bank built a Operation Center and commenced new system facility, with which we have constructed a plan toward contingent risks arisen from disaster.

#### <Reputation Risk Management>

The Bank's information is frankly disclosed so that the public are well informed of our situation without misunderstanding.

### **Compliance**

Because of public responsibility, banks must accurately comply with legal requirements in a high quality of corporate governance. These requirements range in not only domestic but global standards.

In 1999, the Bank instituted "The Hokuetsu Bank Ethics Charter", which prescribes legal and social requirements to us.

Accompanied with this charter, compliance manuals are formed to pursue "Know Your Customer" requirements, or to cope with anti- money laundering or other illegal activities.

# FINANCIAL HIGHLIGHTS

## (CONSOLIDATED)

	Year ended March 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S.Dollars)
<b>For the Year:</b>			
Total income	¥50,613	¥47,202	\$471,301
Total expenses	43,988	41,187	409,610
Income (Loss) before special items, income taxes and minority interest	6,625	6,014	61,691
Net income (Loss)	3,484	1,808	32,442
<b>At Year end:</b>			
Doposits	¥1,817,932	¥1,785,461	\$16,928,317
Loans and bills discounted	1,137,574	1,104,185	10,592,923
Securities	594,240	607,892	5,533,476
Total assets	1,984,614	1,904,197	18,480,436
Total stockholder' s equity	68,898	62,492	641,568
Capital adequacy ratio	9.39%	8.41%	

## (Non—CONSOLIDATED)

	Year ended March 31		
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S.Dollars)
<b>For the Year:</b>			
Total income	¥42,253	¥39,399	\$393,454
Total expenses	36,467	34,715	339,575
Income (Loss) before income taxes	6,621	7,634	61,654
Net income (Loss)	3,122	1,602	29,072
<b>At Year end:</b>			
Doposits	¥1,819,738	¥1,786,967	\$16,945,134
Loans and bills discounted	1,148,103	1,112,615	10,690,968
Securities	593,712	607,105	5,528,559
Total assets	1,971,783	1,890,381	18,360,955
Total stockholder' s epquity	68,407	62,382	636,996
Capital adequacy ratio	9.37%	8.47%	
Number of employees	1,410	1,485	
Number of Offices	89	90	

Notes: 1. Yen amounts of less than one million yen are omitted.

2. U. S. Dollar amounts are translated from yen, solely for convenience, at the rate of ¥107.39 per U. S. \$1.00, the rate prevailing on march 31, 2005.

# Treatment of non-performing loans

## Non-Performing Loans

### Credit cost

100millions of yen

	Mar.2005	Mar.2004	Increase/ Decrease
Provision for general reserves for possible loan losses	△32	-	△32
Write off	115	65	50
Reversal of general reserves for possible loan losses	-	23	△23
Total amount of credit cost	83	42	41

### Breakdown of reserves for possible loan losses

100millions of yen

	Mar.2005	Mar.2004	Increase/ Decrease
① Reserves for possible loan losses	137	171	△34
General reserve for possible loan losses	39	72	△33
Specific reserve for possible loan losses	97	98	△1
② Reserves for supporting specific borrowers	-	1	△1
Total(①+②)	137	172	△35

## Disclosure of non-performing loans

### Disclosure of claims under the Financial Revitalization Law

#### Non-consolidation

100millions of yen

	Mar.2005	Amount secured	Specific reserve for loan losses	Total	Cover ratio
	A	B	C	D=B+C	D/A
① Bankrupt and quasi-bankrupt assets	140	127	13	140	100.0%
② Doubtful assets	397	236	84	321	80.83%
③ Substandard loans	57	25	8	33	58.10%
④ Total(①+②+③)	596	389	106	495	83.15%
⑤ Total credits	11,021				
⑥ ratio of non-performing assets	5.13%				

#### Consolidation

100millions of yen

① Bankrupt and quasi-bankrupt assets	151
② Doubtful assets	398
③ Substandard loans	58
④ Total(①+②+③)	608
⑤ Total credits	10,950
⑥ ratio of non-performing assets	5.26%

### Disclosure of risk-monitored assets

100millions of yen

Items	Mar.2005	
	Non-consolidated	consolidated
Loans to bankrupt customers	27	29
Non-accrual loans	503	513
Loans past due for three months or more	7	7
Restructured loans	50	50
Total of risk-monitored loans	588	600

The Hokuetsu Bank, Ltd.

Consolidated Balance Sheets

	March 31,		March 31,
	2005	2004	2005
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 3)</i>
<b>Assets</b>			
Cash and due from banks	¥ 145,139	¥ 103,833	\$ 1,351,513
Call loans and bills purchased	30,998	1,712	288,649
Other debt purchased	0	125	0
Trading account securities <i>(Note 12)</i>	961	1,546	8,949
Money Held in Trust	30	1,977	279
Securities <i>(Notes 5 and 13)</i>	594,240	607,892	5,533,476
Loans and bills discounted <i>(Note 4)</i>	1,137,574	1,104,185	10,592,923
Foreign exchange	1,389	1,207	12,934
Other assets	11,121	15,421	103,557
Premises and equipment <i>(Note 6)</i>	49,695	49,229	462,753
Deferred tax assets <i>(Note 15)</i>	17,370	23,617	161,747
Customers' liabilities for acceptances and guarantees	11,437	12,167	106,500
Reserve for possible loan losses	(15,344)	(18,719)	(142,881)
Total assets	<u>¥1,984,614</u>	<u>¥1,904,197</u>	<u>\$18,480,436</u>
<b>Liabilities, minority interests and stockholders' equity</b>			
<b>Liabilities:</b>			
Deposits <i>(Note 5)</i>	¥1,817,932	¥1,785,461	\$16,928,317
Certificates of deposits	31,500	260	293,323
Call money and bills sold	3,221	-	29,993
Payables under repurchase agreements <i>(Note 5)</i>	1,976	-	18,400
Borrowed money <i>(Notes 5 and 7)</i>	14,519	20,315	135,199
Foreign exchange	57	41	531
Bonds <i>(Note 8)</i>	1,300	1,300	12,105
Convertible bond-type bonds with stock acquisition rights	9,834	-	91,573
Other liabilities	11,409	9,533	106,239
Accrued bonus	735	622	6,844
Accrued retirement benefits <i>(Note 16)</i>	7,936	8,418	73,899
Deferred income taxes for revaluation	3,030	2,863	28,215
Acceptances and guarantees	11,437	12,167	106,500
Total liabilities	<u>1,914,890</u>	<u>1,840,983</u>	<u>17,831,176</u>
Minority interests	825	722	7,682
<b>Stockholders' equity:</b>			
Common stock	21,354	21,271	198,845
Capital surplus	13,780	13,697	128,317
Retained earnings	20,817	18,715	193,845
Unrealized gain from re-evaluation of land held for use	4,470	4,224	41,624
Unrealized holding gain/loss on securities	8,628	4,690	80,343
Treasury Stock	(151)	(107)	(1,406)
Total stockholders' equity	<u>68,898</u>	<u>62,492</u>	<u>641,568</u>
Total liabilities, minority interests and stockholders' equity	<u>¥1,984,614</u>	<u>¥1,904,197</u>	<u>\$18,480,436</u>

See notes to consolidated financial statements.

The Hokuetsu Bank, Ltd.

Consolidated Statements of Income and Retained Earnings

	Year ended March 31,		Year ended
	2005	2004	March 31, 2005
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 3)</i>
<b>Income:</b>			
Interest on:			
Loans and bills discounted	¥24,613	¥25,611	\$229,193
Call loans and bills purchased	36	22	335
Receivables under resale agreements	2	2	19
Deposits	308	7	2,868
Other	38	35	354
Interest and dividends on securities	5,006	4,626	46,615
Fees and commission	6,601	6,370	61,468
Other operating income	9,112	8,943	84,850
Other income	4,892	1,582	45,554
<b>Total income</b>	<b>50,613</b>	<b>47,202</b>	<b>471,301</b>
<b>Expenses:</b>			
Interest on:			
Deposits	464	558	4,321
Certificates of deposits	6	0	56
Call money and bills sold	63	45	587
Payables under repurchase agreements	37	-	345
Borrowed money	384	492	3,576
Bonds	37	37	345
Convertible bond-type bonds with stock acquisition rights	118	-	1,099
Other	635	522	5,913
Fees	1,936	1,665	18,028
Other operating expenses	7,155	6,793	66,626
General and administrative expenses	22,530	23,998	209,796
Other expenses (Note 9)	10,619	7,072	98,883
<b>Total expenses</b>	<b>43,988</b>	<b>41,187</b>	<b>409,610</b>
Income before special items, income taxes and minority interests	6,625	6,014	61,691
Special income (Note 10)	1,411	2,527	13,139
Special loss (Note 10)	(454)	(581)	(4,228)
Income taxes:			
Current	128	118	1,192
Deferred	3,727	5,904	34,705
Minority interests	242	128	2,253
<b>Net income</b>	<b>3,484</b>	<b>1,808</b>	<b>32,442</b>
<b>Retained earnings:</b>			
Balance at beginning of the year	18,715	17,601	174,271
Additions:			
Reversal of unrealized gain from re-evaluation of land held for use	-	-	-
Deductions:			
Cash dividends	1,136	568	10,578
Reversal of unrealized gain from re-evaluation of land held for use	245	125	2,281
Loss on disposal of treasury stock	0	0	0
	1,382	694	12,869
<b>Balance at end of the year</b>	<b>¥20,815</b>	<b>¥18,715</b>	<b>\$193,845</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Yen)</i>		<i>(U.S. dollars) (Note 3)</i>
<b>Amounts per share (Note 18):</b>			
Net income – basic	¥ 15.31	¥ 7.94	\$0.14
Net assets	302.04	274.62	2.81

See notes to consolidated financial statements.

The Hokuetsu Bank, Ltd.

Consolidated Statements of Cash Flows

	Year ended March 31,		Year ended
	2005	2004	March 31,
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>Cash flows from operating activities:</b>			
Income before income taxes	¥ 7,581	¥ 7,961	\$ 70,593
Depreciation	5,935	5,701	55,266
Amortization of goodwill	(128)	11	(1,192)
Provision for reserve for possible loan losses	5,603	(1,674)	52,174
Provision for accrued bonus	112	156	1,043
Net increase in accrued retirement benefits	(481)	435	(4,479)
Interest and dividends income	(30,006)	(30,305)	(279,411)
Interest expenses	1,747	1,657	16,268
Net (gain) losses related to securities transactions	(3,518)	(1,665)	(32,759)
Net losses (gains) on money held in trust	20	44	186
Net foreign exchange gain	(8)	(9)	(74)
Net loss on disposal of premises and equipment	102	248	950
Net decrease in loans and bills purchased	(42,366)	10,451	(394,506)
Net increase (decrease) in deposits	32,471	27,653	302,365
Net (decrease) increase in certificates of deposits	31,240	(22,700)	290,902
Net decrease in borrowings (other than subordinated borrowings)	(2,796)	(1,633)	(26,036)
Net (increase) decrease in due from banks (other than the Bank of Japan)	(21,222)	(2,125)	(197,616)
Net decrease (increase) in call loan and others	(29,161)	9,610	(271,543)
Net decrease in call money and bills sold	3,221	–	29,993
Net decrease in payables under repurchase agreement	1,976	–	18,400
Net decrease in foreign exchange (assets)	(181)	270	(1,685)
Net increase (decrease) in foreign exchange (liabilities)	15	3	140
Interest and dividends received	32,864	32,108	306,025
Interest paid	(1,714)	(2,100)	(15,961)
Other, net	5,616	527	52,295
Subtotal	(3,078)	34,626	(28,662)
Income taxes paid	(23)	(305)	(214)
Net cash (used in) provided by operating activities	(3,101)	34,320	(28,876)
<b>Cash flows from investing activities:</b>			
Expenditures on purchases of securities	(170,055)	(356,794)	(1,583,527)
Proceeds from sales of securities	137,959	247,296	1,284,654
Proceeds from redemption of securities	54,503	42,298	507,524
Decrease in money held in trust	(55)	(22)	(512)
Increase in money held in trust	1,983	–	18,465
Expenditures on purchases of premises and equipment	(7,779)	(6,063)	(72,437)
Proceeds from sales of premises and equipment	773	697	7,198
Net cash provided by (used in) investing activities	17,328	(72,588)	161,356
<b>Cash flows from financing activities:</b>			
Repayment of subordinated borrowings	(3,000)	(2,500)	(27,936)
Proceeds from issuance of subordinated bonds and convertible bond type bonds	10,000	–	93,119
Dividends paid	(1,135)	(569)	(10,569)
Dividends paid to minority shareholders	(0)	(0)	(0)
Expenditures on purchases of treasury stock	(18)	(10)	(168)
Proceeds from sale of treasury stocks	2	3	19
Net cash provided by (used in) financing activities	5,847	(3,077)	54,446
Translation adjustments of cash and cash equivalents	8	9	74
Increase (decrease) in cash and cash equivalents	20,083	(41,335)	187,010
Cash and cash equivalents at beginning of the year	101,317	142,653	943,449
Cash and cash equivalents at end of the year	¥ 121,400	¥ 101,317	\$ 1,130,459

See notes to consolidated financial statements.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements

### **1. Basis of Presentation**

The Hokuetsu Bank, Ltd. (the “Bank”) maintains its accounting records and prepares its consolidated financial statements in accordance with accounting principles generally accepted in Japan, the Commercial Code of Japan and the Banking Law of Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements filed with the Prime Minister as required by the Securities and Exchange Law of Japan.

For the convenience of readers outside Japan, certain items presented in the original consolidated financial statements have been reclassified and rearranged to conform to the current year’s presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

### **2. Summary of Significant Accounting Policies**

#### **(a) Principles of Consolidation**

The Bank has consolidated all its subsidiaries. The consolidated financial statements include the accounts of the Bank and six consolidated subsidiaries.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The balance sheet date of all the consolidated subsidiaries is March 31.

#### **(b) Trading Account Securities**

Trading securities purchased for trading purpose are stated at market value at the fiscal year end, cost of sold being determined principally by the moving average method.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (c) Securities

Securities are classified into three categories: trading, held-to-maturity bonds, or other securities (securities available for sale). Trading securities are carried at market value and held-to-maturity bonds are carried at amortized cost. Marketable securities classified as securities available for sale are carried at market value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as securities available for sale are carried at cost. Cost of securities sold is determined by the moving average method.

Securities held in money trust are stated at market value.

Until the previous fiscal year, equities of investment limited partnership were included in Other debts purchased or Other assets. However, such equities were defined as securities in the Security Exchange Law by "Bill for partial amendments to Security Exchange Law etc.," they are included in Securities.

#### (d) Derivatives

Derivatives are stated at market value.

#### (e) Foreign Exchange Accounting

Foreign-currency-denominated assets and liabilities are translated into yen equivalents at the exchange rates prevailing at the consolidated balance sheet date.

#### (f) Depreciation of Premises and Equipment

##### (1) Premises and Equipment

Depreciation of the Bank's premises and equipment is determined by the declining-balance method based on the estimated useful lives of the respective assets, and other assets are depreciated by the straight-line method over twenty years.

The estimated useful lives principally applied are as follows:

Buildings	10 to 50 years
Personal estates	3 to 15 years

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (f) Depreciation of Premises and Equipment (continued)

Depreciation of premises and equipment owned by the consolidated subsidiaries is mainly determined by the declining-balance method over the estimated useful lives of the respective assets.

Depreciation of leased assets held by the consolidated subsidiaries is calculated by the straight-line method over the term of each lease.

##### (2) Software

Depreciation of the Bank's softwares which are used in-house is determined by the straight-line method based on the estimated useful lives which is applied by the Bank and consolidated subsidiaries (the estimated useful lives is mainly 5 years).

#### (g) Reserve for Possible Loan Losses

The Bank provided a reserve for possible loan losses as detailed below in accordance with the internal rules for providing reserves for possible loan losses:

For claims to debtors who are legally bankrupt (due to bankruptcy, special clearance, etc.) or who are deemed substantially bankrupt, a reserve is provided based on the amount of claims, net of the amounts expected to be collected through the disposal of collateral or by execution of guarantees.

For claims to debtors who are not currently bankrupt but are likely to become bankrupt, the reserve is provided based on the amount considered necessary as a result of an overall solvency assessment, out of the amount of the claims net of the amounts expected to be collected through the disposal of collateral or by execution of guarantees. For other claims, a reserve is provided based on the loan-loss amount in the past certain period.

No specific overseas loans existed at March 31, 2005 and 2004.

All claims are assessed by the Bank's Self-assessment Department with the help of Sales Department and Credit Department as well as all branches based on the Bank's internal rules for self-assessment of asset quality. The Bank's Asset Appraisal Department, which is independent from these Departments, subsequently conducts audits of these assessments, and the reserve is provided based on their audit results.

For collateralized or guaranteed claims to debtors who are legally bankrupt or substantially bankrupt, the amount of claims exceeding the estimated value of the collateral or guarantees which is deemed uncollectible has been charged off in the aggregate amount of ¥52,164 million (\$485,744 thousand).

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (g) Reserve for Possible Loan Losses (continued)

The general reserve for possible loan losses of consolidated subsidiaries is provided based on the past loan-loss ratio. In addition, the specific reserve for possible loan losses of consolidated subsidiaries is provided by determining the possible collectibility of individual receivables judging from the financial position of the debtors who are not currently bankrupt but are likely to become so.

#### (h) Accrued Bonus

The allowance for employees' bonuses represents the provision for the future payment of employees' bonuses. The allowance is provided at the amount which is expected to be paid. The amount of the current year's allowance is calculated based on the amount which belongs to the current fiscal period.

#### (i) Retirement Benefits

The reserve for retirement allowance for employees at March 31, 2005 and 2004 have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of March 31, 2005 and 2004.

Transition difference, amounted to ¥3,793 million (\$35,320 thousand), is being amortized by the straight-line method in 10 years.

Past service liability is amortized by the straight-line method in the period (3 years) that is shorter than the average remaining period of service of the employees.

Actuarial gain and loss amortized in the each year following the year in which the gain or loss is recognized primarily by the straight-line method in the period (15 years) that is shorter than the average remaining period of service of the employees.

On April 15, 2003, the Bank obtained an approval of exemption from the substitutional portion of its future pension obligations by the Minister of Health, Labor and Welfare, according to the enactment of the Defined Benefit Corporate Pension Plan Law. The Bank recognized extinguishment of the retirement benefit obligation and plan assets as of the date of approval in accordance with a transitional treatment prescribed in Article 47-2 of Practical Guidelines for Accounting for Retirement Benefits (Accounting Committee Report No. 13), issued by the JICPA.

As a result, losses of ¥309 million (\$2,924 thousand) were recorded for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government was amounted to ¥9,028 million (\$85,420 thousand) as of March 31, 2004.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (j) Leases

Non-cancelable lease transactions of the Bank and the consolidated subsidiaries are accounted for as operating leases regardless of whether such leases are classified as operating or finance leases, except for those finance leases, the ownership of which can be transferred to the lessee.

#### (k) Hedge Accounting

##### *Hedge Accounting for Foreign Exchange Risks*

For foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies, the Bank applies the deferred method as a hedge accounting. Effective the year ended March 31, 2004, in accordance with the standard treatment of the Industry Audit Committee Report No. 25, hedge accounting is applied to currency-swaps and foreign exchange swaps etc. that are contracted for the purpose of converting Japanese yen to foreign currencies.

Effectiveness of those currency-swaps and foreign exchange swaps hedging the foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies is assessed by comparing foreign currency position of the hedged financial assets and liabilities to the hedging instruments.

#### (l) Consumption Tax

Transactions are recorded at amounts exclusive of consumption tax and local consumption tax.

#### (m) Appropriation of Retained Earnings

Cash dividends and bonuses to the directors and corporate auditors are recorded in the fiscal year in which the proposed appropriations of retained earnings are approved by at the general meeting of the stockholders.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 2. Summary of Significant Accounting Policies (continued)

#### (n) Definition of Cash and Cash Equivalents

Cash and cash equivalents are defined as those amounts of cash and deposits to the Bank of Japan included in cash and due from banks. The reconciliation of the cash and due from banks in the consolidated balance sheets to the cash and cash equivalents at March 31, 2005 and 2004 were as follows:

	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and due from banks	<b>¥145,139</b>	¥103,833	<b>\$1,351,513</b>
Time deposits	<b>(100)</b>	(100)	<b>(931)</b>
Current deposits	<b>(121)</b>	(62)	<b>(1,127)</b>
Ordinary deposits	<b>(106)</b>	(106)	<b>(987)</b>
Special deposits	<b>(2)</b>	(0)	<b>(19)</b>
Postal savings	<b>(398)</b>	(207)	<b>(3,706)</b>
Foreign currency deposits	<b>(10)</b>	(38)	<b>(93)</b>
Other deposits	<b>(23,000)</b>	(2,000)	<b>(214,173)</b>
Cash and cash equivalents	<b>¥121,400</b>	¥101,317	<b>\$1,130,459</b>

#### (o) Corporate Business Tax

“Act of Partial Amendment of State Taxes” (Act 9. March 2003) was publicated on March 31, 2003. From fiscal year beginning from April 1, 2004, part of the tax basis related to corporate business tax is changed to “value added amount” and “capital amount.” As a result of this amendment, the Bank and certain subsidiaries disclose corporate business taxes calculated by “value added amount” and “capital amount” in “Business Expenses” in consolidated statement of income from this period, in accordance with “Practical Treatments of statement of income disclosure of pro forma standard taxation of corporate business tax.”

### 3. U.S. Dollar Amounts

Amounts in U.S. dollars are translated from Japanese yen, solely for convenience, at ¥107.39 = U.S.\$1.00, the exchange rate prevailing on March 31, 2005.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### **4. Loans and Bills Discounted**

Loans to borrowers under bankruptcy procedures and delinquent loans totaled ¥2,941 million (\$27,386 thousand) and ¥51,346 million (\$478,126 thousand), respectively, at March 31, 2005, and ¥4,028 million and ¥69,111 million, respectively, at March 31, 2004. A bankruptcy loan is recognized whether the collectibility of its principal and interest is substantially doubtful with the reason for past due for a certain period or other reasons.

Loans to borrowers in bankruptcy represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of Enforcement Ordinance of the Corporation Income Tax Law, after the charge-offs of loans deemed uncollectible.

Delinquent loans are non-accrual loans other than loans to borrowers in bankruptcy or loans on which interest payments have been deferred in order to assist the restructuring of the borrowers.

Loans past due for 3 months or more totaled ¥779 million (\$7,254 thousand) and ¥573 million at March 31, 2005 and 2004, respectively. Loans past due for 3 months or more are those whose principal or interest payments are 3 months or more past due but are not included in loans to borrower under bankruptcy procedures or delinquent loans.

Restructured loans totaled ¥5,030 million (\$46,839 thousand) and ¥17,232 million at March 31, 2005 and 2004, respectively. Restructured loans are those on which the Bank has granted certain concessions, such as a reduction of the contractual interest rate or principal amount, a deferral of interest/principal payments or debt forgiveness, in order to assist the restructuring of the borrowers. Excluded from restructured loans are loans to borrowers under bankruptcy procedures, other non-accrual loans, and loans past due for 3 months or more.

The total of loans to borrowers under bankruptcy procedures, other non-accrual loans, loans past due for 3 months or more and restructured loans amounted to ¥60,097 million (\$559,614 thousand) and ¥90,946 million at March 31, 2005 and 2004, respectively.

Bills discounted are accounted for as financial transactions in accordance with “Treatment of Accounting and Auditing in Applying Accounting Standard for Financial Instruments in the Banking Industry” issued by the JICPA. The Bank has rights to sell or to pledge bills discounted including banker’s acceptance bills, commercial bills, documentary bills and foreign exchange bills bought without any restriction. The aggregate face value of those bills was ¥32,820 million (\$305,615 thousand) and ¥35,892 million as of March 31, 2005 and 2004, respectively.

## The Hokuetsu Bank, Ltd.

### Notes to Consolidated Financial Statements (continued)

#### 4. Loans and Bills Discounted (continued)

Agreements for overdraft and for loan commitment line are those the Bank loans to customers within credit line by customer's request. At March 31, 2005, the amount of outstanding credit lines, in which agreements would be cancelable unconditionally or the original agreement would terminate within a year, was ¥431,533 million (\$4,018,372 thousand). Since most agreements will expire without customers' request for loan, outstanding credit lines do not necessarily affect the future cash flows of the Bank and the consolidated subsidiaries.

#### 5. Pledged Assets

Pledged assets and liabilities related to pledged assets as of March 31, 2005 and 2004 were summarized as follows:

	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Pledged assets:			
Securities	<b>¥24,880</b>	¥18,841	<b>\$231,679</b>
Receivables from lease agreement	<b>4,409</b>	6,592	<b>41,056</b>
Liabilities related to the above pledged assets:			
Deposits	<b>¥ 7,556</b>	¥8,008	<b>\$ 70,360</b>
Payables under repurchase agreement	<b>1,976</b>	–	<b>18,400</b>
Borrowed money	<b>3,798</b>	6,507	<b>35,366</b>

In addition, securities totaling ¥51,445 million (\$479,048 thousand) were pledged as collateral for settlement of exchange and futures transactions.

#### 6. Premises and Equipment

Accumulated depreciation of premises and equipment was ¥56,752 million (\$528,466 thousand) and ¥55,456 million at March 31, 2005 and 2004, respectively.

In accordance with the Law Concerning the Revaluation of Land, the Bank has revalued its land held for operations at March 31, 1998. Due to a revision to the Law enacted on March 31, 1998, the resulting land valuation differences, which were recorded in liabilities at March 31, 1998, have been included in shareholders' equity at an amount, net of the tax effect, at March 31, 2005 and 2004. The corresponding income taxes have been included in liabilities at March 31, 2005 and 2004 as "Deferred income taxes for revaluation."

The difference between the market value and the book value of the land after revaluation was ¥9,861 million (\$91,824 thousand) and ¥8,988 million at March 31, 2005 and 2004, respectively.

# The Hokuetsu Bank, Ltd.

## Notes to Consolidated Financial Statements (continued)

### 7. Borrowed Money

Subordinated borrowed money of ¥9,000 million (\$83,807 thousand) and ¥12,000 million in the aggregate at March 31, 2005 and 2004, respectively, have been included in Borrowed Money.

### 8. Bonds

Bonds at March 31, 2005 consisted of the following:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
	<u>                    </u>	<u>                    </u>
The Hokuetsu Bank, Ltd.:		
2.90% subordinate bond, payable in yen, due 2010	¥ 1,300	\$ 12,105
Convertible bond-type bonds with stock acquisition rights (subordinate) due 2011	9,834	91,573
	<u>¥11,134</u>	<u>\$103,678</u>

### 9. Write-Off

Writing off of loans totaled ¥8,275 million (\$77,056 thousand) and writing off of stocks totaled ¥356 million (\$3,315 thousand) were included in the account of other expenses for the year ended March 31, 2005.

### 10. Special Income and Special Loss

Reversal of reserve for possible loan losses totaled ¥292 million (\$2,719 thousand) was included in the account of special income for the year ended March 31, 2005.

Loss on exemption from writing off of premises based on the Bank's internal rules for self-assessment of asset quality totaled ¥352 million (\$3,278 thousand) were included in the account of special loss for the year ended March 31, 2005.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**11. Leases**

(1) Lessors

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004, which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
Acquisition costs	<b>¥20,523</b>	¥20,207	<b>\$191,107</b>
Accumulated depreciation	<b>10,478</b>	9,402	<b>97,570</b>
Net book value	<b>¥10,044</b>	¥10,804	<b>\$ 93,528</b>

Lease income relating to finance leases accounted for as operating leases amounted to ¥4,075 million (\$37,946 thousand) and ¥3,864 million for the years ended March 31, 2005 and 2004, respectively. The depreciation expense of leased assets amounted to ¥3,542 million (\$32,983 thousand) and ¥3,420 million for the years ended March 31, 2005 and 2004, respectively.

Interest income relating to finance lease transactions is calculated by deducting the acquisition cost of the leased assets from the sum of lease fee and estimated remaining asset value, and divided over the respective lease terms, and amounted to ¥493 million (\$4,591 thousand) and ¥493 million for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease income subsequent to March 31, 2005 for finance lease transactions accounted for as operating leases is summarized as follows:

<u>Year ending March 31,</u>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2006	¥ 3,219	\$29,975
2007 and thereafter	7,345	68,396
Total	<b>¥10,565</b>	<b>\$98,380</b>

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**11. Leases (continued)**

(2) Lessees

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2005 and 2004, which would have been reflected in the balance sheet if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
Acquisition costs	<b>¥41</b>	¥15	<b>\$382</b>
Accumulated depreciation	<b>16</b>	7	<b>149</b>
Net book value	<b>¥24</b>	¥ 7	<b>\$223</b>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥4 million (\$37 thousand) and ¥2 million for the years ended March 31, 2005 and 2004, respectively. The depreciation expense of leased assets was computed by the straight-line method over the respective lease terms, with scrap values of zero, and amounted to ¥4 million (\$37 thousand) and ¥2 million for the years ended March 31, 2005 and 2004, respectively.

Interest expense relating to finance lease transactions is calculated by the interest method over the respective lease terms, and amounted to ¥0 million (\$0 thousand) and ¥0 million for the years ended March 31, 2005 and 2004, respectively.

Future minimum lease payments subsequent to March 31, 2005 for finance lease transactions accounted for as operating leases is summarized as follows:

<u>Year ending March 31,</u>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2006	¥ 6	\$ 56
2007 and thereafter	17	158
Total	<b>¥24</b>	<b>\$223</b>

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**12. Trading Account**

Information regarding trading account securities as of March 31, 2005 is as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Trading account securities	¥961	\$8,949
Realized gain	4	37

**13. Securities**

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2005 is as follows:

Marketable held-to-maturity debt securities

	<u>Carrying value</u>	<u>Market value</u>	<u>Unrealized gain (loss)</u>	<u>Carrying value</u>	<u>Market value</u>	<u>Unrealized gain (loss)</u>
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Debt securities:						
National government bonds	¥ -	¥ -	¥ -	\$ -	\$ -	\$ -
Local government bonds	5,684	5,770	86	52,929	53,729	801
Corporate bonds	1,500	1,499	(0)	13,968	13,958	(0)
Subtotal	7,184	7,269	86	66,896	67,688	801
Other	15,312	15,081	(230)	142,583	140,432	(2,142)
Total	<u>¥22,496</u>	<u>¥22,352</u>	<u>¥(144)</u>	<u>\$209,479</u>	<u>\$208,139</u>	<u>\$(1,341)</u>

Marketable other securities

	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Unrealized gain (loss)</u>	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Unrealized gain (loss)</u>
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Stock	¥ 25,715	¥ 38,314	¥12,599	\$ 239,454	\$ 356,774	\$117,320
Debt securities:						
National government bonds	353,419	354,913	1,493	3,290,986	3,304,898	13,903
Local government bonds	59,585	60,586	1,000	554,847	564,168	9,312
Corporate bonds	26,198	26,435	236	243,952	246,159	2,198
Subtotal	439,204	441,934	2,730	4,089,804	4,115,225	25,421
Other	78,659	77,948	(711)	732,461	725,840	(6,621)
Total	<u>¥543,579</u>	<u>¥558,197</u>	<u>¥14,617</u>	<u>\$5,061,728</u>	<u>\$5,197,849</u>	<u>\$136,111</u>

Carrying values were carried at market value as of March 31, 2005.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**13. Securities (continued)**

Marketable other securities (continued)

The Bank judges “current prices fell remarkably” when the current price at the end of year falls 30% or more compared with the book value. The Bank judges the recovery possibility of the current price of stocks of each brand and write off the stocks, the current price of which are judged to have fallen remarkably.

No sales of securities classified as held-to-maturity debt securities were made in the year ended March 31, 2005.

Sales of securities classified as other securities amounted to ¥137,959 million (\$1,284,654 thousand) with aggregate gain and loss of ¥4,101 million (\$38,188 thousand) and ¥226 million (\$2,104 thousand), respectively, for the year ended March 31, 2005.

No reclassification of the securities was made in the year ended March 31, 2005.

The redemption schedule for securities with maturities classified as other securities and securities held to maturity as of March 31, 2005 is as follows:

	<b>Due in one year or less</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>	<b>Due after ten years</b>
	<i>(Millions of yen)</i>			
National government bonds	¥64,568	¥117,378	¥32,044	¥140,920
Local government bonds	12,641	45,788	7,840	–
Corporate bonds	4,294	27,492	6,868	231
Other	4,910	34,812	28,980	4,513
<b>Total</b>	<b>¥86,415</b>	<b>¥225,472</b>	<b>¥75,734</b>	<b>¥145,664</b>

	<b>Due in one year or less</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>	<b>Due after ten years</b>
	<i>(Thousands of U.S. dollars)</i>			
National government bonds	\$601,248	\$1,093,007	\$298,389	\$1,312,226
Local government bonds	117,711	426,371	73,005	–
Corporate bonds	39,985	256,001	63,954	2,151
Other	45,721	324,164	269,858	42,024
<b>Total</b>	<b>\$804,684</b>	<b>\$2,099,562</b>	<b>\$705,224</b>	<b>\$1,356,402</b>

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**13. Securities (continued)**

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as of March 31, 2004 is as follows:

Marketable held-to-maturity debt securities

	<u>Carrying value</u>	<u>Market value</u>	<u>Unrealized gain (loss)</u>
	<i>(Millions of yen)</i>		
Debt securities:			
National government bonds	¥ –	¥ –	¥ –
Local government bonds	4,276	4,271	(4)
Corporate bonds	600	599	(0)
Subtotal	<u>4,876</u>	<u>4,870</u>	<u>(4)</u>
Other	1,000	1,000	–
Total	<u>¥5,876</u>	<u>¥5,871</u>	<u>¥(4)</u>

Marketable other securities

	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Unrealized gain (loss)</u>
	<i>(Millions of yen)</i>		
Stock	¥ 26,384	¥ 36,538	¥10,153
Debt securities:			
National government bonds	395,112	390,999	(4,112)
Local government bonds	77,071	78,155	1,083
Corporate bonds	31,634	31,728	93
Subtotal	<u>503,818</u>	<u>500,882</u>	<u>(2,935)</u>
Other	53,340	54,092	751
Total	<u>¥583,543</u>	<u>¥591,513</u>	<u>¥ 7,970</u>

Carrying values were carried at market value as of March 31, 2004.

The Bank judges “current prices fell remarkably” when the current price at the end of year falls 30% or more compared with the book value. The Bank judges the recovery possibility of the current price of stocks of each brand and write off the stocks, the current price of which are judged to have fallen remarkably.

No sales of securities classified as held-to-maturity debt securities were made in the year ended March 31, 2004.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**13. Securities (continued)**

Marketable other securities (continued)

Sales of securities classified as other securities amounted to ¥247,296 million with aggregate gain and loss of ¥1,981 million and ¥250 million, respectively, for the year ended March 31, 2004.

No reclassification of the securities was made in the year ended March 31, 2004.

The redemption schedule for securities with maturities classified as other securities and securities held to maturity as of March 31, 2004 is as follows:

	<b>Due in one year or less</b>	<b>Due after one year through five years</b>	<b>Due after five years through ten years</b>	<b>Due after ten years</b>
	<i>(Millions of yen)</i>			
National government bonds	¥19,815	¥194,539	¥31,421	¥145,223
Local government bonds	15,944	53,212	13,273	–
Corporate bonds	11,854	24,639	3,557	263
Other	2,837	37,475	8,569	4
<b>Total</b>	<b>¥50,452</b>	<b>¥309,866</b>	<b>¥56,821</b>	<b>¥145,491</b>

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**14. Derivatives**

Summarized below are the notional amounts and estimated fair value of the derivative transactions outstanding at March 31, 2005 and 2004:

(1) Interest Rate-Related Transactions

None.

(2) Currency-Related Transactions

Type	As of March 31, 2005			
	Notional principal amount		Market	Unrealized
	Total	Over 1 year	value	gains (losses)
	<i>(Millions of yen)</i>			
Over-the-counter:				
Currency swaps	¥ –	¥ –	¥ –	¥ –
Forward foreign exchange contracts:				
Sold	828	–	(14)	(14)
Bought	888	–	20	20
Currency options:				
Sold	9,407	3,457	(268)	(4)
Bought	9,407	3,457	268	24
Total			¥ 5	¥ 26

Type	As of March 31, 2005			
	Notional principal amount		Market	Unrealized
	Total	Over 1 year	value	gains (losses)
	<i>(Thousands of U.S. dollars)</i>			
Over-the-counter:				
Currency swaps	\$ –	\$ –	\$ –	\$ –
Forward foreign exchange contracts:				
Sold	7,710	–	(7,414)	(7,414)
Bought	8,269	–	8,384	8,384
Currency options:				
Sold	87,597	32,191	(2,496)	(37)
Bought	87,597	32,191	2,496	223
Total			\$ 47	\$ 242

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**14. Derivatives (continued)**

(2) Currency-Related Transactions (continued)

Type	As of March 31, 2004			
	Notional principal amount		Market	Unrealized
	Total	Over 1 year	value	gains (losses)
	<i>(Millions of yen)</i>			
Over-the-counter:				
Currency swaps	¥ –	¥ –	¥ –	¥ –
Forward foreign exchange contracts:				
Sold	2,391	94	80	80
Bought	2,137	72	(75)	(75)
Currency options:				
Sold	6,855	3,678	(326)	(29)
Bought	6,855	3,678	326	45
Total				¥ 20

- The transactions set forth above are carried at fair value and unrealized gains and losses are reflected in the statements of income.
- Derivatives for hedging purposes are not included.
- Market value is calculated by the discounted present value method.

(3) Stock-Related Transactions

None.

(4) Bond-Related Transactions

None.

(5) Commodity-Related Transactions

None.

(6) Credit Derivative Transactions

None.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**15. Deferred Taxes**

The major components of deferred tax assets and liabilities at March 31, 2005 and 2004 are summarized as follows:

	<u>2005</u>	<u>2004</u>	<u>2005</u>
	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
Deferred tax assets:			
Reserve for possible loan losses	<b>¥20,796</b>	¥21,338	<b>\$193,649</b>
Accrued retirement benefits	<b>3,067</b>	3,084	<b>28,559</b>
Depreciation	<b>954</b>	958	<b>8,884</b>
Devaluation on securities	<b>1,873</b>	2,331	<b>17,441</b>
Net operating loss carryforwards	<b>64</b>	1,961	<b>596</b>
Other	<b>1,304</b>	1,123	<b>12,143</b>
Subtotal: deferred tax assets	<b>28,061</b>	30,799	<b>261,300</b>
Allowance	<b>(4,864)</b>	(3,818)	<b>(43,617)</b>
Total: deferred tax assets	<b>23,376</b>	26,980	<b>217,674</b>
Deferred tax liabilities:			
Unrealized holding gain on securities	<b>(5,905)</b>	(3,220)	<b>(54,986)</b>
Other	<b>(100)</b>	(143)	<b>(931)</b>
Total: deferred tax liabilities	<b>(6,006)</b>	(3,363)	<b>(55,927)</b>
Net deferred tax assets	<b>¥17,370</b>	¥23,617	<b>\$161,747</b>

Breakdown of major items causing a major difference between the statutory tax rates and effective tax rates reflected in the consolidated statement of income for the year ended March 31, 2005 and 2004 were as follows:

	<u>2005</u>	<u>2004</u>
Statutory tax rate	<b>40.4%</b>	41.7%
Adjustments:		
Valuation allowance	<b>11.4</b>	34.0
Decrease in deferred tax assets at year end due to the change of tax rate	-	1.7
Entertainment expense and other nondeductible items	<b>0.4</b>	0.5
Inhabitant tax per capita	<b>0.5</b>	0.5
Deferred income tax assets for prior years	-	(2.3)
Dividend and other exclusive items	<b>(1.0)</b>	(0.7)
Other	<b>(0.9)</b>	0.3
Effective tax rate	<b>50.8%</b>	75.7%

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**16. Retirement Benefit Plans**

The Bank and Hokuetsu System Development K.K., a consolidated subsidiary, have defined benefit plans, i.e., corporate pension fund plans and lump-sum payment plans. In addition, other consolidated subsidiaries have lump-sum payment plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2005 and 2004 for the Bank's and the consolidated subsidiaries' defined benefit plans:

	<u>2005</u>	<u>2004</u>	<u>2005</u>
	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
Retirement benefit obligation	¥(26,681)	¥(27,266)	\$(248,450)
Plan assets at fair value	<u>9,465</u>	<u>8,892</u>	<u>88,137</u>
Unfunded retirement benefit obligation	(17,216)	(18,373)	(160,313)
Unrecognized net retirement benefit obligation at transition	2,709	3,251	25,226
Unrecognized actuarial gain or loss	8,311	6,720	77,391
Unrecognized prior service cost	<u>(1,721)</u>	<u>—</u>	<u>(16,026)</u>
Net retirement benefit obligation	(7,916)	(8,401)	(73,713)
Prepaid pension cost	<u>19</u>	<u>16</u>	<u>177</u>
Accrued retirement benefits	<u>¥ (7,936)</u>	<u>¥ (8,418)</u>	<u>\$ (73,899)</u>

On April 15, 2003, the Bank obtained an approval of exemption from the substitutional portion of its future pension obligations by the Minister of Health, Labor and Welfare, according to the enactment of the Defined Benefit Corporate Pension Plan Law. The Bank recognized extinguishment of the retirement benefit obligation and plan assets as of the date of approval in accordance with a transitional treatment prescribed in Article 47-2 of Practical Guidelines for Accounting for Retirement Benefits (Accounting Committee Report No. 13), issued by the JICPA.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**16. Retirement Benefit Plans (continued)**

The components of retirement benefit expenses for the year ended March 31, 2005 and 2004 are outlined as follows:

	<u>2005</u>	<u>2004</u>	<u>2005</u>
	<i>(Millions of yen)</i>		<i>(Thousand of U.S. dollars)</i>
Service cost	¥ 717	¥ 810	\$ 6,677
Interest cost	616	643	5,736
Expected return on plan assets	(204)	(173)	(1,900)
Amortization of net retirement benefit obligation at transition	541	541	5,038
Amortization of actuarial gain or loss	490	424	4,563
Amortization of prior service cost	(860)	–	(8,008)
Other	84	95	782
Total retirement benefit expenses	<u>1,385</u>	<u>2,341</u>	<u>12,897</u>
Loss on transfer of substitutional portion of pension obligation	–	309	–
Total	<u>¥1,385</u>	<u>¥2,650</u>	<u>\$12,897</u>

The assumptions used in accounting for the above plans were as follows:

	<u>2005</u>	<u>2004</u>
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	2.3%	2.3%

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information

(1) Business Segment Information

The Bank and its subsidiaries entered into the market with the below mentioned business segments in the years ended March 31, 2005 and 2004.

	Year ended or as of March 31, 2005						
	Commercial banking	Leasing	Credit guarantee	Other	Combined total	Eliminations or corporate	Consolidated
	<i>(Millions of yen)</i>						
I. Total income							
(1) Customers	¥ 41,964	¥ 7,339	¥ 454	¥ 855	¥ 50,613	¥ -	¥ 50,613
(2) Intersegment	284	1,117	503	566	2,473	(2,473)	-
	<u>42,249</u>	<u>8,457</u>	<u>958</u>	<u>1,422</u>	<u>53,086</u>	<u>(2,473)</u>	<u>50,613</u>
Total expenses	<u>36,867</u>	<u>7,580</u>	<u>892</u>	<u>1,119</u>	<u>46,459</u>	<u>(2,471)</u>	<u>43,988</u>
Ordinary profit	<u>¥ 5,381</u>	<u>¥ 876</u>	<u>¥ 66</u>	<u>¥ 302</u>	<u>¥ 6,627</u>	<u>¥ (1)</u>	<u>¥ 6,625</u>
II. Assets, depreciation and capital expenditures							
Assets	¥ 1,971,311	¥ 20,993	¥ 2,459	¥ 4,766	¥ 1,999,531	¥ (14,916)	¥ 1,984,614
Depreciation	1,085	4,831	4	14	5,935	-	5,935
Capital expenditures	333	7,535	4	1	7,875	-	7,875
	<i>(Thousands of U.S. dollars)</i>						
I. Total income							
(1) Customers	\$ 390,763	\$ 68,340	\$ 4,228	\$ 7,962	\$ 471,301	\$ -	\$ 471,301
(2) Intersegment	2,645	10,401	4,684	5,271	23,028	(23,028)	-
	<u>393,417</u>	<u>78,750</u>	<u>8,921</u>	<u>13,241</u>	<u>494,329</u>	<u>(23,028)</u>	<u>471,301</u>
Total expenses	<u>343,300</u>	<u>70,584</u>	<u>8,306</u>	<u>10,420</u>	<u>432,619</u>	<u>(23,010)</u>	<u>409,610</u>
Ordinary profit	<u>\$ 50,107</u>	<u>\$ 8,157</u>	<u>\$ 615</u>	<u>\$ 2,812</u>	<u>\$ 61,710</u>	<u>\$ (9)</u>	<u>\$ 61,691</u>
II. Assets, depreciation and capital expenditures							
Assets	\$18,356,560	\$ 195,484	\$ 22,898	\$ 44,380	\$18,619,341	\$(138,896)	\$18,480,436
Depreciation	10,103	44,986	37	130	55,266	-	55,266
Capital expenditures	3,101	70,165	37	9	73,331	-	73,331

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

17. Segment Information (continued)

(1) Business Segment Information (continued)

	Year ended or as of March 31, 2004						
	Commercial banking	Leasing	Credit guarantee	Other	Combined total	Eliminations or corporate	Consoli- dated
	<i>(Millions of yen)</i>						
I. Total income							
(1) Customers	¥ 39,192	¥ 6,708	¥ 502	¥ 798	¥ 47,202	¥ -	¥ 47,202
(2) Intersegment	202	855	432	617	2,108	(2,108)	-
	<u>39,395</u>	<u>7,563</u>	<u>935</u>	<u>1,415</u>	<u>49,310</u>	<u>(2,108)</u>	<u>47,202</u>
Total expenses	33,942	7,021	915	1,415	43,294	(2,106)	41,187
Ordinary profit	<u>¥ 5,453</u>	<u>¥ 542</u>	<u>¥ 19</u>	<u>¥ 0</u>	<u>¥ 6,015</u>	<u>¥ (1)</u>	<u>¥ 6,014</u>
II. Assets, depreciation and capital expenditures							
Assets	¥ 1,889,964	¥ 19,718	¥ 2,302	¥ 4,777	¥ 1,916,762	¥ (12,564)	¥ 1,904,197
Depreciation	1,177	4,503	5	16	5,701	-	5,701
Capital expenditures	463	5,661	1	6	6,132	-	6,132

Notes: 1. Business segments were segregated corresponding to consolidated companies business.

2. Total income and ordinary profit (loss) are used instead of sales and operating profit (loss) of ordinary business enterprises.

(2) Geographic Segment Information

As all consolidated subsidiaries and all balances are located in Japan, geographic segment information has not been presented.

(3) Total Income from International Operations

As total income from international operations was less than 10% of the total consolidated income, total income from international operations has not been presented.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**18. Net Income Per Share**

Net income – basic and net assets per share are computed based on the weighted average number of shares of common stock outstanding during each year and on the number of shares of common stock outstanding at each balance sheet, except for treasury stock, respectively.

In accordance with the accounting standard for earnings per share which became effective April 1, 2002, net income per share for the year ended March 31, 2005 and 2004 was computed based on the net income available for distribution to stockholders and the number of shares of common stock outstanding during each year.

Net income per share and net assets per share were computed as follows:

	<u>2005</u>	<u>2004</u>
Net income per share	¥15.31	¥7.94
Net income	¥3,484 million	¥1,808 million
Net income not for common stock shareholders	–	–
Bonus for directors	–	–
Dividends to preferred stock shareholders	–	–
Net income for common stock shareholders	¥3,484 million	¥1,808 million
Weighted average number of common stock	227,442 thousand	227,575 thousand

Diluted earnings per share was computed as follows:

	<u>2005</u>
Diluted earnings per share	¥13.56
Adjustment for net income	¥ 70 million
Interest payment	¥ 70 million
Number of the shares of common stocks to be increased (Included Convertible bond type bonds with stock acquisition rights)	36,349 thousands (36,349 thousands)

Diluted earnings per share for 2004 has not been disclosed, since there were no potential shares in the prior consolidation fiscal year.

The Hokuetsu Bank, Ltd.

Notes to Consolidated Financial Statements (continued)

**19. Other Financial Information (Unaudited)**

*Capital Adequacy Ratio*

	<b>March 31,</b>		<b>March 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Basic capital	<b>¥55,399</b>	¥ 53,100	<b>\$ 515,867</b>
Supplementary capital	<b>26,705</b>	18,610	<b>248,673</b>
Deduction	<b>(50)</b>	(50)	<b>(466)</b>
Total capital	<b>¥82,054</b>	¥ 71,660	<b>\$ 764,075</b>
Total risk-adjusted assets	<b>¥873,020</b>	¥851,414	<b>\$8,129,435</b>
Capital adequacy ratio	<b>9.39%</b>	8.41%	

The above amounts and figures for 2005 and 2004 are based on Japanese domestic standards.

## 20. The Hokuetsu Bank, Ltd. (Parent Company only)

### Non-Consolidated Balance Sheets

	March 31,		March 31,
	2005	2004	2005
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>Assets</b>			
Cash and due from banks	¥ 145,032	¥ 103,727	\$ 1,350,517
Call loans	30,998	1,712	288,649
Other debt purchased	0	125	0
Trading account securities	961	1,546	8,949
Money Held in Trust	–	1,955	–
Securities	593,712	607,105	5,528,559
Loans and bills discounted	1,148,103	1,112,615	10,690,968
Foreign exchange	1,389	1,207	12,934
Other assets	5,722	9,928	53,282
Premises and equipment	32,221	33,573	300,037
Deferred tax assets	16,000	21,944	148,990
Customers' liabilities for acceptances and guarantees	11,378	12,097	105,950
Reserve for possible loan losses	(13,737)	(17,157)	(127,917)
<b>Total assets</b>	<b>¥1,971,783</b>	<b>¥1,890,381</b>	<b>\$18,360,955</b>
<b>Liabilities and stockholders' equity</b>			
<b>Liabilities:</b>			
Deposits	¥1,819,738	¥1,786,967	\$16,945,135
Certificates of deposits	31,500	260	293,323
Call money	3,221	–	29,993
Guarantee deposit received under securities lending transactions	1,976	–	18,400
Borrowed money	9,000	12,000	83,807
Foreign exchange	57	41	531
Bonds	1,300	1,300	12,105
Convertible bond-type bonds with stock acquisition rights	9,834	–	91,573
Other liabilities	3,740	3,355	34,826
Accrued bonus	691	586	6,434
Accrued retirement benefits	7,907	8,389	73,629
Reserve for specific borrowers under support	–	136	–
Deferred tax liability for revaluation	3,030	2,863	28,215
Acceptances and guarantees	11,378	12,097	105,910
<b>Total liabilities</b>	<b>1,903,375</b>	<b>1,827,998</b>	<b>17,723,950</b>
<b>Stockholders' equity:</b>			
Common stock	21,354	21,271	198,845
Capital surplus	13,780	13,697	128,317
Legal reserve	12,443	12,443	115,867
Unrealized gain on re-evaluation of land held for use	4,470	4,224	41,624
Retained earnings	7,958	6,220	74,104
Unrealized holding gain on available-for-sale securities	8,482	4,591	78,983
Treasury stock	(81)	(65)	(754)
<b>Total stockholders' equity</b>	<b>68,407</b>	<b>62,382</b>	<b>636,996</b>
<b>Total liabilities and stockholders' equity</b>	<b>¥1,971,783</b>	<b>¥1,890,381</b>	<b>\$18,360,955</b>

See notes to non-consolidated financial statements.

## Non-Consolidated Statements of Income and Retained Earnings

	Year ended March 31,		Year ended
	2005	2004	March 31, 2005
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>Income:</b>			
Interest on:			
Loans and discounts	¥24,513	¥25,478	\$228,261
Call loans	36	21	335
Repurchase	2	2	19
Notes discounted	-	0	-
Deposits	300	0	2,794
Other	38	35	354
Interest and dividends on securities	4,995	4,615	46,513
Fees and commissions	6,009	5,664	55,955
Other operating income	2,340	2,248	21,790
Other income	4,015	1,330	37,387
<b>Total income</b>	<b>42,253</b>	<b>39,399</b>	<b>393,454</b>
<b>Expenses:</b>			
Interest on:			
Deposits	465	558	4,330
Certificates of deposits	6	0	56
Call money and bills sold	63	45	587
Resale	0	-	0
Payables on repurchase agreement	37	-	345
Borrowed money	259	327	2,412
Bonds	37	37	344
Convertible bond-type bonds with stock acquisition rights	118	-	1,099
Interest rate swap	628	516	5,848
Other	0	0	0
Fees	2,681	2,364	24,965
Other operating expenses	284	230	2,645
General and administrative expenses	22,758	23,906	211,919
Other expenses	9,126	6,728	84,980
<b>Total expenses</b>	<b>36,467</b>	<b>34,715</b>	<b>339,575</b>
Special income	1,251	3,523	11,649
Special loss	(416)	(573)	(3,874)
<b>Income before income taxes</b>	<b>6,621</b>	<b>7,634</b>	<b>61,654</b>
<b>Income taxes:</b>			
Current	26	26	242
Deferred	3,473	6,006	32,340
<b>Net income</b>	<b>3,122</b>	<b>1,602</b>	<b>29,072</b>
<b>Retained earnings:</b>			
Balance at beginning of the year	6,220	5,313	57,920
Transfer from voluntary reserves	-	-	-
Reversal of unrealized gain from re-evaluation of land held for use	(245)	(125)	(2,281)
	5,975	5,188	55,638
<b>Appropriations:</b>			
Cash dividends	1,138	569	10,597
	1,138	569	10,597
<b>Balance at end of the year</b>	<b>¥ 7,958</b>	<b>¥ 6,220</b>	<b>\$ 74,104</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
<b>Amounts per share:</b>			
Net income – basic	¥ 13.71	¥ 7.03	\$0.13
Net assets	299.57	273.96	2.79

See notes to non-consolidated financial statements.

## Notes

### 1. Basis of Presentation

The Hokuetsu Bank, Ltd. (the "Bank") maintains its accounting records and prepares its non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, the Commercial Code of Japan, the Banking Law of Japan and the Rules for Bank Accounting issued by the Ministry of Finance, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the non-consolidated financial statements filed with the Prime Minister as required by the Banking Law and the Securities and Exchange Law of Japan.

For the convenience of readers outside Japan, certain items presented in the original non-consolidated financial statements have been reclassified and rearranged to conform to the current year's presentation.

As permitted by the Securities and Exchange Law, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying non-consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

### 2. Subsequent Event

On June 29, 2005, the Bank's stockholders approved the following appropriations of retained earnings:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Year-end cash dividends (¥5.00 per share)	¥1,141	\$10,625

### 3. Other Financial Information (Unaudited)

#### *Capital Adequacy Ratio*

	<b>March 31,</b>		<b>March 31,</b>
	<b>2005</b>	<b>2004</b>	<b>2005</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Basic capital	¥ 54,312	¥ 52,428	\$ 505,745
Supplementary capital	26,257	18,517	244,501
Deductions	(50)	(50)	(466)
Total capital	¥ 80,520	¥ 70,895	\$ 749,790
Total risk-adjusted assets	¥859,142	¥836,528	\$8,000,205
Capital adequacy ratio	9.37%	8.47%	

The above amounts and figures for 2005 and 2004 are based on Japanese domestic standards.

# Report of Independent Auditors

We have audited the accompanying consolidated balance sheets of The Hokuetsu Bank, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Hokuetsu Bank, Ltd. and consolidated subsidiaries at March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience, and the translation of Japanese yen amounts into U.S. dollar amounts is on the basis described in Note 3 to the consolidated financial statements.

*Ernst & Young Shinnikon*

Niigata, Japan

June 29, 2005

## Hokuetsu Bank's Subsidiaries ( As Of March 31,2005 )

Name	Line of Business	Capital(Millions of yen)	Equity(%)*
The Hokuetsu Business Co.,Ltd	Banking services on a commission basis	10	100.00
The Hokuetsu Leasing Co.,Ltd	Leasing	560	91.90
The Hokuetsu System Depelopment Co.,Ltd	Data processing service on consignment	20	100.00
The Hokuetsu Card Co.,Ltd	Credit card business	20	45.90
The Hokuetsu Credit Guarantee Co.,Ltd	Credit guarantee business	210	97.80
The Hokugin Economic Research institute,Ltd	Research into and provision of report on economy & society	30	53.00

Note:The parent bank's equity percentage in the subsidiary's capital shares issued.

