

Musashino Bank



2003
Annual Report

Profile

Musashino Bank, headquartered in the city of Saitama, is a regional bank based in Saitama Prefecture bordering Tokyo to the north, from which much of the capital's workforce commutes. Established in 1952, the Bank plays an important role in the development of the regional communities it serves.

The Bank has also played its part in the growth of the Japanese economy through its contribution to the development of Saitama Prefecture, while expanding its domestic and international operations.

The Musashino Bank Group comprises the parent bank and 8 consolidated subsidiaries. With the banking business at its core, the Group offers a wide range of financial services including leasing, and pursues an active marketing development policy focused on the needs of the region. As of March 31, 2003, the Bank's consolidated total assets stood at ¥2,796.2 billion (US\$23,263 million), and paid-in capital amounted to ¥36,691 million (US\$305 million).

Putting the customer first, Musashino Bank focuses on sound and balanced development in close touch with its regional communities.

Consolidated Financial Highlights

The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars*
	2003	2002	2003
For the Year			
Total Income	¥ 72,218	¥ 74,688	\$ 600,822
Total Expenses	64,149	89,206	533,694
Income (Loss) before Income Taxes	8,069	(14,518)	67,128
Net Income (Loss)	4,891	(9,366)	40,697
At Year-end			
Total Assets	¥2,796,254	¥2,744,077	\$23,263,350
Deposits	2,572,013	2,489,840	21,397,786
Loans and Bills Discounted	1,828,854	1,780,089	15,215,095
Trading Account Securities and Investment Securities	572,013	575,509	4,758,844
Total Shareholders' Equity	103,054	98,003	857,356
Stockholders' Equity Ratio (based on domestic standards) (%).....	9.40	9.25	—

* U.S. dollar figures have been translated at the rate ¥120.20 to U.S.\$1, the prevailing market rate as of March 31, 2003.

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To Our Stakeholders

Katsuaki Miwa, *President*



The operating environment faced by financial institutions has grown significantly more difficult, with protracted deflation, dampening corporate performance and deepening gloom about the economy. Furthermore, competition is expected to intensify now that restructuring in the sector is over and newly created “megabanks” are beginning to make their weight felt. We are responding in various ways under our ACTIVE 21 medium-term management plan to meet the challenge of jarring change in our operating environment at an early stage and better meet the needs and expectations of customers in our home area of Saitama Prefecture. This report, which covers results for fiscal 2002 and future issues, will help our stakeholders gain a deeper understanding of our activities over the past year.

Results in Fiscal 2002

In the term under review, profit on core banking operations soared ¥2.9 billion to a record ¥17.3 billion, chiefly reflecting an increase in loans, aggressive development of new businesses and a new management focus on raising efficiency. This combined with our drive to cap

expenses such as costs of disposal of non-performing loans and impairment losses on shareholdings at a relatively low level propelled Musashino Bank back into the black with a net income of ¥4.9 billion.

Profit on core banking operations = net business profit (revenues from asset management, fees and commissions and other services) minus expenses minus profit/loss on government bonds and other securities.

Creating New Businesses

By creating new businesses to broaden customer asset management options and strengthening our consulting services, Musashino Bank is building trust and seizing business opportunities created by deregulation to increase revenue from fees and commissions.

A look at semiannual movement in customers’ assets, consisting chiefly of investment trusts and insurance products, shows that since the second half of fiscal 2000, investment trusts have increased eightfold, making a substantial contribution to commission-based revenues.



And total revenue from individual pension insurance products, a business we were licensed to enter in October 2002, stood at ¥5.7 billion at the end of the current fiscal year, one of the highest levels among all regional banks.

A More Efficiency-Focused Management

Musashino Bank is raising management efficiency through a range of reforms. In addition to introducing the executive-officer system to clarify the separate roles of management and executive personnel, speeding up decision-making, we set up a cost management office and launched a major overhaul of our cost structure. We also began preparations for joining a basic IT system project in which we and eight other regional banks have teamed up to lower investment costs.

In April 2003, we set up the Credit Division II, further strengthening our frameworks for supporting the restructuring and management of companies committed to revitalizing the regional economy.

The Bank's expenses declined ¥1.6 billion year on year. Our efforts to firmly establish a merit-based pay structure and keep bonuses in line with profitability, as well as the benefits of cost-cutting activities across the organization, more than offset the cost of IT investments made in the year under review.

Our OHR, a measure of management efficiency, was below 65.0%, the target in the ACTIVE 21.

A Stronger Financial Base

Musashino Bank has a lower non-performing loan ratio—an indicator of bad debt levels over the previous five years—than the average for regional banks. In the term under review, the Bank's ratio was 6.36%, down significantly from the previous term, compared with an average of 9.05% for Kanto area regional banks, and well below the average for the whole sector, which was broadly unchanged from the previous year. This indicates substantial improvement in the soundness of our loan assets.



The cost of disposal of non-performing loans for fiscal 2003 was ¥7.3 billion. Although the total rose between fiscal 1998 and fiscal 2000, we believe we put the worst behind us after the peak of ¥21.4 billion in fiscal 2000.

Looking back over the previous five years, although there was a temporary decline in the capital ratio in fiscal 2000 due to large-scale expenses for disposal of non-performing loans, a good earnings performance pushed the ratio up 0.14 of a percentage point to 9.44% in the term under review, after a private placement of new shares in fiscal 2001. This level is far above the prescribed 4% minimum under the domestic standards. In addition, tax deferred assets came in at ¥23.7 billion, or two-thirds the permissible maximum under tax rules. In the opinion of our certified public accountants, this level was appropriate.

A Firmer Operational Structure

In the term under review, the Bank took further measures to expand its operating base, such as establishing new branches and relocating others, and opening new

housing loan centers for loans to individuals, a buoyant business. In addition we merged with Hokusai Credit Union, taking over the latter's business and further consolidating our operational base in the north of Saitama Prefecture.

Prospects for Fiscal 2003

Real recovery is still some way off for the economy of Saitama Prefecture and operating conditions are likely to remain harsh. But with ACTIVE 21 now in its final fiscal year, we are focused on achieving the plan's targets of profit on core banking operations of ¥18.5 billion and net income of ¥5.5 billion.

Katsuaki Miwa
President

FINANCIAL SECTION

Consolidated Selected Financial Data

The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31

	Millions of Yen		
	2003	2002	2001
For the Year			
Total Income	¥ 72,218	¥ 74,688	¥ 72,780
Total Expenses	64,149	89,206	85,776
Income (Loss) before Income Taxes	8,069	(14,518)	(12,996)
Net Income (Loss)	4,891	(9,366)	(7,842)
At Year-end			
Total Assets	¥2,796,254	¥2,744,077	¥2,662,688
Deposits	2,572,013	2,489,840	2,396,706
Loans and Bills Discounted	1,828,854	1,780,089	1,744,639
Trading Account Securities and Investment Securities	572,013	575,509	660,173
Foreign Exchanges:			
Assets	1,363	1,641	1,380
Liabilities	75	82	90
Total Shareholders' Equity	103,054	98,003	94,565
Common Stock	36,691	36,691	27,374
Stockholders' Equity Ratio (based on domestic standards) (%)	9.40	9.25	8.73

Consolidated Financial Review

Deposits

In this harsh financial environment, the Bank worked hard to expand its regional operations through individual customers. Total deposits at the end of the consolidated term, including negotiable certificates of deposit, increased ¥82.1 billion to ¥2,572.0 billion (US\$21,397.7 million) centered on personal deposits.

Loans

Under its policy of maintaining loan asset soundness, the Bank served the needs of locally owned businesses and individuals in the prefecture. Amid slack funding demand, the Bank recorded a ¥48.7 billion increase in total loans and bills discounted in the term under review to ¥1,828.8 billion (US\$15,215.0 million), reflecting steady growth in new types of loans to smaller businesses and increased loans to individuals.

Securities

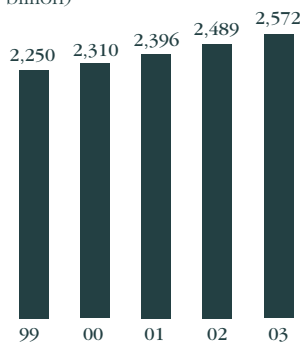
While underwriting the issuance of Japan Government Bonds as well as regional and other public bonds, the Bank took a cautious stance on investment in other types of securities as part of a policy of strengthening risk management. Investment securities at term-end decreased ¥4.2 billion to ¥570.8 billion (US\$4,748.9 million) on a consolidated basis. The consolidated term-end balance of trading account securities was ¥1.1 billion (US\$9.8 million).

Earnings

Profit on core banking operations grew steadily, reflecting improved profitability and the benefits of earlier rationalization, and a strengthened financial structure enabled us to put the worst of our bad debt problem

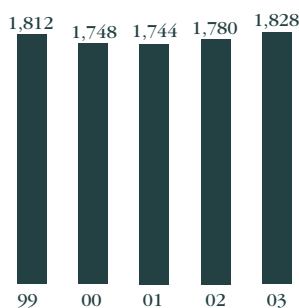
Deposits

(¥ billion)



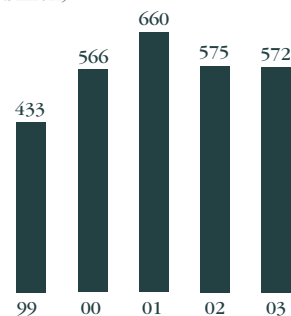
Loans and Bills Discounted

(¥ billion)



Trading Account Securities and Investment Securities

(¥ billion)



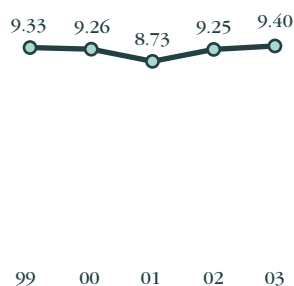
Net Income (Loss)

(¥ billion)



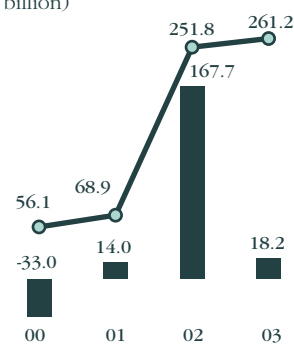
Stockholders' Equity Ratio (based on domestic standards)

(%)



Cash Flows

(¥ billion)



○ Cash and Cash Equivalents at the End of the Year
■ Free Cash Flows
= Net Cash Provided by Operating Activities
+ Net Cash Provided by Investing Activities

behind us. As a result, the Bank posted a record net income of ¥4,891 million (US\$40,697 thousand).

Stockholders' Equity Ratio (based on domestic standards)

Our consolidated capital ratio in the year in review was 9.40%, substantially higher than the domestic guideline of 4%, showing the continuing impressive soundness of our financial position.

Cash Flows

On a consolidated basis, cash and cash equivalents totaled ¥261.2 billion (US\$2,173.6 million) at the term-end, an increase of ¥9.4 billion over the previous term-end, reflecting a net cash inflow from operating activities and investing activities.

Net cash from operating activities amounted to ¥17.8 billion (US\$148.4 million), which was attributable to the core banking operations. Cash inflows, chiefly from increased deposits, outweighed the cash outflow from increased loans and call loans.

Net cash provided by investing activities amounted to ¥0.3 billion (US\$3.2 million), due mainly to a decrease in the balance of securities holdings.

Net cash used in financing activities amounted to ¥9.0 billion (US\$75.2 million), chiefly reflecting dividend payments and a decline in subordinated borrowings.

Consolidated Balance Sheets

The Musasbino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
Assets			
Cash and Due from Banks	¥ 262,763	¥ 254,869	\$ 2,186,049
Call Loans	21,322	533	177,389
Commercial Paper and Other Debt Purchased.....	5,748	0	47,822
Trading Account Securities (Note 6)	1,186	459	9,868
Money Held in Trust	3,000	3,000	24,958
Investment Securities (Note 7).....	570,827	575,051	4,748,977
Loans and Bills Discounted (Note 8).....	1,828,854	1,780,089	15,215,095
Foreign Exchanges	1,363	1,641	11,345
Other Assets	37,890	40,335	315,232
Premises and Equipment (Note 9)	37,230	37,631	309,738
Deferred Income Taxes Asset.....	26,592	30,241	221,239
Customers' Liabilities for Acceptances and Guarantees (Note 13)	28,347	48,498	235,835
Reserve for Possible Loan Losses.....	(28,871)	(28,269)	(240,197)
Total Assets	¥2,796,254	¥2,744,077	\$23,263,350
Liabilities			
Deposits (Note 10).....	¥2,572,013	¥2,489,840	\$21,397,786
Call Money	17,565	16,882	146,132
Borrowed Money.....	43,706	53,772	363,619
Foreign Exchanges	75	82	625
Other Liabilities	18,410	21,668	153,170
Reserve for Employee Bonuses	1,066	1,454	8,872
Reserve for Employee Retirement Benefit (Note 12)	5,330	6,820	44,344
Reserve for Losses on Loans Sold	364	342	3,028
Deferred Income Taxes Liability on Premises Revaluation (Note 9)....	5,260	5,470	43,767
Acceptances and Guarantees (Note 13).....	28,347	48,498	235,835
Total Liabilities	2,692,140	2,644,827	22,397,178
Minority Interest	1,059	1,246	8,816
Shareholders' Equity (Note 14)			
Common Stock	36,691	36,691	305,248
Capital Surplus	29,301	29,297	243,776
Retained Earnings.....	26,843	23,485	223,320
Premises Revaluation Account (Note 9).....	7,732	7,619	64,326
Unrealized Gain on Available-for-sale Securities.....	3,193	1,283	26,569
Treasury Stock	(707)	(372)	(5,883)
Total Shareholders' Equity	103,054	98,003	857,356
Total Liabilities, Minority Interest, and Shareholders' Equity	¥2,796,254	¥2,744,077	\$23,263,350

See Notes to Consolidated Financial Statements.

Consolidated Statements of Capital Surplus and Retained Earnings

The Musasbino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
Retained Earnings			
Balance at Beginning of Year	¥ —	¥34,051	\$ —
Increase:			
Transfer from Premises Revaluation Account	—	266	—
Decrease:			
Cash Dividends	—	(1,466)	—
Net Loss for Year	—	(9,366)	—
Balance at End of Year	¥ —	¥23,485	\$ —
Capital Surplus			
Balance at Beginning of Year	¥29,296	¥ —	\$243,733
Increase:			
Capital Surplus Due to Merger	5	—	43
Balance at End of Year	¥29,301	¥ —	\$243,776
Retained Earnings			
Balance at Beginning of Year	¥23,485	¥ —	\$195,384
Increase:			
Transfer from Premises Revaluation Account	56	—	468
Decrease:			
Cash Dividends	(1,580)	—	(13,153)
Merger of Consolidated Subsidiaries	(9)	—	(76)
Net Income for Year	4,891	—	40,697
Balance at End of Year	¥26,843	¥ —	\$223,320

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2003 and 2002

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2003	2002	2003
Cash Flows from Operating Activities			
Income (Loss) before Income Taxes and Minority Interests	¥ 8,069	¥ (14,518)	\$ 67,128
Depreciation.....	941	1,008	7,836
Net Increase (Decrease) Reserve for Possible Loan Losses.....	70	3,755	585
Net Increase (Decrease) Reserve for Losses on Loan Sold.....	22	(928)	186
Net Increase (Decrease) Reserve for Employee Bonuses	(387)	1,454	(3,222)
Net Increase (Decrease) Reserve for Employee Retirement Benefit	(1,489)	2,290	(12,393)
Interest Income	(46,511)	(49,244)	(386,948)
Interest Expenses.....	2,965	5,493	24,670
Net Loss (Gain) from Investment Securities.....	4,737	9,832	39,413
Net Loss (Gain) from Money Held in Trust	110	35	915
Net Foreign Exchanges Loss (Gain)	(584)	28	(4,861)
Net Loss (Gain) from Disposition on Premises and Equipment	142	(558)	1,182
Net Decrease (Increase) in Trading Account Securities.....	(727)	1,184	(6,053)
Net Decrease (Increase) in Loans and Bills Discounted.....	(44,974)	(35,450)	(374,161)
Net Increase (Decrease) in Deposits	79,431	93,135	660,827
Net Increase (Decrease) in Borrowed Money	(3,064)	(5,061)	(25,497)
Net Decrease (Increase) in Call Loans and Others.....	(26,537)	51,219	(220,777)
Net Increase (Decrease) in Call Money and Others.....	682	(2,416)	5,682
Net Decrease (Increase) in Due from Banks (excluding Due from Bank of Japan).....	2,788	128	23,199
Net Decrease (Increase) in Foreign Exchange (Assets)	276	(260)	2,304
Net Increase (Decrease) in Foreign Exchange (Liabilities).....	(7)	(7)	(59)
Interest Received	48,629	50,918	404,575
Interest Paid.....	(5,233)	(9,452)	(43,537)
Other Net	(1,151)	(3,083)	(9,580)
Sub-total	18,200	99,501	151,414
Income Taxes Paid.....	(361)	(985)	(3,006)
Net Cash Provided by Operating Activities	17,838	98,515	148,408
Cash Flows from Investing Activities			
Payments of Purchase of Securities	(401,747)	(460,168)	(3,342,329)
Proceeds from Sales of Securities	303,778	310,827	2,527,275
Proceeds from Maturities of Securities	99,039	217,191	823,959
Purchased of Money Held in Trust.....	(110)	1,965	(915)
Proceeds from Sales of Premises and Equipment	727	1,413	6,056
Payments of Purchase of Premises and Equipment.....	(1,291)	(1,960)	(10,749)
Net Cash Provided by Investing Activities	396	69,268	3,297
Cash Flows from Financing Activities			
Proceeds from Subordinated Borrowings.....	—	14,500	—
Payments of Subordinated Borrowings	(7,000)	(17,000)	(58,237)
Proceeds from Issuance of Common Stock.....	—	18,634	—
Payments of Purchase of Treasury Stock.....	(486)	(181)	(4,043)
Proceeds from Sales of Treasury Stock	—	451	—
Dividends Paid.....	(1,553)	(1,444)	(12,921)
Dividends Paid for Minority Interest	(1)	—	(11)
Net Cash Provided by (Used in) Financing Activities	(9,040)	14,960	(75,212)
Effects of Exchange Rate Changes on Cash and Cash Equivalents ...	139	141	1,161
Net Increase in Cash and Cash Equivalents	9,334	182,885	77,654
Net Increase in Cash and Cash Equivalents Due to Merger	118	—	985
Cash and Cash Equivalents at the Beginning of the Year	251,819	68,935	2,095,003
Cash and Cash Equivalents at the End of the Year (Note 18).....	¥261,271	¥251,819	\$2,173,642

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

The Musashino Bank, Ltd. and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Musashino Bank, Ltd. (“the Bank”) and its consolidated subsidiaries (together referred to as “the Bugin Group”) have been prepared in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law of Japan, in conformity with accounting principles and practice generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

2. Yen and U.S. Dollar Amounts

Under the Enforcement Regulations of the Banking Law, all yen figures are rounded down to the nearest one million yen. Accordingly, breakdown figures may not add up to sums.

U.S. dollar amounts presented in the accompanying financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥120.20 to U.S.\$1.00, prevailing on March 31, 2003, has been used for translation into U.S. dollar amounts in the financial statements.

3. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its all (8) subsidiaries for the year ended March 31, 2003. The major consolidated subsidiaries are listed below.

- The Bugin General Lease Co., Ltd.
- The Bugin Guarantee Co., Ltd.
- The Musashino Card Co., Ltd.

All significant inter-company accounts and transactions, and unrealized gains and losses, between members of the Bugin Group, have been eliminated in consolidation.

4. Fiscal Year-ends of Consolidated Subsidiaries

Fiscal year-ends for the consolidated subsidiaries are as follows:

March 31 8 consolidated subsidiaries

5. Summary of Significant Accounting Policies

(a) Securities and Money Held in Trust

1. Trading account securities are stated at fair value.
2. Held-to-maturity bonds, which are expected to be held to maturity with positive intent and ability, are reported at amortized cost.
3. Available-for-sale securities:
Listed securities are stated at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of shareholder's equity as Unrealized Gain on available-for-sale Securities in the balance sheet.
Unlisted securities are valued at the moving-average cost or amortized cost.
4. Listed securities in money held in trust are stated at fair value.

(b) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation for buildings acquired before April 1, 1998, furniture and fixtures is computed by the declining balance method over the estimated useful lives. Depreciation for buildings acquired after April 1, 1998 is computed by the straight-line method over the estimated useful lives.

(c) Foreign Currency Translation

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

(d) Reserve for Possible Loan Losses

The Bugin Group maintains a reserve for possible loan losses that consists of a specific provision and a general reserve.

The reserve for possible loan losses is estimated against all receivables by the standards for self-assessment of assets, at amounts sufficient to cover possible losses on collection for doubtful receivables, and at amounts calculated by historical bad debt loss percentage for other receivables.

(e) Reserve for Employee Bonuses

Reserve for employee bonuses is provided, in provision for payment of bonuses to employees, by the amount of estimated bonuses, which are attributable to this fiscal term.

(f) Reserve for Employee Retirement Benefit

The reserve for employee retirement benefit is recorded based on an actuarial computation, which uses the present value of the projected benefit obligation and plan assets at

the balance sheet date. Transitional obligation from the initial application of the new accounting standard for employee retirement benefits of ¥4,089 million (\$34,025 thousand) is amortized using the straight-line method over 5 years.

(g) Reserve for Losses on Loans Sold

An appropriate reserve for losses on loans sold is set aside in cases when future possible losses are expected from the loans assigned to the Cooperative Credit Purchasing Company Limited (CCPC) after considering the value of the collateral related to such loans.

(h) Financial Instruments

Effective April 1, 2000, the Bank adopted a new accounting standard for financial instruments and accounted all derivatives at fair value and recognized gains and losses on derivative transactions in the statements of operations.

(i) Income Taxes

Income taxes in Japan applicable to the Bugin Group consisted of corporation tax (national), inhabitant taxes (local) and enterprise taxes (local).

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

(j) Lease Transactions

Finance lease transactions, except for those which meet the conditions that the ownership of the leased assets is substantially transferred to the lessee, are accounted for on a basis similar to ordinary rental transactions.

(k) Consumption Taxes

Transactions are recorded at the amounts not including consumption tax and municipal consumption tax.

6. Trading Account Securities

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
National Government Bonds	¥1,186	\$9,868
Total	¥1,186	\$9,868

7. Investment Securities

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
National Government Bonds	¥189,109	\$1,573,294
Local Government Bonds.....	114,217	950,225
Corporate Bonds	117,791	979,960
Share Stocks	37,957	315,785
Other Securities	111,751	929,713
Total	¥570,827	\$4,748,977

8. Loans and Bills Discounted

(a) Loans and Bills Discounted as at March 31, 2003 consisted of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
Bills Discounted	¥ 52,493	\$ 436,715
Loans on Bills	193,435	1,609,281
Loans on Deeds	1,424,402	11,850,267
Overdrafts	158,523	1,318,832
Total	¥1,828,854	\$15,215,095

(b) Risk-monitored Loans

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
Loans to Companies Legally Bankrupted	¥ 6,778	\$ 56,389
Non-accrual Loans	65,215	542,557
Loans Past Due Over 3 Months	322	2,682
Restructured Loans	51,588	429,190

(c) Commitment Lines

Loan agreements and commitment line agreements relating to loans are agreements which oblige the bank and its consolidated subsidiaries to lend funds up to a certain limit agreed in advance. The bank and its consolidated subsidiaries make the loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused commitment balance relating to those loan agreements at March 31, 2003 amounted to ¥240,651 million (\$2,002,091 thousand). Of this amount, ¥182,301 million (\$1,516,653 thousand) relates to loans where the term of the agreement is one year or less, or unconditional cancellation of the agreement is at any time.

9. Premises and Equipment

(a) The accumulated depreciation of premises and equipment as of March 31, 2003 and 2002 amounted to ¥23,087 million (\$192,074 thousand) and ¥23,194 million, respectively.

(b) Premises Revaluation Account

Based on the Law Concerning Land Revaluation (Law No.34, promulgated March 31, 1998), the Bank has revalued its landholdings used for business purposes. Moreover, previously the full amount of the revaluation differences was shown in the item, "Premises Revaluation Account," among liabilities on the balance sheet. As a result of the revision of this law, effective March 31, 1999, since this fiscal year, the amount of tax payable on the amount of the revaluation differences has been shown in the item "Deferred Income Taxes Liability on Premises Revaluation." In addition, the amount of the revaluation differences less this tax liability has been shown in the item "Premises Revaluation Account" indicated under shareholders' equity.

Revaluation date: March 31, 1998

Revaluation method as stated in Article 3-3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated March 31, 1998), after making reasonable adjustments.

10. Deposits

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Current Deposits.....	¥ 92,724	\$ 771,421
Ordinary Deposits.....	1,009,041	8,394,685
Saving Deposits	102,031	848,844
Deposits at Notice	4,064	38,304
Time Deposits	1,307,847	10,880,592
Others.....	35,131	359,448
Sub-total	2,559,453	21,293,294
Negotiable Certificates of Deposit	12,560	104,492
Total.....	¥2,572,013	\$21,397,786

11. Pledged Assets

Assets that are pledged as collateral as of March 31, 2003 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Assets that are Pledged as Collateral:		
Loans and Bills Discounted	¥2,974	\$24,745
Other Assets.....	3,447	28,677
Obligations Corresponding to Collateral Assets:		
Borrowed Money.....	6,124	50,948

In addition to the above, as collateral relating to transactions on exchange settlements or as substitutes for futures transaction margins, securities of ¥102,403 million (\$851,939 thousand) are deposited items. Of equipment and premises, ¥2,620 million (\$21,802 thousand) consists of guarantee deposits.

12. Reserve for Employee Retirement Benefit and Related Items

The liability (asset) for employees' retirement benefits as at March 31, 2003 consists of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Present Value of Projected Benefit Obligation		
	¥22,740	\$189,188
Fair Value of Plan Assets.....	(9,079)	(75,537)
Unfunded Retirement Benefit Obligation		
	13,660	113,651
Unrecognized Loss at Transitional Obligation		
	(1,634)	(13,602)
Unrecognized Actuarial Difference		
	(6,695)	(55,705)
Net Liability on the Balance Sheet.....	¥ 5,330	\$ 44,344
Reserve for Employee Retirement Benefit		
	¥ 5,330	\$ 44,344

The components of net periodic benefit costs for the year ended March 31, 2003 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Service Cost.....	¥1,104	\$ 9,188
Interest Cost	930	7,741
Expected Return on Plan Assets	(647)	(5,387)
Amortization of Transitional Obligation		
	1,121	9,327
Recognized Actuarial Difference.....	1,090	9,076
Net Periodic Benefit Cost	¥3,599	\$29,945

Assumptions used for the year ended March 31, 2003 are set forth as follows:

Discount Rate	2.5%
Expected Rate of Return on Plan Assets	4.0%
Recognition Period of Actuarial Difference	10 years
Amortization Period of Transitional Obligation	5 years

According to the amendment of the Japanese Welfare Pension Insurance Law, the Bank obtained an approval from the Minister of Health, Labor and Welfare to transfer the future obligation to the government agency for the substitution portion of retirement benefit obligation of welfare pension fund plan on November 26, 2002. The Bank recognized the approval in accordance with the accounting standard for the transition period defined under Article 47-2 in the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 of Japanese Institute of Certified Public Accountants).

13. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payment of loans from other financial institutions. As a contra account, "Customers' Liabilities for Acceptances and Guarantees" are shown on the assets side, indicating the Bank's right of indemnity from the applicants.

14. Shareholders' Equity

(a) Common Stock and Capital Surplus

On March 31, 2003, the authorized share capital of the Bank consisted of 80,000,000 shares, of which 31,755,456 shares were issued and outstanding.

Under the Commercial Code of Japan at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to capital surplus.

(b) Cash Dividends

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

15. Other Income

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Gains on Sales of Stocks and Other Securities	¥ 875	\$ 7,280
Gains on Money Held in Trust	0	2
Gains on Sales of Premises and Equipment	1	9
Gains on Return of Substitutive Portion of Public Pension Fund	3,543	29,479
Others	9,890	82,284
Total	¥14,310	\$119,054

16. Other Expenses

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Provision for Possible Loan Losses	¥ 6,298	\$ 52,403
Write-off of Claims	653	5,440
Losses on Sales of Stocks and Other Securities	215	1,795
Losses on Devaluation of Stocks and Other Securities	3,490	29,038
Losses on Money Held in Trust	110	918
Losses on disposal of Premises and Equipment	143	1,190
Amortization of Transitional Obligation	1,086	9,042
Others	8,692	72,314
Total	¥20,691	\$172,140

17. Income Taxes

Significant components of deferred tax assets and liabilities for the year ended March 31, 2003 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2003	2003
Deferred Tax Assets		
Reserve for Possible Loan Losses	¥18,699	\$155,567
Software	2,624	21,826
Losses on Devaluation of Stocks and Other Securities	3,989	33,188
Employee Retirement Bonuses	2,043	17,001
Other	2,952	24,558
Sub-total	30,307	252,140
Less, Valuation Allowance	1,195	9,946
Deferred Tax Assets	29,111	242,194
Deferred Tax Liabilities	2,518	20,955
Net Deferred Tax Assets (Liabilities)	¥26,592	\$221,239

The Law to amend a part of Local Tax Laws (the "Law") was promulgated on March 31, 2003, which reduced enterprise tax rates along with the introduction of non-income based

taxes. The law is to be applied to the fiscal years beginning on or after April 1, 2004

18. Lease Transactions

Finance lease transactions that do not transfer ownership of the lease property for the year ended March 31, 2003 are as follows:

(Lessor)

Acquisition cost, accumulated depreciation and balance at March 31, 2003 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Acquisition Cost	¥31,506	\$262,112
Accumulated Depreciation	17,288	143,828
Total.....	¥14,218	\$118,284

The pro forma amounts of lease receivable under finance lease at March 31, 2003 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Within One Year	¥ 4,676	\$ 38,898
Over One Year	10,241	85,204
Total.....	¥14,917	\$124,102

Lease payment received and depreciation expenses for the year ended March 31, 2003 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Lease Payment Received	¥5,559	\$46,246
Depreciation Expenses	4,877	40,574

21. Segment Information

(a) Segment Information by Business

For the fiscal year ended March 31, 2003 on a consolidated basis is as follows:

	Millions of Yen					
	Banking	Lease	Other business	Total	Elimination or corporate	Consolidated
I. Ordinary Revenue						
(1) Ordinary Revenue from Outside	¥ 57,900	¥ 8,190	¥ 2,560	¥ 68,651	¥ (—)	¥ 68,651
(2) Ordinary Revenue from Intersegment Transactions	252	747	894	1,894	(1,894)	—
Total.....	¥ 58,153	¥ 8,937	¥ 3,454	¥ 70,545	¥ (1,894)	¥ 68,651
Ordinary Expenses.....	52,759	8,363	3,686	64,809	(1,889)	62,919
Ordinary Income (Loss)	5,393	574	(231)	5,736	(4)	5,731
II. Identifiable Assets.....	¥2,773,338	¥26,214	¥17,721	¥2,817,273	¥(21,018)	¥2,796,254
Depreciation Expenses.....	924	13	3	941	(—)	941
Capital Expenditures	1,416	9	1	1,428	(—)	1,428

The method of calculating the pro forma amounts of depreciation expenses for the year ended March 31, 2003 are as follows:

Depreciation is computed based on the straight-line method over the period of lease, with no residual value.

19. Cash and Cash Equivalents

In the consolidated statement of cash flow, scope of capital is cash and due from the Bank of Japan in “cash and due from banks” in the consolidated balance sheets.

The reconciliation between the Cash and Cash Equivalents at the end of period of the Consolidated Statements of Cash Flows and Cash and Due from Banks on the Consolidated Balance Sheet is as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Cash and Due from Banks.....	¥262,763	\$2,186,049
Due from Banks except for Deposits with Bank of Japan.....	(1,491)	(12,407)
Cash and Cash Equivalent.....	¥261,271	\$2,173,642

20. Subsequent Event

The appropriation of retained earnings applicable to the year ended March 31, 2003 was approved at the shareholders' meeting of the Bank held on June 27, 2003.

	Millions of Yen	Thousands of U.S. Dollars
	2003	2003
Cash Dividends (¥25.0 per share).....	¥789	\$6,567

	Thousands of U.S. Dollars					
	Banking	Lease	Other business	Total	Elimination or corporate	Consolidated
I. Ordinary Revenue						
(1) Ordinary Revenue from Outside	\$ 481,704	\$ 68,137	\$ 21,301	\$ 571,142	\$ (—)	\$ 571,142
(2) Ordinary Revenue from Intersegment Transactions	2,099	6,222	7,442	15,763	(15,763)	—
Total	\$ 483,803	\$ 74,359	\$ 28,743	\$ 586,905	\$ (15,763)	\$ 571,142
Ordinary Expenses.....	438,934	69,576	30,672	539,182	(15,722)	523,460
Ordinary Income (Loss)	44,869	4,783	(1,929)	47,723	(41)	47,682
II. Identifiable Assets.....	\$2,307,266	\$218,087	\$147,431	\$23,438,214	\$(174,864)	\$23,263,350
Depreciation Expenses.....	7,695	111	30	7,836	(—)	7,836
Capital Expenditures	11,788	80	14	11,882	(—)	11,882

Notes:

1. The business segmentation is determined based on the Bank's internal administrative purpose.
2. "Other business" includes credit card, loans, guarantees, venture capital, system development and information processing.
3. Under Japanese accounting principles, ordinary income and expenses are defined as total income and expenses less those income and expense items classified as extraordinary income and expenses (such as gains or losses on the sale of real estate).

(b) As operations in Japan, in terms of all segments and total assets for all segments, accounted for more than 90% of total ordinary income, information by location has been omitted.

(c) As ordinary income from international operations accounted for less than 10% of total ordinary income, information about the ordinary income from international operations has been omitted.

22. Market Information

1. Securities

Securities transactions in Trading Account Securities are excluded from the table below because they are revalued at the end of the fiscal year and evaluation gains and losses are recognized in the Financial Statements.

For the fiscal year ended March 31, 2003 on a consolidated basis is as follows:

Available-for-sale Securities that have Market Value

Millions of Yen				
Acquisition cost	Book value	Net (A)–(B)	Unrealized gain (A)	Unrealized loss (B)
¥557,820	¥563,186	¥5,366	¥14,069	¥8,703

Thousands of U.S. Dollars				
Acquisition cost	Book value	Net (A)–(B)	Unrealized gain (A)	Unrealized loss (B)
\$4,640,764	\$4,685,410	\$44,646	\$117,050	\$72,404

At March 31, 2003, the Bank and its consolidated subsidiaries had no Held-to-Maturity Bonds that have a Market Value.

2. Derivatives

For the fiscal year ended March 31, 2003 on a consolidated basis is as follows:

Interest Rate Related Transactions

Millions of Yen		
Contract value	Market value	Unrealized (loss)
¥561	¥(32)	¥(32)

Thousands of U.S. Dollars		
Contract value	Market value	Unrealized (loss)
\$4,677	\$(264)	\$(264)

At March 31, 2003, the Bank and its consolidated subsidiaries had no outstanding contractions in currency related transactions, stock related transactions, bond related transactions, product related transactions and credit derivative transactions.

Report of Independent Certified Public Accountants



To: The Board of Directors of
The Musashino Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Musashino Bank, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, capital surplus and retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these 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, procedures and practices 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 Musashino Bank, Ltd. and consolidated subsidiaries at 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

June 27, 2003

Shin Nihon & Co.

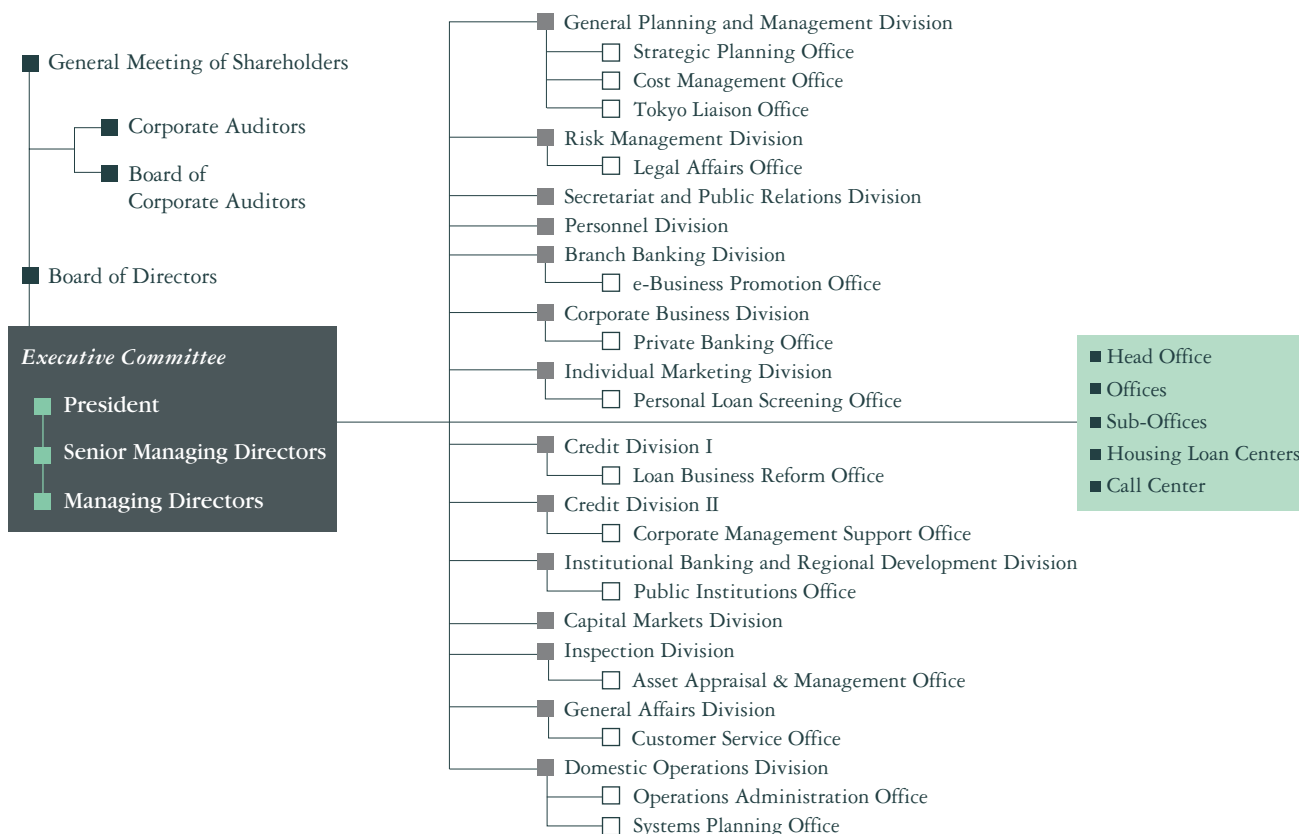
Hibiya Kokusai Building
2-3, Uchisaiwai-cho 2-chome,
Chiyoda-ku,
Tokyo, Japan

See Note 1 to the consolidated financial statements which explains the basis of preparation of the consolidated financial statements of The Musashino Bank, Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.

Directory

(As of July 1, 2003)

Organization Chart



Board of Directors and Corporate Auditors

President

Katsuaki Miwa

Senior Managing Directors

Kikuo Kato
Yoshiro Oshiba

Managing Directors

Nobuhiro Fukazawa
Masami Kurihara
Hiromu Matsushima

Managing Executive Officer

Katsuo Nojiri

Executive Officers

Seiichiro Ihara
Masunao Kaneko
Hitoshi Kanda
Kiyoshi Chiba
Naosi Shukuya
Tsuneshi Kuribara
Osamu Kobayashi
Isao Kikuchi
Kenji Kimura
Seiichi Sawada
Hidemi Shimizu
Hideo Machida
Masaaki Okano

Standing Corporate Auditors

Koji Komazaki
Tadayuki Noro

Corporate Auditors

Shozo Nishijima
Zenji Kobayashi

Subsidiaries and Affiliated Companies

Name	Line of Business
The Bugin General Lease Co., Ltd.	Leasing, factoring and corporate financing
The Bugin Guarantee Co., Ltd.	Loan guarantees for individuals
The Musashino Card Co., Ltd.	Credit card business (JCB, VISA), loans and loan guarantees
The Bugin Business Service Co., Ltd.	Clerical work for Musashino Bank
The Bugin System Service Co., Ltd.	Development, sale and maintenance of computer systems
The Bugin Building Maintenance Co., Ltd.	Leasing and management of buildings and welfare service for Bank employees
The Bugin Economic Research Institute	Research into the regional economy, consultation, information services, and seminars
Bugin Capital Co., Ltd.	Management support for venture businesses

 **The Musashino Bank, Ltd.**

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Money Exchange Offices : 81

(As of August 1, 2003)