

Annual Report 2004

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, 2004, the Bank's consolidated total assets stood at ¥2,956.2 billion (US\$27,971 million), and paid-in capital amounted to ¥36,691 million (US\$347 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, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars*
	2004	2003	2004
For the Year			
Total Income	¥ 73,141	¥ 72,218	\$ 692,039
Total Expenses	60,884	64,149	576,068
Income before Income Taxes	12,256	8,069	115,971
Net Income	6,216	4,891	58,815
At Year-end			
Total Assets	¥2,956,278	¥2,796,254	\$27,971,219
Deposits	2,716,666	2,572,013	25,704,100
Loans and Bills Discounted	1,937,287	1,828,854	18,329,903
Trading Account Securities and Investment Securities	602,985	572,013	5,705,231
Foreign Exchanges:			
Assets	3,032	1,363	28,697
Liabilities	313	75	2,968
Total Shareholders' Equity	112,101	103,054	1,060,662
Common Stock	36,690	36,690	347,155
Capital Ratio (based on domestic standards) (%).....	9.33	9.40	—

* U.S. dollar figures have been translated at the rate ¥105.69 to U.S.\$1, the prevailing market rate as of March 31, 2004.

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Message from the President



Katsuaki Miwa, *President*

New medium-term management plan JUMP UP 21

Becoming the most-trusted bank, and No. 1 in retail banking in Saitama

New business opportunities are expected to increase with the expansion of the scope for over-the-counter sales of insurance products and the partial lifting of restrictions on the brokering of securities. However, ahead of the abolishment of the government's system for unlimited guarantees on liquid deposits on April 1, 2005, competition is intensifying on a daily basis among the financial institutions in our operating base of Saitama Prefecture, which is a one of the most potentially promising markets of Japan. Customers are becoming more discriminating in their selection of financial institutions.

Amid this challenging operating environment, the Bank, facing a wide variety of issues, has introduced the new medium-term management plan JUMP UP 21 to build on the momentum achieved under the previous medium-term management plan ACTIVE 21. We will make utmost efforts to achieve the objectives outlined in JUMP

UP 21, so as to become the most trusted bank, and also the best in retail banking in Saitama.

Objectives of JUMP UP 21

In JUMP UP 21, we will build on our current momentum to further increase customers' trust and meet their expectations, with the aim of winning wide recognition of the Bank's indispensable role in the local community of Saitama, and its distinctions of being the No. 1 bank in terms of contributions to the local community and offering the best retail banking services in Saitama.

In the past several years we have steadily increased our earnings, thereby improving our operating cash flow. To further strengthen our earning power, we have set two goals to further expand our business base, and to improve our financial position by increasing the soundness of the Bank's loan assets. We expect to establish a sound financial position sufficiently resistant to any economic fluctuations in the foreseeable future.

Through the use of specific numerical targets, we aim to

achieve a record profit on core banking operations of ¥23 billion in the year ending March 2007, up approximately ¥3.5 billion from fiscal 2003. We are committed to realizing over ¥38 billion in retained earnings available for the payment of dividends. Moreover, we aim to become the top regional bank in terms of management efficiency by increasing our ROA and reducing overhead ratio. In addition, we will work to lower our bad debt ratio (total bad debt as a percentage of total credit subject to mandatory disclosure under the Financial Reconstruction Law) to below 3%.

Our Strategy for Corporate Banking

We will continue implementing our marketing system, in which territories are divided into blocs. This approach has contributed substantially to increasing loans to corporate customers. We will also continue cultivating new customers, and working together with our branches to expand marketing activities centered on increasing our share of customers' loan balances.

We have been offering loan products utilizing a credit scoring system for the past two years, and will further upgrade and expand products that exhibit a low default rate with the aim of increasing our share of the loan balance of the Bank's core customers. Simultaneously, we will make efforts to expand loans to the medium-risk, medium-return segment, making a wider range of borrowers eligible for these products.

We are also distinguishing ourselves from our competitors by providing information and support for venture businesses, offering electronic banking services, and facilitating credit payment services at convenience

stores. In the future, we plan to offer Internet banking services designated for our corporate customers. In this way, we will aggressively promote the combining of such new services with traditional products and services.

Our Strategy for Retail Banking

Not only are we putting greater effort into developing competitive loan products for individual customers, we are also expanding outlets for offering loan consultation services on the weekends and holidays. We are expanding the number of staff at our housing loan centers to bolster our marketing capabilities. We have also extended operating hours on Saturdays, and are strengthening our ties with developers in the housing industry.

To respond to our customers' diverse asset management needs, we are considering further expansion of the marketing capabilities of our branches. Specifically, we are thinking of encouraging part-time marketing staff to acquire the certificates required for the sale of financial products, and of assigning asset management advisors to branches where they will be most effective. We aim to enhance our ability to respond to customer needs and further strengthen the sales capabilities of our branches.

Regarding our product lineup, ahead of the abolishment of the government's unlimited guarantee on liquid deposits scheduled for April 2005, we plan to put more effort into the sale of government bonds, targeting wealthy individual investors. We will also expand over-the-counter sales of insurance products and will seek new business opportunities in line with the phased deregulation of brokering services for securities.

Further Improving Asset Quality

With regard to enhancing the soundness of our asset loan portfolio, thanks to bankwide efforts to promote the corporate rehabilitation of our customers, centered primarily on Credit Division II, we were able to reduce the bad debt ratio under the Financial Reconstruction Law by 1.09 percentage points, from 6.28%, to 5.19%. As a result of our concerted efforts, we have substantially improved asset quality. We will continue working to improve asset quality, with the ultimate aim of lowering our bad debt ratio below 3%.

Other planned initiatives include requiring Bank employees to acquire expertise and experience as quickly as possible. We also plan to strengthen our management support divisions by assigning supervisors to ensure that corporate rehabilitation is conducted speedily and flexibly.

Reconfiguring Our Network of Branches

To enhance customer convenience, we are rebuilding our marketing channel, which includes a network of ATMs. In recent years, we have undertaken streamlining of our network of bank branches and implemented branch strategies with the aim of raising management efficiency. In accordance with the Bank's marketing strategy, which requires that Bank staff employ a "face-to-face" approach for individual customers, we are planning to expand our marketing base within the prefecture. We are also working to raise customer awareness regarding the convenience of the services we provide, and working to devise the optimal configuration for our network of branches, taking into account market trends and changes in customer traffic.

Establishing a System for Managing Profitability and Risk

To create a system for managing profitability and risk, it will become increasingly important to accept the level of risk necessary to secure adequate profits. We intend to accelerate the installation of the infrastructure required for conducting more precise profitability forecasts and bolstering risk management.

Specifically, we are considering the introduction of a managerial accounting system that reflects credit cost and other operating costs. We also intend to further strengthen risk management procedures—including those pertaining to compliance of our diverse lineup of products, ranging from investment trusts and insurance products, to housing loans—and implement more elaborate risk measurement methods in correspondence to the new BIS requirements.



President

Katsuaki Miwa

FINANCIAL SECTION

Consolidated Financial Review

Earnings

Profit on core banking operations grew steadily, reflecting improvement of our earnings capabilities and the benefits of earlier rationalization, and a sounder loan asset portfolio enabled a further reduction in credit cost. As a result, the Bank posted a record profit on core banking operations of ¥19,710 million (US\$186 million), up ¥2,423 million from the previous fiscal year. Income before income taxes amounted to ¥12,256 million (US\$116 million) and net income came to a ¥6,216 million (US\$59 million), up ¥1,325 million, both of which were record-high figures.

Overhead Ratio and Other Costs

Under our previous medium-term management plan ACTIVE 21, we are targeting an overhead ratio of 65%. As a result of strengthening earnings capabilities and undertaking projects to strategically reduce costs, overhead costs, at 69.93% in fiscal 2002, improved to 62.04% in fiscal 2003, and approaching the regional banks' average of 61.10% for the 64 financial institutions that are members of the Regional Banks Association.

Fees and Commissions

Beginning with fiscal 2002, fees and commissions continued to increase substantially from the level of the previous fiscal year. In particular, in fiscal 2003 commissions on investment trusts rose by ¥368 million, and commissions on pension-type insurance grew by ¥252 million. Moreover, handling fees for loan products utilizing a credit scoring system contributed ¥499 million, causing the fees and commissions to increase by ¥718 million year-on-year, to ¥5,836 million (US\$55 million).

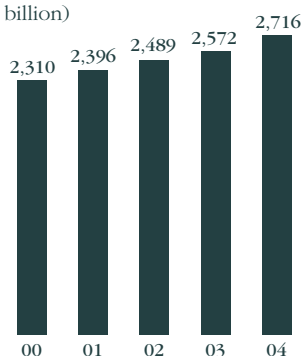
Deposits, Loans and Securities

In this harsh financial environment, the Bank worked hard to expand its operating base by increasing deposits, mainly for individual customers. As a result of these efforts, total deposits at the end of the term increased ¥144.7 billion, to ¥2,716.7 billion (US\$25,704 million).

Regarding the loan balance, we are actively implementing measures to better serve the specific needs of locally

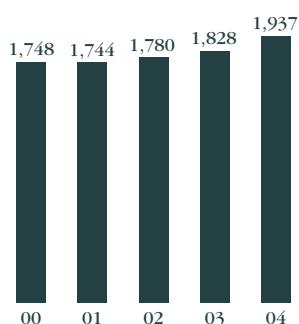
Deposits

(¥ billion)



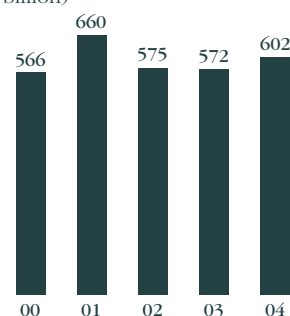
Loans and Bills Discounted

(¥ billion)



Trading Account Securities and Investment Securities

(¥ billion)



owned businesses and individuals, while maintaining the soundness of the Bank's asset quality. As a result, the Bank recorded a ¥108.4 billion increase in total loans in the term under review, to ¥1,937.3 billion (US\$18,330 million).

While underwriting the issuance of Japan Government Bonds as well as other public bonds, the Bank aggressively purchased securities to efficiently utilize its assets. As a result, investment securities at term-end increased ¥30.7 billion to ¥601.5 billion (US\$5,691 million).

Capital Ratio

At the end of fiscal 2003, the Bank's capital ratio stood at 9.33%, down 0.17 percentage point from the previous year-end. This is attributable to an increase in risk-weighted assets due to a 6.1% rise in the loan balance over the previous year-end. This figure, however, is still substantially higher than the minimum requirement of 4% according to domestic standards. The Tier 1 capital ratio (core capital as a percentage of total risk-weighted assets) rose slightly to 6.46%, thanks to an increase in retained earnings.

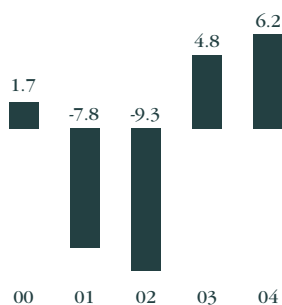
Non-performing Loans

The non-performing loan ratio, which indicates the proportion of non-performing loans to total loans, stood at 5.22% at the year-end, down 1.14 percentage points from the previous year-end, thanks to concerted efforts by both head office departments and branches to reduce our NPL balance. At 5.22%, our NPL ratio* was 1.65 percentage points below the regional banks' average NPL ratio of 6.87%. The total credit cost, including provisions for possible loan losses, declined for the third straight year, to ¥4,236 million (US\$40 million), a substantial year-on-year decrease of ¥3,145 million.

* This is defined as total bad debt as a percentage of total credit subject to mandatory disclosure under the Financial Reconstruction Law.

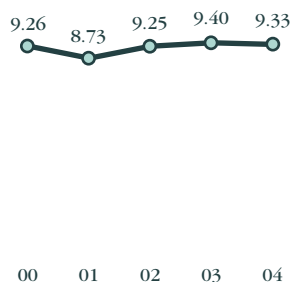
Net Income (Loss)

(¥ billion)



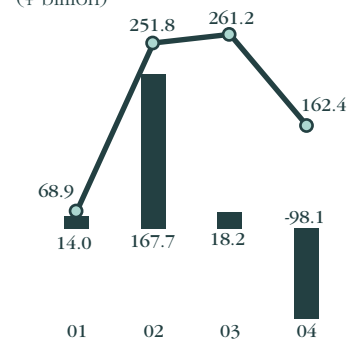
Capital Ratio (based on domestic standards)

(%)



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

Consolidated Balance Sheets

The Musasbino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
Assets			
Cash and Due from Banks	¥ 166,625	¥ 262,763	\$ 1,576,550
Call Loans	126,504	21,322	1,196,935
Commercial Paper and Other Debt Purchased.....	22,480	5,748	212,705
Trading Account Securities (Note 6)	1,487	1,186	14,070
Money Held in Trust	1,458	3,000	13,801
Investment Securities (Note 7).....	601,498	570,827	5,691,161
Loans and Bills Discounted (Note 8).....	1,937,287	1,828,854	18,329,903
Foreign Exchanges	3,032	1,363	28,697
Other Assets	39,557	37,890	374,275
Premises and Equipment (Note 9)	36,476	37,230	345,127
Deferred Income Taxes Asset.....	18,173	26,592	171,949
Customers' Liabilities for Acceptances and Guarantees (Note 13).....	27,460	28,347	259,818
Reserve for Possible Loan Losses.....	(25,764)	(28,871)	(243,772)
Total Assets	¥2,956,278	¥2,796,254	\$27,971,219
Liabilities			
Deposits (Note 10).....	¥2,716,666	¥2,572,013	\$25,704,100
Call Money	17,931	17,565	169,657
Borrowed Money.....	43,768	43,706	414,122
Foreign Exchanges	313	75	2,968
Other Liabilities	25,047	18,410	236,988
Reserve for Employee Bonuses	1,321	1,066	12,501
Reserve for Employee Retirement Benefit (Note 12).....	4,991	5,330	47,229
Reserve for Losses on Loans Sold	10	364	101
Deferred Income Taxes Liability on Premises Revaluation (Note 9)....	5,185	5,260	49,065
Acceptances and Guarantees (Note 13).....	27,460	28,347	259,818
Total Liabilities	2,842,696	2,692,140	26,896,549
Minority Interest	1,480	1,059	14,008
Shareholders' Equity (Note 14)			
Common Stock	36,690	36,690	347,155
Capital Surplus	29,301	29,301	277,244
Retained Earnings.....	31,473	26,843	297,791
Premises Revaluation Account (Note 9).....	7,621	7,732	72,112
Unrealized Gain on available-for-sale Securities.....	7,584	3,193	71,765
Treasury Stock	(571)	(707)	(5,405)
Total Shareholders' Equity	112,101	103,054	1,060,662
Total Liabilities, Minority Interest, and Shareholders' Equity	¥2,956,278	¥2,796,254	\$27,971,219

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, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
Capital Surplus			
Balance at Beginning of Year	¥29,301	¥29,296	\$277,244
Increase:			
Capital Surplus due to Merger	—	5	—
Balance at End of Year	¥29,301	¥29,301	\$277,244
Retained Earnings			
Balance at Beginning of Year	¥26,843	¥23,485	\$253,979
Increase:			
Transfer from Premises Revaluation Account	110	56	1,045
Decrease:			
Cash Dividends	(1,573)	(1,580)	(14,889)
Merger of Consolidated Subsidiaries	—	(9)	—
Losses on Sale of Shares of Treasury Stock	(122)	—	(1,159)
Net Income for Year	6,216	4,891	58,815
Balance at End of Year	¥31,473	¥26,843	\$297,791

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2004 and 2003

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2004	2003	2004
Cash Flows from Operating Activities			
Income before Income Taxes and Minority Interests.....	¥ 12,256	¥ 8,069	\$ 115,971
Depreciation.....	861	941	8,152
Net Increase (Decrease) Reserve for Possible Loan Losses.....	(3,107)	70	(29,401)
Net Increase (Decrease) Reserve for Losses on Loan Sold.....	(353)	22	(3,344)
Net Increase (Decrease) Reserve for Employee Bonuses	254	(387)	2,411
Net Increase (Decrease) Reserve for Employee Retirement Benefit	(338)	(1,489)	(3,203)
Interest Income	(48,682)	(46,511)	(460,615)
Interest Expenses	2,413	2,965	22,839
Net Loss (Gain) from Investment Securities	1,304	4,737	12,339
Net Loss (Gain) from Money Held in Trust	39	110	376
Net Foreign Exchanges Loss (Gain)	895	(584)	8,475
Net Loss (Gain) from Disposition on Premises and Equipment	443	142	4,198
Net Decrease (Increase) in Trading Account Securities	(300)	(727)	(2,847)
Net Decrease (Increase) in Loans and Bills Discounted.....	(108,433)	(44,974)	(1,025,954)
Net Increase (Decrease) in Deposits	144,652	79,431	1,368,648
Net Increase (Decrease) in Borrowed Money	61	(3,064)	583
Net Decrease (Increase) in Call Loans and Others.....	(121,914)	(26,537)	(1,153,509)
Net Increase (Decrease) in Call Money and Others.....	365	682	3,462
Net Decrease (Increase) in Due from Banks (excluding Due from Bank of Japan).....	(2,680)	2,788	(25,357)
Net Decrease (Increase) in Foreign Exchange (Assets)	(1,669)	276	(15,795)
Net Increase (Decrease) in Foreign Exchange (Liabilities).....	238	(7)	2,257
Interest Received	49,530	48,629	468,637
Interest Paid.....	(2,869)	(5,233)	(27,152)
Other Net	9,219	(1,151)	87,230
Subtotal.....	(67,810)	18,200	(641,599)
Income Taxes Paid.....	(623)	(361)	(5,895)
Net Cash Provided by (Used in) Operating Activities.....	(68,433)	17,838	(647,494)
Cash Flows from Investing Activities			
Payments of Purchase of Securities	(234,474)	(401,747)	(2,218,509)
Proceeds from Sales of Securities	140,925	303,778	1,333,385
Proceeds from Maturities of Securities	63,753	99,039	603,207
Increase in Money Held in Trust.....	(990)	(110)	(9,367)
Decrease in Money Held in Trust.....	1,641	—	15,535
Proceeds from Sales of Premises and Equipment	562	727	5,319
Payments of Purchase of Premises and Equipment.....	(1,113)	(1,291)	(10,534)
Net Cash Provided by (Used in) Investing Activities.....	(29,695)	396	(280,964)
Cash Flows from Financing Activities			
Payments of Subordinated Borrowings	—	(7,000)	—
Payments of Purchase of Treasury Stock.....	(64)	(486)	(607)
Proceeds from Sales of Treasury Stock	924	—	8,744
Dividends Paid.....	(1,547)	(1,553)	(14,639)
Dividends Paid for Minority Interest	(1)	(1)	(15)
Net Cash Used in Financing Activities.....	(688)	(9,040)	(6,517)
Effects of Exchange Rate Changes on Cash and Cash Equivalents ...	—	139	—
Net Increase (Decrease) in Cash and Cash Equivalents	(98,817)	9,334	(934,975)
Net Increase in Cash and Cash Equivalents Due to Merger	—	118	—
Cash and Cash Equivalents at the Beginning of the Year	261,271	251,819	2,472,058
Cash and Cash Equivalents at the End of the Year (Note 18).....	¥162,454	¥261,271	\$1,537,083

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 consolidated subsidiaries (together referred to as "Bugin Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Securities and Exchange Law of Japan.

2. Yen and U.S. Dollar Amounts

Under the Enforcement Regulations of 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 ¥105.69 to U.S.\$1.00, prevailing on March 31, 2004, 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, 2004. 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 (\$38,696 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
	2004	2004
National Government Bonds	¥1,487	\$14,070
Total	¥1,487	\$14,070

7. Investment Securities

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
National Government Bonds	¥221,966	\$2,100,169
Local Government Bonds.....	111,276	1,052,853
Corporate Bonds	119,719	1,132,739
Share Stocks	47,610	450,476
Other Securities	100,925	954,924
Total	¥601,498	\$5,691,161

8. Loans and Bills Discounted

(a) Loans and Bills Discounted as at March 31, 2004 consisted of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Bills Discounted	¥ 49,060	\$ 464,196
Loans on Bills	194,505	1,840,335
Loans on Deeds	1,545,350	14,621,535
Overdrafts	148,371	1,403,837
Total	¥1,937,287	\$18,329,903

(b) Risk-Monitored Loans

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Loans to Companies Legally		
Bankrupted	¥ 5,701	\$ 53,945
Non-Accrual Loans.....	61,118	578,279
Loans Past Due Over 3 Months	99	938
Restructured Loans.....	39,797	376,552

(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, 2004 amounted to ¥256,026 million (\$2,422,431 thousand). Of this amount, ¥199,515 million (\$1,887,739 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, 2004 and 2003 amounted to ¥20,419 million (\$193,197 thousand) and ¥23,087 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
	2004	2004
Current Deposits.....	¥ 102,797	\$ 972,635
Ordinary Deposits.....	1,109,932	10,501,774
Saving Deposits	98,592	932,850
Deposits at Notice	5,471	51,765
Time Deposits	1,343,608	12,712,727
Others.....	47,703	451,357
Subtotal.....	2,708,106	25,623,108
Negotiable Certificates of Deposit	8,560	80,992
Total.....	¥2,716,666	\$25,704,100

11. Pledged Assets

Assets that are pledged as collateral as of March 31, 2004 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Assets that are Pledged as Collateral:		
Other Assets	¥6,949	\$65,756
Obligations Corresponding to Collateral Assets:		
Borrowed Money.....	6,588	62,333

In addition to the above, as collateral relating to transactions on exchange settlements or as substitutes for futures transaction margins, securities of ¥102,894 million (\$973,547 thousand) are deposited items. Of equipment and premises, ¥2,364 million (\$22,375 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, 2004 consists of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Present Value of Projected Benefit		
Obligation	¥(25,691)	\$(243,088)
Fair Value of Plan Assets.....	14,189	134,255
Unfunded Retirement Benefit		
Obligation	(11,502)	(108,833)
Unrecognized Loss at Transitional		
Obligation	817	7,734
Unrecognized Actuarial Difference	6,140	58,095
Unrecognized Prior Service Costs.....	588	5,568
Net Liability on the Balance Sheet.....	¥ (3,956)	\$ (37,436)
Prepaid Pension Cost	¥ 1,035	\$ 9,793
Reserve for Employee Retirement Benefit		
	¥ (4,991)	\$ (47,229)

The components of net periodic benefit costs for the year ended March 31, 2004 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Service Cost.....	¥ 985	\$ 9,322
Interest Cost	536	5,077
Expected Return on Plan Assets	(319)	(3,020)
Amortization of Prior Service Cost.....	4	47
Recognized Actuarial Difference.....	1,379	13,051
Amortization of Transitional		
Obligation	817	7,734
Net Periodic Benefit Cost	¥3,404	\$32,211

Assumptions used for the year ended March 31, 2004 are set forth as follows:

Discount Rate.....	2.0%
Expected Rate of Return on Plan Assets.....	4.0%
Amortization Period for Prior Service Cost.....	10 years
Recognition Period of Actuarial Difference.....	10 years
Amortization Period of Transitional Obligation.....	5 years

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, 2004, 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
	2004	2004
Gains on Sales of Stocks and Other Securities	¥ 1,998	\$ 18,905
Gains on Money Held in Trust	0	0
Gains on sales of Premises and Equipment.....	3	37
Others.....	10,846	102,630
Total.....	¥12,848	\$121,572

16. Other Expenses

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Provision for Possible Loan Losses.....	¥ 4,742	\$ 44,876
Write-off of Claims.....	466	4,414
Losses on Sales of Stocks and Other Securities	1,099	10,401
Losses on Devaluation of Stocks and Other Securities	497	4,711
Losses on Money Held in Trust.....	39	376
Losses on disposal of Premises and Equipment.....	447	4,235
Amortization of Transitional Obligation	813	7,694
Others.....	9,996	94,588
Total.....	¥18,104	\$171,295

17. Income Taxes

Significant components of deferred tax assets and liabilities for the year ended March 31, 2004 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2004	2004
Deferred Tax Assets		
Reserve for Possible Loan Losses.....	¥15,460	\$146,284
Software	3,191	30,194
Losses on Devaluation of Stocks and Other Securities.....	2,498	23,638
Employee Retirement Bonus	1,447	13,698
Other	2,592	24,532
Subtotal.....	25,190	238,347
Less, Valuation Allowance	(1,502)	(14,214)
Deferred Tax Assets	23,688	224,133
Deferred Tax Liabilities	(5,515)	(52,184)
Net Deferred Tax Assets (Liabilities).....	¥18,173	\$171,949

18. Lease Transactions

Finance lease transactions that do not transfer ownership of the lease property for the year ended March 31, 2004 are as follows:

(Lessor)

Acquisition cost, accumulated depreciation and balance at March 31, 2004 are as follows:

March 31	Millions of Yen 2004	Thousands of U.S. Dollars 2004
Acquisition Cost	¥31,713	\$300,058
Accumulated Depreciation	18,203	172,239
Total	¥13,509	\$127,819

The pro forma amounts of lease receivable under finance lease at March 31, 2004 are as follows:

March 31	Millions of Yen 2004	Thousands of U.S. Dollars 2004
Within One Year	¥ 4,379	\$ 41,438
Over One Year	9,804	92,762
Total	¥14,183	\$134,200

Lease payment received, depreciation expenses and amounts equivalent to interest income for the year ended March 31, 2004 are as follows:

March 31	Millions of Yen 2004	Thousands of U.S. Dollars 2004
Lease Payment Received	¥5,787	\$54,757
Depreciation Expenses	5,039	47,681
Interest Income	819	7,751

21. Segment Information

(a) Segment information by business

For the fiscal year ended March 31, 2004 on a consolidated basis is as follows:

	Millions of Yen					Elimination or corporate	Consolidated
	Banking	Lease	Other business	Total			
I. Ordinary Revenue							
(1) Ordinary Revenue from Outside	¥ 61,542	¥ 8,722	¥ 2,671	¥ 72,937	¥ (—)	¥ 72,937	
(2) Ordinary Revenue from Intersegment Transactions	257	738	958	1,954	(1,954)	—	
Total	¥ 61,800	¥ 9,460	¥ 3,630	¥ 74,891	¥ (1,954)	¥ 72,937	
Ordinary Expenses.....	49,224	8,900	3,449	61,574	(1,950)	59,623	
Ordinary Income (Loss)	12,575	560	181	13,316	(3)	13,313	
II. Identifiable Assets.....	¥2,932,784	¥30,601	¥16,573	¥2,979,959	¥(23,681)	¥2,756,278	
Depreciation Expenses.....	844	12	4	861	(—)	861	
Capital Expenditures	1,109	1	1	1,113	(—)	1,113	

The method of calculating the pro forma amounts of depreciation expenses for the year ended March 31, 2004 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 follow:

March 31	Millions of Yen 2004	Thousands of U.S. Dollars 2004
Cash and Due from Banks.....	¥166,625	\$1,576,550
Due from Banks except for Deposits with Bank of Japan.....	(4,171)	(39,467)
Cash and Cash Equivalent.....	¥162,454	\$1,537,083

20. Subsequent Event

The appropriation of retained earnings applicable to the year ended March 31, 2004 was approved at the shareholders' meeting of the Bank held on June 29, 2004.

	Millions of Yen	Thousands of U.S. Dollars
Cash Dividends (¥25.0 per share).....	¥790	\$7,477

	Thousands of U.S. Dollars					
	Banking	Lease	Other business	Total	Elimination or corporate	Consolidated
I. Ordinary Revenue						
(1) Ordinary Revenue from Outside	\$ 582,296	\$ 82,528	\$ 25,281	\$ 690,105	\$ (—)	\$ 690,105
(2) Ordinary Revenue from						
Intersegment Transactions	2,435	6,984	9,072	18,491	(18,491)	—
Total	\$ 584,731	\$ 89,512	\$ 34,353	\$ 708,596	\$ (18,491)	\$ 690,105
Ordinary Expenses.....	465,748	84,212	32,637	582,597	(18,459)	564,138
Ordinary Income (Loss)	118,983	5,300	1,715	125,998	(31)	125,967
II. Identifiable Assets.....	\$27,748,929	\$289,543	\$156,815	\$28,195,287	\$ (224,068)	\$27,971,219
Depreciation Expenses.....	7,991	122	39	8,152	(—)	8,152
Capital Expenditures	10,502	14	18	10,534	(—)	10,534

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, 2004 on a consolidated basis is as follows:

Available-for-sale Securities that have Market Value

Millions of Yen					Thousands of U.S. Dollars				
Acquisition cost	Book value	Net (A)-(B)	Unrealized gain (A)	Unrealized loss (B)	Acquisition cost	Book value	Net (A)-(B)	Unrealized gain (A)	Unrealized loss (B)
¥587,219	¥599,965	¥12,745	¥18,183	¥5,438	\$5,556,058	\$5,676,652	\$120,594	\$172,049	\$51,455

At March 31, 2004, 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, 2004 on a consolidated basis is as follows:

Interest Rate Related Transactions

Millions of Yen			Thousands of U.S. Dollars		
Contract value	Market value	Unrealized gain (loss)	Contract value	Market value	Unrealized gain (loss)
¥1,104	¥(49)	¥(49)	\$10,446	\$(467)	\$(467)

Currency Related Transactions

Millions of Yen			Thousands of U.S. Dollars		
Contract value	Market value	Unrealized gain	Contract value	Market value	Unrealized gain
¥1,723	¥1,718	¥9	\$16,306	\$16,257	\$90

At March 31, 2004, the Bank and its consolidated subsidiaries had no outstanding contractions in stock related transactions, bond related transactions, product related transactions and credit derivative transactions.

Report of Independent Auditors



The Board of Directors
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 2004, and the related consolidated statements of income, 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 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 Musashino Bank, Ltd. and consolidated subsidiaries at March 31, 2003 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, 2004 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.

June 29, 2004

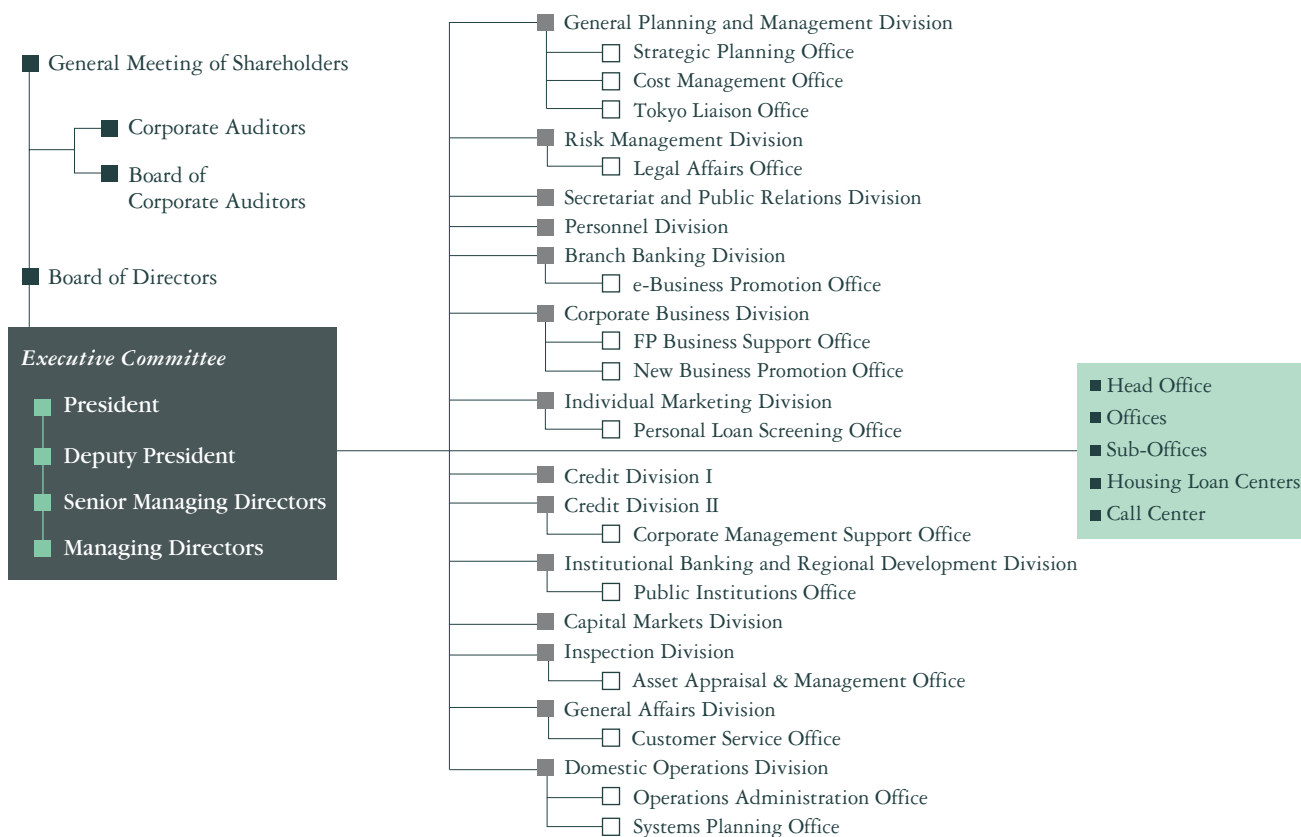
Shin Nihon & Co

Shin Nihon & Co.

Directory

(As of July 1, 2004)

Organization Chart



Board of Directors, Corporate Auditors and Executive Officers

President

Katsuaki Miwa

Deputy President

Kikuo Kato

Senior Managing Director

Yoshiro Oshiba

Managing Directors

Nobuhiro Fukazawa

Masami Kurihara

Hiromu Matsushima

Standing Corporate Auditors

Katsuo Nojiri

Seiichiro Ihara

Corporate Auditors

Shozo Nishijima

Zenji Kobayashi

Managing Executive Officers

Masunao Kaneko

Tsuneshi Kuribara

Executive Officers

Kiyoshi Chiba

Naosi Shukuya

Osamu Kobayashi

Isao Kikuchi

Kenji Kimura

Seiichi Sawada

Hidemi Shimizu

Hideo Machida

Masaaki Okano

Hideo Nomoto

Shigeyuki Miyahara

Kenichiro Inaba

Soe Iijima

Subsidiaries and Affiliated Companies

Name	Line of Business
The Bugin Business Service Co., Ltd.	Clerical work for Musashino Bank
The Bugin Building Maintenance Co., Ltd.	Leasing & management of buildings and welfare service for Bank employees
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 System Service Co., Ltd.	Development, sale and maintenance of computer systems
The Bugin Economic Research Institute	Research into the regional economy, consultation, information services, and holding of seminars
Bugin Capital Co., Ltd.	Management support for venture businesses



The Musashino Bank, Ltd.

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(As of August 1, 2004)