

ANNUAL REPORT
2003

Year ended March 31, 2003



Profile

Since its establishment in 1879, The Akita Bank, Ltd., has worked diligently to extend comprehensive financial services geared to the funding requirements of Akita Prefecture. These efforts are underpinned by a philosophy that seeks to contribute to regional prosperity and achieve growth as a financial institution that parallels the economic development of the community.

The Akita Bank Group, which comprises the Bank and eight consolidated subsidiaries, maintains a full line of financial services and provides guarantee and leasing services hinging on the banking business.

The operating environment for domestic financial institutions has become increasingly difficult, exacerbated by Japan's prolonged economic downturn and superlow interest rates. To overcome obstacles in our path and secure the unwavering trust of clients, we are building a strong profit structure and applying a client's perspective to the development and promotion of high-quality services. Employees and executives alike are totally committed to upholding this trust and will strive to contribute to greater social and economic prosperity in Akita Prefecture.

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In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ materially from those anticipated in these statements.

Consolidated Financial Highlight

The Akita Bank, Ltd. and subsidiaries
Years ended March 31, 2003 and 2002

For the years ended March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Total income	¥57,628	¥61,620	\$479,435
Total expenses	51,239	77,434	426,282
Income (Loss) before income taxes	6,389	(15,814)	53,153
Net income (loss)	3,461	(9,528)	28,796

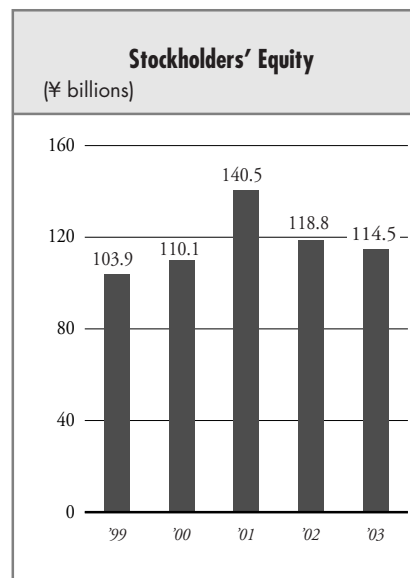
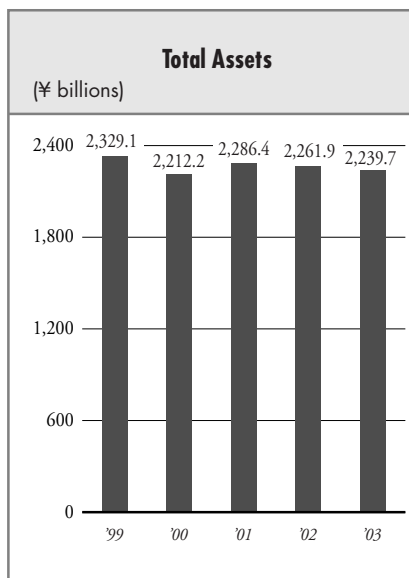
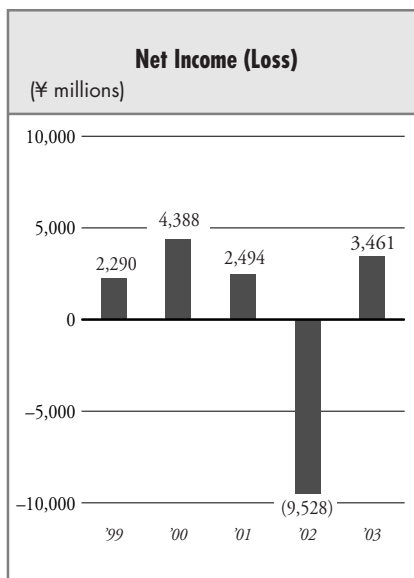
Net income (loss) per share	Yen		U.S. dollars
	2003	2002	2003
	¥17.29	¥(47.49)	\$(0.1438)

As of March 31	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Total assets	¥2,239,698	¥2,261,897	\$18,633,102
Deposits	2,032,551	2,055,087	16,909,744
Loans and bills discounted	1,296,486	1,302,063	10,786,076
Trading securities and securities	707,113	726,375	5,882,809
Stockholders' equity	114,568	118,817	953,147

Notes: (1) In this annual report, the Japanese yen in millions are indicated with fractions omitted.

(2) U.S. dollar amounts are translated, for convenience only, at ¥120.20=U.S.\$1.00, the rate prevailing as of March 31, 2003.

(3) Stockholders' equity ratio stood at 11.30% as of March 31, 2003 according to the domestic standard.



Consolidated Five-year Summary

The Akita Bank, Ltd. and subsidiaries
As of March 31

	Millions of yen				
	2003	2002	2001	2000	1999
Total income	¥57,628	¥61,620	¥76,195	¥67,494	¥77,415
Net income (loss)	3,461	(9,528)	2,494	4,388	2,290
	Yen				
Net income (loss) per share	¥17.29	¥(47.49)	¥12.31	¥21.14	¥10.99
	Percent				
Income ratio					
Net income (loss) to total assets	0.15	(0.42)	0.10	0.19	0.09
Net income (loss) to stockholders' equity	2.97	(7.35)	1.99	4.10	2.20
Capital adequacy ratio					
Domestic standard	11.30	10.72	11.00	10.96	10.22

Note: (1) In this annual report, the Japanese yen in millions are indicated with fractions omitted.
(2) The Bank's capital adequacy ratio is calculated by domestic standards.

Consolidated Balance Sheets

The Akita Bank, Ltd. and subsidiaries
As of March 31, 2003 and 2002

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
ASSETS			
Cash and due from banks	¥ 52,339	¥ 73,453	\$ 435,434
Call loans	103,058	77,259	857,395
Commercial paper and other debt purchased	36,468	51,225	303,401
Trading account securities (Note 4)	264	810	2,197
Money held in trust	446	490	3,716
Securities (Note 5)	706,849	725,564	5,880,612
Loans and bills discounted (Note 6)	1,296,486	1,302,063	10,786,076
Foreign exchanges (Note 7)	1,134	634	9,439
Other assets (Note 8)	38,072	20,931	316,739
Premises and equipment (Note 9)	29,020	29,660	241,435
Customers' liabilities for acceptances and guarantees (Note 17)	17,636	34,143	146,727
Deferred tax assets	21,466	19,349	178,591
Allowance for possible loan losses	(65,544)	(73,681)	(545,299)
Allowance for losses on investment securities	(0)	(8)	(5)
Total assets	¥2,239,698	¥2,261,897	\$18,633,102
LIABILITIES			
Deposits (Note 10)	¥2,032,551	¥2,055,087	\$16,909,744
Call moneys	42,610	16,604	354,496
Borrowed money (Note 11)	6,900	6,828	57,405
Foreign exchanges (Note 12)	49	282	411
Other liabilities (Note 13)	10,528	14,538	87,587
Bonus payment reserve	1,067	1,357	8,884
Reserve for retirement benefits (Note 14)	6,199	6,623	51,579
Deferred tax liability on land revaluation (Note 15)	2,979	3,071	24,787
Acceptances and guarantees (Note 17)	17,636	34,143	146,727
Total liabilities	¥2,120,523	¥2,138,537	\$17,641,623
Minority interests in consolidated subsidiaries	¥ 4,607	¥ 4,543	\$ 38,332
STOCKHOLDERS' EQUITY			
Common stock	¥ 14,100	¥ 14,100	\$ 117,311
Capital surplus	6,268	6,268	52,151
Retained earnings	76,678	74,142	637,921
Land revaluation difference (Note 15)	4,395	4,419	36,567
Net unrealized holding on securities in investment (Note 16)	13,569	19,982	112,889
Treasury stock	(444)	(96)	(3,694)
Total stockholders' equity	¥ 114,568	¥ 118,817	\$ 953,147
Total liabilities, minority interests in consolidated subsidiaries and stockholders' equity	¥2,239,698	¥2,261,897	\$18,633,102

See notes to consolidated financial statements.

Consolidated Statements of Income and Retained Earnings

The Akita Bank, Ltd. and subsidiaries

For the years ended March 31, 2003 and 2002

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Income			
Interest income			
Interest on loans and discounts	¥26,948	¥ 30,217	\$224,198
Interest and dividends on securities	10,979	12,557	91,342
Other interest income (Note 18)	356	1,724	2,968
Fees and commissions (Note 19)	6,207	5,919	51,640
Other operating income (Note 20)	7,255	8,016	60,361
Other income (Note 21)	5,880	3,185	48,924
Total income	¥57,628	¥ 61,620	\$479,435
Expenses			
Interest expenses			
Interest on deposits	¥ 1,265	¥ 2,581	\$ 10,526
Interest on borrowings and rediscounts	187	194	1,562
Other interest expenses (Note 22)	1,986	4,392	16,525
Fees and commissions (Note 23)	1,309	1,290	10,898
Other operating expenses (Note 24)	6,735	6,582	56,038
General and administrative expenses	27,569	29,250	229,361
Other expenses (Note 25)	12,184	33,142	101,368
Total expenses	¥51,239	¥ 77,434	\$426,282
Income (loss) before income taxes and minority interest	¥ 6,389	¥(15,814)	\$ 53,153
Income taxes (Note 26)			
Current	204	4,936	1,703
Deferred	2,525	(11,434)	21,008
Total income taxes	¥ 2,729	¥ (6,497)	\$ 22,712
Minority interest in net income	¥ 197	¥ 211	\$ 1,645
Net income (loss)	¥ 3,461	¥ (9,528)	\$ 28,796
RETAINED EARNINGS			
Balance at beginning of year	¥74,142	¥ 85,433	\$616,828
Appropriation of land revaluation	68	120	569
Cash dividends	(994)	(1,005)	(8,272)
Bonuses to directors and statutory auditors	—	(15)	—
Reduction of treasury stock by distribution of net profit	—	(862)	—
Balance at end of year	¥76,678	¥ 74,142	\$637,921
		Yen (Note 1)	U.S. dollars (Note 1)
Net income (loss) per share	¥17.29	¥(47.49)	\$0.1438

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

The Akita Bank, Ltd. and subsidiaries
As of March 31, 2003 and 2002

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash flows from operating activities			
Income (Loss) before income taxes and minority interest	¥ 6,389	¥ (15,814)	\$ 53,153
Depreciation and amortization	1,675	1,886	13,939
Net change in reserve for possible loan losses	(8,136)	27,878	(67,689)
Net change in reserve for allowance for losses on investment securities	(7)	8	(63)
Net change in reserve for bonus payment reserve	(289)	1,357	(2,409)
Net change in reserve for retirement benefit	(423)	(793)	(3,521)
Interest income	(38,284)	(44,499)	(318,509)
Interest expenses	3,439	7,169	28,615
Net (gain) loss related to securities transactions	1,921	(1,567)	15,985
Net (income) loss from money held in trust	31	43	261
Net exchange (gain) loss	(100)	(109)	(837)
Net (gain) loss from disposition of premises and equipment	137	278	1,140
Net change in loans and bills discounted	(10,907)	(14,448)	(90,745)
Net change in deposits	(44,474)	73,657	(370,003)
Net change in negotiable certificates of deposit	21,938	(77,837)	182,516
Net change in borrowed money	71	(1,358)	594
Net change in call loans, commercial paper and other debt purchased	(13,041)	56,348	(108,500)
Net change in call money and borrowed money	26,006	14,878	216,357
Net change in due from banks (excluding due from Bank of Japan)	22,215	24,302	184,821
Net change in foreign exchanges (assets)	(500)	92	(4,161)
Net change in foreign exchanges (liabilities)	(126)	394	(1,048)
Interest income received on cash basis	40,369	46,066	335,849
Interest expenses paid on cash basis	(4,203)	(8,672)	(34,973)
Net change in trading account securities	555	(779)	4,619
Other, net	(4,707)	4,647	(39,160)
Sub-total	(452)	93,127	(3,768)
Income taxes paid	(315)	(12,096)	(2,623)
Net cash provided by (used in) operating activities	¥ (768)	¥ 81,031	\$ (6,392)
Cash flows from investing activities			
Purchases of securities	¥(168,407)	¥(257,963)	\$ (1,401,057)
Proceeds from sales of securities	84,019	90,793	698,993
Proceeds from maturity of securities	88,871	95,162	739,361
Purchases of money held in trust	—	—	—
Proceeds from money held in trust	—	1,050	—
Purchases of premises and equipment	(1,315)	(683)	(10,940)
Proceeds from sales of premises and equipment	142	132	1,182
Net cash provided by (used in) investing activities	¥ 3,310	¥ (71,506)	\$ 27,540
Cash flows from financing activities			
Dividends paid	¥ (994)	¥ (1,005)	\$ (8,272)
Dividends paid for minority	(7)	(7)	(64)
Purchases of treasury stock	(431)	(862)	(3,592)
Net cash provided by (used in) financing activities	¥ (1,433)	¥ (1,875)	\$ (11,929)
Effect of currency rate exchanges on cash and cash equivalents	¥ (6)	¥ (6)	\$ (54)
Net increase (decrease) in cash and cash equivalents	1,101	7,643	9,164
Cash and cash equivalents at beginning of year	44,483	36,840	370,079
Cash and cash equivalents at end of year (Note 29)	¥ 45,585	¥ 44,483	\$ 379,244

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Akita Bank, Ltd. and subsidiaries

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by The Akita Bank, Ltd. (the "Bank" and consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices 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.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120.20 to \$ 1.00, the rate of exchange in effect at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

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.

Certain reclassification have been made in the 2002 financial statements to conform to the presentation for 2003.

2. Principles of Consolidation

The consolidated financial statements include the accounts of The Akita Bank, Ltd. and its subsidiaries. The consolidated subsidiaries are listed below.

The Akigin Business Service Ltd.

Akita Grand Lease Co., Ltd.

The Akita Guarantee Service, Ltd.

Akigin Staff Service Co., Ltd.

The Akigin Computer Service Co., Ltd.

The Akigin Property Research Service, Ltd.

The Akita International Card Co., Ltd.

Akita JCB Card Co., Ltd.

3. Significant Accounting Policies

(a) Trading Account Securities

Trading account securities are carried at market value and the cost of securities sold is determined by the moving average method.

(b) Securities

Debt securities held-to-maturity are carried at amortized cost is determined by the moving average method. Marketable classified as other securities are stated at market value as of the balance sheet date and the cost of securities sold is determined by the moving average method. Unrealized gain or loss on marketable securities classified as other securities is included as component of shareholders' equity, net of the applicable taxes. Non-marketable securities classified as other securities are stated at cost and the cost of securities sold has been determined by the moving average method, or at amortized cost.

Securities held in the money held in trusts, of which funds are principally invested in securities and separately managed from other beneficiaries are carried at fair value with unrealized Holding gain and losses included in earnings.

(c) Derivatives

Derivatives are carried at fair value with unrealized holding gain and losses included in earnings.

(d) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the declining balance method over the estimated useful lives of properties under the Japanese Income Tax Law, The straight line method is applied to buildings acquired after April 1, 1998 because of the Japanese Income Tax Law reforms.

Incidentally the principal useful life is listed below

Buildings : 3–50 years

Equipment: 3–20 years

For consolidated subsidiaries Depreciation is computed mainly on the declining balance method by estimated useful life.

(e) Software

Depreciation of the software used on the bank and consolidated subsidiaries is computed on the straight line method over the estimated useful lives properties (mainly 5 years).

(f) Reserve for Possible Loan Losses

A reserve for possible loan losses is provided as follows, in conformity with the standard established in advance.

The Bank has established a credit rating system in accordance with the provisions set forth in the Guidelines issued by the Japanese Institute of Certified Public Accountants under which customers are classified into five categories for self assessment purposes such as "legal bankruptcy," "virtual bankruptcy," "possible bankruptcy," "caution" and "normal."

The Bank provided for reserve for possible loan losses at amount deemed necessary to cover possible losses which is estimated based on the fair value of collateral and guarantee for the legal bankruptcy and the virtual bankruptcy category loans the fair value of collateral as well as other factors of solvency including borrower's future cash flows for the possible bankruptcy category loans and the actual past loss experience for the caution and the normal category loans.

The quality of all loans is assessed by branches and the credit supervisory division with a subsequent audit by the asset review and inspection division in accordance with the Bank's policy and rules for self assessment of asset quality.

The consolidated subsidiaries provided for reserve for possible loan losses at amount deemed necessary to cover possible losses which is estimated based on the loan loss ratio, which is calculated for each ordinary loan using actual loan losses during a specified period in the past, and based on the fair value of collateral and guarantee for the specific loans like the possible bankruptcy category loans.

(g) Bonus Payment Reserve

The Bank and its consolidated subsidiaries follow the Japanese practice of paying bonuses to employees. Bonus payment reserve is calculated based on the accrued employees' bonuses estimated as of the balance sheet date.

(h) 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.

Foreign currency accounts held by consolidated subsidiaries are translated into the currency of the subsidiary at the exchange rate prevailing at the respective year-ends.

(i) 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 transaction.

(j) Consumption Tax

Transactions are recorded at the amounts not including consumption tax, which is an indirect tax introduced on April 1, 1989.

(k) Cash Flows

For the purposes of the consolidated statements of cash flows, cash and cash equivalents represent cash and due from banks.

(l) Net Income per share

From the fiscal year 2003, net income per share is calculated based on new Japanese standards of accounting.

4. Trading Account Securities

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
National government bonds	¥264	¥810	\$2,197

5. Securities

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
National government bonds	¥261,927	¥286,244	\$2,179,097
Local government bonds	109,064	140,371	907,357
Corporate bonds	258,365	210,720	2,149,464
Share stocks	38,532	47,920	320,566
Other securities	38,960	40,308	324,126
Total	¥706,849	¥725,564	\$5,880,612

Securities deposited as collateral:	¥43,811 million (\$364,484 thousand)
Debt for collateral: Deposits	¥25,896 million (\$215,442 thousand)
: Bill sold	¥39,700 million (\$330,282 thousand)
Others estimated:	¥78,639 million (\$654,240 thousand)

Next information includes "Securities", "Trading Account Securities", Negotiable Certificates of Due from Banks in "Cash and Due from Banks", "Commercial Paper" and the part of "Other Debt Purchased".

(a) Trading Account Securities

March 31	Millions of yen	
	Book Value	Difference between Historical Cost and Book Value
Securities for buying and selling	¥264	¥(3)

a. Difference between Historical Cost and Book Value was included in Income and Expenses at this financial year.

b. Book Value is the fair value based on the market value at March 31, 2003.

(b) Marketable Other Securities

March 31	Millions of yen		
	Historical Cost	Book Value	Difference between Historical Cost and Book Value
Share stocks	¥ 28,986	¥ 36,723	¥ 7,736
National government bonds	255,167	261,927	6,760
Local government bonds	104,311	109,064	4,752
Corporate bonds	252,813	256,308	3,495
Others	48,895	48,916	21
Total	¥690,173	¥712,940	¥22,767

a. Book Value is the fair value based on the market value at March 31, 2003.

(c) Other Securities were sold at this financial year

Other securities	Millions of yen		
	Selling Price	Profit on Sale	Loss on Sale
	2003	2003	2003
Other securities	¥86,089	¥2,633	¥15

(d) Non-marketable Securities

March 31	Millions of yen	
	Book Value	
Held-to-maturity securities	¥	—
Other securities:		
Unlisted stock (except over-the-counter)		1,808
Private placement straight bonds		2,056
Debt purchased		10,970
Foreign share stocks		32
Golf seat		11

(e) *Information about the contractual maturities of held-to-maturity securities and other securities with contractual maturities at March, 2003 is as follows:*

March 31	Millions of yen			
	2003			
	Within One year	After one year through five years	After five years through ten years	After ten years
National government bonds	¥ 40,250	¥160,951	¥22,709	¥38,015
Local government bonds	3,869	62,271	42,923	—
Corporate bonds	33,663	198,646	26,055	—
Others	24,338	23,876	5,016	426
Total	¥102,122	¥445,746	¥96,705	¥38,442

6. Loans and Bills Discounted

(a) *Loans and Bills Discounted as of March 31, 2003 and 2002 consisted of the following:*

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Bills discounted	¥ 19,991	¥ 27,413	\$ 166,315
Loans on notes	181,201	284,270	1,507,496
Loans on deeds	950,568	826,819	7,908,223
Overdrafts	144,725	163,560	1,204,037
Total	¥1,296,486	¥1,302,063	\$10,786,076

(b) *Non-Accrual Loans*

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Loans to companies			
legally bankrupted	¥15,209	¥15,640	\$126,535
Non-accrual loans	85,164	86,475	708,526
Loans past due over 3 months	—	114	—
Loans with interest reduced or exempted	26,948	18,104	224,198

The aggregate face amount of banker's bill, commercial bill and documentary bill, which were acquired by discounting of a bill, are ¥19,994 million (\$ 166,345 thousand).

The bank is under the Commitment Line Contract about overdraft facilities and loans to some customers. Under this contract, the bank has to lend loans to the customer for a fixed credit line unless they breach the

condition of this contract when they apply for loans. The amount of outstanding loans by the contract is ¥393,853 million (\$ 3,276,654 thousand). The contract term of them is within one year. And, the bank can expire absolutely these contracts at an optional time.

Furthermore, the amount does not always affect the future cash flow, because the most of these contracts will expire without extension of loan.

And under the most of the contract, the bank can refuse the loan application and can cut the credit line if the financial situation change or for preservation a claim, at a good excuse. The collateral has been collected at the conclusion of the contract in necessary, furthermore, the business results of the customers are regularly caught by the procedure of the bank, and the contract is reexamined if necessary, the measures of credit control are taken.

7. Foreign Exchanges—Assets

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Due from foreign banks	¥ 510	¥265	\$4,247
Foreign exchange bills bought	3	12	30
Foreign exchange bills receivable	620	357	5,161
Total	¥1,134	¥634	\$9,439

8. Other Assets

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Domestic exchange settlement a/c, Dr.	¥ 15	¥ 52	\$ 132
Prepaid expenses	28	20	236
Accrued income	4,334	5,132	36,060
Others	33,693	15,725	280,310
Total	¥38,072	¥20,931	\$316,739

9. Premises and Equipment

The accumulated depreciation of premises and equipment as of March 31, 2003 and 2002 amounted to ¥33,538 million (\$279,024 thousand) and ¥32,929 million, respectively.

The guaranties and foregift of Premises and Equipment amounts to ¥680 million (\$5,657 Thousand).

10. Deposits

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current deposits	¥ 56,486	¥ 65,572	\$ 469,935
Ordinary deposits	687,616	635,798	5,720,602
Deposits at notice	15,824	25,301	131,652
Time deposits	1,092,384	1,166,222	9,088,055
Other deposits	517,008	120,899	4,301,236
Sub-total	1,969,320	2,013,794	16,383,696
Negotiable certificates of deposit	63,230	41,292	526,047
Total	¥2,032,551	¥2,055,087	\$16,909,744

11. Borrowed Money

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Loans from banks	¥6,900	¥6,828	\$57,405
Total	¥6,900	¥6,828	\$57,405

12. Foreign Exchanges—Liabilities:

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Foreign exchange bills sold	¥32	¥282	\$268
Foreign exchange bills payable	17	0	142
Total	¥49	¥282	\$411

13. Other Liabilities

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Domestic exchange settlement a/c, Cr. ¥	125	¥ 213	\$ 1,142
Income tax payable	119	229	991
Accrued expenses	1,471	2,117	12,242
Unearned income	4,085	3,987	33,985
Others	4,727	7,989	39,326
Total	¥10,528	¥14,538	\$87,587

14. Retirement benefits

Reserve for retirement benefits is provided at the amount which would be required to be paid if all eligible employees retired voluntarily at the end of the period concerned, based on the estimated retirement benefit obligation and the pension assets.

Furthermore, the Bank has established the trust of the retirement benefit.

According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Bank applied for the exemption from obligation to pay benefits for future employment services related to the substitutional portion of the governmental pension program, which would result in the transfer of the pension obligations and related assets to the government by the subsequent application.

The Bank obtained an approval of exemption from future obligation by Ministry of Health, Labor and Welfare on March 1, 2003.

As a result of this exemption, the Bank recognized a gain on exemption from future pension obligation related to the substitutional portion in the amount of ¥4,482 million (\$37,293 thousand) in accordance with a transitional measurement of the accounting standard for employees' retirement benefits for the year ended March 31, 2003.

(a) Retirement benefits obligation

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Projected benefit obligation	¥(21,297)	¥(32,439)	\$(177,182)
Plan assets at fair value	10,639	21,326	88,519
Unfunded retirements benefits obligation	(10,657)	(11,112)	(88,663)
Unrecognized actuarial loss	8,020	4,489	66,726
Reserve for retirement benefits	¥ (6,199)	¥ (6,623)	\$ (51,579)

(b) Pension cost

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Service cost	¥ 957	¥ 962	\$ 7,963
Interest cost	970	949	8,076
Expected return on plan assets	(454)	(624)	(3,782)
Amortization of prior service cost	—	(940)	—
Amortization of actuarial loss	470	218	3,916
Net periodic benefit costs	¥1,944	¥ 564	\$16,174

(c) Actuarial assumption used to determine costs and benefits obligation

a. Discount rate	2.0%
b. Expected rate of return on plan assets	3.0%
c. Term allocation method of expected retirement benefits	Straight line basis over the period
d. Amortization period of prior service cost	1 years
e. Recognition period of actuarial gain/loss	10 years

15. Land Revaluation Difference

Based on the Law Concerning Land Revaluation (Law No.34, promulgated on March 31, 1998), the Bank recorded their owned land at the fair value and related net unrealized gain, applicable income tax portion were reported as “Deferred tax liabilities on land revaluation” in liabilities and net of applicable income taxes were reported as “Land revaluation difference” in stockholders’ equity.

Revaluation date: March 31, 2000

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

The value of land is based on the official notice prices calculated as directed by the 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, Section 4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated on March 31, 1998), after making reasonable adjustments, such as for location and quality of sites.

Difference between the market value and the book value after the revaluation: ¥2,353 million (\$19,581 thousand)

16. Net Unrealized Holding Gains (Losses) on Securities in Investment

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
March 31			
Variance of the estimate	¥22,767	¥ 33,872	\$189,412
Other securities	22,767	33,872	189,412
Other money held in trust	—	—	—
Deferred tax liabilities	(9,198)	(13,887)	(76,522)
Net unrealized holding gains (losses) on securities in investment (before worth interests adjustment)	13,569	19,984	112,889
Worth minority interests			
In consolidated subsidiaries	(0)	2	(0)
Net unrealized holding on securities in investment	13,569	19,982	112,889

17. 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.

18. Other Interest Income

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Interest on deposits with banks	¥104	¥1,471	\$ 870
Other interest income	252	252	2,097
Total	¥356	¥1,724	\$2,968

19. Fees and Commissions—Income

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Domestic and foreign exchange	¥2,424	¥2,432	\$20,170
Others	3,782	3,486	31,470
Total	¥6,207	¥5,919	\$51,640

20. Other Operating Income

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Gains on trading account securities	¥ 9	¥ 12	\$ 75
Gains on sales of bonds	1,860	2,813	15,478
Gains on redemption of bonds	—	—	—
Gains on foreign exchange transactions	100	109	837
Others	5,285	5,080	43,968
Total	¥7,255	¥8,016	\$60,361

21. Other Income

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Gains on sales of stocks and other securities	¥ 772	¥1,732	\$ 6,428
Gains on money held in trust	21	2	182
Gains on dispositions of premises and equipment	5	14	43
Trust of the retirement benefit	—	—	—
Others	5,080	1,436	42,269
Total	¥5,880	¥3,185	\$48,924

22. Other Interest Expenses

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Interest on interest-swaps	¥1,120	¥1,026	\$ 9,323
Other interest expenses	865	3,365	7,202
Total	¥1,986	¥4,392	\$16,525

23. Fees and Commissions—Expenses

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Domestic and foreign exchange	¥ 405	¥ 402	\$ 3,375
Others	904	887	7,552
Total	¥1,309	¥1,290	\$10,898

24. Other Operating Expenses

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Losses on redemption of bonds	¥ —	¥ —	\$ —
Losses on sales of bonds	2,099	815	17,468
Others	4,636	5,766	38,570
Total	¥6,735	¥6,582	\$ 56,038

25. Other Expenses

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Provision for reserve for possible loan losses	¥ 6,432	¥30,595	\$ 53,515
Written-off claims	728	643	6,060
Losses on sales of stocks and other securities	15	0	131
Losses on devaluation of stocks and other securities	2,439	1,125	20,292
Losses on money held in trust	53	46	443
Losses on dispositions of premises and equipment	142	292	1,184
Net periodic benefit cost	—	—	—
Others	2,372	437	19,739
Total	¥12,184	¥33,142	\$101,368

26. Income Taxes

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial report in purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The tax effects of significant temporary differences that result in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Deferred tax assets:	¥ 1,344	¥ —	\$ 11,185
Reserve for retirement benefits	2,118	5,131	17,621
Reserve for possible loan losses	23,956	27,402	199,306
Net unrealized holding on securities in investment	0	777	0
Depreciation	1,394	1,641	11,605
Deferred assets	63	172	526
Enterprise taxes payable	6	8	56
Others	3,872	1,365	32,220
Total deferred tax assets	32,757	36,500	272,522
Deferred tax liabilities:			
Net unrealized holding on securities in investment	(9,198)	(14,665)	(76,522)
Profit by the establishment of the trust of retirement benefits	(1,979)	(2,343)	(16,469)
Allowance for compressed entry of fixed assets	(112)	(112)	(938)
Others	—	(29)	—
Total deferred tax liabilities	(11,290)	(17,150)	(93,930)
Net deferred tax assets	¥ 21,466	¥ 19,349	\$178,591

27. Lease Transaction

Finance lease transactions, except for those that meet the conditions that the ownership of the lease assets is substantially transferred to the lessee.

(a) Amounts equivalent to acquisition costs, accumulated depreciation and net balance as of March 31, 2003 concerning the finance lease assets are as follows:

	Equipment
Acquisition Costs	¥19,902 million (\$165,574 thousand)
Accumulated Depreciation	¥ 9,950 million (\$ 82,780 thousand)
Net balance	¥ 9,951 million (\$ 82,793 thousand)

(b) Future payment obligations of finance lease expenses as of March 31, 2003 is as follows:

Portion due within one year: ¥3,379 million (\$28,119 thousand)

Thereafter: ¥6,571 million (\$54,674 thousand)

(c) Lease expenses paid and amounts equivalent to depreciation expenses and interest expenses during fiscal year 2003 are as follows:

Lease payments received: ¥3,935 million (\$32,738 thousand)

Depreciation expenses: ¥3,935 million (\$32,738 thousand)

Amounts equivalent to depreciation expenses are calculated by straight-line method over the period of finance lease.

28. Off-Balance-Sheet Transactions

Derivatives and Forward Foreign Exchanges

	Amount Equivalent to the Credit Risk		
	Millions of yen (Note 1)	2002	Thousands of U.S. dollars (Note 1)
March 31	2003		2003
Interest rate and currency swaps	¥225	¥201	\$1,871
Forward foreign exchanges transactions	437	738	3,635
Interest rate and currency options	—	—	—
Other derivatives	—	—	—
Total	¥662	¥940	\$5,507

The above amounts equivalent to the risk are calculated using the original exposure method, in accordance with international standards.

29. Statements of Cash Flows

Relationship between the closing balance of cash and cash equivalents, and the figure on consolidated balance sheets:

March 31	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Cash and due from banks	¥52,339	¥ 73,453	\$435,434
Due without interest	(285)	(250)	(2,377)
Ordinary due	(328)	(583)	(2,728)
Fixed due	(140)	(140)	(1,164)
Negotiable due	(6,000)	(10,000)	(49,919)
Other due	—	(17,995)	—
Cash and Cash Equivalents	¥45,585	¥ 44,483	\$379,244

30. Subsequent Event

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

Independent Auditors' Report

The Board of Directors The Akita Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Akita Bank, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, 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 Akita 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 1 to the consolidated financial statements.

Shin Nihon & Co.

Tokyo, Japan

June 27, 2003

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



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