

**Annual Report 2003**



# Profile

The Higo Bank is a regional bank whose main business base is Kumamoto Prefecture in central Kyushu. Possessing a varied sweep of natural beauty, including the volcano Mt. Aso, which boasts the world's largest caldera, and the scenic Amakusa area with its 200 islands of widely varying sizes, the prefecture is home to thriving agricultural, forestry, and fisheries industries.

In recent years, Kumamoto Prefecture has become a center for leading-edge industries, notably semiconductors, for which it has been called "Japan's Silicon Valley." The number of high-tech companies setting up shop in Kumamoto is still on the increase, and is expected to contribute greatly to the area's development in the near future.

The center of Kumamoto City has also been seeing the successive start-ups of a number of redevelopment projects, and accelerating progress is being made in bolstering the city's transport infrastructure, including the start of work on the extension of the Shinkansen Line from Fukuoka down the west coast of Kyushu to Kagoshima and the construction of a modern road traffic network, principally to feed the Kyushu Expressway.

These conditions offer many opportunities to vitalize the region by cultivating small and medium-sized



mainstay businesses and promoting new businesses to support these new industries. Kumamoto is home to many new industries, and we have a support organization in which the public and private sectors work together, called the Kumamoto Prefecture Business Promotion Support Center. The center was established with funds from the Kumamoto prefectural government and the Higo Bank.

In addition to our main work of banking operations, we also put our energy into creating a better living environment for the prefecture's citizens by supporting organizations such as The Distribution Economics Institute of Kumamoto Area and the Kumamoto Development Research Center. Higin Venture Capital Co., Ltd., established in 1996, also cooperates with these organizations to provide comprehensive support to match the growth stage of the venture companies.

The Bank has continued to be active in supporting cultural events such as concerts and art exhibits as well as in promoting environmental conservation efforts, with the establishment of the Higo Water Resources Protection Foundation. Believing that it will become all the more important for us to make broad social contributions, we set up a Regional Culture Department in our Head Office in 1995 to act as a organization specializing in social contributions.

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# Message from the President



In the year under review, the financial industry in Japan faced another year of difficult operating conditions, with many major financial institutions and regional banks posting deficits. Moreover, as the Financial Services Agency's program to resolve Japan's bad-debt problem takes effect, regional financial institutions are coming under pressure to do more for small and medium-sized corporate borrowers and help bolster the soundness and profitability of the financial sector overall. In this changing environment, Higo Bank in April 2003 launched its new three-year medium-term management plan, named "Second Medium-Term Management Plan for the New Century."

Under our enduring corporate philosophy of "Putting the customer first," "Contributing to the prosperity of the region we serve while maintaining a high level of corporate ethics" and "Fostering a free and creative corporate culture," I believe all employees of Higo Bank will strive together to realize our vision of "forging a robust corporate structure based on the strong support of the customer"—our basic goal under the new management plan.

This report with its overview of the Bank's activities and results has been compiled to promote a better understanding of who we are, and I would be delighted if it proves useful as a reference tool.

I would like to thank our customers, shareholders and other stakeholders for their continued support.

A handwritten signature in black ink, reading "H. Oguri". The signature is written in a cursive style.

July 2003

Hiroo Oguri, *President*

# Management Policy

## *The "Second Medium-Term Management Plan for the New Century"*

Higo Bank's newly launched "Second Medium-Term Management Plan for the New Century" covers the three years from April 1, 2003 to March 31, 2006. With "forging a robust corporate structure based on the strong support of the customer" as our basic goal, we aim to enhance our earning power and financial soundness by engaging in further dialogue with customers, understanding them better and supplying them with high-quality tailored financial services.

In the new plan, we will strengthen earning power by simultaneously increasing gross business profit and operational efficiency while maintaining current high level of financial soundness, with an emphasis on increasing productivity through the dedication of every individual employee in his or her role within the enhanced Bank infrastructure laid down in the previous medium term-management plan.

### SLOGAN

*"Prospering with the customer, and winning the customer's full support  
(with every employee dedicated to his or her role)"*

The basic concept of the new management plan is ensuring that every employee performs his or her duties, to realize our goal of "Putting the customer first." To this end, we have chosen as our slogan, "Prospering with the customer, and winning the customer's full support (with every employee dedicated to his or her role)."

### PERIOD OF PLAN

*April 1, 2003 to March 31, 2006 (3 years)*

### BASIC GOAL

*Forging a robust corporate structure based on the strong support of the customer*

- ▶ **The strong support of the customer:** We will earn this by understanding customer needs, putting ourselves in the customer's position and providing high-quality tailored financial services.
- ▶ **Forging a robust corporate structure:** We will achieve this by bolstering earning power and enhancing risk management by strengthening our marketing and maximizing our efficiency.

INDICATOR	TARGET
1. ROE (Return on Equity)	5% or more
2. Adjusted OHR (Ratio of expenses to core gross business profit)	Less than 65%
3. Capital ratio (domestic standards)	10% or more
4. Core net business profit per employee	¥10 million or more

### CONDUCT CHARTER

1. Taking the customer's viewpoint, we will conduct our business in a spirit of gratitude.
2. By prioritizing dialogue with customers, we will increase our understanding of customer needs.
3. By fully understanding our customer's problems, we will solve them quickly and decisively.
4. By observing laws, regulations and in-house standards we will fully meet our social responsibilities and conduct ourselves within the bounds of common sense.

# Results

## Deposits and loans

### Deposits

As a result of marketing initiatives closely tailored to customer and regional needs, Higo Bank increased total deposits by ¥44.647 billion or 1.5% to ¥2,955.404 billion.

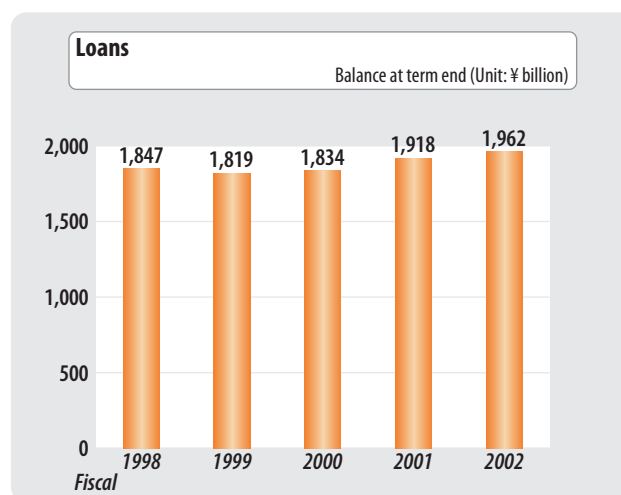
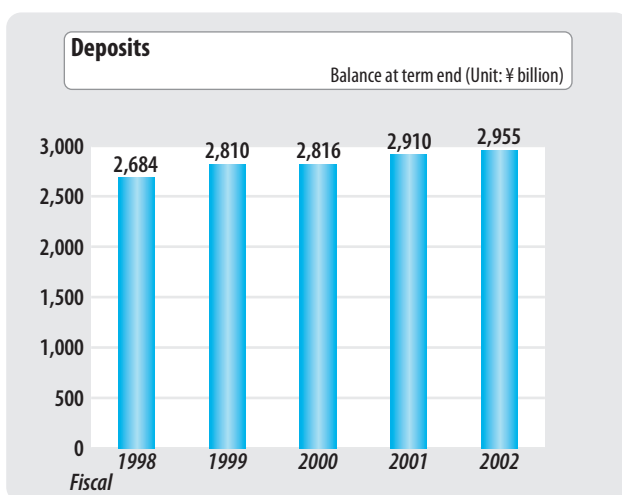
The average balance of deposits rose ¥51.585 billion or 1.8% to ¥2,923.329 billion.

The balance of customer assets excluding yen-denominated deposits rose 39.2% or ¥41.7 billion to ¥148.1 billion.

### Loans

As a result of loan marketing efforts targeted at local small and medium-sized corporations, public bodies and retail customers, Higo Bank's term-end balance of loans outstanding rose by ¥43.931 billion or 2.3% to ¥1,962.388 billion.

The average balance of loans outstanding rose ¥64.273 billion or 3.6% to ¥1,855.536 billion.



## Revenues

### Net business profit

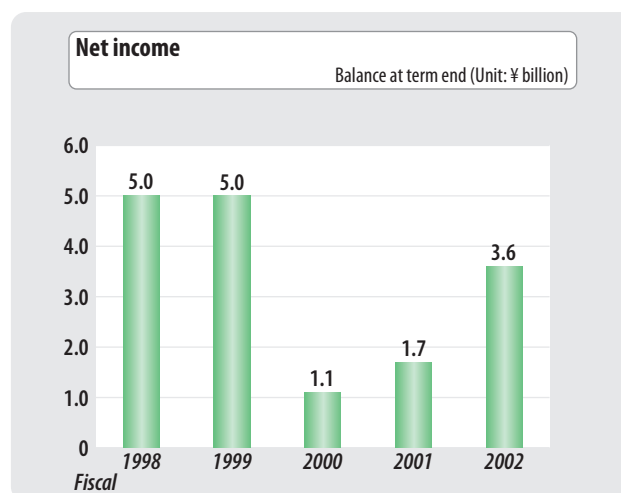
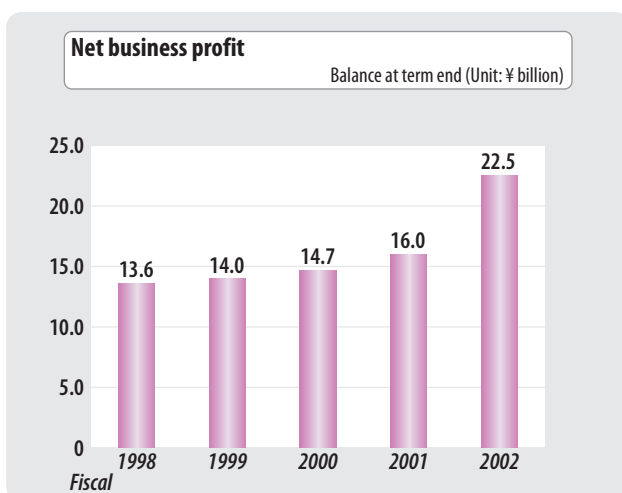
Net business profit rises ¥6,508 million

As a result of an increase in gross business profit and reductions in provisions to the reserve for possible loan losses and expenses, net business profit totaled ¥22,599 million.

### Net income

Net income rises ¥1.875 billion

As a result of an increase in total income (ordinary profit), net income rose ¥1.875 billion to ¥3.621 billion.



# Excellent Financial Indicators

## High Evaluations from the Ratings Institutions

Ratings are a concise, symbolic representation of credit risk, indicating a company's degree of trustworthiness or the reliability of their performance regarding liabilities. The ratings institution, as a disinterested third party, publishes its overall evaluation of a company's financial position and earning capability.

The Higo Bank has received official ratings from 3 ratings institutions in Japan and abroad, and we received high evaluations, ranking A, for each of the long-term ratings.

(Long-term credit rating: as of April 30, 2003)

- ❖ **Moody's Investors Service** ..... **A2**
- ❖ **Standard & Poor's** ..... **A-**
- ❖ **Rating and Investment Information, Inc.** ..... **A+**

\*A top-class regional bank in Kyushu, with high standards among the domestic banks.

### Moody's Credit Rating



### S&P Credit Rating



## Unrealized Gain on Securities

The Bank recorded a ¥38.1 billion valuation gain on securities. After deduction of deferred tax liabilities from gain on available-for-sale securities, ¥21.7 billion was recorded under unrealized gain on securities, net of tax in shareholders' equity.

Period ended March 31, 2003

(Billions of yen)

	Unrealized gain
Held-to-maturity	1.6
Available-for-sale securities	36.4
Shares	13.2
Bonds, etc.	23.1
Total	38.1



## Higo Bank has an Excellent Reputation as a Financially Sound Bank Carrying Few Non-Performing Loans

### Disclosure of Claims under the Financial Reconstruction Law (non-consolidated)

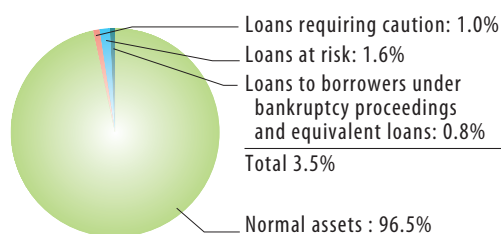
As of March 31, 2003 (billions of yen)

	Loan balance	Coverage by collateral and guarantees	Reserve for possible loan losses	Coverage ratio
Loans to borrowers under bankruptcy proceedings and equivalent loans	16.8	11.9	4.9	100.0%
Loans at risk	33.1	22.3	10.1	98.2%
Loans requiring caution	20.6	13.9	2.8	81.5%
Sub-total	70.5	48.1	17.9	93.7%
Normal loans	1,940.4			
Total	2,010.9			

Note: Figures have been rounded down to the nearest ¥100 million. Fractions in the coverage ratios up to 0.04 have been rounded down, and from 0.05 upward have been rounded up.

Higo Bank's non-performing loans under the disclosure standards mandated by the Financial Reconstruction Law stood at ¥70,571 million as of the end of March 2003, representing 3.5% of the total loan balance. This is an extremely low level compared to Japan's other regional banks.

Of these non-performing loans, 93.7% are covered by collateral, guarantees, and the reserve for possible loan losses, providing a sufficient buffer for the Bank.



Note: The above loans include such other claims as customers' liabilities for acceptances and guarantees.

#### Explanation of terms:

##### **Loans to borrowers under bankruptcy proceedings and equivalent loans**

This category indicates loans to borrowers undergoing bankruptcy proceedings or corporate rehabilitation, or loans to borrowers in a state of virtual bankruptcy.

##### **Loans at risk**

This category indicates loans to borrowers who, while not yet in a state of bankruptcy, are suffering from a severe deterioration in financial conditions and are very likely unable to repay outstanding loans.

##### **Loans requiring caution**

This category indicates loans for which no repayments, including payments of interest, have been made for 3 months or more, or whose repayment conditions have been eased.



Note: Non-performing loans held by the entire Higo Bank group on a consolidated basis, including subsidiaries and affiliates, in accordance with the disclosure standards under the Financial Reconstruction Law, totaled ¥72,916 million, accounting for 3.6% of the group's total loan balance.

## One of the Highest Capital Ratios Among Japan's Regional Banks

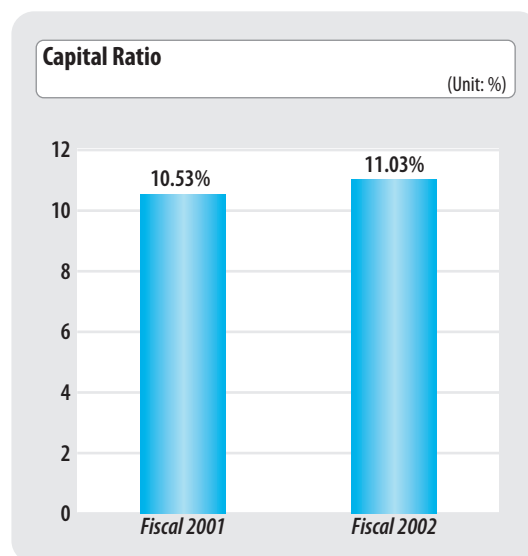
The capital ratio is the ratio of the bank's total equity (capital, retained earnings and other items) to total risk-weighted assets, including loans, marketable securities and others. This figure is growing in importance as an indicator of a bank's financial soundness and overall safety as the deregulation of Japan's financial services industry progresses.

As of March 31, 2003, Higo Bank's capital ratio was 11.03% based on domestic standards. This is one of the highest ratios of any regional bank in Japan and is far above the 4% standard for capital adequacy.

Using only Tier I capital, which includes common stock and certain other elements of equity, the capital ratio stands at 10.09%.

When applying the BIS common minimum standard, Higo Bank's capital ratio remains at a high 11.91%.

\*Risk-weighted assets are calculated by multiplying assets and the credit equivalents of off-balance-sheet transactions by a risk factor that varies depending on the credit quality of each asset.



## Acquisition and Retirement of Treasury Stock

To enhance investor value, Higo Bank in December 2001 began buying up treasury stock as part of its capital policy.

Since December 2001, we have bought a cumulative total of 6,689,000 shares at a value of ¥2,945 million.

By retiring treasury stock and reducing the number of shares issued, we are increasing shareholder and investor value and improving capital efficiency. By continuing our policy of acquiring treasury stock whenever possible and focusing on increasing profitability, I believe we can raise investment efficiency and meet the expectations of all shareholders and investors.

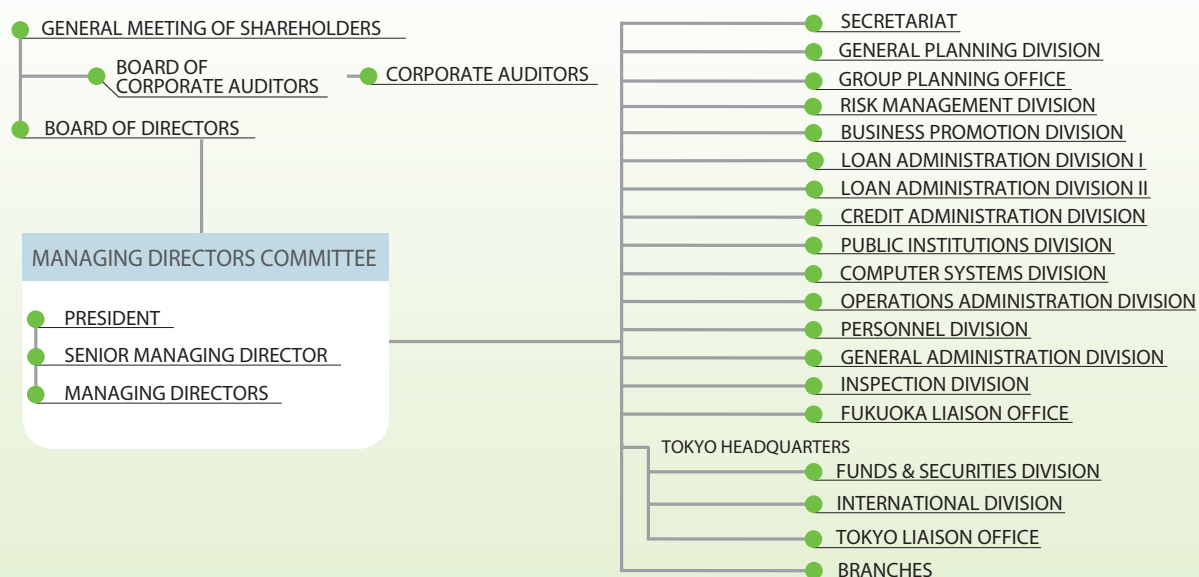


# Corporate Data As of July 1, 2003

Established: July 25, 1925  
 Total Assets: ¥3,328.7 billion  
 Deposits: ¥2,955.4 billion  
 Loans and Bills Discounted: ¥1,962.3 billion  
 Capital Stock: ¥18.1 billion

Capital Ratio: 11.03% (domestic standards)  
 Number of Employees: 2,253  
 Number of Offices: 130  
 (Head Office and 113 domestic branches, 12 sub-branches, 3 agencies, and 1 overseas representative office)

## Organization



## Board of Directors and Corporate Auditors

<b>President &amp; Representative Director:</b>	Hiroo Oguri		
<b>Senior Managing Director &amp; Representative Director:</b>	Masaomi Mori		
<b>Managing Directors:</b>	Ken Inomata	Hidenori Mito	Moriaki Yamada
	Hiroo Nagata	Takahiro Kai	
<b>Directors:</b>	Shozo Iwanaga	Kenichi Hida	Kensei Murakami
<b>Standing Corporate Auditors:</b>	Tomoyoshi Kuroda	Tetsuo Uemura	
<b>Corporate Auditors:</b>	Naosuke Tokuyama	Jiro Yamada	Tadasu Yonawa

## Principal Shareholders As of March 31, 2003

Name	Number of shares (thousand)	Equity stake (%)
Higo Bank Employees' Shareholding Association	13,157	5.26
Mizuho Corporate Bank, Ltd.	12,626	5.04
The Yasuda Mutual Life Insurance Co.	9,645	3.85
Takara Kogyo Co., Ltd.	7,682	3.07
Sompo Japan Insurance Inc.	6,854	2.74
The Bank of Fukuoka, Ltd.	5,864	2.34
The Master Trust Bank of Japan, Ltd.	5,102	2.04
Mizuho Trust & Banking Co., Ltd.	4,346	1.73
The Nichido Fire and Marine Insurance Co., Ltd.	4,255	1.70
The Dai-ichi Mutual Life Insurance Co.	3,841	1.53
<b>Total</b>	<b>73,375</b>	<b>29.33</b>

# Service Network

## *Head Office*

1, Renpeicho, Kumamoto 860-8615  
Phone: (096) 325-2111

## *International Division*

### **Tokyo Main Office**

10-2, Kyobashi 2-chome,  
Chuo-ku, Tokyo 104-0031  
Phone: (03) 3561-1504

Cable Address: HIGOBANKJP

Telex: J33402

Facsimile: (03) 3562-3737

### **Kumamoto Office**

1, Renpeicho, Kumamoto 860-8615  
Phone: (096) 326-8646  
Facsimile: (096) 326-8027

## *Singapore Representative Office*

20 Raffles Place #10-07  
Ocean Towers, Singapore 048620  
Phone: 65-6225-0811  
Facsimile: 65-6222-5123

## *Foreign Exchange Offices*

### **Head Office**

1, Renpeicho, Kumamoto 860-8615  
Phone: (096) 326-8642

### **Tokyo Branch**

10-2, Kyobashi 2-chome,  
Chuo-ku, Tokyo 104-0031  
Phone: (03) 3561-3121

### **Osaka Branch**

NM Plaza Midosuji 6F,  
6-3, Awaji-cho,3-chome,  
Chuo-ku, Osaka 541-0047  
Phone: (06) 6208-6551

### **Fukuoka Branch**

8-1, Daimyo 2-chome,  
Chuo-ku, Fukuoka 810-0041  
Phone: (092) 741-7935

### **Yatsushiro Branch**

3-25, Honmachi 2-chome,  
Yatsushiro 866-0861  
Phone: (0965) 32-3171

### **Tamana Branch**

550, Takase, Tamana 865-0025  
Phone: (0968) 73-2151

### **Suidocho Branch**

3-31, Kamitoricho,  
Kumamoto 860-0845  
Phone: (096) 352-3111

### **Kagoshima Branch**

1-3, Yamanokuchicho,  
Kagoshima 892-0844  
Phone: (099) 223-7221

### **Amakusa Branch**

1-1, Suwamachi, Hondo 863-0037  
Phone: (0969) 22-2151

### **Ozu Branch**

181-2, Muro, Ozumachi 869-1235  
Phone: (096) 293-3131

### **Matsubase Branch**

920-1, Matsubase, Matsubasemachi  
869-0502  
Phone: (0964) 32-1121

**THE HIGO BANK, LTD.**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2003 and 2002**

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>ASSETS:</b>			
Cash and due from banks	¥ 81,814	¥ 79,691	\$ 680,648
Call loans and bills bought	13,384	53,226	111,347
Monetary claims purchased	1,128	24,705	9,384
Trading assets	4,445	18,415	36,980
Securities	1,164,634	1,091,743	9,689,134
Money held in trust	4,990	10,010	41,514
Loans	1,962,657	1,918,378	16,328,261
Foreign exchange	2,265	537	18,843
Other assets	21,487	19,013	178,760
Premises and equipment	45,540	46,796	378,868
Deferred tax assets	5,567	7,589	46,314
Customers' liabilities for acceptances and Guarantees	46,440	52,311	386,356
Reserve for possible loan losses	(24,084)	(25,981)	(200,366)
Total assets	<u>¥ 3,330,272</u>	<u>¥ 3,296,439</u>	<u>\$ 27,706,089</u>
<b>LIABILITIES AND SHAREHOLDERS'</b>			
<b>EQUITY:</b>			
<b>Liabilities:</b>			
Deposits	¥ 2,999,329	¥ 2,970,945	\$ 24,952,820
Call money and bills sold	36,227	28,515	301,389
Collateral received under securities lending transactions	10,708	-	89,084
Borrowed money	27	64	224
Foreign exchange	23	54	191
Other liabilities	16,639	23,564	138,427
Reserve for retirement benefits	19,451	20,079	161,821
Deferred tax liabilities	0	2	0
Deferred tax liabilities related to Land revaluation	6,221	6,419	51,755
Acceptances and guarantees	46,440	52,311	386,356
Total liabilities	<u>3,135,070</u>	<u>3,101,956</u>	<u>26,082,113</u>
<b>Minority interests:</b>			
Minority interests	1,087	978	9,043
Total minority interests	<u>1,087</u>	<u>978</u>	<u>9,043</u>
<b>Shareholders' equity:</b>			
Common stock	18,128	18,128	150,815
Capital surplus	8,133	8,133	67,662
Excess of land revaluation	9,178	8,974	76,356
Retained earnings	136,934	137,198	1,139,217
Unrealized gain on securities, net of tax	21,743	21,070	180,890
Less: Treasury stock	3	1	24
Total shareholders' equity	<u>194,115</u>	<u>193,504</u>	<u>1,614,933</u>
Total liabilities, minority interests and shareholders' equity	<u>¥ 3,330,272</u>	<u>¥ 3,296,439</u>	<u>\$ 27,706,089</u>

The accompanying notes are an integral part of these financial statements.

**THE HIGO BANK, LTD.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**For the years ended March 31, 2003 and 2002**

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Income:</b>			
Interest on loans	¥ 38,272	¥ 39,827	\$ 318,402
Interest on and dividends from securities	17,768	19,303	147,820
Other interest	497	2,149	4,134
Fees and commissions	9,143	8,578	76,064
Trading revenue	264	140	2,196
Other operating income	2,748	1,585	22,861
Other income	1,273	6,096	10,590
Total income	<u>69,968</u>	<u>77,679</u>	<u>582,096</u>
<b>Expenses:</b>			
Interest on deposits	1,711	4,187	14,234
Interest on borrowings and call money	425	625	3,535
Interest on securities lending transactions	68	-	565
Other interest	2,833	4,994	23,569
Fees and commissions	1,239	1,205	10,307
Other operating expenses	1,953	2,509	16,247
General and administrative expenses	41,073	41,640	341,705
Other expenses	11,701	17,134	97,346
Total expenses	<u>61,007</u>	<u>72,297</u>	<u>507,545</u>
Income before income taxes	8,959	5,381	74,534
<b>Income taxes</b>			
- Current	2,829	6,311	23,535
- Deferred	2,356	(2,849)	19,600
<b>Minority interests</b>	109	163	906
Net income	<u>¥ 3,663</u>	<u>¥ 1,755</u>	<u>\$ 30,474</u>
	Yen		U.S. dollars
<b>Per share amounts</b>			
Primary net income	¥14.30	¥6.82	\$0.118

The accompanying notes are an integral part of these financial statements.

**THE HIGO BANK, LTD.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**For the years ended March 31, 2003 and 2002**

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Common stock:			
Balance at beginning of year	¥ 18,128	¥ 18,128	\$ 150,815
Balance at end of year	18,128	18,128	150,815
Capital surplus:			
Balance at beginning of year	8,133	8,133	67,662
Balance at end of year	8,133	8,133	67,662
Excess of land revaluation:			
Balance at beginning of year	8,974	9,038	74,658
Reversal of excess of land revaluation	4	(63)	33
Effect of change in tax rates	200	-	1,663
Balance at end of year	9,178	8,974	76,356
Retained earnings:			
Balance at beginning of year	137,198	137,755	1,141,414
Reversal of excess of land revaluation	(4)	63	(33)
Net income	3,663	1,755	30,474
Dividends paid	(1,523)	(1,542)	(12,670)
Bonuses to directors and corporate auditors	(46)	(70)	(382)
Retirement of treasury stock	(2,353)	(763)	(19,575)
Balance at end of year	136,934	137,198	1,139,217
Unrealized gain on securities:			
Balance at beginning of year	21,070	30,922	175,291
Unrealized gain on securities	199	(9,852)	1,655
Effect of change in tax rates	474	-	3,943
Balance at end of year	21,743	21,070	180,890
Treasury stock:			
Balance at beginning of year	1	0	8
Net change during the year	2	1	16
Balance at end of year	3	1	24
Total shareholders' equity	¥ 194,115	¥ 193,504	\$ 1,1614,933

The accompanying notes are an integral part of these financial statements.

**THE HIGO BANK, LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the year ended March 31, 2003 and 2002**

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes	¥ 8,959	¥ 5,381	\$ 74,534
Adjustments for:			
Depreciation and amortization	2,475	2,365	20,590
Allowance for possible loan losses	(1,896)	8,001	(15,773)
Reserve for retirement benefits	(627)	(91)	(5,216)
Interest and dividend income	(56,537)	(61,279)	(470,357)
Interest expenses	5,039	9,807	41,921
Investment securities gains	1,556	(740)	12,945
Loss on money held in trust	554	17	4,608
Increase in loans	(48,753)	(87,039)	(405,599)
Increase in deposits	44,833	94,757	372,986
Increase in negotiable certificates of deposit	(16,448)	(27,289)	(136,838)
Decrease in due from banks	17,591	86,540	146,347
Decrease in call loans	63,418	122,814	527,603
Increase in call money	7,711	19,099	64,151
Increase in collateral received under securities lending transactions	10,708	-	89,084
Interest income (cash basis)	58,597	62,759	487,495
Interest expense (cash basis)	(5,833)	(12,296)	(48,527)
Other	16,315	(15,653)	135,732
Total	107,662	207,153	895,690
Payments for income taxes	(5,277)	(6,447)	(43,901)
Net cash provided by operating activities	102,384	200,705	851,780
Cash flows from investing activities:			
Payments for purchases of securities	(343,793)	(380,436)	(2,860,174)
Proceeds from sales of securities	110,117	40,125	916,114
Proceeds from redemption of securities	150,104	145,086	1,248,785
Payments for increase in money held in trust	(2,000)	-	16,638
Proceeds from decrease in money held in trust	6,981	-	58,078
Payments for purchases of premises and equipment	(352)	(572)	(2,928)
Proceeds from sales of premises and equipment	134	281	1,114
Net cash used in investing activities	(78,808)	(195,515)	(655,640)
Cash flows from financing activities:			
Cash dividends paid	(1,523)	(1,542)	(12,670)
Payment for purchase of treasury stock	(2,352)	(773)	(19,567)
Proceeds from sales of treasury stock	-	8	-
Net cash used in financing activities	(3,875)	(2,307)	(32,237)
Effect of exchange rate changes on cash and cash Equivalents	14	25	116
Net increase in cash and cash equivalents	19,714	2,908	164,009
Cash and cash equivalents at beginning of year	55,950	53,042	465,474
Cash and cash equivalents at end of year	¥ 75,665	¥ 55,950	\$ 629,492

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of Presentation**

The consolidated financial statements have been prepared from the accounts maintained by The Higo Bank, Ltd. (the “Bank”) and its consolidated subsidiaries (together referred to as the “Group”) in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, the Banking Law of Japan, the Financial Statements Regulation (ordinances promulgated by the Ministry of Finance), and the Uniform Accounting Standards for Banks in Japan, which are different from International Accounting Standards in certain respects as to application and disclosure requirements.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions outside Japan.

Amounts of less than ¥ 1 million have been omitted. As a result, the yen totals shown in the financial statements and notes thereto do not necessarily agree with the sum of the individual account balances.

**2. Summary of Significant Accounting Policies**

(1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its subsidiaries, after the elimination of all material intercompany transactions, balances, and unrealised gains and losses. The scope of the consolidation is determined based on the Opinions issued by the Business Accounting Deliberation Council, as well as the Financial Statements Regulation and Consolidated Financial Statements Regulation.

The number of subsidiaries and affiliates as of March 31, 2003 and 2002 was as follows:

	<u>2003</u>	<u>2002</u>
Consolidated subsidiaries	7	7
Affiliates (accounted for under the equity method)	1	1

(2) Fiscal year-ends of consolidated subsidiaries

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

March 31 7 consolidated subsidiaries

(3) Summary of significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand and due from the Bank of Japan.

(b) Foreign currency translation

The Bank maintains its accounting records in yen. Foreign currency assets and liabilities are translated into yen at the exchange rates prevailing on the balance-sheet dates. There were no assets/liabilities denominated in foreign currency held by consolidated subsidiaries.

Up to the previous fiscal year, the Bank had followed Accounting Standards relating to Foreign Currency Transactions for Banks in accordance with the “Tentative Accounting and Auditing Treatment relating to Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Audit Committee Report No. 20). However, from this fiscal year the Bank has adopted the “Tentative Accounting and Auditing Treatment relating to Accounting for Foreign Currency Transactions in the Banking Industry” (JICPA Industry Audit Committee Report No. 25).

On the basis of the temporary treatment described in the JICPA Industry Audit Committee Report No. 25, regarding foreign currency swaps relating to funding transactions, the swap nominal amounts are translated into yen using the exchange rates in effect at the consolidated balance sheet date and are disclosed in the consolidated balance sheet on a net basis. Premiums or discounts reflecting interest rate differentials between the two currencies are charged to or credited to the consolidated statement of income on an accruals basis over the period from the spot transaction’s settlement date to the forward transaction’s settlement date, and resulting accrued income or accrued expenses are included in other assets and other liabilities on the consolidated balance sheet.

Such foreign currency swaps are entered into for the purpose of funding or investment, where (1) the nominal amounts of funding or investment are equal to the amounts of foreign exchange purchased or sold as spot transactions and (2) future payments or proceeds from investment or funding respectively, together with the contractual interest payment or receipt denominated in foreign currency, are equal to the amounts of foreign exchange sold or purchased forward.

Valuation differences on foreign exchange forward contracts other than the above mentioned swap transactions are disclosed on a net basis on the consolidated balance sheets.

(c) Trading assets and Trading liabilities



Securities, monetary receivables, money trusts, etc. included in “Trading assets” or “Trading liabilities” are stated at market value. Trading-related derivative financial instruments are valued based on the assumption that they are settled at the end of the fiscal year.

Profits and losses from trading assets and trading liabilities are recorded in “Trading revenue/expenses” on a trade date basis. In the case of securities, monetary receivables, etc., held for trading purposes, “Trading revenue/expenses” include interest received/paid during the fiscal year and the difference between the valuation profits and losses at the end of the current fiscal year and those at the end of the previous fiscal year. In the case of trading-related derivative financial instruments, “Trading revenue/expenses” include interest received/paid during the fiscal year and the difference in profits and losses at the end of the fiscal year and at the end of the previous fiscal year based on the assumption that transactions were settled.

(d) Financial Instruments

i) Securities

Held-to-maturity debt securities are stated at amortized cost as determined by the moving average method. Other securities with market quotations are stated at the market prices prevailing at the balance sheet date. Cost of sales of such securities is determined by the moving average method. Net unrealized gains or losses on these securities, net of tax, are reported as a separate item in the shareholders’ equity. Other securities without market quotations are stated at cost or amortized cost as determined by the moving average method. Investments in money trusts are accounted for in a manner consistent with those discussed above.

ii) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as “hedging instruments” (see iii) Hedge Accounting below).

Until the fiscal year ended March 31, 2000, derivative financial instruments held for non-trading purpose were accounted for on an accrual basis.

iii) Hedge Accounting

The Bank utilizes a macro hedge methodology using derivatives to manage overall interest rate risk arising in various financial assets and liabilities held, including loans and deposits. This methodology is stipulated as a “Risk Adjusted Approach” of risk management in “Tentative Accounting and Auditing Treatment relating to Adoption of ‘Accounting for Financial Instruments’ for Banks” (Japanese Institute of Certified Public Accountants, Industry Audit Committee Report No. 15), under which the deferral method of hedge accounting is applied on the basis of the temporary treatment described in the “Accounting and Auditing Treatment relating to the Adoption of ‘Accounting for Financial Instruments’ for Banks”(JICPA Industry Audit Committee Report No.24). Hedge effectiveness is assessed by checking whether the risk amounts arising

from derivative instruments used as hedging instruments are within established risk limits as set out in the risk management policy and whether the interest rate risk arising from hedged items has been mitigated.

iv) The bank also applies the deferral method for hedges of certain assets and liabilities, and the accrual method for specific interest rate swaps hedging certain assets or liabilities. Under the deferral method, the recognition of expense arising from a hedging instrument is deferred until the income or expense arising on the hedged item is recognized. Net unrealized gain or losses included in "Other assets". Gross unrealized losses at March 31, 2003 and 2002 are ¥2,153 million (\$17,911 thousand) and ¥1,118 million, respectively. Gross unrealized gains at March 31, 2003 and 2002 are nil and ¥108 million, respectively. The Bank's consolidated subsidiaries do not apply hedge accounting. Securities lending and borrowing transactions with cash collateral and Cash collateral paid or received under securities lending transactions were included in other assets or other liabilities in prior years. Effective from the year ended March 31, 2003, they are disclosed as collateral paid under securities borrowing transactions or collateral received under securities lending transactions, in accordance with "Practical Guidelines for Accounting for Financial Instruments"(JICPA Accounting Committee Research Report No. 14). As a result of this change, other liabilities decreased by ¥10,708 million and collateral received under securities lending transactions increased by the same amount compared with the amounts that would have been reported if the previous method had been applied consistently.

In addition, following the changes to "Ministerial Ordinance to amend a part of the Banking Law Enforcement Regulation", interest expense arising from securities lending transactions with cash collateral which were included in other interest are disclosed as interest on securities lending transactions effective from the year ended March 31, 2003.

(e) Premises and equipment

i) Depreciation of premises and equipment is computed as follows.

Premises: Depreciation is computed using the declining balance method over the estimated useful lives of the respective assets.

However, depreciation on buildings acquired after April 1, 1998 (excluding annex facilities of buildings) is computed by the straight-line method.

Equipment: Depreciation is computed by the declining balance method over the estimated useful lives of the respective assets.

The useful lives of premises and equipment are generally as follows:

Building 20 ~ 50 years

Equipment 5 ~ 20 years

ii) Based on the Law Concerning the Revaluation of Land (Law 34 promulgated on March 31, 1998), land for commercial-use was revalued on March 31, 1999.

In accordance with Article 3, Paragraph 3 of Law 34, revaluations were made based on the prices that form the basis for calculating land value taxes as set out

in Article 2, Subparagraph 3 of the Ordinance Implementing the Law Concerning Revaluation of Land (Government Ordinance No.119 dated March 31, 1998), with appropriate adjustments.

The unrealized gain (net of tax effect) is recorded as "Excess of land revaluation" in shareholders' equity and the tax effect is recorded as "Deferred tax liabilities" related to land revaluation. The difference between the book value of the land revalued in accordance with Article 10 of the Law Concerning the Revaluation of Land and the market value was ¥8,427 million (\$70,108 thousand) and ¥6,736 million at March 31, 2003 and 2002, respectively.

(f) Costs of computer software developed or obtained for internal use

Costs of computer software developed or obtained for internal use are deferred and amortized using the straight-line method over the estimated useful lives of 5 years.

(g) Reserve for loan losses

The reserve for loan losses is provided as follows:

- 1) The reserve for claims on debtors who are legally or substantially bankrupt is provided based on the amount remaining after deducting the amount expected to be collected through the disposal of collateral or through the execution of guarantees.
- 2) The reserve for claims on debtors who are not currently legally bankrupt but are likely to become bankrupt is provided at the amount considered necessary after due consideration of the results of a solvency assessment. The solvency assessment identifies the amounts expected to remain after deducting the amounts expected to be collected through the disposal of collateral or through the execution of guarantees.
- 3) The reserve for claims on debtors other than the above is provided based on default rates calculated using actual defaults during a certain period in the past.

All claims are assessed by the branches and credit supervision divisions based on the internal rules for the self-assessment of assets. The Asset Examination Division, which is independent from the branches and credit supervision divisions, audits these self-assessments, and the reserve is provided based on the audit results.

With respect to the claims with collateral or guarantees on debtors who are legally or substantially bankrupt, estimated uncollectible amounts have been directly charged off against claims. The charge off amounted to ¥14,058 million (\$116,955 thousand) and ¥12,083 million for the years ended March 31, 2003 and 2002, respectively.

(h) Reserve for retirement benefits

The reserve for retirement benefits, which is provided for the payment of employees' retirement benefits, represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, taking in to account adjustments for unrecognized prior year service costs and unrecognized actuarial differences. Unrecognised prior service costs and unrecognized actuarial differences

are amortized on a straight-line basis over a period of 10 years from the year following the year in which they arise.

(i) Leases

Finance leases (other than those that are deemed to transfer ownership of the leased assets to the lessees) are accounted for as operating leases.

(j) Valuation of assets and liabilities in consolidated subsidiaries and related goodwill

Assets and liabilities in consolidated subsidiaries are revalued to fair market value when a majority interest in the subsidiaries is purchased. Goodwill is charged to income in the year that it arises.

(k) Per share information

Net income per share is computed based on the weighted average number of shares of common stock outstanding during the year. Net assets per share at March 31, 2003 and 2002 were ¥776.04 and ¥757.93, respectively. Net income per share at March 31, 2003 and 2002 were ¥14.30 and ¥6.82, respectively. The Bank adopted “Accounting Standard for Earnings per Share”(Accounting Standard No. 2) and “Implementation Guidance on Accounting Standard for Earnings per Share” (Accounting Standard Implementation Guidance No. 4) from the year ended March 31, 2003. Net income attributable to common stock was ¥3,622 million, calculated by deducting bonuses to directors of ¥41 million from net income for the year of ¥3,663 million. The average number of shares outstanding during the year was 253,162 thousand.

Net assets per share as of March 31, 2003 and net income per share for the year ended March 31, 2003 calculated using the method applied in the previous years are ¥776.19 and ¥14.47, respectively.

(l) Treasury stock

The number of common stock held by consolidated subsidiaries and affiliates accounted for by the equity method was 7 thousand at March 31, 2003.

### **3. U.S. Dollar Amounts**

The Group maintains its accounting records in yen. The U.S. dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetic results of translating yen to dollars on the basis of ¥120.20 to US\$1, the approximate rate of exchange prevailing on March 31, 2003. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that assets and liabilities originated in yen have been or could be readily converted, realized, or settled in dollars at the given rate or at any other rate.

#### 4. Cash and Cash Equivalents

Reconciliation of the cash and cash equivalent balances on the consolidated statements of cash flows and the account balances on the consolidated balance sheets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and due from banks	¥ 81,814	¥ 79,691	\$ 680,648
Foreign currency deposits	(5,178)	(17,934)	(43,078)
Negotiable certificate of deposit	-	(5,000)	-
Other deposits	(971)	(806)	(8,078)
Cash and cash equivalent	¥ 75,665	¥ 55,950	\$ 629,492

#### 5. Securities

The following disclosure includes certificates of deposits included in “Cash and due from banks”, commercial paper included in “Monetary claims purchased” as well as “Securities” on the balance sheet.

##### (1) Carrying value and market value of securities

###### (a) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying value	¥ 4,445	¥ 18,415	\$ 36,980
Unrealized gain charged to income	6	19	49

###### (b) Held-to-maturity debt securities with market value.

Municipal government bonds	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying value	¥ 32,257	¥ 43,274	\$ 268,361
Market value	33,748	45,442	280,765
Net unrealized gain	1,491	2,167	12,404
Gains	1,491	2,167	12,404
Losses	-	-	-

Corporate bonds	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying value	¥ 3,908	¥ -	\$ 32,512
Market value	4,083	-	33,968
Net unrealized gain	175	-	1,455
Gains	175	-	1,455
Losses	-	-	-

Note: Market values are mainly based on their market prices at the balance sheet date.

## (c) Other securities with market value

		Millions of yen				
		2003				
		Acquisition Cost	Carrying value	Net Unrealized gain	Gains	Losses
Stocks		¥ 34,458	¥ 47,758	¥ 13,299	¥ 16,364	¥ 3,064
Bonds						
	Japanese					
	Government Bonds	418,906	428,405	9,498	10,301	802
	Municipal					
	Government Bonds	161,062	167,935	6,873	6,873	0
	Corporate Bonds	288,747	292,807	4,059	4,065	6
		868,716	889,148	20,431	21,240	808
Others		183,740	186,493	2,753	4,031	1,278
	Total	¥1,086,915	¥1,123,399	¥ 36,484	¥ 41,636	¥ 5,151

		Millions of yen				
		2002				
		Acquisition cost	Carrying value	Net Unrealized gain	Gains	Losses
Stocks		¥37,974	¥58,706	¥20,732	¥22,807	¥2,075
Bonds						
	Japanese					
	Government Bonds	354,537	363,825	9,287	9,392	104
	Municipal					
	Government Bonds	149,857	154,074	4,216	4,628	411
	Corporate Bonds	268,112	271,288	3,176	3,479	303
		772,507	789,187	16,680	17,500	819
Others		201,160	199,893	(1,267)	1,101	2,368
	Total	¥1,011,642	¥1,047,788	¥36,145	¥41,409	¥5,264

Thousands of U.S. dollars					
2003					
Net					
	Acquisition cost	Carrying value	Unrealized gain	Gains	Losses
Stocks	\$ 286,672	\$ 397,321	\$ 110,640	\$ 136,139	\$ 25,490
Bonds					
Japanese					
Government Bonds	3,485,074	3,564,101	79,018	85,698	6,672
Municipal					
Government Bonds	1,339,950	1,397,129	57,179	57,179	0
Corporate Bonds	2,402,221	2,435,998	33,768	33,818	49
	<u>7,227,254</u>	<u>7,397,237</u>	<u>169,975</u>	<u>176,705</u>	<u>6,722</u>
Others	1,528,618	1,551,522	22,903	33,535	10,632
Total	<u>\$9,042,554</u>	<u>\$9,346,081</u>	<u>\$ 303,527</u>	<u>\$ 346,389</u>	<u>\$ 42,853</u>

Note: Carrying values on the Consolidated Balance Sheet are stated mainly based on their market prices at the balance sheet date.

In the fiscal year ended March 31, 2003, losses on impairment of ¥2,445million (\$20,341 thousand) were recorded for stocks with market value.

In the fiscal year ended March 31, 2002, losses on impairment of ¥2,789million and ¥227 million were recorded for stocks and bonds with market value, respectively.

Losses on impairment were recorded for all securities with market value whose market values at the balance sheet dates were less than 50% of the cost of these securities. In addition, losses on impairment are recorded for certain securities with market value whose market values at the balance sheet dates fell 30% or more but less than 50% after assessment of price trends and credit risks of issuers.

- (2) Held-to-maturity debt securities sold during the fiscal years ended March 31, 2003 and 2002.

No held-to-maturity debt securities were sold.

- (3) Other securities sold during fiscal years ended March 31, 2003 and 2002.

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Amounts sold	¥108,719	¥ 38,362	\$ 904,484
Gross gains	1,889	4,448	15,715
Gross losses	1,201	568	9,991

- (4) Carrying value of securities without market value

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Held-to-maturity Debt Securities	¥ 3,199	¥ 8,767	\$ 26,613

Other Securities	1,720	1,775	14,309
(5) Reclassified securities			

The Bank and its consolidated subsidiaries had no reclassified securities.

(6) Maturities of held-to-maturity debt securities and other securities held.

Millions of yen				
2003				
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds				
Japanese Government Bonds	¥ 54,136	¥ 296,893	¥ 45,178	¥ 32,197
Municipal Government Bonds	23,950	105,345	70,779	117
Corporate Bonds	66,340	210,371	23,202	-
	<u>¥ 144,427</u>	<u>¥ 612,610</u>	<u>¥ 139,160</u>	<u>¥ 32,315</u>
Others	<u>30,064</u>	<u>90,856</u>	<u>58,266</u>	<u>-</u>
	<u>¥ 174,491</u>	<u>¥ 703,467</u>	<u>¥ 197,426</u>	<u>¥ 32,315</u>



Millions of yen				
2002				
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds				
Japanese Government Bonds	¥34,641	¥278,378	¥50,805	¥ -
Municipal Government Bonds	29,454	90,082	77,577	¥235
Corporate Bonds	38,786	222,135	15,187	-
	<u>102,882</u>	<u>590,596</u>	<u>143,569</u>	<u>235</u>
Others	<u>28,449</u>	<u>111,375</u>	<u>48,557</u>	<u>-</u>
	<u>¥131,331</u>	<u>¥701,972</u>	<u>¥192,127</u>	<u>¥235</u>

Thousands of U.S. dollars				
2003				
	Within one year	Over one year but within 5 years	Over 5 years but within 10 years	Over 10 years
Bonds				
Japanese Government Bonds	\$ 450,382	\$2,469,991	\$ 375,856	\$ 267,861
Municipal Government Bonds	199,251	876,414	588,843	973
Corporate Bonds	551,913	1,750,174	193,028	-
	<u>\$1,201,555</u>	<u>\$5,096,589</u>	<u>\$1,157,737</u>	<u>\$ 268,843</u>
Others	<u>250,116</u>	<u>755,873</u>	<u>484,742</u>	<u>-</u>
	<u>\$1,451,672</u>	<u>\$5,852,470</u>	<u>\$1,642,479</u>	<u>\$ 268,843</u>

(7) Details of unrealized gain on other securities

The unrealized gain on other securities on the balance sheet consists of the following:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Gross unrealized gain on Other securities	¥ 36,484	¥ 36,145	\$ 303,527
Less: deferred tax liabilities	14,739	15,072	122,620
Net unrealized gain on other securities	21,744	21,072	180,898
Minority interest	1	2	8
Unrealized gain on Other securities of Affiliates attributable to the parent company	0	0	0
Unrealized gain on Other securities on the balance sheet	¥ 21,743	¥ 21,070	\$ 180,890

**6. Money Held in Trust**

The carrying and market values of money held in trust, as of March 31, 2003 and 2002, were as follows:

(1) Money Held in Trust Held for Investment

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying value	¥4,690	¥9,710	\$39,018
Unrealized gain charged to income	¥(168)	¥(149)	\$(1,397)

(2) Money Held in Trust Held to Maturity

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Carrying value	¥300	¥300	\$2,495
Market value	¥300	¥300	\$2,495

(3) Other Money Held in Trust (Money Held in Trust other than Held for Investment or Held to Maturity)

None.

## 7. Loans

Loans at March 31, 2003 and 2002 include the following:

	Millions of Yen		Thousands of US dollars
	2003	2002	2003
Bankruptcy loans (1)	¥ 8,001	¥ 5,806	\$ 66,564
Non-accrual loans (2)	38,808	42,611	322,861
Accruing loans past due 3 months or more	617	1,115	5,133
Restructured loans (3)	20,028	26,043	166,622
Total	¥ 67,456	¥ 75,577	\$ 561,198

- (1) Bankruptcy loans represent non-accrual loans to borrowers who are legally bankrupt as defined in Article 96-1-3 and 4 of the Japanese Tax Law Enforcement Regulation (Article 97 of 1965 Cabinet Order).
- (2) Non-accrual loans represent non-accrual loans other than (i) bankruptcy loans and (ii) loans for which payments of interest are deferred in order to assist or facilitate the restructuring of borrowers in financial difficulties.
- (3) Restructured Loans represent loans on which contracts were amended in favor of borrowers (e.g., reduction of or exemption from stated interest, deferral of interest payments, extension of maturity dates, renunciation of claims) in order to assist or facilitate the restructuring of borrowers in financial difficulties.

Loans include bills discounted amounting to ¥38,350 million and ¥54,441 million at March 31, 2003 and 2002, respectively. The Bank is entitled, without limitation, to dispose these bills discounted.

## 8. Assets Pledged

Assets pledged as collateral are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Securities	¥ 38,628	¥ 27,648	\$ 321,364

Liabilities related to the above pledged assets are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deposits	¥ 12,853	¥ 11,006	\$ 106,930
Collateral received under securities lending transactions	¥ 10,708	¥ -	\$ 89,084

In addition, securities totalling ¥87,151 million (\$725,049 thousand) and ¥86,678 million are pledged as collateral for settlement of exchange, short-term funding, derivatives or as variation margin, etc. at March 31, 2003 and 2002, respectively.

## 9. Commitment Line Agreements Related to Overdrafts and Loans

Commitment line agreements relating to overdrafts and loans represent agreements to allow customers to extend overdrafts or loans up to agreed amounts at the customers' request as long as no violation against the conditions of the agreements exists. The amount of unused commitment lines relating to such agreements amounted to ¥547,312 million (\$4,553,344 thousand) and ¥586,564 million at March 31, 2003 and 2002, respectively, all of which had an original maturity within one year or cancelable by the Bank at any time without any penalty.

The amount of unexercised commitment lines does not necessarily affect the future cash flows of the Bank and consolidated subsidiaries because many such agreements are terminated without being exercised. Many of these agreements have provisions which stipulate the Bank and consolidated subsidiaries may deny extending loans or decrease the commitment line when there are certain changes in financial markets, certain issues in securing loans and other reasons. The Bank requests collateral in the form of premises or securities as deemed necessary upon providing such commitments. In addition, the Bank monitors the financial condition of customers in accordance with its internal rules on a regular basis (semi-annually) and takes necessary measures including revisiting the terms of commitments and other means to prevent credit losses.

## 10. Reserve for retirement benefits

The Bank has defined benefit retirement plans covering substantially all employees. Pension plans have been operating since April 1, 1970 (plan under the Japanese Welfare Pension Insurance Law) and since April 1, 1995 (tax qualified pension plan) in addition to the lump-sum retirement benefit plan.

The reserve for retirement benefits as of March 31, 2003 and 2002 is analyzed as follows:

	Millions of Yen		Thousands of
	2003	2002	U.S. dollars
			2003
Projected benefit obligations	¥ (54,901)	¥ (56,810)	\$ (456,747)
Plan assets	24,124	26,006	200,698
	(30,776)	(30,803)	(256,039)
Unrecognized transition amount	-	-	-
Unrecognized prior service cost	(1,763)	-	(14,667)
Unrecognized actuarial differences	13,088	10,724	108,885
	(19,451)	(20,079)	(161,821)
Prepaid pension cost	-	-	-
Reserve for retirement benefits	¥ (19,451)	¥ (20,079)	\$ (161,821)

Notes: 1. The above table includes amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

2. Discretionary additional payments are not included.
3. Consolidated subsidiaries have adopted simplified methods to calculate projected benefit obligations.

Net pension expense related to the retirement benefits for the year ended March 31, 2003 and 2002 was as follows:

	Millions of Yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 1,674	¥ 1,605	\$ 13,926
Interest cost	1,404	1,551	11,680
Expected return on plan assets	(1,228)	(1,272)	(10,216)
Amortization of prior service cost	(104)	-	865
Amortization of actuarial differences	1,120	481	9,317
Amortization of transition amount	-	-	-
Other	17	25	141
Net pension expense	¥ 2,883	¥ 2,391	\$ 23,985

Note: Net pension expense of certain consolidated subsidiaries adopting simplified methods is included in the service cost.

Assumptions used in the calculation of the above information were as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on plan assets		
Japanese Welfare Pension Insurance Law	5.0%	5.0%
Tax qualified pension plan	3.5%	3.5%
Method of attributing the projected benefits to periods of services	straight-line basis	straight-line basis
Amortization of prior service cost	10 years from the year differences arise	-
Amortization of unrecognized actuarial differences	10 years from the year following the year differences arise	10 years from the year following the year differences arise

## 11. Income taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2003 and 2002 was 41.7%.

At March 31, 2003 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Reserve for possible loan losses	¥ 10,797	¥ 12,474	\$ 89,825
Reserve for retirement benefit	7,296	7,550	60,698
Depreciation	1,990	2,177	16,555
Loss on impairment of securities	2,304	1,344	19,168
Other	371	591	3,086
Total	22,759	24,138	189,342
Valuation allowance	(2,342)	(1,363)	(19,484)
Deferred tax assets	20,417	22,774	169,858
Deferred tax liabilities:			
Unrealized gain on Other securities	(14,739)	(15,072)	(122,620)
Excess of land revaluation real estate	(110)	(114)	(915)
Other	(0)	(0)	(0)
Total	(14,850)	(15,187)	(123,544)
Net deferred tax assets (liabilities)	¥ 5,566	¥ 7,587	\$ 46,306

The reconciliation of the statutory tax rate to the effective income tax rate for the years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Statutory tax rate	41.7%	41.7%
Increase (decrease) in taxes resulting from		
Permanent non-taxable items including dividend income	(1.5)	(4.2)
Permanent non-deductible items including entertainment expenses	0.7	1.1
Resident tax per capita levy	0.5	0.8
Loss on impairment of securities	11.8	25.0
Effect of change in tax rates on deferred tax assets	5.0	-
Other	(0.3)	(0.1)
Effective income tax rate	57.9%	64.3%

Effective for the year ending March 31, 2004, the statutory tax rate changed from 41.7% to 40.4% due to changes to tax regulations promulgated on March 31, 2003. As a result of this change, deferred tax assets at March 31, 2003 and income taxes-deferred for the year increased by ¥25 million and ¥449 million, respectively. Deferred tax on excess of land revaluation decreased by ¥200 million and excess of land revaluation increased by the same amount at March 31, 2003. Unrealized gain on securities, net of tax, at March 31, 2003, increased by ¥474 million.

## 12. Retained Earnings

Under the Banking Law of Japan, an amount equivalent to at least 20% of any amount paid out by the Bank as an appropriation of retained earnings must be appropriated to the legal reserve until such reserve equals 100% of common stock. This reserve, which is included in the retained earnings, is not available for dividends, but may be used to reduce a deficit or may be transferred to common stock.

## 13. Leases

(1) Information on finance lease contracts without an ownership transfer for the years ended March 31, 2003 and 2002 was as follows:

(a) Acquisition cost, accumulated depreciation, net book value, depreciation expenses, and interest expense on the leased assets (assuming capitalization of finance leases) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Acquisition cost	¥ 5,577	¥ 6,526	\$ 46,397
Accumulated depreciation	(2,419)	(2,701)	(20,124)
Net book value	<u>¥ 3,158</u>	<u>¥ 3,825</u>	<u>\$ 26,272</u>
Depreciation expenses	<u>¥ 1,274</u>	<u>¥ 1,125</u>	<u>\$ 10,599</u>
Interest expenses	<u>¥ 182</u>	<u>¥ 181</u>	<u>\$ 1,514</u>

Depreciation is based on the straight-line method over the lease term of the leased assets. Interest expenses are determined by the allocation of the portion of the total lease payment that exceeds the acquisition cost of leased assets, using the interest method.

(b) The amount of future lease payments at March 31, 2003 and 2002, which excludes the interest portion, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Future lease payments:			
Due within one year	¥ 1,046	¥ 1,240	\$ 8,702
Due in over one year	2,224	2,716	18,502
Total	<u>¥ 3,271</u>	<u>¥ 3,956</u>	<u>\$ 27,212</u>

(c) Lease expenses

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
			2003
Lease rental expenses	¥ 1,440	¥ 1,273	\$ 11,980

- (2) The amount of future lease payments at March 31, 2003 and 2002 were on operating lease contracts as follows:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
			2003
Future lease payments:			
Due within one year	¥ 0	¥ 0	\$ 0
Due in over one year	1	2	8
Total	¥ 2	¥ 2	\$ 16

#### 14. Derivative Financial Instruments

- (1) Derivative financial instruments used by the Bank

The Bank enters into futures and options on interest rates, currencies, stocks and bonds, and interest rate swaps and currency swaps.

The Bank enters into these derivative transactions in order to manage and hedge the risks associated with interest rate fluctuations and exposure to changes in the market value of assets and liabilities held by the Bank. In addition, the Bank enters into derivative transactions for trading purposes, within the position and loss limits set up by the Bank.

Other companies in the Group do not enter into derivative transactions.

- (2) Risks on derivative transactions

The major risks associated with derivative transactions, which have the potential to materially impact the Bank's financial condition, are market risk and credit risk.

Market risk is related to the increase and decrease in the market value of the positions held by the Bank due to changes in the market price and interest rates of the underlying assets. Market risk is also subject to changes in liquidity and the volatility of the markets. Credit risk refers to possible losses on the positions held by the Bank which result from a counterparty's failure to perform according to the terms and conditions of the contract.

The Bank mainly applies a quantitative measurement method in order to capture market risk. The Bank monitors the outstanding balance and profit and loss for each type of transaction on a daily basis. In addition, the Bank applies a "Value-at-Risk" measurement method to transactions for which it is considered necessary to apply a more sophisticated method. The Bank manages credit risk by establishing credit limits for counterparties.



Reviews of the adequacy of established credit lines are made on a regular basis and as deemed necessary.

The credit risk amounts calculated based on the capital adequacy rules as of March 31, 2003 and 2002 were ¥5,287 million (\$43,985 thousand) and ¥4,567 million, respectively.

(3) Risk management system of the Bank

The Bank exercises and controls the derivative transactions using limits including position limits, credit limits for each counterparty and stop loss limits in accordance with the Bank's policy on derivative transactions. Risks quantified are reported to the department and the director responsible for monitoring the transactions and the board of directors.

The front office function and the back office function are segregated. The middle office is responsible for risk management and monitors front and back offices' compliance with regulations and internal rules.

Contract amounts or notional principal amounts of derivative financial instruments disclosed represent nominal contract amounts or the notional principal amounts set up for the calculation of the settlement amounts. Generally, they do not represent the amounts for which the actual assets are exchanged. These amounts do not represent, by themselves, the volume of market risk and credit risk related to the underlying derivative financial instruments.

(4) Market value of derivative financial instruments

(a) Interest Rate Related Transactions

		Millions of yen			
		2003			
		Contractual value or notional principal amount	Including Over one year	Market value	Unrealized Profit/(Loss)
Over-the-counter					
Interest rate swaps					
	Receipts fixed-payments	¥ 7,000	¥ 2,000	¥ 123	¥ 123
	floating				
	Receipts floating-payments	7,000	2,000	(104)	(104)
	fixed				
Total				¥ 18	¥ 18

		Millions of yen			
		2002			
		Contractual value or notional principal amount	Including Over one year	Market value	Unrealized Profit/(Loss)
Over-the-counter					
Interest rate swaps					
	Receipts fixed-payments	¥ 11,000	¥ 7,000	¥ 218	¥ 218
	floating				
	Receipts floating-payments	15,128	11,000	(662)	(662)
	fixed				
Total				¥(443)	¥(443)

Thousands of U.S. dollars				
2003				
	Contractual value or notional principal amount	Including Over one year	Market value	Unrealized Profit/(Loss)
Over-the-counter				
Interest rate swaps				
Receipts fixed-payments	\$ 58,236	\$ 16,638	\$ 1,023	\$ 1,023
floating				
Receipts floating-payments	58,236	16,638	(865)	(865)
fixed				
Total			<u>\$ 149</u>	<u>\$ 149</u>

Notes: 1. Market values of exchange traded instruments are based on closing prices of the Tokyo International Financial Futures Exchange and others.

Market values of over-the-counter transactions are based on the discounted present values or the option pricing calculation model, etc.

2. The balances as of March 31, 2003 and 2002 disclosed above exclude derivatives accounted for as hedges. The derivatives disclosed are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income.

(b) Foreign exchange related transactions

i) Balance as of March 31, 2003 and 2002

		Millions of yen			
		2003			
	Notional Principal amount	Including Over one year	Market Value	Unrealized Profit/(Loss)	
Over-the-counter currency swaps	¥ 71,890	¥ 29,876	¥ (42)	¥ (42)	

		Millions of yen			
		2002			
	Notional Principal amount	Including Over one year	Market Value	Unrealized Profit/(Loss)	
Over-the-counter currency swaps	¥ 63,833	¥ 38,628	¥ (57)	¥ (57)	

		Thousands of U.S. dollars			
		2003			
	Notional Principal amount	Including Over one year	Market Value	Unrealized Profit/(Loss)	
Over-the-counter currency swaps	\$ 598,086	\$ 248,552	\$ (349)	\$ (349)	

- Notes: 1. Market values are based on the discounted present values and the values prevailing as of the year-end date.
2. Balances as of March 31, 2003 and 2002 are valued at market value on the balance sheet with resulting gains and losses taken to the statement of income. The balance disclosed above exclude derivatives accounted for as hedges.
3. Currency swaps accounted for using the accrual method have been excluded from the disclosure of balances as of March 31, 2003 and 2002.

The balances of such currency swaps as of March 31, 2003 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Notional principal	¥ 11,329	¥ 22,728	\$ 94,251
Market value	54	(898)	449
Unrealized profit/(loss)	54	(898)	449

Foreign exchange forward contracts and currency options which are revalued at the end of the fiscal year and resulting profit and loss taken into the statement of income, which are reflected in the balance sheet amounts of foreign currency

receivables and payables hedged, or those related hedged items eliminated in the consolidation have been excluded from the above disclosure.

The balances of foreign exchange related derivatives, which are marked to market as of March 31, 2003 and 2002, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Over-the-counter			
Foreign exchange forward contracts			
Sold	¥ 3,504	¥ 4,097	\$ 29,151
Bought	2,390	2,540	19,883

## 15. Subsequent Event

The annual shareholders' meeting, which was held on June 26, 2003, approved the following appropriations of retained earnings for the year ended March 31, 2003:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash dividends (¥3.00 per share)	¥ 750	¥ 765	\$ 6,239
Bonuses to directors and corporate Auditors	41	46	341
Transfer to voluntary reserve	3	49	24

## 16. Segment information

### (1) Segment information by Type of Business

In addition to the banking business, the Group is also engaged in the credit card business, credit guarantee business and other businesses. Such segment information has not been provided as the percentage of those activities is insignificant to the Group.

### (2) Segment information by Geographic Area

All of the Group's entities or branches are in Japan.

### (3) Recurring income from international operations

	<u>Millions of Yen</u>
	<u>2002</u>
Recurring income from international operations	¥ 8,222
Total operating income	76,206
International Operations' Ratio	10.7%

Recurring income from internal operations for the year ended March 31, 2003 is not provided as it is less than 10% of total operating income.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of  
The Higo Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Higo Bank, Ltd. and its consolidated subsidiaries (the "Group") 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 Japanese Yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

*ChuoAoyama Audit Corporation*

ChuoAoyama Audit Corporation  
Tokyo, Japan  
June 26, 2003



1, Renpeicho, Kumamoto 860-8615, Japan

Phone: (096) 325-2111

<http://www.higobank.co.jp/>