

Notes to Consolidated Financial Statements

THE 77 BANK, LTD. AND SUBSIDIARIES
Years ended March 31, 2004 and 2003

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and the Enforcement Regulation for the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Japanese yen figures less than one million yen are rounded down to the nearest million yen, except for per share data.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which The 77 Bank, Ltd. (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 ¥105.69 to U.S.\$1, the approximate rate of exchange at March 31, 2004. 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.

2. Summary of Significant Accounting Policies

a. Consolidation—The consolidated financial statements include the accounts of the Bank and its subsidiaries (together, the "Companies").

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profits and losses resulting from transactions within the Companies is eliminated.

b. Cash and Cash Equivalents—For the purpose of the consolidated statements of cash flows, cash and cash equivalents represent cash and amounts due from The Bank of Japan.

c. Trading Account Securities, Investment Securities and Money Held in Trust—Securities other than investments in affiliates are classified into three categories, based principally on the Bank's intent, as follows:

- (1) trading account securities which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings,

- (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and
- (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

The cost of trading account securities and available-for-sale securities sold is determined based on the moving-average method.

Non-marketable available-for-sale securities are reported at cost or amortized cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

Securities included in money held in trust are also classified and accounted for by the same method as above.

The components of trust assets are accounted for based on the standard appropriate for each asset type. Instruments held in trust for trading purposes are recorded at fair value and unrealized gains and losses are recorded in other income/expenses. Instruments held in trust classified as available-for-sale are recorded at fair value with the corresponding unrealized gains/losses recorded directly in a separate component of stockholders' equity. Instruments held in trust classified as held to maturity are carried at amortized cost.

d. Lease Assets—Lease assets included in other assets are stated at cost less accumulated depreciation. Depreciation of lease assets is mainly computed by the straight-line method over lease periods.

e. Premises and Equipment—Premises and equipment are stated at cost less accumulated depreciation and gains deferred on the sale and replacement of certain assets. Depreciation of premises and equipment is mainly computed by the declining-balance method at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 5 to 31 years for buildings, and from 5 to 20 years for equipment.

f. Software—Capitalized cost of computer software developed/obtained for internal use is amortized by the straight-line method over the estimated useful lives of five years.

g. Foreign Currency Items—Assets and liabilities denominated in foreign currencies held by the Bank at the year end are translated into Japanese yen at the current exchange rates in effect at each balance sheet date. Exchange gains and losses are recognized in the fiscal periods in which they occur.

Prior to April 1, 2003, the Bank accounted for fund swap and certain currency swap transactions on an accrual basis by applying one-year transitional treatment provided in Industry Audit Committee Report No. 25 issued by the Japanese Institute of Certified Public Accountants (the "JICPA") on July 29, 2002.

Fund swap transactions are foreign exchange swaps, and consist of spot foreign exchange contracts bought or sold and forward foreign exchange contracts sold or bought. Such transactions are contracted for the purpose of lending or borrowing in a different currency. Fund swap transactions are used to convert the principal equivalent amount into spot foreign exchange contracts bought or sold with regard to the corresponding fund borrowing or lending. Such transactions convert the corresponding principal equivalents and foreign currency equivalents to pay and receive, whose amounts and due dates are predetermined at the time of the transactions, into forward foreign exchange contracts bought or sold.

Effective April 1, 2003, these swap transactions are accounted for using deferral hedge accounting by fully applying Industry Audit Committee Report No. 25. Under deferral hedge accounting, hedged items are identified by grouping the foreign currency-dominated financial assets and liabilities by currencies and designating derivative transactions such as currency swap transactions and forward exchange contracts as hedging instruments. Hedge effectiveness is reviewed by comparing the total foreign currency position of the hedged items and hedging instruments by currency.

As a result of the application of this new accounting standard, other assets and other liabilities decreased by ¥21 million (\$198 thousand) as of March 31, 2004, as compared to what they would have been under the previous method. The application of the new accounting standard did not affect the Companies' results of operations.

Also as a result of the application of this accounting standard, unrealized gains and losses for foreign currency forward transactions that were previously presented on a net basis are now recorded on a gross basis as derivative financial instruments in other assets and other liabilities. This change resulted in increase of other assets and other liabilities, as of March 31, 2004, of ¥197 million (\$1,863 thousand).

h. Reserve for Loan Losses—The Bank determines the amount of the reserve for loan losses by means of management's judgment and assessment of future losses based on a self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio, and other pertinent indicators.

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

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

The reserve for loan losses is calculated based on the specific actual past loss ratio for normal and caution categories, and the fair value of the collateral for collateral-dependent loans and other factors of solvency including value of future cash flows for other self-assessment categories.

The subsidiaries determine the reserve for loan losses by a similar self-assessment system to that of the Bank.

i. Employees' Retirement and Pension Plans—The Bank and certain subsidiaries have contributory funded pension plans and unfunded retirement benefit plans for employees which cover approximately 75% and 25%, respectively, of their benefits. Other subsidiaries have unfunded retirement benefit plans.

The liability for employees' retirement benefits is provided for the payment of employees' retirement benefits based on estimated amounts of the actuarial retirement benefit obligation and the related pension assets. Net actuarial gain (loss) is amortized using the straight-line method over ten years commencing from the next fiscal year of incurrence, while prior service costs are all charged to income in the fiscal year incurred.

Effective October 1, 2003, the Bank amended its pension plans design. In particular, the additional portion of employee pension fund reduced the pension liability by lowering expected interest rate and transferring to cash balance pension plans.

The effect of this amendment was to increase income before income taxes and minority interests by ¥6,447 million (\$61,007 thousand) for the fiscal year ended March 31, 2004, with the effect of reversal prior service cost.

This ¥6,447 million is also shown in Note 15 presented as amortization of service benefit in the table of net periodic benefit costs.

j. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the consolidated financial statements.

k. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon stockholders' approval.

m. Derivatives and Hedging Activities—It is the Bank's policy to use derivative financial instruments ("derivatives") primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities. The Bank enters into interest rate swaps and interest rate caps as a means of hedging its interest rate risk on certain loans and investment securities. The Bank also enters into interest rate swaps, foreign exchange forward contracts and currency options to hedge exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients. Furthermore, the Bank enters into interest rate futures, bond futures, bond future options and foreign exchange forward contracts for a short term as part of its trading activities.

Derivatives, except for the fund swaps described Note 2. g until fiscal year ended March 31, 2003, are recognized as either assets or liabilities and measured at fair value. Gains or losses on derivative transactions are recognized in the consolidated statements of income. If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

Until fiscal year ended March 31, 2003, the Bank applied a "macro hedge" approach to interest rate risk and its ALM activities based on the transitional treatment prescribed in Industry Audit Committee Report No. 24 issued by the JICPA. The effectiveness of the macro hedge approach was reviewed for a reduction in interest rate risk exposure and the actual risk amount of derivatives within the preapproved limit under the Bank's risk control policies. However, as of March 31, 2003, there were no transactions remaining for the macro hedge approach to be applied.

Effective April 1, 2003, the Bank adopted portfolio hedging in accordance with Industry Audit Committee Report No. 24. Under portfolio hedging, a group of financial assets or liabilities such as loans or deposits, with common maturities, were matched with a group of hedging instruments such as interest rate swaps, with intent of offsetting fair value fluctuations. The effectiveness of the portfolio hedge is assessed by each group.

However, the Bank had no transaction to apply portfolio hedging approach as of March 31, 2004.

n. Per Share Information—Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into

common stock. Diluted net income per share of common stock is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. New Accounting Pronouncements—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. Trading Account Securities and Investment Securities

Trading account securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds	¥8,568	¥6,671	\$81,073
Local government bonds	100	67	955
Total	¥8,669	¥6,739	\$82,028

Investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
National government bonds	¥ 888,246	¥ 875,980	\$ 8,404,265
Local government bonds	139,464	164,931	1,319,560
Corporate bonds	376,621	317,224	3,563,453
Equity securities	133,157	90,106	1,259,887
Other securities	181,169	154,597	1,714,157
Total	¥1,718,659	¥1,602,839	\$16,261,324

The carrying amounts and aggregate fair values of securities at March 31, 2004 and 2003 were as follows:

Securities below include trading account securities, investment securities and commercial paper within "Commercial paper and other debt purchased":

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 33,668
Available-for-sale:				
Equity securities	¥ 60,858	¥68,895	¥ 145	129,608
Debt securities	1,373,520	21,659	3,824	1,391,355
Other securities	225,512	3,610	956	228,167
Held-to-maturity	4,606	5	15	4,597

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 40,737
Available-for-sale:				
Equity securities	¥ 60,937	¥29,781	¥3,788	86,929
Debt securities	1,312,624	38,543	686	1,350,481
Other securities	188,297	1,159	1,062	188,395
Held-to-maturity	3,705	18		3,723

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				\$ 318,562
Available-for-sale:				
Equity securities	\$ 575,822	\$651,864	\$ 1,377	1,226,309
Debt securities	12,995,749	204,932	36,183	13,164,498
Other securities	2,133,718	34,159	9,045	2,158,832
Held-to-maturity	43,588	52	142	43,498

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥ 3,548	¥ 3,176	\$ 33,577
Debt securities	8,369	3,949	79,192
Held-to-maturity		26,687	
Total	¥11,918	¥33,813	\$112,770

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥163,213 million (\$1,544,262 thousand) and ¥104,415 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥663 million (\$6,277 thousand) and ¥426 million (\$4,030 thousand), respectively, for the year ended March 31, 2004 and ¥1,788 million and ¥132 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Available for Sale	Held to Maturity	Available for Sale	Held to Maturity
Due in one year or less	¥ 300,547		\$ 2,843,668	
Due after one year through five years	906,936	¥4,606	8,581,098	\$43,588
Due after five years through ten years	281,076		2,659,439	
Due after ten years	91,744		868,056	
Total	¥1,580,304	¥4,606	\$14,952,263	\$43,588

Unrealized gain on available-for-sale securities for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Valuation differences:			
Available-for-sale securities	¥ 89,239	¥ 63,945	\$ 844,349
Available-for-sale held in trust	2,487	(1,210)	23,532
Deferred tax liabilities	(35,684)	(25,282)	(337,630)
Minority interests	(46)	(8)	(436)
Unrealized gain on available-for-sale securities	¥ 55,996	¥ 37,444	\$ 529,814

4. Money Held in Trust

The carrying amounts and aggregate fair values of money held in trust at March 31, 2004 and 2003, were as follows:

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥17,453
Available-for-sale	¥16,635	¥2,487		19,122

	Millions of Yen			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				¥15,341
Available-for-sale	¥16,635		¥1,210	15,424

	Thousands of U.S. Dollars			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Money held in trust classified as:				
Trading				\$165,134
Available-for-sale	\$157,398	\$23,532		180,930

5. Loans and Bills Discounted

Loans and bills discounted at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Bills discounted	¥ 34,356	¥ 41,551	\$ 325,069
Loans on bills	340,829	398,697	3,224,807
Loans on deeds	2,140,908	2,066,963	20,256,486
Overdraft	600,685	628,523	5,683,463
Total	¥3,116,779	¥3,135,735	\$29,489,826

Bills discounted are accounted for as financial transactions in accordance with “Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry” (JICPA Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge these bills discounted. The total of the face value of bills discounted was ¥34,382 million (\$325,310 thousand) at March 31, 2004.

Loans and bills discounted at March 31, 2004 and 2003 included the following loans:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Loans to borrowers in bankruptcy	¥ 22,896	¥ 28,870	\$ 216,635
Past due loans	100,727	130,089	953,050
Past due loans (three months or more)	478	501	4,523
Restructured loans	79,030	102,408	747,759
Total	¥203,132	¥261,870	\$1,921,969

Loans to borrowers in bankruptcy represent nonaccrual loans to debtors who are legally bankrupt, as defined in the Enforcement Ordinance for the Corporation Tax Law.

Past due loans are nonaccrual loans which include loans classified as “possible bankruptcy” and “virtual bankruptcy”.

Nonaccrual loans are defined as loans (after the partial charge-off of claims deemed uncollectible) which the Bank has discontinued accruing interest income due to substantial doubt existing about the ultimate collection of principal and/or interest. Such loans classified either as “possible bankruptcy” and “virtual bankruptcy” under the Bank’s self-assessment guidelines.

In addition to past due loans as defined, certain other loans classified as “caution” under the Bank’s self-assessment guidelines include past due loans (three months or more), which consist of loans which the principal and/or interest is three months or more past due, but exclude loans to borrowers in bankruptcy and past due loans.

Restructured loans are loans where the Bank and its subsidiaries relax lending conditions, by reducing the original interest rate or by forbearing interest payments or principal repayments to support the borrower’s reorganization, restructure loans exclude loans to borrowers in bankruptcy, past due loans or past due loans (three months or more).

6. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets			
Foreign exchange bills bought	¥ 42	¥ 18	\$ 403
Foreign exchange bills receivable	101	237	959
Due from foreign correspondent accounts	603	1,091	5,705
Total	¥747	¥1,347	\$7,069

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Liabilities			
Foreign exchange bills sold	¥ 55	¥ 52	\$ 522
Foreign exchange bills payable	78	37	739
Total	¥133	¥ 89	\$1,262

7. Other Assets

Other assets at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Accrued income	¥ 7,291	¥ 7,995	\$ 68,993
Prepaid expenses	39	39	376
Premises and equipment for lease—net	30,382	28,915	287,471
Other	24,938	14,588	235,955
Total	¥62,652	¥51,539	\$592,797

8. Premises and Equipment

The accumulated depreciations of premises and equipment at March 31, 2004 and 2003 amounted to ¥77,754 million (\$735,681 thousand) and ¥74,069 million, respectively.

9. Customers’ Liabilities for Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in “Acceptances and guarantees.” “Customers’ liabilities for acceptances and guarantees” are shown as contra assets, representing the Bank’s right to receive indemnity from the applicants.

10. Assets Pledged

Assets pledged as collateral and their relevant liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets pledged as collateral:			
Trading account securities		¥ 999	
Investment securities	¥114,373	112,910	\$1,082,155
Relevant liabilities to above assets:			
Deposits	40,309	52,444	381,390
Payable under repurchase agreement		999	

Additionally, investment securities amounting to ¥111,277 million (\$1,052,871 thousand) and ¥111,734 million are pledged as collateral for transactions such as exchange settlement transactions or as substitute securities for future transaction initial margin and others at March 31, 2004 and 2003, respectively.

Other than the items shown above, rights under finance leases amounting to ¥4,308 million (\$40,760 thousand) and ¥3,984 million are pledged for borrowed money amounting to ¥3,207 million (\$30,343 thousand) and ¥2,757 million at March 31, 2004 and 2003, respectively.

Leased deposits for premises and equipment amounted to ¥1,048 million (\$9,921 thousand) and ¥1,069 million at March 31, 2004 and 2003, respectively.

11. Loan Commitments

Contracts of overdraft facilities and loan commitments are contracts with customers to lend up to the prescribed limits in response to customers' application of loan, as long as there is no violation of any condition within the contracts. The unused amount of such contracts totals ¥1,311,663 million (\$12,410,477 thousand) relating to these contracts, of which the amounts with the original agreement terms of less than one year were ¥1,310,863 million (\$12,402,908 thousand).

Since many of commitments expire without being drawn upon, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Companies can refuse customers' application of loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' credit-worthiness). At the inception of contracts, the Companies obtain collateral real estate, securities, etc. if considered to be necessary. Subsequently, the Companies perform periodic review of the customers' business results based on internal rules and take necessary measures to reconsider conditions in contracts and require additional collateral and guarantees.

12. Deposits

Deposits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current deposits	¥ 174,409	¥ 157,453	\$ 1,650,202
Ordinary deposits	2,024,450	1,894,194	19,154,610
Deposits at notice	21,403	23,551	202,514
Time deposits	2,277,174	2,318,820	21,545,791
Negotiable certificates of deposit	189,600	118,310	1,793,925
Other deposits	249,530	285,898	2,360,966
Total	¥4,936,569	¥4,798,228	\$46,708,010

13. Borrowed Money

Borrowed money included subordinated borrowings of ¥10,000 million at March 31, 2003.

14. Other Liabilities

Other liabilities at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Domestic exchange settlement account credit	¥ 183	¥ 119	\$ 1,732
Accrued expenses	6,778	7,512	64,133
Unearned income	9,213	8,850	87,176
Income taxes payable	479	2,582	4,533
Other	12,283	12,595	116,225
Total	¥28,938	¥31,659	\$273,800

15. Liability for Employees' Retirement Benefits

The Companies have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Companies and annuity payments from trustees. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability (asset) for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥ 84,945	¥ 89,614	\$ 803,720
Fair value of plan assets	(34,528)	(30,450)	(326,699)
Unrecognized net actuarial loss	(16,321)	(21,124)	(154,426)
Net liability	¥ 34,095	¥ 38,039	\$ 322,594

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥ 2,251	¥ 2,182	\$ 21,302
Interest cost	2,154	2,417	20,385
Expected return on plan assets	(1,065)	(1,186)	(10,083)
Amortization of prior service benefit	(6,447)		(61,007)
Recognized actuarial loss	2,279	1,129	21,563
Net periodic benefit costs	¥ (828)	¥ 4,543	\$ (7,839)

Assumptions used for the years ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.5%	3.5%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss	10 years	10 years

16. Stockholders' Equity

Japanese banks are subject to the Japanese Commercial Code (the "Code") and to the Japanese Banking Law (the "Banking Law").

The Code requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital (included in capital surplus).

The Banking Law provides that at least 20% of the aggregate amount of cash dividends and certain other cash payments made as appropriation of retained earnings applicable to each fiscal period, shall be appropriated and set aside as a legal reserve until such reserve and additional paid-in capital equals 100% of the stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 100% of stated capital can be transferred to retained earnings by resolution of the stockholders and may be available for dividends. The Bank's legal reserve amount, which is included in retained earnings, totals ¥24,658 million (\$205,147 thousand) and ¥24,658 million as of March 31, 2004 and 2003, respectively.

Under the Code, companies may issue new common shares to existing stockholders without consideration as a stock split pursuant to resolution of the Board of Directors.

The Code allows companies to repurchase treasury stock by a resolution of the stockholders at the general stockholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general stockholders meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the stockholders.

Dividends are approved by the stockholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Bank's book. At March 31, 2004, retained earnings recorded on the Bank's book were ¥211,573 million (\$2,001,826 thousand) which is available for future dividends subject to the approval of the stockholders.

17. Other Operating Income

Other operating income for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Gains on sales and redemption of bonds and other securities	¥ 422	¥ 262	\$ 3,999
Lease receipt	15,507	12,512	146,723
Other	944	3,355	8,935
Total	¥16,874	¥16,130	\$159,659

18. Other Income

Other income for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Gains on sales of stocks and other securities	¥ 265	¥1,525	\$ 2,508
Gains on sales of money held in trust	1,088	546	10,298
Gains on sales of premises and equipment	322	225	3,049
Amortization of prior service benefit	6,447		61,007
Other	1,083	1,072	10,249
Total	¥9,206	¥3,370	\$87,113

19. Other Operating Expenses

Other operating expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Losses on sales, redemption and devaluation of bonds and other securities	¥ 407	¥ 851	\$ 3,857
Lease cost	12,072	11,633	114,227
Other	1,958	1,850	18,529
Total	¥14,438	¥14,335	\$136,613

20. Other Expenses

Other expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Losses on sales of stocks and other securities	¥ 28	¥ 36	\$ 268
Losses on devaluation of stocks and other securities	74	6,572	702
Bad debt losses	2,422	1,235	22,921
Losses on dispositions of money held in trust	94	3,543	897
Losses on sales of loans	6,289	2,833	59,509
Other	961	126	9,098
Total	¥9,871	¥14,346	\$93,398

21. Income Taxes

The Companies are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 41.6% for the years ended March 31, 2004 and 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Reserve for loan losses	¥25,947	¥33,681	\$245,505
Liability for employees' retirement benefits	13,214	14,520	125,028
Premises and equipment (depreciation)	5,416	5,011	51,249
Accrued enterprise tax		241	
Losses on devaluation of stocks and other securities	3,923	4,119	37,120
Unrealized loss on available-for-sale securities	1,985	2,718	18,782
Other	2,952	3,008	27,935
Less valuation allowance	(1,590)	(237)	(15,047)
Total	51,848	63,063	490,573
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	37,669	28,001	356,413
Premises and equipment (deferral gain on sales and replacement)	499	402	4,727
Other	6	10	64
Total	38,175	28,414	361,205
Net deferred tax assets	¥13,672	¥34,648	\$129,368

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2003 was as follows:

	2004	2003
Normal effective statutory tax rate	41.6%	41.6%
Expenses not deductible for income tax purposes	0.5	0.7
Non-taxable dividend income	(1.4)	(1.9)
Inhabitants taxes	0.3	0.4
Valuation allowance	5.7	1.5
Effect of the enterprise tax rate's change		8.8
Other—net	(0.1)	(0.6)
Actual effective tax rate	46.6%	50.5%

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from 41.6% to 40.3%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease deferred tax assets—non-current by ¥691 million, increase income taxes—deferred by ¥1,506 million, and increase unrealized gain on available-for-sale securities by ¥815 million in the consolidated financial statements for the year ended March 31, 2003. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at effective tax rate of 40.3% as at March 31, 2004 and 2003.

22. Leases

Lessor

A subsidiary leases certain equipment and other assets to various customers.

Total lease receipts under finance leases for the years ended March 31, 2004 and 2003 were ¥12,453 million (\$117,826 thousand) and ¥12,232 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, rights under finance leases, depreciation expense, interest income of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2004 and 2003 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Equipment and Other Assets	Equipment and Other Assets	Equipment and Other Assets
	2004	2003	2004
Acquisition cost	¥ 72,661	¥ 70,915	\$ 687,494
Accumulated depreciation	(42,274)	(41,981)	(399,981)
Net leased property	¥ 30,387	¥ 28,933	\$ 287,512

Future lease payments receivables under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Receivables:			
Due within one year	¥ 9,841	¥ 9,680	\$ 93,117
Due after one year	20,933	19,536	198,062
Total	¥30,774	¥29,216	\$291,179

Depreciation expense and interest income under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Depreciation expense	¥10,869	¥10,670	\$102,844
Interest income	1,499	1,487	14,191

The imputed interest income portion which is computed using the interest method is excluded from receivable under finance leases.

23. Derivatives

It is the Bank's policy to use derivatives primarily for the purpose of reducing market risks associated with its assets and liabilities. The Bank also utilizes derivatives to meet the needs of its clients while entering into derivatives as a part of its trading activities.

The Bank enters into interest rate swaps and interest rate caps as a means of hedging its interest rate risk on certain loans and investment securities.

The Bank also enters into foreign exchange forward contracts and currency options to hedge foreign exchange risk associated with its assets and liabilities denominated in foreign currencies and to meet the needs of its clients.

Furthermore, the Bank enters into interest rate futures, bond futures, bond future options and foreign exchange forward contracts for a short term as part of its trading activities.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations of market conditions, including interest or foreign exchange rates. Credit risk is the possibility that a loss may result from a counterparty's failure to perform its obligations under a contract.

The Bank sets limits to credit risk by limiting the counterparties to those derivatives to major financial institutions and securities companies, and establishing maximum risk exposures to the counterparties.

In accordance with the Banking Law requirements of the capital adequacy ratio, credit risk equivalent which was measured using the current exposure method amounted to ¥3,684 million (\$34,862 thousand) and ¥2,655 million at March 31, 2004 and 2003, respectively.

The Bank has established a standard of risk management including management approaches to each type of risks. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate trading activities and credit risk management including maximum risk exposures and loss-cutting rules. Concerning risk management associated with derivative transactions, the front and back offices of the trading divisions are clearly separated, and risk managers are assigned to the trading divisions, while the Risk Management Division synthetically manages the Bank's market risks. In this manner, an internal control system is effectively secured.

The Bank's positions, gain-and-loss, risk amount and other conditions are periodically reported to the executive committee.

The Bank has the following derivatives contracts, which are not quoted on listed exchanges, outstanding at March 31, 2004 and 2003:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		2004	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Interest rate swaps:						
Floating rate receipt, fixed rate payment	¥14,425	¥(97)	¥15,340	¥(246)	\$136,484	\$(927)
Credit default swap—						
Selling			1,000	997		

Valuation gains (losses) for the years ended March 31, 2004 and 2003 were recognized in the consolidated statements of income.

Derivatives which qualify for hedge accounting for the years ended March 31, 2004 and 2003, were not included in the above table.

The contracts or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Bank's exposure to credit or market risk.

Foreign exchange forward contracts and currency options were excluded from the above table, because they were revalued at the end of the fiscal year and their related profits or losses were reflected in the consolidated statements of income.

The contract amounts of the revalued currency derivatives at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	Contract Amount	Contract Amount	Contract Amount
	2004	2003	2004
Foreign exchange forward contracts:			
Selling	¥65,661	¥84,883	\$621,269
Buying	7,339	13,719	69,441
Currency options:			
Selling		591	
Buying		591	

24. Related Party Transactions

Related party transactions for the years ended March 31, 2004 and 2003 were as follows:

Related Party	Category	Description of Transactions	Balance from Related Party		
			Millions of Yen	Thousands of U.S. Dollars	
			2004	2003	
Yuzuru Aoki, Representative of Higashi Nihonkogyoh Co., Ltd.	Statutory Auditor	Lending operation loans	¥4,883		\$46,206

25. Subsequent Event

At the Bank's general stockholders meeting held on June 29, 2004, the Bank's stockholders approved the following:

Appropriations of retained earnings

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3.00 (\$0.028) per share	¥1,140	\$10,786
Bonuses to directors and corporate auditors	29	271

26. Segment Information

(1) Business Segment Information

Information about operations in different business segments of the Companies for the years ended March 31, 2004 and 2003 was as follows:

a. Ordinary income

	Millions of Yen					
	2004					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥95,033	¥14,878	¥3,556	¥113,468		¥113,468
Intersegment income	559	1,372	1,748	3,680	¥(3,680)	
Total income	95,593	16,250	5,305	117,149	(3,680)	113,468
Ordinary expenses	78,968	15,374	4,558	98,902	(3,661)	95,240
Ordinary income	¥16,624	¥ 876	¥ 746	¥ 18,247	¥ (19)	¥ 18,228

b. Assets, depreciation and capital expenditures

	Millions of Yen					
	2004					
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,375,690	¥40,238	¥21,303	¥5,437,232	¥(33,026)	¥5,404,205
Depreciation	4,150	11,778	31	15,960		15,960
Capital expenditures	2,254	15,328		17,583	(236)	17,347

a. Ordinary income

Thousands of U.S. Dollars						
2004						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	\$899,172	\$140,775	\$33,653	\$1,073,601		\$1,073,601
Intersegment income	5,297	12,984	16,543	34,825	\$(34,825)	
Total income	904,469	153,760	50,196	1,108,426	(34,825)	1,073,601
Ordinary expenses	747,172	145,470	43,132	935,775	(34,641)	901,134
Ordinary income	\$157,297	\$ 8,289	\$ 7,064	\$ 172,650	\$ (184)	\$ 172,466

b. Assets, depreciation and capital expenditures

Thousands of U.S. Dollars						
2004						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	\$50,862,808	\$380,719	\$201,568	\$51,445,097	\$(312,484)	\$51,132,612
Depreciation	39,269	111,446	300	151,016		151,016
Capital expenditures	21,329	145,034		166,369	(2,233)	164,135

a. Ordinary income

Millions of Yen						
2003						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Income from customers	¥102,108	¥14,262	¥3,378	¥119,748		¥119,748
Intersegment income	526	1,844	1,450	3,820	¥(3,820)	
Total income	102,634	16,106	4,828	123,568	(3,820)	119,748
Ordinary expenses	86,022	15,768	4,816	106,606	(3,841)	102,765
Ordinary income	¥ 16,612	¥ 338	¥ 12	¥ 16,962	¥ 21	¥ 16,983

b. Assets, depreciation and capital expenditures

Millions of Yen						
2003						
	Banking Operations	Lease Operations	Other Operations	Total	Eliminations	Consolidated
Assets	¥5,220,008	¥37,021	¥20,031	¥5,277,060	¥(31,480)	¥5,245,579
Depreciation	4,587	12,251	39	16,877		16,877
Capital expenditures	4,943	12,140	4	17,087	(56)	17,031

Notes: 1. Other operations consist of credit card transactions and others.

2. Ordinary income represents total income less certain special income included in other income in the accompanying consolidated statements of income.

3. Ordinary expenses represent total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of income.

(2) Geographic Segment Information

As the operating income and total assets of foreign operations were not significant compared to the consolidated income and assets, the geographic segment information has been omitted.

(3) Operating Income from International Operations

As the operating income from international operations was not significant compared to the consolidated income, the information about the operating income from international operations has been omitted.