

Notes to the Financial Statements

(For the fiscal year ended March 31, 2003)

Balance Sheet

1. All amounts expressed in the statements have been rounded down to the nearest million yen.
2. Transactions undertaken with a view to gains on short-term fluctuations in interest rates, currency values, market prices of securities and other indicators or differentials, etc., between markets (hereinafter referred to as "Trading Transactions") are shown in the balance sheet as "Trading Assets" or "Trading Liabilities" based on values at the time of contract.

Trading assets and trading liabilities are valued at market prices on the balance sheet date for securities and monetary claims, etc., and at deemed settlement prices on the balance sheet date for derivative products such as swaps, futures and options.
3. The following valuation methods are applied, depending on the type of security. Bonds intended to be held until maturity are valued using the moving average, amortized cost method. Marketable stocks for which market values are available are valued at the average market price one month before the fiscal year end. Marketable securities with market values other than stocks are valued with the mark-to-market method based on market prices at the fiscal year end (selling costs are primarily calculated with the moving average method). Marketable securities for which market values are not available are valued by either the cost method or the amortized cost method on the basis of a moving average. Valuation differences between the market value and the book value for all marketable securities are directly incorporated into capital.
4. Marketable securities treated as trust assets of independently operated monetary trusts used primarily for the purpose of securities investment are stated with the mark-to-market method.
5. Derivative transactions other than trading transactions are stated with the mark-to-market method.
6. Premises and equipment are depreciated by the declining balance method over the estimated useful lives set forth in corporate tax law.
7. Software for internal use is amortized by the straight-line method over its estimated useful life as determined by the Bank (5 years).
8. Treatment of deferred assets on debenture issues
 - (1) Debenture issue discounts on discount debentures are amortized according to the period until redemption of the debenture.
 - (2) Debenture issue expenses are charged to income as they are incurred.
9. Assets and liabilities denominated in foreign currencies and the accounts of the Bank's overseas branches are principally translated into yen at the exchange rates prevailing as of the balance sheet date.

In the past the "Temporary Accounting and Auditing

Treatment of Accounting for Foreign Currency Transactions in the Banking Industry" (The Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 20) was applied to account for foreign exchange transactions, but starting from this period the "Accounting and Auditing Treatment of Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25) is applied.

In this period, fund swap transactions, currency swap transactions and internal contracts were accounted for in accordance with temporary measures provided in JICPA Industry Audit Committee Report No. 25, and accounting treatment is the same as in the past.

Yen conversion differences for forward currency transactions are offset in the balance sheet.

Fund swap transactions are accounted for in accordance with temporary measures provided in JICPA Industry Audit Committee Report No. 25. The principal amounts of credits and debts, translated in yen at the exchange rates prevailing on the fiscal year end dates, are mutually offset and reported on the balance sheets on a net basis. The spot-forward spread, which reflects the difference of the interest rates of two different currencies, is recognized in statements of income on an accrual basis over the period from the date of the spot transaction to the exercise date of the forward transaction, and accrued revenues or accrued expenses for the transaction are recorded.

A fund swap is a currency swap transaction with the purpose of fund raising or fund management. The transaction consists of a sale or purchase of the currency for the corresponding principal amount at a spot rate and a counter-transaction at a forward rate for the sum of the said principal and the scheduled amount to be paid or received in foreign currency on a specific future date.

A spot/forward flat type currency swap transaction is a transaction with the purpose of fund raising or fund management where the amount to be received or paid for the corresponding principal amount on the exercise date of the forward contract is equal to the amount paid or received when the contract is entered, and the swap rate that has been applied for the principal and interest is reasonable, and is also accounted for in accordance with temporary measures provided in JICPA Industry Audit Committee Report No. 25. (The spot/forward flat type currency swap transaction also includes transactions that convert an amount corresponding to the principal amount of one of the two currencies involved in the transaction at the exchange rate prevailing in the actual market on the date of each interest payment, yet still forms a spot/forward flat type currency transaction within each interest payment period.) Amounts equivalent to the credit and debt principal, translated in yen at the exchange rates

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- prevailing on the fiscal year end dates, are mutually offset and reported on the balance sheet on a net basis. The corresponding interest is recognized in statements of income on an accrual basis over the period from the date of the spot transaction to the exercise date of the forward transaction, and accrued revenues or accrued expenses for the transaction are recorded.
10. The Reserve for Possible Loan Losses is calculated in accordance with the predetermined standards for write-offs and reserve provisions as follows.
- Normal loans and the loans that require special attention are defined in "Operational Guidelines for Verification of Internal Control for Self-Assessment of Assets in Banks and Other Financial Institutions" (JICPA Bank Auditing Special Committee Report No. 4). They are classified into certain categories, and reserve provisions are made on the basis of default rates over a specific period for each category.
- Amounts reserved for loans to debtors at risk of bankruptcy are determined as the amounts deemed necessary on the basis of the balance remaining after deducting the estimated amounts recoverable from disposal of collateral and execution of guarantees. Amounts reserved for loans to debtors that are legally or virtually bankrupt are determined to be the balance remaining after the expected amount to be collected through disposal of collateral or execution of guarantees. All loan assets have been assessed by the business departments and audited by the Credit Examination Division, which is independent from the business departments, to comply with the standard for self-assessment of assets. The amount of the reserve is determined based on the results of this audit.
11. The Reserve for Bonuses is set up to provide for the payment of bonuses to employees and appropriates an amount for the current period out of the amount of bonuses estimated to be paid to employees. The amount appropriated for unpaid employee bonuses was formerly appropriated in Accrued Expenses in Other Liabilities, but based on enforcement regulations of the Shoko Chukin Bank Law it will be reflected in the Reserve for Bonuses starting from this period. Accrued Expenses were reduced by ¥5,090 million and the Reserve for Bonuses was increased by the same amount because of this change.
12. The Reserve for Retirement Benefit is set up for the payment of employees' retirement benefits. It represents the required amount calculated from estimated retirement benefit obligations and estimated pension assets at the end of this fiscal year. Unrecognized actuarial difference is amortized by the straight-line method over the number of years that does not exceed the average remaining service years (14 years) of employees at the fiscal year when the actuarial difference was incurred. This amortization starts from the next fiscal year.
- Unrecognized net transition difference at the date of adoption is being amortized by the straight-line method and charged to income over 15 years.
13. The Reserve for Claim Disposal Loss is determined as the amount required to provide for possible future losses in the case of the sale of loans secured with premises and equipment to the Cooperative Credit Purchase Corporation, taking the value of collateral into account. This is a reserve as stipulated in Article 43 of the Commercial Code.
14. The accounting for financial leases, except those where the ownership title is deemed to have been transferred to the lessee, is the same as for operating lease transactions.
15. Deferred hedges or exceptional interest rate swap treatment is carried out for certain assets and liabilities.
- A macro hedge is a hedge accounting method that uses derivative transactions to control aggregate interest rate risk arising from various financial assets and liabilities such as loans and deposits. Deferred hedge accounting is adopted in this risk control method based on the temporary risk-adjustment approach prescribed in "Accounting and Auditing Treatment of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank evaluates the effectiveness of the hedge by inspecting whether the risk involved with the derivatives, as the means of risk adjustment, is within the allowable risk limits provided in the risk control policies, and whether the subject of the risk control, the interest rate risk, is reduced.
16. National and local consumption taxes are accounted for with the tax exclusion method.
17. There were no allowances provided under specific laws because the Reserve for Contingent Liabilities from Financial Futures Transactions was eliminated.
18. Accumulated depreciation of premises and equipment is ¥61,591 million.
19. Advanced depreciation of premises and equipment is ¥18,540 million.
20. In addition to the premises and equipment stated in the balance sheet, some computers are used under lease agreements.
21. In Loans, loans to bankrupt companies total ¥351,395 million and overdue loans total ¥417,703 million.
- Loans to bankrupt companies are loans for which accrued interest is not shown in the accounts based on the assumption that principal or interest is likely to be unrecoverable because the interest or principal payments have been long overdue or for other reasons (excluding loans that have been written off, and hereinafter referred to as "loans for which accrued interest is not shown in the accounts"), where the loans in question are affected by the circumstances defined in Article 96, Clause 1,

Numbers 3a-e or Number 4 of the Corporation Tax Law Enforcement Ordinance (Cabinet Ordinance No. 97 of 1965).

Overdue loans are loans for which accrued interest is not shown in the accounts, excluding loans to bankrupt companies, and loans for which the interest payments have been rescheduled to support financial restructuring of the borrowers.

22.Loans overdue by three months or longer total ¥6,115 million. Loans overdue by three months or longer are defined as loans on which principal or interest payments are overdue by three months or longer reckoning from the payment date stipulated in the contract. Loans that are classified as loans to bankrupt companies or overdue loans are excluded.

23.Rescheduled loans total ¥115,623 million. Rescheduled loans are loans for which the terms have been eased to support financial restructuring of the borrower through measures agreed in favor of the borrower, such as reduction of interest payments, postponement of interest or principal repayments and abandonment of claims, and exclude loans to bankrupt companies or overdue loans and loans overdue by three months or longer.

24.The total amount of loans to bankrupt companies, overdue loans, loans overdue by three months or longer and rescheduled loans is ¥890,838 million.

The amounts of loans stated in Notes 21 through 24 are the numbers before the deduction of possible loan loss allowance.

25.Bills Discounted are handled as financial transactions in accordance with the "Accounting and Auditing Treatment of the Application of Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 24). Accordingly the Bank has the right to freely sell or use as collateral any accepted bank acceptance bills, trade bills, documentary bills or foreign exchange it has purchased, the aggregate face value of which is ¥755,916 million.

26.Assets provided as collateral are as follows.

Assets provided as collateral:

Securities ¥457,259 million

Liabilities corresponding to collateral assets:

Deposits ¥ 7,249 million

In addition to the above amounts, securities worth ¥251,909 million have been provided as collateral for foreign currency settlements and foreign currency-yen settlements, etc., or substituted for futures margin money, etc.

27.Deferred hedge gains represent the net amount of unrealized gains and losses or valuation differences from hedging instruments. The gross amounts before offsetting are ¥1,520 million in deferred hedge losses and ¥3,651 million in deferred hedge gains.

28.Borrowings include loans payable under subordination

covenant totaling ¥57,000 million.

29.The net income per capital unit is ¥0.81.

30.Net assets increased by ¥7,794 million based on market values as stipulated in Article 27, Clause 8, No. 2 of the Shoko Chukin Bank Law.

31.Investment Securities details such as market values and valuation differences are described as follows. These securities include "National Government Bonds", "Local Government Bonds", "Corporate Bonds", "Stocks" and "Other Securities" as well as "Trading Securities", transferable due bills from banks and commercial papers in "Other Trading Assets", transferable due bills from banks in "Due from Banks", and commercial papers and beneficiaries of loan trusts in "Monetary Claims Purchased". This applies through Note 34.

Trading securities

Book value ¥ 45,744 million

Recognized valuation

differences in this fiscal year ¥ 6 million

Bonds to be held to maturity with market values

Debt securities

Book value ¥ 437,651 million

Fair value ¥ 448,817 million

Valuation Differences ¥ 11,166 million

Valuation Gains Therein ¥ 11,166 million

Valuation Losses Therein —

Other securities with market values (Millions of yen)

	Acquisition Cost	Amount on Balance Sheet	Valuation Differences	Valuation Gains Therein	Valuation Losses Therein
Stocks	13,997	17,819	3,821	5,816	1,994
Bonds	1,344,699	1,349,567	4,868	4,927	59
National Government Bonds	990,274	992,516	2,242	2,277	34
Local Government Bonds	38,174	38,977	803	804	0
Corporate Bonds	316,250	318,073	1,822	1,846	23
Others	622,930	623,197	267	448	180
Total	1,981,627	1,990,584	8,957	11,192	2,234

"Unrealized Gains on Securities" includes ¥6,301 million, which is the valuation differences stated above, net of deferred tax liability of ¥2,655 million thereto.

32.Following are other marketable securities disposed of during the period.

The amount disposed of ¥3,407,527 million

The profit from disposal ¥ 24,672 million

The loss from disposal ¥ 393 million

33. Major securities which have no market value and their book values are described as follows.

Items	Book value
Marketable securities	
Unlisted stocks (excluding over-the-counter market)	¥ 6,940 million
Bonds	¥ 91,276 million

34. Following are the expected amounts to be redeemed in respect to marketable securities whose maturity dates are set, and bonds to be held to maturity.

(Millions of yen)

	1 year or less	5 years or less but more than 1 year	10 years or less but more than 5 years	More than 10 years
Bonds	543,880	938,814	349,550	—
National Government				
Bonds	454,828	633,060	298,655	—
Local Government				
Bonds	24,425	7,426	6,323	—
Corporate Bonds	64,627	298,327	44,572	—
Others	531,331	58,701	—	8
Total	1,075,211	997,515	349,550	8

35. Overdraft contracts and commitment line contracts on loans are the agreements under which the Bank grants a loan up to a designated credit limit when the customer requests, unless there is breach of the conditions stipulated in the contract. The outstanding credit facility ready for claims under such agreements is ¥582,490 million.

Most of these contracts are terminated before the amount of the credit facility determined in the agreements is fully utilized, so the outstanding credit facility itself does not always affect the Bank's future cash flows. Most of these agreements have provisions that allow the Bank to cancel the customers' claim and/or to reduce the credit limit for appropriate reasons such as changes in financial situation and protection of credit standing. Moreover when necessary the Bank requires customers to provide property or securities as collateral when signing the contract. After the Bank enters into the agreement, it periodically (every half-year) checks customers' business condition in accordance with internally established procedures, reviews the conditions of the agreement if necessary, and takes measures to protect the Bank's assets.

36. In accordance with changes to the format of attachments to regulations enforced by the Shoko Chukin Bank Law, the following treatments will be applied starting from this period.

(1) In the past debenture transactions with cash collateral were shown in "Other Liabilities" account under "Other Liabilities", but starting from this period they will be shown separately under "Cash Collateral

Received for Debenture Transactions".

(2) Last period "Capital", "Legal Reserve" and "Surplus" were separate accounts under "Capital Funds", but starting from this period they will be shown as "Capital", "Capital Surplus" and "Retained Earnings".

Statement of Income

- All amounts expressed in the statements have been rounded down to the nearest million yen.
- The Shoko Chukin Bank shows profit and loss on transactions undertaken for the purposes of trading transactions in the Statement of Income as "Trading Revenue" or "Trading Expenses".

In the Statement of Income, Trading Revenue and Trading Expenses are arrived at by adding to interest received and paid and other items during the year, amounts equivalent to the changes in valuation between the ends of the previous and current years for securities and monetary claims, etc., and amounts equivalent to changes in deemed settlements between the ends of the previous and current years for derivatives.

- In accordance with changes to the format of attachments to regulations enforced by the Shoko Chukin Bank Law, the following treatments will be applied starting from this period.

In the last period, interest paid for debenture transactions with cash collateral was included in "Other Interest Expense" under "Interest Expense", but starting from this period it will be shown as "Interest on Debenture Transactions".