

FRONTIER BANKING

**HYAKUGO BANK**  
FRONTIER BANKING

Annual Report 2003

# PROFILE

Since its establishment in 1878, Hyakugo Bank has conducted sound business as a leading bank in its home region of Mie Prefecture. Hyakugo Bank's high asset quality is well recognized even among other Japanese banks.

As of March 31, 2003, on a consolidated basis, Hyakugo Bank had total assets of ¥3,664.5 billion, total deposits of ¥3,299.0 billion and loans and bills discounted of ¥2,021.9 billion.

Hyakugo Bank serves its customers through a network of 107 branches, 28 sub-branches and 2 overseas representative offices.

Mie Prefecture, the Bank's main region of business, is situated between Nagoya and Osaka, two of Japan's largest cities. The principal industries of the prefecture include the manufacture of automobiles, petrochemicals and electrical machinery, as well as pearl cultivation, fishing and tourism.

While maintaining close ties with the communities it serves, Hyakugo Bank seeks to enhance its business and profitability by providing financial products and services that contribute to the region's economic development.



## CORPORATE PHILOSOPHY

Hyakugo Bank's corporate philosophy reconfirms the basic points by which we have grown and earned the trust of customers, stockholders and society. The following standards apply to all future judgments and conduct of employees throughout Hyakugo Bank.

### ▶ **Mission**

We dedicate ourselves to helping develop a society that places the highest value on mutual trust, and conduct our business in ways to contribute toward building a better society where warmth and respect prevail.

### ▶ **Management**

We manage the Bank in a manner deemed fair and responsible against broader social standards. Hence, we attach the greatest importance to sound banking practices in harmony with the ethics and integrity of the public. We believe our independence and solid growth are sustained and valued only in pursuit of such managerial practices.

### ▶ **Behavior**

We try to always display our sincerity in both business and individual activities, guided by our conscience and common sense. We express our deep appreciation for the society by achieving excellence in what we do, while constantly striving to expand our knowledge and challenging the future.

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### FORWARD-LOOKING STATEMENTS

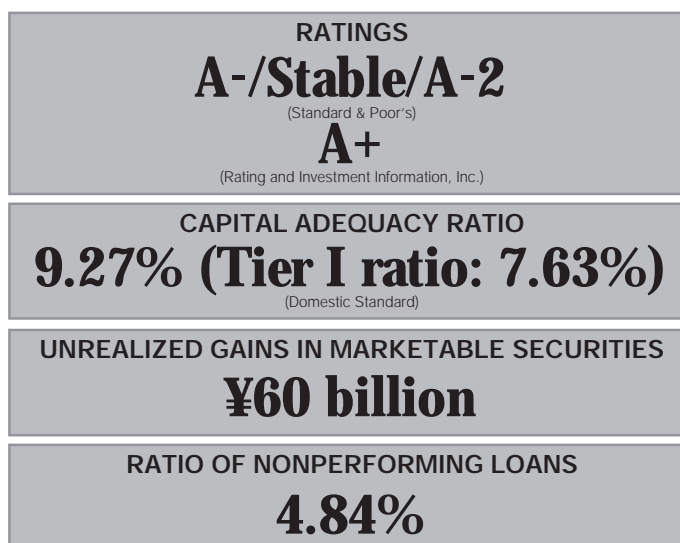
Statements in this annual report, other than those of historical fact, are forward-looking statements about the future performance of Hyakugo Bank that are based on management's assumptions and beliefs in light of information currently available, and involve both known and unknown risks and uncertainties. Actual events and results may differ materially from those anticipated in these statements.

# HYAKUGO BANK AT A GLANCE

## FINANCIAL HIGHLIGHTS (Consolidated)

	Millions of yen		Thousands of U.S. Dollars	2003/2002 % change
	2003	2002	2003	
<b>For the year:</b>				
Total income.....	¥ <b>85,136</b>	¥ 89,636	\$ <b>708,293</b>	(5.0)
Net income .....	<b>2,321</b>	2,863	<b>19,310</b>	(18.9)
Return on equity (%) .....	<b>1.24</b>	1.44	—	(0.2) point
<b>At year-end:</b>				
Deposits .....	<b>¥3,299,015</b>	¥3,293,349	<b>\$27,446,052</b>	0.2
Loans and bills discounted.....	<b>2,021,903</b>	1,999,393	<b>16,821,157</b>	1.1

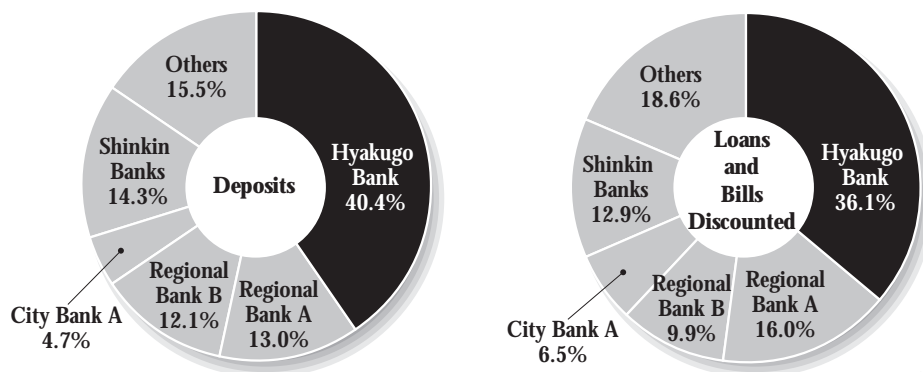
## ASSET SOUNDNESS



## STRONG CUSTOMER BASE

With a strong customer base in its core market of Mie Prefecture, Hyakugo Bank holds the region's top share of both deposits and loans at 40.4 percent and 36.1 percent, respectively.

### Share in Mie Prefecture



(As of March 31, 2003)

## MESSAGE FROM THE PRESIDENT



Hajimu Maeda  
President

### **Business Results**

During the year ended March 31, 2003, Hyakugo Bank took steps to strengthen its operations and reduce expenses. However, deterioration in funding costs and stock related losses, in addition to the effect of deferred tax accounting associated with the partial revision of the Local Tax Law, regrettably resulted in a ¥542 million decrease in net income to ¥2,321 million.

Given the weakness in the fundamental economic conditions, for the year ending March 2004, we adjusted our original target for non-consolidated net income in our medium-term management plan from ¥8 billion to ¥5 billion.

For net business profit, an indicator of the profitability of core businesses, we expect to achieve the target set in the medium-term management plan.

The introduction of the regional headquarters system in April 2002 brought the Bank closer to customers and enables us to develop and execute flexible business strategies that reflect customer feedback and regional characteristics. By doing so, we aim to provide even more detailed service than before.

With this stronger business structure, we are making steady sales of investment products designed for individual

customers. Examples include individual pension insurance we began marketing in October 2002, a new foreign currency time deposit with a foreign exchange contract that offers the potential for higher interest while reducing foreign exchange risk within a certain range, and Japanese government bonds.

We are also developing our business in new areas. For example, to incubate and assist regional businesses, we offer business loan products that feature a quick application decision to support Private Finance Initiative (PFI) projects. We have also created a research organization to support business in China and formed a tie-up with the Bank of China in Beijing for *renminbi* loans.

### **Adoption of a New Corporate Statement**

In April 2003, Hyakugo Bank adopted a new corporate statement, which we defined as “Frontier Banking.” By conveying our corporate statement, we express Hyakugo Bank’s aspirations and state our commitment to realizing them.

Frontier Banking means opening up new frontiers in the banking business. The environment facing the banking industry is changing rapidly, and customer needs are growing more diverse, sophisticated and specialized. In

# THE FIRST MANAGEMENT PLAN OF THE NEW CENTURY

(From April 2001 to March 2004)

## CORPORATE PHILOSOPHY

### BASIC POLICY

- A business can thrive only with the support of customers
- Speeding up business operations by decentralizing management through delegation of authority

### GUIDELINES FOR ACTION

- Participation of all employees in Marketing and Public Relations

## FIVE STRATEGIES

Management Reforms

Reforms Visible to Customers

Promoting Participation of All Employees in Marketing and Public Relations

Organizational Reforms

Personnel System Reforms

**Becoming the Most Reliable Bank for Customers**

## NUMERICAL TARGETS

	FY 2001	FY 2002	FY 2003 (projection)
Net income	¥2.7 billion	¥2.1 billion	¥5 billion
Return on equity	1.89%	1.45%	3.00%
Number of employees (clerical officers)	2,419	2,329	2,310

these circumstances, Frontier Banking expresses Hyakugo Bank's ambition to be a bank with plentiful creativity, and one that is able to meet customer expectations with a leading-edge business sense in order to maintain a valued presence in society into the future.

When Hyakugo Bank marks its 125th anniversary in November 2003, we will reiterate our statement both inside and outside the Bank. By doing so, we will aim to mobilize the collective strength of all our employees to become a bank with an even more valuable presence.

### Environmental Protection Efforts

Hyakugo Bank received ISO 14001 certification in 1999. In accordance with ISO 14001 guidelines, we are taking measures to reduce consumption of power and paper. We are also taking other environmental protection initiatives such as promotion of green purchasing.

### Strengthening Corporate Governance

In a dramatically changing business environment, we recognize the importance of strengthening corporate governance to respond quickly to changes in the environment and exercise our true competitive capabilities. Hyakugo Bank is therefore working to reinforce corporate governance through measures such as fortifying the

functions of the Board of Directors and Executive Meeting, electing outside auditors, establishing committees such as the Compliance Committee, and enhancing investor relations activities. These steps increase management efficiency, accelerate decision making and raise the transparency of management.

### For the People of the Mie Region

Hyakugo Bank will continue working to meet the expectations of our customers by maintaining our trustworthiness through sound management.

The economic conditions facing banks are more challenging than ever. Yet we believe it is precisely in times like these that we can make the most of the knowledge and experience gained through our 125-year history, and serve a valuable role. We are committed to practicing Frontier Banking to share in realizing the dreams of our customers and create new partnerships.



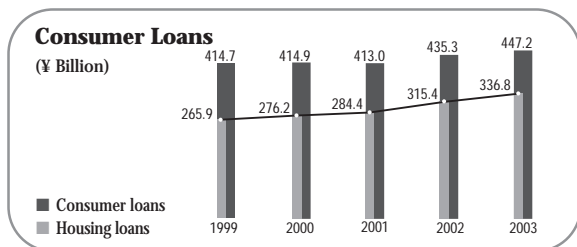
Hajimu Maeda  
President

# STRENGTHENING MARKETING AND PROFITABILITY

## EXPANDING TRANSACTIONS WITH INDIVIDUAL CUSTOMERS

### Housing Loans with Shorter Review Time

Previously Hyakugo Bank entrusted guarantees for housing loans to an outside guarantee company. Starting in September 2002, we began offering a housing loan with Hyakugo DC Card Company, Ltd., a member of the Hyakugo Bank Group, as the guarantee company, with the aim of shortening loan application review time and clarifying review criteria.

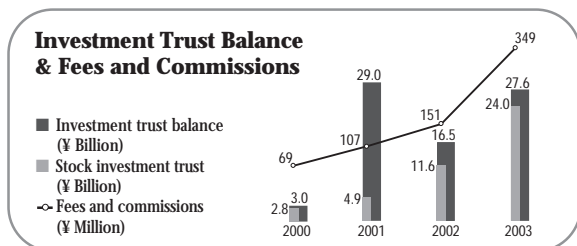


### Expansion of Unsecured Loans

In October 2002, Hyakugo Bank began handling unsecured consumer loans. For these loans, customers can easily apply and complete the loan contract by phone, fax or mail without making a trip to the bank. In March 2003, we also enhanced the content of our student loans to broadly meet customers' education-related financing needs.

### Meeting Asset Management Needs

In October 2002, Hyakugo Bank began over-the-counter sales of individual pension insurance. Combined with defined contribution pensions, this product helps customers to prepare



financially for retirement. In addition, we are actively meeting the broad asset management needs of our customers through initiatives such as development of a new foreign-currency time deposit with a foreign exchange contract, as well as the addition of a new fund for investing in major listed companies of the three prefectures in the Tokai region and an investment trust product that provides monthly dividends. With the further advance of deregulation, we will continue working to offer our customers comprehensive financial services.

## EXPANDING TRANSACTIONS WITH CORPORATIONS

### Mergers and Acquisitions

With the changing operating environment, the attitude of managers toward the perpetuation and development of their business is also changing dramatically. To maintain and revitalize management resources, mergers and acquisitions are increasingly seen as an effective option in corporate strategy, both for large corporations and small and medium-sized businesses. For the development of local communities as well, a critical issue is how to smoothly realize the continuation and growth of businesses without harming business entities.

In this environment, Hyakugo Bank is actively providing M&A support to increase the strength of companies in the region and thereby contribute to ensuring the development of local communities.

### Support for Fund Raising and Fund Management

One mission of a regional bank is to provide funding for the cultivation and support of small and medium-sized businesses in the region. The bank invests and owns stock in businesses with fast-growing sales and profits as well as in companies that have a strong desire to expand their operations with new businesses that have good potential.

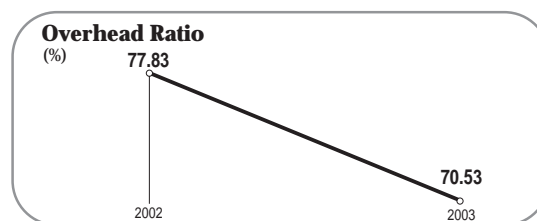
To respond to diversification in companies' funding needs, in October 2002, Hyakugo Bank began handling bank-guaranteed private placement bonds. In addition to the existing industry association-guaranteed private placement bonds and secured private placement bonds, this adds to the corporate bond options we offer to meet the bond issuing needs of our corporate clients.

# ESTABLISHMENT OF A LOW COST SYSTEM

In October 2002, Hyakugo Bank began outsourcing work such as storage and management of loan documents and processing of paperwork related to loan operations to affiliated company Hyakugo Property Research Company Ltd. By reducing the amount of paperwork, outsourcing allows staff at bank branches to focus more strongly on building business. In this way, we are promoting the establishment of a system that enables branch employees to promptly provide services tailored to customer needs.

In addition, in March 2003, we began outsourcing ATM monitoring to ATM Japan, Ltd. This reduces our operating

costs and enhances our ability to respond to customer inquiries quickly and clearly, and did not require any equipment expansion costs.



# RISK MANAGEMENT AND COMPLIANCE SYSTEM

## FUNDAMENTAL RISK MANAGEMENT POLICIES AND ADMINISTRATIVE SYSTEMS

The number of risks to which banks are directly exposed has increased steadily, which has heightened the importance of managing each type of risk. Hyakugo Bank has established its Risk Management Policy as the basis for integrated risk management and administration. The Risk Management Committee meets once a month to gauge and respond appropriately to each type of risk in order to maintain management soundness. In addition, the Audit Division is independent from business divisions, and conducts audits of business operations and examines the appropriateness and effectiveness of management within each of the Bank's divisions.

### Credit Risk Management

Hyakugo Bank has always clearly separated its sales promotion and credit investigation functions to carry out rigorous assessment and control of credit risk. Moreover, the Bank has established a credit policy that controls the concentration of credit in any single company or corporate group. It also supports the Bank's efforts to understand borrower conditions according to parameters including industry and region, and diversify its credit portfolio. In addition, Hyakugo Bank has implemented a 12-point internal credit rating system to assess borrower creditworthiness and quantify credit risk.

### Market Risk and Liquidity Risk Management

The influence of changes in interest rates, foreign currency exchange rates, stock prices and other market movements on bank earnings has increased steadily. Consequently, Hyakugo Bank has strengthened its asset and liability management (ALM)

capabilities with the objective of securing stable earnings. Specifically, the ALM Committee meets monthly to analyze the composition of assets such as loans and securities and liabilities such as deposits. The Bank also has policies for using swaps and other techniques to hedge risk based on interest rate projections.

### Administrative and Systems Risk

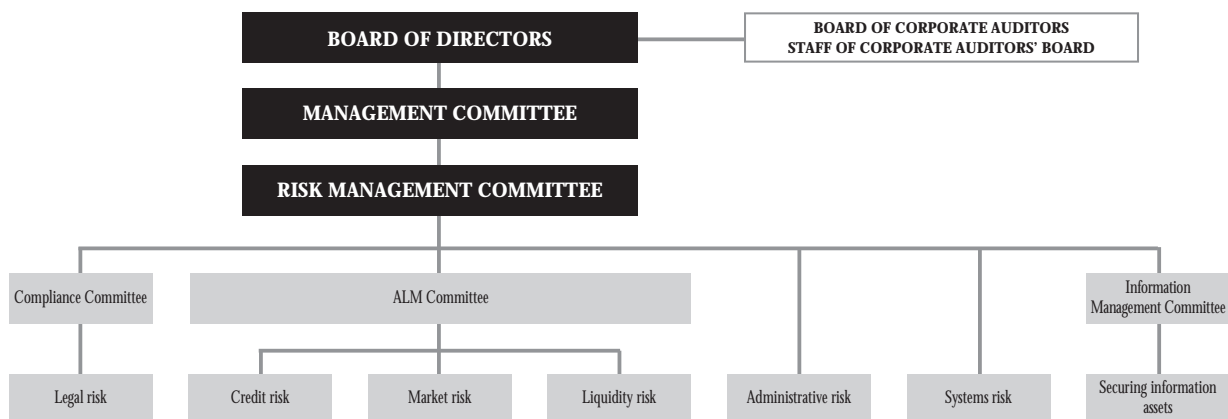
While promoting rigorous and systematic administration, Hyakugo Bank has enhanced training and administrative guidance within the Bank to increase control and guidance capabilities.

Hyakugo Bank has prepared for natural disasters and problems with hardware, software, and information and communication systems by establishing a thorough back-up system. The Bank has also moved forward with emergency preparedness through measures such as strengthening building safety. Based on the Security Policy covering all information assets, the Bank has established the Information Management Committee as another means of appropriately managing and preserving information assets.

## COMPLIANCE

Compliance is one of Hyakugo Bank's most important management priorities. In addition to issuing a business guidebook that provides fundamental guidelines for compliance inside the Bank, we have created a Compliance Committee chaired by the president, and assigned compliance officers to all head office departments, regional headquarters and branches. Moreover, the Bank formulates a compliance program every year as a concrete action plan to further promote compliance with laws and regulations and mitigate legal risk.

## HYAKUGO BANK'S RISK MANAGEMENT SYSTEM



# CURRENT STATUS OF NONPERFORMING LOANS

## DISPOSAL OF NONPERFORMING LOANS

Hyakugo Bank makes appropriate write-offs and provisions to reserves according to the possibility of recovery or the risk of impairment of loan assets, as determined by the Bank's self-assessment of credits. In addition, the Bank aggressively works to recover nonperforming loans by methods such as collection from borrowers and liquidation of collateral through auctions. Hyakugo Bank is also working toward the final disposal of nonperforming loans through sales and other means. As a result, the amount of disposal of nonperforming loans on a consolidated basis as of March 31, 2003 totaled ¥7,968 million, an increase of ¥1,040 million compared to the previous fiscal year-end.

## CREDIT EXPOSURE UNDER THE FINANCIAL RECONSTRUCTION LAW AND RISK-MONITORED LOANS

Loans disclosed under the Financial Reconstruction Law totaled ¥102,265 million as of March 31, 2003, an increase of

¥4,074 million compared to a year earlier. Nonperforming loans as percentage of total credit outstanding increased 16 basis points from a year earlier to 4.87 percent, which is a comparatively low ratio. For reference, this ratio on a nonconsolidated basis was 4.84 percent, and the average for all regional banks in Japan was 7.63 percent. In addition, the coverage for nonperforming loans was 86.35 percent, and the Bank maintains appropriate reserves to cover future risks and improve asset quality.

Risk-monitored loans on a consolidated basis totaled ¥100,723 million as of March 31, 2003, an increase of ¥4,112 million from a year earlier, and represented 4.96 percent of total loans outstanding. Hyakugo Bank is recovering loans by means including disposal of collateral, and is working to move nonperforming loans off of its balance sheet. The extended period of unfavorable economic conditions in Japan caused loans to borrowers in legal bankruptcy to increase ¥1,102 million and past due loans to increase ¥2,841 million during the past fiscal year.

### Coverage for Credit Exposure under Financial Reconstruction Law Disclosure Standards (Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Loans disclosed according to the Financial Reconstruction Law (normal loans excluded).....	¥102,265	¥98,190	¥4,074
Reserve for possible loan losses.....	38,052	35,052	2,999
Collateral, etc.....	50,253	50,015	237
Coverage amount.....	¥ 88,305	¥85,068	¥3,237
Coverage ratio.....	86.35%	86.63%	(0.28) point

### Loans under the Financial Reconstruction Law (Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Bankrupt and quasi-bankrupt assets.....	¥ 32,785	¥ 29,082	¥3,703
Doubtful assets.....	40,520	40,313	207
Substandard loans.....	28,958	28,795	163
Total of problem assets.....	¥ 102,265	¥ 98,190	¥4,074
Normal assets.....	¥1,993,974	¥1,984,921	¥9,052
Ratio of the problem assets to loans.....	4.87%	4.71%	(0.16) point

### Risk-Monitored Loans (Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Loans to borrowers in legal bankruptcy.....	¥ 13,799	¥12,697	¥1,102
Past due loans.....	57,972	55,131	2,841
Past due three months or more.....	620	465	154
Restructured loans.....	28,330	28,315	14
Total.....	¥100,723	¥96,610	¥4,112

### Nonperforming Loans under Internal-Assessment Standard (Non-Consolidated)

March 31, 2003		(Billions of yen)				
Failure	Substantial failure	Possible failure	Loans under Close Observation		Pass	Total
			Substandard	Others		
14.1	18.4	39.9	43.5	127.5	1,850.7	2,094.4

# SIX-YEAR SUMMARY

## (Consolidated)

The Hyakugo Bank, Ltd. and Consolidated Subsidiaries Years ended March 31

	Millions of yen					
	2003	2002	2001	2000	1999	1998
<b>For the year:</b>						
Total income.....	¥ 85,136	¥ 89,636	¥ 112,172	¥ 98,291	¥ 109,825	—
Total expenses .....	79,731	84,474	105,377	93,649	102,095	—
Income before income taxes and minority interests.....	5,405	5,162	6,794	4,641	7,729	—
Net income .....	2,321	2,863	3,956	2,658	3,712	—
<b>At year-end:</b>						
Total assets .....	¥3,664,538	¥3,662,386	¥3,553,174	¥3,349,334	¥3,325,832	—
Deposits .....	3,299,015	3,293,349	3,134,168	3,018,784	2,975,937	—
Loans and bills discounted.....	2,021,903	1,999,393	1,944,222	1,909,946	2,018,500	—
Investment securities .....	1,192,271	1,087,417	1,047,005	872,748	790,329	—
Total stockholders' equity .....	183,049	190,841	204,695	143,719	143,539	—
Common stock .....	20,000	20,000	20,000	20,000	20,000	—
<b>Per share data:</b>						
Net income per share (in full yen) .....	¥ 8.76	¥ 10.90	¥ 15.04	¥ 10.06	¥ 14.01	—
Stockholders' equity per share (in full yen) .....	703.23	727.70	778.34	546.49	541.68	—
<b>Valuation indicators:</b>						
Capital adequacy ratio (%) .....	9.37	8.81	8.94	8.98	8.76	—
Tier I ratio (%) .....	7.75	7.98	8.10	8.08	7.81	—
Return on equity (%) .....	1.24	1.44	2.27	1.85	—	—
Price/earnings ratio (times) .....	52.51	38.80	29.32	45.72	—	—
<b>Cash flow:</b>						
Net cash provided by operating activities .....	¥ 50,837	¥ 250,608	¥ 97,232	¥ 158,772	—	—
Net cash used in investing activities.....	(120,530)	(75,759)	(87,723)	(77,150)	—	—
Net cash used in financing activities .....	12,715	(4,647)	(4,319)	(2,443)	—	—

Note: Figures for the years ended March 31, 1998 are not included because the Bank did not prepare consolidated financial statements.

## (Non-Consolidated)

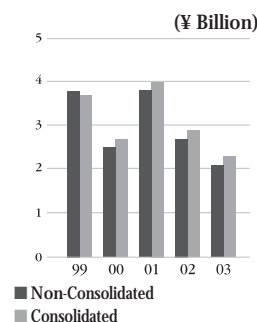
The Hyakugo Bank, Ltd. Years ended March 31

	Millions of yen					
	2003	2002	2001	2000	1999	1998
<b>For the year:</b>						
Total income.....	¥ 73,340	¥ 78,015	¥ 100,479	¥ 86,611	¥ 97,956	¥ 109,315
Total expenses .....	68,911	73,725	94,412	82,780	90,841	99,953
Income before income taxes.....	4,428	4,289	6,067	3,831	7,114	9,362
Net income .....	2,124	2,745	3,820	2,516	3,753	2,458
<b>At year-end:</b>						
Total assets .....	¥3,641,486	¥3,639,822	¥3,530,322	¥3,326,648	¥3,302,326	¥3,303,839
Deposits .....	3,300,143	3,294,503	3,135,768	3,019,969	2,977,062	2,946,402
Loans and bills discounted.....	2,027,957	2,005,883	1,950,311	1,915,247	2,023,408	2,013,853
Investment securities .....	1,192,709	1,087,785	1,047,268	873,117	790,727	790,987
Total stockholders' equity .....	182,144	190,190	204,164	143,334	143,302	124,428
<b>Per share data:</b>						
Net income per share (in full yen) .....	¥ 8.00	¥ 10.30	¥ 14.51	¥ 9.51	¥ 14.15	¥ 9.26
Cash dividends per share (in full yen) .....	5.00	5.00	5.00	5.00	6.00	5.00
Stockholders' equity per share (in full yen).....	699.48	724.57	775.62	544.53	540.30	469.14
<b>Valuation indicators:</b>						
Capital adequacy ratio (%) .....	9.27	8.72	8.88	8.92	8.72	9.97*
Tier I ratio (%) .....	7.63	7.88	8.03	8.02	7.77	7.27
Return on assets (%) .....	1.14	1.39	2.19	1.75	—	—
Return on equity (%) .....	0.06	0.08	0.11	0.07	0.11	0.07
Price/earnings ratio (times) .....	57.50	40.47	30.39	48.37	—	—

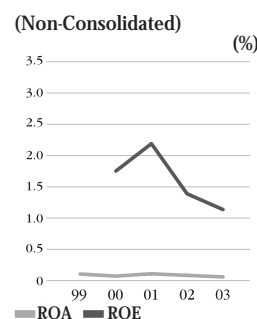
\*BIS standard

# FINANCIAL REVIEW

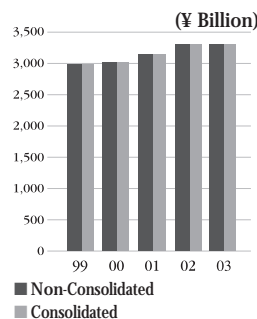
## Net Income



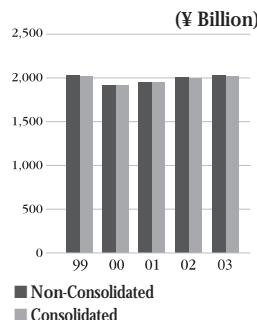
## Return on Assets/ Return on Equity



## Deposits



## Loans and Bills Discounted



## Income

For the year ended March 31, 2003 consolidated total income decreased ¥4,499 million (5.0 percent) year-on-year to ¥85,136 million, due to factors including a decrease in fund management income due to lower investment yields. Total expenses, however, decreased ¥4,742 million (5.6 percent) year-on-year to ¥79,731 million, because of factors including a decrease in funding costs resulting from lower deposit yields and a reduction in operating expenses. Net income decreased ¥542 million (18.9 percent) year-on-year to ¥2,321 million, due to tax effect accounting of partial revisions to the Local Tax Law and other factors.

## Net Interest Margin (Non-Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Interest income .....	¥ 60,201	¥ 64,179	¥ (3,978)
Average interest-earning assets .....	3,380,589	3,270,831	109,758
Average interest rate of interest-earning assets (%) .....	1.78	1.96	(0.18)
Interest expense .....	5,853	11,215	(5,362)
Average interest-bearing liabilities .....	3,268,619	3,156,679	111,939
Average interest rate of interest-bearing liabilities (%) .....	0.17	0.35	(0.18)
Net interest income .....	54,348	52,964	1,383
Funding cost (%) .....	1.46	1.76	(0.30)
Net interest margin (%) .....	0.32	0.20	0.12

Note: Figures for average interest-bearing liabilities are presented after deducting the average outstanding balance of money held in trust and interests.

## Deposits

As of March 31, 2003, total deposits, including negotiable deposits, increased ¥5,666 million (0.2 percent) from a year earlier to ¥3,299,015 million. Steady growth in individual deposits was the primary factor supporting the increase.

## Deposits by Depositor (Non-Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Individuals .....	¥2,520,332	¥2,468,207	¥ 52,125
Corporations .....	579,175	568,560	10,614
Local governments .....	172,308	226,054	(53,746)
Financial institutions .....	28,326	31,680	(3,354)
Total .....	¥3,300,143	¥3,294,503	¥ 5,639

## Loans

Reflecting an increase in loans to individuals, mainly housing loans, the balance of loans and bills discounted at the end of the fiscal year increased ¥22,509 million (1.1 percent) from a year earlier to ¥2,021,903 million.

## Consumer Loans (Non-Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Housing loans .....	¥336,844	¥315,473	¥21,370
Other .....	110,416	119,827	(9,410)
Total .....	¥447,261	¥435,300	¥11,960

## Loans to Small and Medium-sized Companies (Non-Consolidated)

	Millions of yen		
	2003	2002	Increase (decrease)
Total .....	¥1,451,605	¥1,455,761	¥(4,155)

- Notes: 1. The above amounts do not include loans from Japan offshore market accounts.  
2. Small and medium-sized companies are classified as those having capital of ¥300 million or less (¥100 million or less in the wholesale industry; ¥50 million or less in the retail and service industries) or those having 300 or fewer employees (100 or fewer in the wholesale industry; 50 or fewer in the retail industry and 100 or fewer in the service industry) and include businesses run by individuals.

## Loans by Industrial Category (Non-Consolidated)

	Millions of yen 2003
Manufacturing.....	¥ 359,468
Wholesale & retail .....	304,958
Service .....	241,478
Construction.....	119,832
Real estate .....	123,942
Banking & insurance.....	67,347
Other .....	810,930
<b>Total.....</b>	<b>¥2,027,957</b>

Note: The above table does not include loans from Japan offshore market accounts.

## Investment Securities

The balance of investment securities increased ¥104,854 million (9.6 percent) from a year earlier to ¥1,192,271 million.

## Capital Adequacy Ratio

Hyakugo Bank applies domestic standards for determining capital adequacy. As of March 31, 2003, the Bank's capital adequacy ratio based on domestic standards was 9.37 percent, and the Tier I capital ratio 7.75 percent. Calculated using BIS standards, the capital adequacy ratio was 10.60 percent. On a non-consolidated basis, the capital adequacy ratio based on domestic standards was 9.27 percent, and the Tier I ratio was 7.63 percent. Using BIS standards, the non-consolidated capital adequacy ratio was 10.51 percent.

## Capital Adequacy Ratio

March 31	Millions of yen			
	Consolidated		Non-Consolidated	
	2003	2002	2003	2002
<b>Tier I:</b>				
Common stockholders' equity.....	¥ 145,064	¥ 144,531	¥ 141,081	¥ 141,043
Total Tier I capital.....	145,064	144,531	141,081	141,043
<b>Tier II:</b>				
Premises revaluation account, after 55% discount .....	3,802	3,937	3,802	3,937
Reserve for possible loan losses .....	11,692	11,293	11,549	11,068
Total Tier II capital .....	30,495	15,230	30,352	15,005
Deduction from capital .....	101	101	101	101
Total capital .....	175,458	159,661	171,332	155,948
Total risk-adjusted assets .....	1,870,841	1,810,248	1,847,947	1,787,966
Capital adequacy ratio (%) .....	9.37	8.81	9.27	8.72

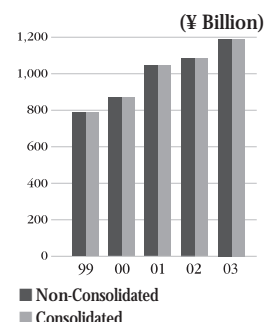
## Total Stockholders' Equity

Total stockholders' equity at March 31, 2003 decreased ¥7,791 million (4.1 percent) from a year earlier to ¥183,049 million. Unrealized gain on available-for-sale securities decreased ¥8,011 million from a year earlier to ¥35,321 million, reflecting the inclusion in stockholders' equity of deferred tax liabilities excluded from unrealized gain on investment and other securities.

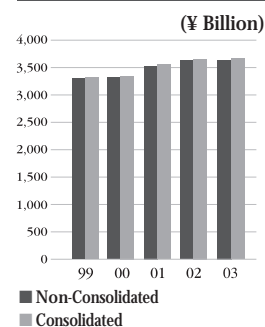
## Cash Flows

Net cash provided by operating activities totaled ¥50,837 million, reflecting an increase in deposits and other factors. Net cash used in investing activities totaled ¥120,530 million, mainly due to purchases of investment securities. Net cash provided by financing activities totaled ¥12,715 million due to proceeds from subordinated loans. As a result, cash and cash equivalents at the end of the year decreased ¥56,996 million from a year earlier to ¥244,412 million.

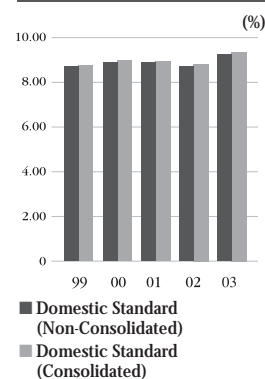
## Investment Securities



## Total Assets



## Capital Adequacy Ratio



## Total Stockholders' Equity

