

ANNUAL
REPORT
2003

YEAR ENDED MARCH 31, 2003

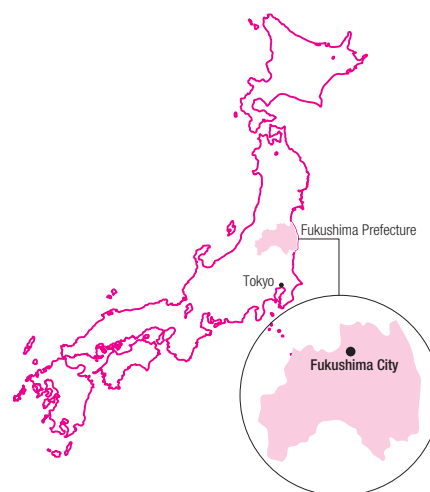


THE TOHO BANK, LTD.

Profile

As the leading bank in Fukushima Prefecture, Toho Bank has contributed to the prosperity of its local communities since being established in November 1941. In response to the trust placed in us by our customers and the market region we serve, in April 2003 we initiated our new medium-term management plan "TOHO Revolution Vision 2003" as an action program. Our goal is to become Japan's "Best Regional Bank in the 21st Century" (our long-term vision), which is evaluated positively by the market and its shareholders. We are aggressively addressing our customers' increasingly diversified and sophisticated needs, devoting our full efforts to strengthening previously executed risk management capabilities, and providing active disclosure of our financial position. Toho Bank has received a long-term credit rating of BBB+ and a short-term credit rating of A-2 from Standard & Poor's, the international credit rating firm, which we have duly disclosed.

As of March 31, 2003, Toho Bank had total shareholders' equity of ¥117.2 billion (US\$975 million) and total assets of ¥2,774.4 billion (US\$23,082 million) (both figures on a consolidated basis), approximately 2,200 employees, and a business network composed of 114 branches and non-branch cash dispenser corners (ATM and CD) installed at 242 locations.



Consolidated Five-Year Summary

Years ended March 31	Millions of Yen				
	2003	2002	2001	2000	1999
Total Income	¥ 69,395	¥ 89,152	¥ 74,174	¥ 80,135	¥ 85,379
Income (Loss) before Income Taxes	8,039	4,302	(33,933)	7,842	(9,167)
Net Income (Loss)	3,084	1,998	(20,169)	4,275	(6,329)
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At March 31	2003	2002	2001	2000	1999
Total Assets	¥2,774,465	¥2,851,251	¥2,845,917	¥2,753,895	¥2,735,688
Deposits	2,559,097	2,618,585	2,600,074	2,528,831	2,443,341
Loans and Bills Discounted	1,688,729	1,758,999	1,756,418	1,711,025	1,746,365
Securities.....	885,913	874,823	802,707	709,539	605,569
Total Shareholders' Equity.....	117,297	112,129	129,688	123,608	117,521

Contents

Message from the President	1
Consolidated Financial Review	3
Financial Statements	4
Board of Directors and Auditors/Organization	12
Network	12

Business Progress and Results

Economic and Financial Environment ▶

During the fiscal year ended March 31, 2003, the Japanese government initiated a variety of economic stimulus and industrial revitalization measures aimed at halting deflation. Against a backdrop of unstable economic conditions overseas and shrinking domestic consumption, however, Japan remained unable to shed the sense of uncertainty concerning the future direction of the economy.

Business conditions also remained difficult in Fukushima Prefecture, Toho Bank's main base of operations. The overall pace toward economic recovery was slow, weighed down by factors such as a depressed real estate market and a high level of corporate bankruptcies.

In light of the nation's economic circumstances, the Bank of Japan enacted a variety of financial relief measures. Nevertheless, from a financial perspective business conditions remained extremely unsettled, a situation exemplified by a further plunge in the Nikkei Stock Average in March 2003 to its lowest level since the collapse of the bubble economy.

In the financial industry itself, an entirely new competitive environment continued to spread. Consolidation among major banks continued, while management integration and moves to establish business alliances in specific sectors intensified, even at regional financial institutions. Issues recognized by financial institutions as requiring attention, including improvement of management soundness and greater competitiveness, have become increasingly more challenging.

Business Progress ▶

In this harsh environment, Toho Bank strove to further improve the content of its services to meet the increasingly diversified needs of its customers. At the same time, to improve operating results and maintain customer trust, we worked aggressively to restore assets to health and rationalize operations.

To address the broad range of our customers' needs, we began offering life insurance products in October 2002. During the year, we also enhanced our lineup of investment trust products, and regularly sponsored asset management seminars and consultation meetings, as a venue to disseminate information to customers and offer customer consultations.

In loan products, for our individual customers we pursued benefits and convenience, along with conducting a complete review of the marketability of various loan products. For business customers, we created "TOHO Genki Dash," a product distinguished by a quick turnaround to meet the needs of corporate customers, which we offer in conjunction with the Fukushima Prefecture Credit Guarantee Association. Toho Bank also responded positively to acceptance of the special bond guarantee system for corporate bonds issued through private placements.

At the end of the fiscal year under review, our branch network consisted of 103 branches, including 95 branches in Fukushima Prefecture, and 11 sub-branches. During the year, we established one new branch and a new sub-branch, and consolidated seven branches and one sub-branch, as part of our efforts to strengthen the Bank's management structure by creating a more effective and efficient sales promotion system.

Specifically, during the fiscal year under review we opened the Loan Plaza Aizu branch and the Koriyama General Wholesale Market sub-branch, and consolidated the Kunimi, Fukuyama, Choja, Hanaharu-Machi, Haramachi-Higashi, Nishiki and Iwaki-Ohara branches and the Iwaki New Town sub-branch with the Koori, Koriyama-Kita, Koriyama, Aizu-Ichinomachi, Haramachi, Ueda, Onahama, and Iwaki-Kashima branches, respectively.

In conjunction with these branch consolidations, we reviewed the locations of our non-branch cash dispenser (ATM and CD) corners from the standpoint of ensuring customer convenience, and increased the number of locations by five, bringing the number of non-branch cash dispenser sites to 242.

As part of our systems strategy, we established an objective of reducing system maintenance and operating costs and focusing management resources on strategic areas such as IT-related investment. We commissioned the development and operation of our next-generation accounting system to Fujitsu Ltd., and since establishing Fujitsu Banking Solutions, Ltd. to manage this activity we have been vigorously proceeding with preparations designed to achieve operational start-up of the new system in September 2003.

To address the need to revitalize assets, we sought to strictly write off and provision for nonperforming loans using stringent criteria based on appropriate asset assessments. The Bank also accelerated the final disposal of problem loans by selling some nonperforming loans for which we had already set aside a loan loss provision, and focused on efforts to provide customers with management support and advice.

In light of the large number of cases nationwide in which depositors have suffered losses from illegal withdrawals following the theft of their account passbook, seal or cash card, we implemented several changes during the fiscal year ending March 31, 2003 as measures to assist customers in protecting their assets. At branches, we tightened



President Toshio Seya

procedures for requiring personal identification when withdrawals are requested at a teller window, and for our cash dispensers (ATM and CD) we responded by establishing maximum daily withdrawal limits and enabling account holders to change their cash card personal identification number.

The Tasks Ahead ➤

Looking at the future prospects for Japan's economic environment, we anticipate the road to economic recovery will be very steep, in light of factors such as unstable economic conditions in other countries and the steady advance of deflation, which has yet to be halted. In Fukushima Prefecture as well, we remain seriously concerned that factors such as the reorganization and hollowing-out of the manufacturing base will hobble the economic recovery, and exert further negative influence on corporate management.

Faced with the pressures of this economic environment, we believe that our role as a regional financial institution is to contribute to the development of a healthy local economy by offering effective financing, while simultaneously strengthening competitiveness and responding to our customers' needs and trust.

In April 2003, in response to the trust placed in Toho Bank by our customers and market region, we initiated our new medium-term management plan "TOHO Revolution Vision 2003" as an action program. Our goal is to become Japan's "Best Regional Bank in the 21st Century" (our long-term vision), and form a financial group that is evaluated positively by the market and our shareholders.

In this plan, we have outlined our three goals to "create an earnings enhanced business model," "restore assets to health" and "rebuild the Bank's management infrastructure," as management objectives we will pursue to focus all of Toho Bank Group's capabilities on achieving our long-term vision.

Specifically, by devoting efforts to reinforcing the Bank's core loans, through measures such as creation of a new sales promotion system to organically combine enhanced public relations capabilities with indirect marketing channels and reorganization of the credit analysis and control system to ensure an appropriate level of risk management, and

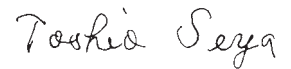
simultaneously establishing a small, elite business management organization as quickly as possible, we will accomplish internal reforms that will create a highly profitable organization.

At the same time, in the future we will continue to focus our efforts on providing detailed management support and advice for customers, strengthen measures to dispose of nonperforming loans including converting such loans to off-balance sheet assets to return the Bank's asset portfolio to health, and continue to fulfill our role as a regional financial institution responsible for the vitality of our regional economy.

From the standpoint of management infrastructure, we will review our current operating systems from a range of new perspectives, to incorporate concepts and customs not previously considered and further improve the effectiveness of the measures described above.

Toho Bank will continue its efforts in the future to ensure thorough observance of laws and regulations, actively disclose information, and increase transparency. We look forward to continuing to receive the support and encouragement of all of our shareholders in these endeavors.

August 2003



Toshio Seya
President

Deposits and Individual Deposits

As Japan's ultra-low interest environment remained unchanged, Toho Bank worked to increase its assets. In addition to providing deposits and negotiable certificates of deposit we offered a variety of financial instruments, including government bonds and investment trusts, to meet our customers' diversified asset management needs.

As a result, total deposits including negotiable certificates of deposit decreased by ¥59.4 billion (US\$494 million) during the fiscal year to ¥2,559.0 billion (US\$21,290 million). Although deposits held by corporate customers declined, total individuals' deposits increased.

On the other hand, the balance of assets held for investment in government bonds and investment trusts rose by ¥51.1 billion (US\$425 million) during the fiscal year to ¥111.7 billion (US\$929 million).

Loans and Consumer Loans

As a regional financial institution, Toho Bank aggressively pursued steps to provide financing for local enterprises and individual customers, and also sought to broaden its lineup of products and services. Nevertheless, the balance of outstanding loans declined during the fiscal year by ¥70.2 billion (US\$584 million) to ¥1,688.7 billion (US\$14,049 million). Although we steadily increased loans to individual borrowers, primarily for home loans, loan assets decreased because overall demand for capital at firms remained weak under the influence of Japan's protracted economic weakness, and because Toho Bank took steps to restore its loan portfolio to health by pursuing collection or final disposition of nonperforming loans.

•Securities

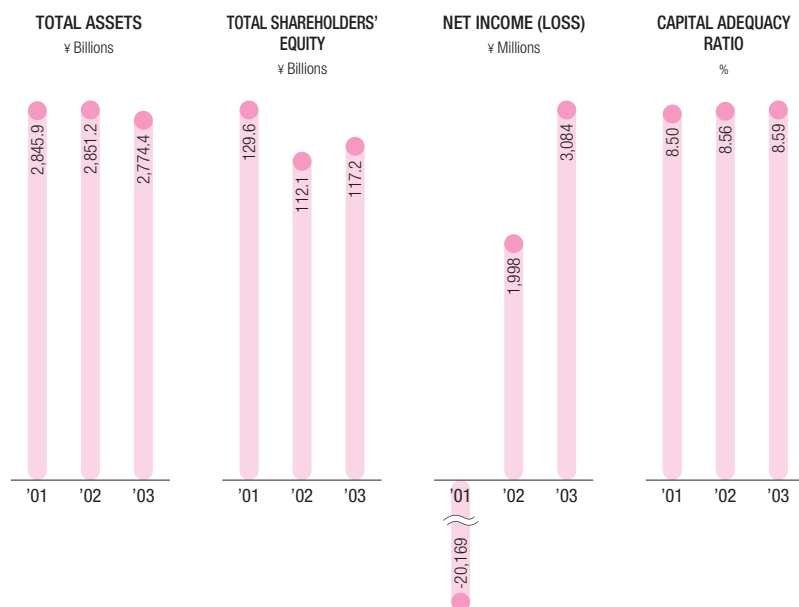
Securities increased by ¥11.3 billion (US\$94 million), mainly from investment in government bonds, to ¥884.1 billion (US\$7,356 million). This was the result of efforts to ensure stable earnings through efficient capital investment while carefully following the investment environment and market trends.

•Profit and Loss

As depressed demand for capital continued and razor-thin yields on investment capital remained unchanged, Toho Bank sought to ensure profitability in the face of a tough earnings environment through several measures, including enhanced investment capabilities, a broader range of service transactions, and reduced expenditures. On the other hand, from the standpoint of ensuring asset health, Toho Bank also strictly executed write-downs or reserves against nonperforming loans based on appropriate assessments, and sought final resolution of nonperforming credits.

As a result, ordinary income for the fiscal year ended March 31, 2003 increased by ¥4.1 billion (US\$34 million) to ¥8.8 billion (US\$73 million), and net income improved by ¥1.0 billion (US\$9 million) to ¥3.0 billion (US\$25 million). This performance reflected the fact that Toho Bank has been proactive over the past year in taking steps to dispose of nonperforming loans, and was able to reduce the amount of nonperforming-loan write-offs compared to prior years.

Toho Bank's capital adequacy ratio based on domestic standards rose by 0.03 percentage points to 8.59% at the end of the fiscal year.



Disclosure of Problem Assets Based on the Revitalization Law as of March 31, 2003 (Non-Consolidated)

	Millions of Yen					
	Exposure ①	Amount Covered ②	Uncovered Portion ③ = ① - ②	Specific Reserves ④	Reserve Ratio ④/③	Coverage Ratio (②+④)/①
A Bankrupt and Quasi-bankrupt.....	¥ 58,091	¥19,355	¥38,736	¥38,736	100.0%	100.0%
B Doubtful	44,903	22,006	22,896	14,882	65.0%	82.1%
C Substandard.....	41,876	13,101	28,774	8,422	29.2%	51.3%
D Subtotal (A+B+C)	144,871	54,464	90,407	62,041	68.6%	80.4%
E Normal	1,568,414					
Total (D+E)	1,713,286					

Consolidated Balance Sheets

The Toho Bank, Ltd. and Consolidated Subsidiaries
As of March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
ASSETS			
Cash and Due from Banks	¥ 136,070	¥ 71,340	\$ 1,132,035
Call Loans and Bills Purchased	11,105	71,039	92,394
Commercial Paper and Other Debt Purchased	8	3	73
Trading Account Securities (Note 13).....	1,716	2,006	14,283
Money Held in Trust	9,990	—	83,118
Securities (Note 13).....	884,197	872,817	7,356,055
Loans and Bills Discounted (Note 4)	1,688,729	1,758,999	14,049,329
Foreign Exchange	581	1,348	4,838
Other Assets.....	24,209	23,662	201,406
Premises and Equipment.....	49,674	51,668	413,263
Deferred Tax Assets (Note 9)	26,434	31,968	219,922
Customers' Liabilities for Acceptances and Guarantees (Note 5).....	13,254	38,896	110,266
Reserve for Possible Loan Losses	(71,507)	(72,500)	(594,907)
Total Assets	¥2,774,465	¥2,851,251	\$23,082,079
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Deposits	¥2,559,097	¥2,618,585	\$21,290,325
Call Money and Bills Sold	44,596	36,009	371,021
Borrowed Money	2,917	3,844	24,267
Foreign Exchange	121	60	1,012
Other Liabilities	13,278	17,508	110,469
Reserve for Employee Retirement Benefits (Note 10)	21,098	21,358	175,526
Deferred Tax Liabilities Related to Land Revaluation	1,646	1,817	13,700
Acceptances and Guarantees (Note 5).....	13,254	38,896	110,266
Total Liabilities	2,656,010	2,738,081	22,096,589
Minority Interests	1,157	1,041	9,633
Shareholders' Equity:			
Common Stock (Note 6).....	18,684	18,684	155,445
Capital Surplus	8,818	8,818	73,367
Retained Earnings	74,675	72,572	20,533
Reserve for Land Revaluation, Net of Tax	2,468	2,578	621,260
Unrealized Gains on Available-for-Sale Securities, Net of Tax (Note 13)	12,746	9,571	106,043
Common Stock Held in Treasury	(95)	(10)	(794)
Bank's Stock Held by Subsidiaries.....	—	(86)	—
Total Shareholders' Equity	117,297	112,129	975,856
Total Liabilities and Shareholders' Equity	¥2,774,465	¥2,851,251	\$23,082,079

See notes to consolidated financial statements.

Consolidated Statements of Operations and Retained Earnings

The Toho Bank, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Income:			
Interest Income:			
Interest on Loans and Discounts	¥35,011	¥36,784	\$291,279
Interest and Dividends on Securities	12,667	16,112	105,389
Other Interest Income	11	22	92
Fees and Commissions	8,848	8,489	73,614
Other Operating Income	10,890	22,712	90,603
Other Income (Note 7)	1,966	5,030	16,356
Total Income	69,395	89,152	577,336
Expenses:			
Interest Expenses:			
Interest on Deposits	937	2,750	7,800
Interest on Borrowings and Rediscounts	884	1,000	7,359
Other Interest Expenses	469	454	3,904
Fees and Commissions	2,826	1,909	23,519
Other Operating Expenses	5,435	5,644	45,216
General and Administrative Expenses	38,172	40,591	317,576
Other Expenses (Note 8)	12,630	32,498	105,078
Total Expenses	61,356	84,850	510,455
Income before Income Taxes	8,039	4,302	66,880
Provision for Income Taxes			
Current	1,096	4,641	9,119
Deferred	3,658	(2,606)	30,438
Total Provision for Income Taxes	4,754	2,034	39,558
Income before Minority Interests	3,284	2,267	27,322
Minority Interests	199	269	1,661
Net Income	3,084	1,998	25,661
Retained Earnings:			
Balance at Beginning of Year	72,572	71,710	603,768
Appropriation of Land Revaluation	164	88	1,371
Cash Dividends	(1,116)	(1,223)	(9,290)
Bonuses to Directors and Statutory Auditors	(30)	—	(249)
Balance at End of Year	¥74,675	¥72,572	\$621,260

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Toho Bank, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2003	2002	2003
Cash Flows from Operating Activities			
Income before Income Taxes	¥ 8,039	¥ 4,302	\$ 66,880
Depreciation Expense	8,054	8,081	67,011
Equity in earnings of affiliates	(8)	—	(67)
Net Increase (Decrease) in Reserve for Possible Loan Losses	(992)	2,231	(8,255)
Increase (Decrease) in Reserve for Employee Retirement Benefit	(260)	(183)	(2,167)
Interest Income	(47,690)	(52,920)	(396,762)
Interest Expenses	2,291	4,206	19,065
Securities-related Net (Gain) Loss	(3,120)	(16,191)	(25,961)
Net (Gain) Loss on Money Held in Trust	6	—	54
Net (Gain) Loss on Foreign Exchange	16	(13)	134
Net (Gain) Loss on Sale of Premises and Equipment	308	327	2,563
(Increase) Decrease in Trading Account Securities	289	(1,115)	2,405
(Increase) Decrease in Loans and Bills Discounted	70,270	(3,407)	584,613
Increase (Decrease) in Deposits	(47,554)	48,936	(395,624)
Increase (Decrease) in Negotiable Certificates of Deposit	(11,934)	(33,441)	(99,289)
Increase (Decrease) in Borrowing Excluding Subordinated Debt	(927)	(1,310)	(7,717)
(Increase) Decrease in Due from Banks Other than BOJ	1,062	24,345	8,838
(Increase) Decrease in Call Loans	59,928	53,581	498,569
Increase (Decrease) in Call Money and Other Fundings Related to Operating Activities	8,587	17,648	71,442
(Increase) Decrease in Foreign Exchange Assets	767	(982)	6,381
Increase (Decrease) in Foreign Exchange Liabilities	61	(128)	510
Interest Received	50,879	54,369	423,290
Interest Paid	(3,193)	(5,529)	(26,570)
All Other Operating Activities, Net	(2,119)	(7,491)	(17,635)
Sub-total	92,759	95,313	771,710
Income Taxes Paid	(6,539)	1,052	(54,402)
Net Cash Provided by Operating Activities	86,220	96,365	717,307
Cash Flows from Investing Activities			
Purchase of Equity and Other Securities	(355,571)	(520,818)	(2,958,162)
Proceeds from Sale of Equity and Other Securities	216,367	333,657	1,800,066
Proceeds from Maturities of Securities	132,010	101,985	1,098,256
Increase in Money Held in Trust	(10,000)	—	(83,194)
Expenditures for Premises and Equipment	(2,690)	(4,198)	(22,386)
Proceeds from Sale of Premises and Equipment	650	400	5,408
Net Cash Used in Investing Activities	(19,233)	(88,972)	(160,012)
Cash Flows from Financing Activities			
Dividends Paid	(1,116)	(1,223)	(9,290)
Dividends Paid to Minority Interests	(1)	(6)	(8)
Purchase of Treasury Stocks	(60)	(32)	(506)
Proceeds from Sale of Treasury Stock	—	7	—
Net Cash Used in Financing Activities	(1,178)	(1,255)	(9,805)
Effect of Exchange Rate Changes in Cash and Cash Equivalents	(16)	13	(134)
Net Increase in Cash and Cash Equivalents	65,792	6,150	547,355
Cash and Cash Equivalents at Beginning of Fiscal Year	68,072	61,922	566,323
Decrease in Cash and Cash Equivalents Due to Excluding from Consolidation	—	(1)	—
Cash and Cash Equivalents at End of Fiscal Year	¥133,864	¥ 68,072	\$ 1,113,678

See notes to consolidated financial statements.

I. Basis of Presentation

The accompanying consolidated financial statements of The Toho Bank, Ltd. (the "Bank") and its consolidated subsidiaries and affiliates accounted for by the equity method have been prepared from the accounts and records maintained by them in accordance with accounting principles and practices generally accepted and applied in Japan which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan, and in accordance with the Commercial Code of Japan and the Banking Law of Japan. The accompanying financial statements have been compiled from the financial statements filed with the Prime Minister as required by the Banking Law of Japan and the Securities and Exchange Law of Japan.

For the convenience of readers outside Japan, certain items presented in the original financial statements have been reclassified and rearranged.

The amounts indicated in millions of yen are rounded down by omitting amounts of less than one million. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sums of the individual amounts.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Bank and five of its subsidiaries.

The Bank has four affiliates, which are accounted for by the equity method.

(b) Trading account securities

Marketable trading account securities are stated at market value at end of March 31, 2003.

The moving average cost method is used to determine the cost of securities disposed.

(c) Securities

Held-to-maturity debt securities are stated at amortized cost using the moving average cost method.

Available-for-sale securities are stated at market value at end of March 31, 2003 or, if quoted prices are not available, at cost or amortized cost using the moving average cost method.

Net unrealized gains (losses) on available-for-sale securities are included as a separate component of shareholders' equity, net of related tax effect.

Securities included in "Money held in trust" classified as trading are stated at market value at end of March 31, 2003.

(d) Derivatives

The Bank's derivatives are stated at fair value.

(e) Premises and equipment

(1) Depreciation is computed principally using declining-balance method over the estimated useful lives of assets. Estimated useful lives of 2 to 40 years are used on premises and 2 to 20 years for equipment, respectively.

Depreciation at the consolidated subsidiaries is computed principally using the declining-balance method over the estimated useful lives of assets.

(2) In accordance with the Law concerning Revaluation of Land enacted on March 31, 1998 (the "Law"), the land used for business owned by the Bank was revalued at March 31, 2000, and the unrealized gains, net of related tax effect, are reported to "Reserve for Land Revaluation" in shareholders' equity section, and the deferred tax is included in Liabilities section as "Deferred Tax Liabilities related to Land Revaluation".

The excess amount of the revalued carrying amount over the fair value of the lands revalued pursuant to the Article 10 of the Law was ¥8,269 million.

(f) Reserve for possible loan losses

The reserve for possible loan losses of the Bank are made in accordance with the Bank's internal rules for self-assessment of asset quality and for providing reserve for possible credit losses. Pursuant to the rules, the reserve for possible loan losses has been provided for as described below.

For loans to borrowers which are classified as substantially bankrupt or which are bankrupt in the formal legal sense, a reserve is provided based on the amount remaining after deduction of the collateral considered to be disposable and an estimate of amounts recoverable under guarantees.

For loans to borrowers which, although not actually bankrupt in the legal sense, have experienced serious financial difficulties and whose failure is highly possible, a reserve is provided for the estimated unrecoverable amount based on the amount remaining after deduction of

the collateral considered to be disposable and an estimate of amounts recoverable under guarantees.

For other loans, a reserve is provided based on the Bank's historical loan loss experience.

The above procedures for providing reserves follow the Bank's internally established rules for self-assessment of the quality of all the Bank's loan assets, which have been audited by the Inspection Department.

The reserves for possible loan losses of the consolidated subsidiaries are provided necessary amount, which is based on historical loan loss experience and estimated collectibility of specific claims.

(g) Reserve for employee retirement benefits

The reserve for employee retirement benefits is provided to the extent that retirement benefit obligation at March 31, 2003 exceeds estimated plan assets. Amortization of prior service cost and actuarial loss is computed as follows:

Prior service cost shall be amortized using the straight-line method over a period of 3 years within the average remaining service period of active employees when incurred.

Actuarial loss shall be amortized from the succeeding fiscal year using the straight-line method over a period of 10 years within the average remaining service period of active employees at fiscal year of the incurrence.

(h) Method of hedge accounting

The method of hedge accounting is "macro hedge" pursuant to the temporary treatment regulated by "Treatments in Accounting and Audit for Banks on Application of Accounting Standards for Financial Institutes" (JICPA Industry Audit Committee Report No. 24), which manages interest rate risk associated with monetary assets and liabilities such as lending and deposits, using derivative transactions as a whole.

Macro hedge is a risk management applying risk adjustment approach, accounted for under deferred hedge accounting pursuant to "Tentative Treatments in Accounting and Audit for Banks on Application of Accounting Standards for Financial Institutes" (JICPA Industry Audit Committee Report No. 15).

Effectiveness of the macro hedge is evaluated by assessing whether underlying interest rate risk exposure is offset, and whether the actual risk amount of derivatives is within the permitted risk amount under the Bank's risk control policies.

(i) Accounting standards for treasury stock and reversal of legal reserves

From this fiscal year, the Bank applies "Accounting Standard for Treasury Stock and Reversal of Legal Reserves" (issued by Accounting Standard Board of Japan).

Consequently, "Assets" decreased by ¥19 million, "Minority Interests" decreased by ¥81 million and "Shareholders' Equity" increased by ¥62 million.

Effective from this term, the Bank applies the revised Consolidated Financial Statement Regulations and Banking Law ordinances for "Shareholders' Equity" on the consolidated balance sheets and the consolidated statement of shareholders' equity in accordance with the amendment of the Consolidated Financial Statement Regulations and Banking Law ordinances.

(j) Accounting standards for earnings per share

From this fiscal year, the Bank applies "Accounting Standards for Earnings per Share" (issued by Accounting Standards Board of Japan on September 25, 2002).

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥120.20 = U.S.\$1.00, the exchange rate prevailing on March 31, 2003. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

In prior years, the Bank applied "Temporary Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 20). Since current period, however, the Bank applied "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in Banking Industry" (JICPA Industry Audit Committee Report No. 25). Foreign currency differences arising from forward exchange transactions and other relevant transactions are presented with the gross balance of the related asset or liability. Consequently, "Other assets" increased by ¥2 million and "Other liabilities" increased by ¥2 million.

4. Loans and Bills Discounted

Loans to borrowers in bankruptcy and delinquent loans totaled ¥15,888 million and ¥86,638 million, respectively, at March 31, 2003.

Loans to borrowers in bankruptcy represent non-accrual loans, after the write-offs of loans deemed uncollectable to borrowers who are legally bankrupt, as defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of the Enforcement Ordinance of the Corporation Tax Law.

Delinquent loans are non-accrual loans other than loans to borrowers in bankruptcy or loans on which interest payments have been deferred in order to assist the restructuring of the borrowers.

Loans past due 3 months or more totaled ¥840 million.

Loans past due 3 months or more are loans on which interest or principal payments are 3 months or more past due, but which are not included in loans to borrowers in bankruptcy or delinquent loans.

Restructured loans totaled ¥41,035 million. Restructured loans are loans, other than loans to borrowers in bankruptcy or delinquent loans, on which the Bank has granted certain concessions such as a reduction of the contractual interest rates or principal or a deferral of payments of interest/principal, in order to assist the restructuring of the borrowers.

Loans to borrowers in bankruptcy, delinquent loans, loans past due 3 months or more and restructured loans amounted to ¥144,403 million in the aggregate.

Bills discounted are accounted for as financial transactions in accordance with "Treatments in Accounting and Audit for Banks on Application of Accounting Standards for Financial Institutes" (JICPA Industry Audit Committee Report No. 24). The Bank has rights to sell or pledge commercial bills discounted and foreign exchange bought without restrictions, and their total face amount was ¥30,749 million.

5. Acceptances and Guarantees

All contingent liabilities arising from Acceptances and Guarantees are included in the account "Customers' Liabilities for Acceptances and Guarantees," which represents the Bank's right of indemnity from the applicants, and is presented as a contra-account on the assets side of the balance sheets.

6. Common Stock

Information pertaining to common stock is as follows:

- Authorized number of shares of common stock: 798,256 thousand shares
- Number of shares issued and outstanding: 223,249 thousand shares at March 31, 2003.

7. Other Income

Other income principally represents gains on sale of securities and gain on sale of premises and equipment.

8. Other Expenses

Other expenses principally represent the provision for possible loan losses, loss on impairment of holding securities, and loss on sale of premises and equipment. Other expenses declined ¥19,868 million for fiscal 2003 compared to the previous year. This was attributed to decrease of reserve for possible loan losses and impairment of stocks.

9. Deferred Income Taxes

(A) The major components of deferred tax assets and liabilities at March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen	
March 31	2003	2002
Deferred Tax Assets:		
Reserve for Possible Loan Losses	¥23,071	¥24,611
Reserve for Employee Retirement Benefits	7,965	8,079
Depreciation of Premises and Equipment	1,966	2,093
Impairment of Stocks	553	1,613
Other	1,992	2,435
Valuation Allowance	(610)	(120)
Total Deferred Tax Assets	34,939	38,714
Deferred Tax Liabilities:		
Unrealized Gains on Available-for-Sale Securities	(8,504)	(6,745)
Total Deferred Tax Liabilities	(8,504)	(6,745)
Net Deferred Tax Assets	¥26,434	¥31,968

(B) Reconciliation of statutory income tax rate and actual income tax rate for fiscal 2003 and 2002

	2003	2002
Statutory Income Tax Rate	41.3%	41.3%
Increase (Reduction) in Rate Resulting from:		
Permanent Differences Related to Non-Deductible Items	1.8	2.8
Permanent Differences Related to Non-Taxable Items	(2.3)	(3.9)
Allocation of Local Income Taxes	0.4	0.8
Income Tax Rate Change	11.1	—
Prior Period Adjustment	—	2.9
Valuation Allowances	6.0	2.7
Other	0.6	0.4
Actual Income Tax Rate after Applying Income Tax Effect	59.1%	47.2%

(C) The effect of tax rate change

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.3% to 40.0% effective for fiscal years beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax assets by ¥596 million, to increase income taxes, deferred by ¥877 million, to decrease deferred tax liabilities for land revaluation by ¥54 million, to increase land revaluation excess by ¥54 million, and to increase net unrealized losses on other securities by ¥280 million for the year ended March 31, 2003.

10. Retirement Benefits

The following information pertains to the Bank's defined benefits pension plan.

(a) Retirement benefits obligation

	Millions of Yen	
March 31	2003	2002
Retirement Benefits Obligation	¥(50,558)	¥(47,917)
Plan Assets at Fair Value	21,102	20,578
Unfunded Retirement Benefits Obligation	(29,455)	(27,339)
Unrecognized Cumulative Effect		
of Changes in Accounting Standard	—	—
Unrecognized Actuarial Loss	8,800	6,867
Unrecognized Prior Service Cost	(443)	(886)
Net Retirement Benefits Obligation	(21,098)	(21,358)
Prepaid Pension Cost	—	—
Reserve for Employee Retirement Benefits	¥(21,098)	¥(21,358)

(b) Pension cost

	Millions of Yen	
Year ended March 31	2003	2002
Service Cost	¥1,691	¥ 1,543
Interest Cost	1,175	1,274
Expected Return on Plan Assets	(394)	(594)
Amortization of Prior Service Cost	(443)	(443)
Amortization of Actuarial Loss	711	249
Cumulative Effect of Changes in Accounting Standard	—	—
Other	331	—
Net Pension Cost	¥3,072	¥ 2,029

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

	2003	2002
Year ended March 31		
(i) Assumed discount rate	2.5%	2.5%
(ii) Expected rate of return on plan assets	2.0%	3.0%
(iii) Method of attributing expected retirement benefits to periods		
Straight line basis		
(iv) Amortization of prior service cost		
Prior service cost is being amortized using the straight-line method over a period of 3 years within the average remaining service period of active employees when incurred.		

(v) Amortization of actuarial loss

Actuarial loss shall be amortized from the succeeding fiscal year using the straight-line method over a period of 10 years within the average remaining service period of active employees at fiscal year of the occurrence.

II. Net Income per Share

Net income per share for the years ended March 31, 2003 and 2002 was as follows:

	Yen	
Year ended March 31	2003	2002
Net Income per Share:		
Primary	¥13.69	¥8.96
Diluted	—	—

12. Leases (Lessor)

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net carrying amount of leased property at March 31, 2003 and 2002, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of Yen	
Year ended March 31	2003	2002
Acquisition Costs:		
Equipment	¥30,875	¥29,952
Other	2,180	—
Total	¥33,055	¥29,952
Accumulated Depreciation:		
Equipment	¥20,617	¥18,465
Other	904	—
Total	¥21,522	¥18,465
Net Carrying Amount:		
Equipment	¥10,257	¥11,487
Other	1,275	—
Total	¥11,533	¥11,487

Lease receipts relating to finance leases accounted for as operating leases amounted to ¥4,822 million and ¥4,914 million for the years ended March 31, 2003 and 2002, respectively.

Depreciation related to leased assets has been computed using the straight-line method over the terms of the respective leases and amounted to ¥4,191 million for the year ended March 31, 2003.

Undiscounted future minimum lease payments subsequent to March 31, 2003 for finance lease transactions accounted for as operating leases are summarized as follows:

Year ending March 31	Millions of Yen
2004	¥ 4,466
2005 and Thereafter	8,664
Total	¥13,110

13. Market Value Information

The tables below represent the securities and trading account securities.

(a) Trading account securities

	Millions of Yen	
March 31	2003	2002
Fair Value	¥1,716	¥2,006
Unrealized Gain Included in Earnings	¥ 1	¥3

(b) Held-to-maturity securities

March 31, 2002

Nil.

	Millions of Yen				
March 31, 2003	Book Value	Market Value	Net Unrealized Gain/(Loss)	Gross Unrealized Gain	Gross Unrealized Loss
National Government Bonds	¥ 13,054	¥ 13,279	¥ 224	¥ 224	—

(c) Available-for-sale securities

	Millions of Yen				
March 31, 2003	Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)	Gross Unrealized Gain	Gross Unrealized Loss
Corporate Stocks	¥ 37,454	¥ 37,104	¥ (349)	¥ 4,499	¥4,849
Bonds	724,863	746,281	21,418	22,432	1,013
National Government	379,928	390,131	10,203	11,124	920
Local Government	143,638	151,031	7,392	7,392	—
Corporate	201,296	205,118	3,822	3,915	93
Other	83,692	83,874	182	877	694
Total	¥846,010	¥867,261	¥21,250	¥27,808	¥6,557

March 31, 2002

	Amortized Cost	Fair Value	Net Unrealized Gain/(Loss)	Gross Unrealized Gain	Gross Unrealized Loss
Corporate Stocks	¥ 33,276	¥ 38,243	¥ 4,967	¥ 6,451	¥1,484
Bonds	733,856	746,521	12,665	13,453	788
National Government	371,251	373,273	2,021	2,076	54
Local Government	170,993	179,527	8,533	8,541	8
Corporate	191,611	193,720	2,109	2,835	725
Other	85,719	84,403	(1,315)	433	1,748
Total	¥852,852	¥869,169	¥16,316	¥20,337	¥4,021

(Note) Loss on impairment amounted to ¥1,951 million was recognized on the securities (Corporate Stocks) classified as available-for-sale with their quoted market price available during fiscal 2003.

Loss on impairment is recognized on the specific identification basis in the following case:

- Fair value of a stock at year-end (interim period) is 50% below its carrying amount.
- Fair value of a stock at year-end is 30% to 50% below its carrying amount, and the loss deemed unrecoverable after considering issuers' financial condition and the market price movement during the past specified period of time.

(d) Available-for-sale securities sold during fiscal 2003 and 2002

March 31	Millions of Yen	
	2003	2002
Proceeds From Sale	¥211,312	¥280,731
Realized Gain	¥ 5,607	¥ 19,743
Realized Loss	¥ 145	¥ 91

(e) Securities with their fair value not available

March 31	Millions of Yen	
	2003	2002
Stocks of Affiliates	¥ 205	¥ 215
Available-for-Sale Securities:		
Unlisted Stocks	¥1,387	¥1,368
Corporate Bonds	¥2,349	¥2,169

(f) Securities with their classification changed to others

None

(g) Contractual maturities of available-for-sale securities and held-to-maturity securities

March 31, 2003	Millions of Yen			
	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years
Bonds	¥69,404	¥344,196	¥303,693	¥44,392
National Government	1,333	106,122	251,623	44,106
Local Government	27,111	93,879	29,754	285
Corporate	40,958	144,194	22,314	—
Other Securities	7,364	32,382	41,777	—
Total	¥76,768	¥376,578	¥345,470	¥44,392

March 31, 2002

March 31, 2002	Millions of Yen			
	Due in 1 Year or Less	Due in 1 to 5 Years	Due in 5 to 10 Years	Due after 10 Years
Bonds	¥81,963	¥369,600	¥263,568	¥33,558
National Government	26,516	113,122	200,637	32,998
Local Government	28,259	106,011	44,695	560
Corporate	27,188	150,466	18,235	—
Other Securities	6,855	38,760	33,803	—
Total	¥88,818	¥408,361	¥297,372	¥33,558

(h) Unrealized gain on available-for-sale securities

March 31, 2003	Millions of Yen
Unrealized Gain before Income Tax Effect and	
Minority Interest Adjustments	¥21,250
Available-for-Sale Securities	21,250
Less: Deferred Tax Liability	8,504
Unrealized Gain before Minority Interest Adjustment	12,746
Less: Minority Interest	—
Equity of Unrealized Gain on Available-for-Sale Securities	
Owned by Affiliates that are Accounted for under Equity Method	0
Unrealized Gain on Available-for-Sale Securities	¥12,746

March 31, 2002

March 31, 2002	Millions of Yen
Unrealized Gain before Income Tax Effect and	
Minority Interest Adjustments	¥16,316
Available-for-Sale Securities	16,316
Less: Deferred Tax Liability	6,745
Unrealized Gain before Minority Interest Adjustment	9,571
Less: Minority Interest	—
Equity of Unrealized Gain on Available-for-Sale Securities	
Owned by Affiliates that are Accounted for under Equity Method	0
Unrealized Gain on Available-for-Sale Securities	¥ 9,571

14. Derivative Transactions**(a) Surroundings**

The Bank enters into various contracts, including interest rate swaps, currency swaps and forward exchange contracts.

The Bank's derivative transactions are limited to highly liquid derivative contracts, and their objectives are limited to hedging risks.

Interest rate swaps are accounted for by hedge accounting as follows:

- (i) Hedged item
Monetary assets denominated in yen.
- (ii) Hedging policies

The objectives are to hedge interest rate risk denominated in yen.

- (iii) Method of measuring hedging effectiveness

It is confirmed that hedging instruments meet the criteria for risk adjusting approach.

The major risks associated with derivative transactions are market risk, that is, the risks resulting from fluctuations in interest rates and foreign exchange, and credit risk, that is, the risk of counterparties defaulting on their contracts. The Bank does not enter into any speculative transactions. The credit risk stood at ¥177 million at March 31, 2003, which is calculated by the current exposure method, and represents a portion of the calculation of the capital adequacy ratio required under BIS standards.

For derivative transactions, the Bank has established internal procedures and controls. The Bank also has established internal policies for maximum limits on positions and unrealized losses in the market section of the Financial Markets Department.

Furthermore, the Bank strictly segregates the front office, which transacts the contracts, the back office, which processes the contracts, and the middle office, which exercises risk controls.

(b) Fair value information

The table below represents contract amounts of derivative transactions which are discounted by present value.

Note that derivative transactions accounted for by hedge accounting are excluded from the table.

March 31	Millions of Yen	
	2003	2002
	Contract Amount	Contract Amount
Over-the-Counter Transactions:		
Currency Swaps	—	—
Forward Exchange Contracts		
Sold	¥144	¥325
Bought	¥144	¥313

15. Segment Information

(a) Segment information by type of business

Year ended or as of March 31, 2003		Millions of Yen				
	Banking Operations	Others	Total	Elimination and Corporate Assets	Consolidated	
I Total Income and Recurring Profits						
Total Income from Outside Customers	¥ 63,753	¥ 5,572	¥ 69,325	¥ —	¥ 69,325	
Total Income from Intersegment Transactions	121	1,504	1,626	(1,626)	—	
Total	¥ 63,875	¥ 7,076	¥ 70,952	¥ (1,626)	¥ 69,325	
Total Expenses	55,436	6,714	62,150	(1,632)	60,518	
Income before Income Taxes	8,439	361	8,801	5	8,807	
II Assets, Depreciation and Capital Expenses						
Assets	¥2,769,559	¥15,058	¥2,784,617	¥(10,151)	¥2,774,465	
Depreciation	3,090	4,956	8,046	8	8,054	
Capital Expenses	2,149	5,362	7,512	—	7,512	

Year ended or as of March 31, 2002		Millions of Yen				
	Banking Operations	Others	Total	Elimination and Corporate Assets	Consolidated	
I Total Income and Recurring Profits						
Total Income from Outside Customers	¥ 81,720	¥ 7,398	¥ 89,119	¥ —	¥ 89,119	
Total Income from Intersegment Transactions	304	2,217	2,522	(2,522)	—	
Total	¥ 82,024	¥ 9,616	¥ 91,641	¥ (2,522)	¥ 89,119	
Total Expenses	77,863	9,074	86,938	(2,475)	84,463	
Income (Loss) before Income Taxes	4,161	542	4,703	(47)	4,656	
II Assets, Depreciation and Capital Expenses						
Assets	¥2,845,821	¥15,097	¥2,860,919	¥ (9,668)	¥2,851,251	
Depreciation	2,986	5,089	8,076	5	8,081	
Capital Expenses	3,439	5,012	8,452	—	8,452	

(b) Segment information by location

Since there is no subsidiary abroad, segment information by location is not presented.

(c) Current revenue from international operations

Since the ratio of current revenue from international operations to consolidated revenue is not material, it is not presented.

Report of Independent Certified Public Accountants



The Board of Directors
THE TOHO BANK, LTD.

We have audited the accompanying consolidated balance sheets of THE TOHO BANK, LTD. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Bank's management. Our responsibility is to independently express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE TOHO BANK, LTD. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

June 26, 2003

Shin Nihon & Co.

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

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President
Toshio Seya

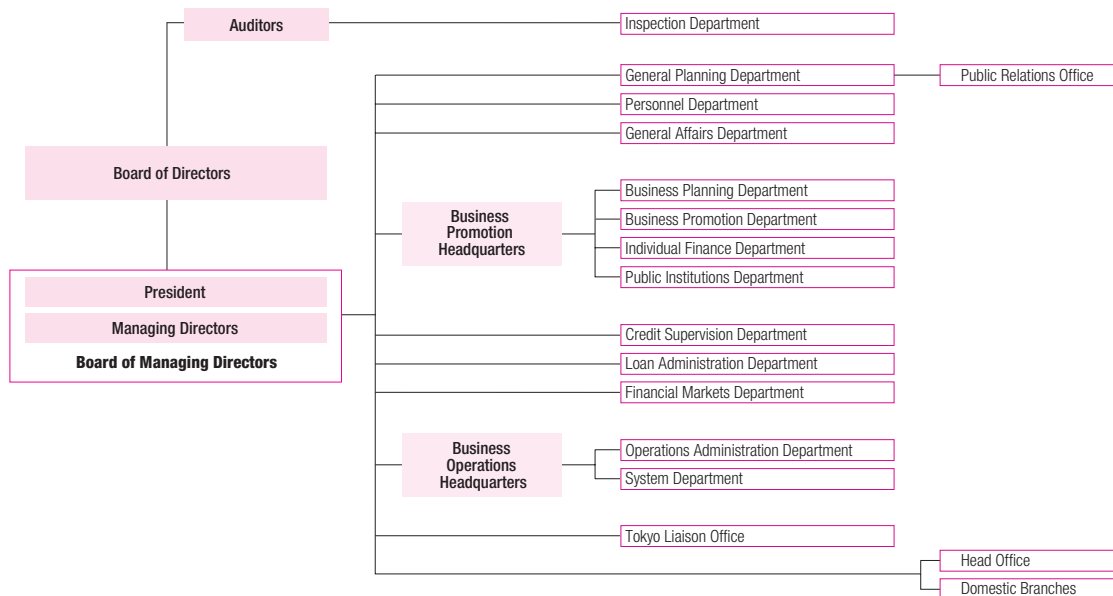
Managing Directors
Yoshihiro Terashima
Hiroaki Sato
Noritoshi Yoshida
Seishi Kitamura
Mikio Abe

Directors
Reiji Nagakura
Seiichi Sato
Akira Kondo
Shinichiro Saito
Kiichi Yoshida
Tadashi Uchiyama
Fumitaka Sato

Standing Auditors
Hiroyuki Motoyanagi
Takashi Matsuno

Auditors
Keigo Sato
Shintaro Isayama
Shinichi Saito

Organization



Network

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Tokyo Branch	Phone: (03) 3535-5835
Sendai Branch	Phone: (022) 227-3411
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Currency Exchange Offices: 54

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SUBSIDIARIES AND AFFILIATES

Name	Line of Business	Established in	Capital (Millions of yen)	Bank's Share in Capital (%)
The Toho Business Service Co., Ltd.	Counting, transporting cash and maintenance of ATMs	1981	10	100
The Toho Real Estate Service Co., Ltd.	Real estate	1992	10	100
The Toho Staff Service Co., Ltd.	Delegation of personnel	1992	20	100
The Toho Lease Co., Ltd.	Leasing	1985	60	5
The Toho Information System Co., Ltd.	Developing software	1993	30	5
The Toho Computer Service Co., Ltd.	Calculation operations	1983	30	7.6
The Toho Credit Guarantee Co., Ltd.	Credit guaranteeing	1985	30	5
The Toho Card Co., Ltd.	Credit card	1985	30	5.3
The Toho Credit Service Co., Ltd.	Credit card	1990	30	5



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