

KUMAMOTO FAMILY BANK, LTD.



Financial Statements 2005

Message from the President



K. Kawaguchi

Kazuyuki Kawaguchi
President

FINANCIAL AND ECONOMIC ENVIRONMENT

In the term ended March 2005, the Japanese economy maintained its recovery momentum despite rising oil prices and a weakening of export growth in the second half, which prompted deepening pessimism in some sectors of the business world. Greater soundness and stability returned to the financial system overall, against a backdrop of progress in elimination of non-performing debt. Within Kumamoto Prefecture, our main operational base, moderate recovery momentum was seen, on the back of continuing increases in capital investment and employment amid improvement in corporate earnings. However, financial institutions continued to face a difficult operating environment, with the performance gap between specific sectors and companies widening and land prices failing to bottom out. Turning to finance, short-term interest rates remained close to zero under the Bank of Japan's policy of supplying ample funding to the markets. The Nikkei stock average fell to ¥11,668 at the term-end from ¥11,715 a year earlier, reflecting future uncertainties triggered in part by high oil prices. In foreign exchange markets, the strong dollar trend increased against a backdrop of rising US interest rates, to ¥107.39 from ¥105.69 at the previous term-end.

REVIEW OF OPERATIONS (on a consolidated basis)

Amid this business environment, the Group posted ordinary income (consolidated basis) of ¥5.3 billion (US\$49 million), the highest level since we began settlements of accounts on a consolidated basis in the year ended March 1999. Net income also reached a record high level, of ¥5.1 billion (US\$47 million), showing that we have achieved our goal of a V-shaped recovery in earnings. These results were the fruit of our efforts to change the mindset of directors and other employees, so they are better equipped to make on-the-spot decisions and deal with all eventualities with a due sense of crisis, along with various measures to rationalize and

streamline management and strengthen profitability.

Total assets at the end of the term under review rose ¥2.6 billion to ¥1,297.4 billion (US\$12,081 million), and shareholders' equity (consolidated basis) rose ¥6.5 billion to ¥66.0 billion (US\$614 million).

The year-end balance of deposits increased ¥1.4 billion during period to ¥1,193.5 billion (US\$11,114 million) due to increases in demand deposits held chiefly by individuals and corporations and smaller-lot time deposits, despite a decline in foreign-currency and large-lot time deposits. The year-end balance of loans and bills discounted declined ¥24.6 billion to ¥999.7 billion (US\$9,309 million). This was attributable to a fall-off in corporate loans due to weakness in funding demand and a special factor, a ¥20 billion decline in the balance of loans to individuals due to securitization of housing loans. As a result, the capital ratio (consolidated basis) rose by 0.79 point from the previous term-end to 8.01%, and, on a non-consolidated basis, by 0.77 point to 7.94%.

MEDIUM-TERM BUSINESS STRATEGY AND PRIORITY MANAGEMENT TASKS

Having posted a net loss in the previous term, the Bank overhauled its Board to create a management paradigm which instills a greater sense of responsibility, and reorganized headquarters functions. At the same time, the Bank vowed in its 5th medium-term management plan to achieve a V-shaped recovery in earnings to regain public trust. These were the main issues the Bank faced. As pointed out below (Year in Review), we believe we have enhanced our credibility in the region as a result of having achieved a V-shaped recovery in profitability. Going forward, we have made steady preparations for the capping of guarantees for deposits and the full enactment of the Personal Information Protection Act. We will also strengthen our measures for adoption of impairment accounting for fixed assets and introduction of new BIS (Basel II) standards. In line with the Financial Services Agency (FSA)'s action program to reinforce the functions of community-focused financial services (fiscal years 2005-2006), we continue to offer support to troubled SME borrowers in our region and help put their managements on a sounder footing. We will redouble our efforts to deal with this issue in line with the FSA's new guidelines. We also need to deal with "external" issues such as the spread of counterfeit bank cards, which has become a major problem of the times.

Disclosure of Claims in Accordance with the Stipulations of the Financial Reconstruction Law

Type	Amount (Billions of yen)	Coverage rate (%)
Rehabilitated and corresponding claims	29.8	100.0
High-risk claims	40.7	83.0
Claims requiring supervision	21.2	46.0
Subtotal	91.8	80.0
Normal claims	929.4	
Total	1,021.3	

Profile

Kumamoto Prefecture, the main operating base of Kumamoto Family Bank, is blessed with a moderate, warm climate and beautiful natural scenery, represented by Mount Aso and the Amakusa Islands. In the industrial sector, by making effective use of the plentiful supply of water and abundant land, diverse primary industries have developed.

Under the Kumamoto Technopolis Scheme, now entering its third stage, urban development which unites industry, education, and government is proceeding, with high-tech industries at the core of this strategy.

In transportation, the development of expressways, and the construction of harbor facilities and airports is continuing, and the

development of a surface, sea, and air transportation network, including the future opening of a new shinkansen (bullet train) link, is progressing at a fast pace.

The Kumamoto Family Bank was established in April 1992 through a merger between the Kumamoto Bank, Ltd. and the Higo Family Bank, Ltd., and while striving to fulfill its role as a leading bank in the region, it has achieved steady growth.

As of the end of March 2005, consolidated total deposits stood at ¥1,193,549 million (US\$11,114 million), while paid-in capital amounted to ¥34,262 million (US\$319 million). The Bank had 1,147 employees, and operated 77 branches.

Financial Highlights

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries Years ended March 31

<i>Consolidated</i>	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
FOR THE YEAR ENDED:			
Total income	¥ 38,825	¥ 38,649	\$ 361,533
Total expenses	33,518	54,889	312,115
Income (loss) before income taxes	4,958	(16,551)	46,168
Net income (loss)	5,110	(16,749)	47,584
AT YEAR END:			
Total assets	¥1,297,437	¥1,294,836	\$12,081,544
Deposits	1,193,549	1,192,113	11,114,154
Loans and bills discounted	999,796	1,024,456	9,309,954
Securities	146,144	139,322	1,360,872
Reserve for possible loan losses	(25,504)	(28,680)	(237,490)
Capital stock	34,262	34,262	319,043
Total shareholders' equity	66,031	59,520	614,871

Note: Figures stated in U.S. dollars are translated from Japanese yen, solely for convenience, at the rate of ¥107.39=US\$1.00, the approximate exchange rate prevailing at March 31, 2005.

Year in Review

OUR MANAGEMENT PLAN AND V-SHAPED RECOVERY IN EARNINGS

In the previous year, ended March 2004, we paid no dividend on preferred stock. In line with this move, we revised our plan for restoring management soundness after a review in September 2003,

and drew up a plan for assuring stable earnings and dividends for preferred shares from the year ended March 2005.

OUTLINE OF MANAGEMENT SOUNDNESS PLAN

(Billions of yen)

Term	March 2005 (Target)	March 2005 (Result)	March 2006 (Target)	March 2007 (Target)	March 2008 (Target)
Gross banking profit	31.0	31.5	31.3	31.8	32.1
Expenses	17.0	16.0	17.0	16.9	16.9
Banking profit (Note 1)	14.0	15.5	14.3	14.8	15.2
Total credit cost (Note 2)	8.6	9.6	6.6	5.1	4.1
Gains (losses) on stocks	0	(0.5)	—	—	—
Ordinary profit	4.7	5.0	7.0	9.0	10.4
Net income	2.7	4.9	3.9	5.3	6.1
OHR (Note 3)	54.84%	50.79%	54.31%	53.14%	52.65%

Notes: 1. Excludes transfers to general reserve for possible loan losses
 2. The sum of transfers to general reserve for possible loan losses and credit cost
 3. Expenses/gross banking profit

Consolidated Balance Sheets

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
ASSETS			
Cash and due from banks	¥ 98,943	¥ 76,643	\$ 921,343
Commercial paper and other debt purchased	77	—	717
Money held in trust	3,996	3,995	37,210
Securities	146,144	139,322	1,360,872
Loans and bills discounted	999,796	1,024,456	9,309,954
Foreign exchange	422	455	3,930
Other assets	7,775	7,263	72,400
Premises and equipment, net	22,301	23,027	207,664
Deferred tax assets	21,247	22,032	197,849
Customers' liabilities for acceptances and guarantees	22,311	26,420	207,757
Reserve for possible loan losses	(25,504)	(28,680)	(237,490)
Reserve for possible losses on investments	(75)	(102)	(698)
Total assets	¥1,297,437	¥1,294,836	\$12,081,544
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,193,549	¥1,192,113	\$11,114,154
Negotiable certificates of deposit	—	2,000	—
Borrowed money	—	2	—
Foreign exchange	4	4	37
Other liabilities	7,189	7,506	66,943
Accrued bonuses	443	440	4,125
Reserve for retirement benefits	5,077	4,465	47,276
Reserve for contingency	539	48	5,019
Deferred tax liabilities resulting from land revaluation	2,276	2,308	21,194
Acceptances and guarantees	22,311	26,420	207,757
Total liabilities	1,231,392	1,235,309	11,466,543
Minority interests			
	13	6	121
Shareholders' equity			
Capital stock	34,262	34,262	319,043
Capital surplus	23,164	31,097	215,700
Retained earnings	5,668	(7,421)	52,780
Land revaluation excess	1,038	1,085	9,666
Unrealized loss on available-for-sale securities	2,012	602	18,735
Treasury stock	(114)	(105)	(1,062)
Total shareholders' equity	66,031	59,520	614,871
Total liabilities, minority interests and shareholders' equity	¥1,297,437	¥1,294,836	\$12,081,544

Consolidated Statements of Operations

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Income	¥38,825	¥ 38,649	\$361,533
Interest income:	31,374	32,735	292,150
Interest on loans and bills discounted	30,399	31,206	283,071
Interest and dividends on securities	905	1,295	8,427
Interest on call loans and bills purchased	—	0	—
Interest on loans to other financial institutions	—	0	—
Interest on due from banks	0	0	0
Other interest received	68	233	633
Fees and commissions	3,620	3,764	33,709
Other operating income	2,644	834	24,621
Other income	1,186	1,314	11,044
Expenses	33,518	54,889	312,115
Interest expenses:	2,109	2,901	19,639
Interest on deposits	2,046	2,798	19,052
Negotiable certificates of deposit	0	0	0
Interest on call money and bills sold	4	2	37
Interest on borrowed money	0	0	0
Other interest paid	56	100	521
Fees and commissions	2,449	2,303	22,805
Other operating expenses	1,825	2,422	16,994
General and administrative expenses	16,276	17,288	151,560
Other expenses:	10,857	29,972	101,099
Provision for possible loan losses	9,013	25,638	83,928
Others	1,841	4,334	17,143
Ordinary income (loss)	5,306	(16,240)	49,409
Extraordinary income	51	132	475
Gains on sale of properties and premises	0	2	0
Gains on collection of loan assets	27	2	251
Other extraordinary income	22	127	205
Extraordinary losses	399	443	3,715
Losses on sale of premises and equipment	395	443	3,678
Other extraordinary losses	4	—	37
Income (loss) before income taxes	4,958	(16,551)	46,168
Income taxes			
Current	38	57	354
Deferred	(202)	136	(1,881)
Minority interests	12	3	112
Net income (loss)	¥ 5,110	¥(16,749)	\$ 47,584

Consolidated Statements of Retained Earnings

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Capital surplus			
Balance at beginning of year	¥31,097	¥31,097	\$289,571
Decrease during year:	7,933	—	73,871
Transfer to retained earnings	7,933	—	73,871
Balance at end of year	¥23,164	¥31,097	\$215,700
Retained earnings			
Balance at beginning of year	¥ (7,421)	¥ 9,682	\$ (69,103)
Increase during year:	13,090	106	121,892
Transfer from capital surplus	7,933	—	73,871
Net income	5,110	—	47,584
Reversal of land revaluation excess	46	106	428
Decrease during year:	0	17,210	0
Cash dividend	—	461	—
Net loss	—	16,749	—
Losses on disposal of treasury stock	0	0	0
Balance at end of year	¥ 5,668	¥ (7,421)	\$ 52,780

Consolidated Statements of Cash Flows

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ 4,958	¥(16,551)	\$ 46,168
Depreciation	789	709	7,347
Increase in reserve for possible loan losses	77	20,785	717
Increase (decrease) in reserve for possible losses on investments	(27)	27	(251)
Decrease in reserve for losses on loans sold	—	(491)	—
Increase (decrease) in accrued bonuses	3	(53)	28
Increase in reserve for retirement benefits	612	740	5,699
Increase in reserve for contingent liabilities	490	37	4,563
Interest income	(31,374)	(32,735)	(292,150)
Interest expenses	2,109	2,901	19,639
Losses (gains) on sale and valuation of securities, net	(554)	1,856	(5,159)
Gains on money held in trust	(56)	(63)	(521)
Gains on foreign exchange	(38)	(44)	(354)
Losses on disposition of premises and equipment	394	441	3,669
Net decrease (increase) in loans and bills discounted	21,332	(19,548)	198,640
Net increase (decrease) in deposits	1,436	(16,596)	13,372
Net increase (decrease) in negotiable certificates of deposit	(2,000)	2,000	(18,624)
Net decrease in collateral money deposited	(2)	(4)	(19)
Net decrease (increase) in due from banks (excluding that from Bank of Japan)	(1,384)	1,443	(12,888)
Net decrease in call money and bill sold	(77)	—	(717)
Net decrease (increase) in foreign exchange (assets)	33	(123)	307
Net increase in foreign exchange (liabilities)	0	3	0
Proceeds from fund operations	31,629	33,330	294,525
Expenditure for fund procurement	(2,864)	(1,901)	(26,669)
Others	131	(471)	1,220
Subtotal	25,618	(24,308)	238,551
Income taxes paid	(218)	(84)	(2,030)
Net cash provided by (used in) operating activities	25,400	(24,392)	236,521
Cash flows from investing activities			
Purchases of securities	(66,481)	(97,180)	(619,061)
Proceeds from sale of securities	53,566	82,194	498,799
Proceeds from redemption of bonds	8,690	17,046	80,920
Increase in money held in trust	(500)	—	(4,656)
Decrease in money held in trust	536	66	4,991
Purchase of premises and equipment	(564)	(342)	(5,252)
Proceeds from sale of premises and equipment	273	1,080	2,542
Net cash provided by (used in) investing activities	(4,478)	2,865	41,698
Cash flows from financing activities			
Cash dividends paid	—	(461)	—
Acquisition of Company shares	(14)	(22)	(130)
Proceeds from sale of shares in treasury	0	0	0
Net cash used in financing activities	(14)	(483)	(130)
Effect of exchange rate change on cash and cash equivalents	8	0	74
Net increase (decrease) in cash and cash equivalents	20,915	(22,011)	194,757
Cash and cash equivalents at beginning of year	75,784	97,795	705,690
Cash and cash equivalents at end of year	¥ 96,699	¥ 75,784	\$ 900,447

Board of Directors, Corporate Auditors and Executive Officers

President

Kazuyuki Kawaguchi

Senior Managing Director

Takayuki Nagatani

Managing Director

Masaharu Koba

Directors

Ei Takeshita
Kiyokazu Kishimoto
Masaharu Takano

Auditors

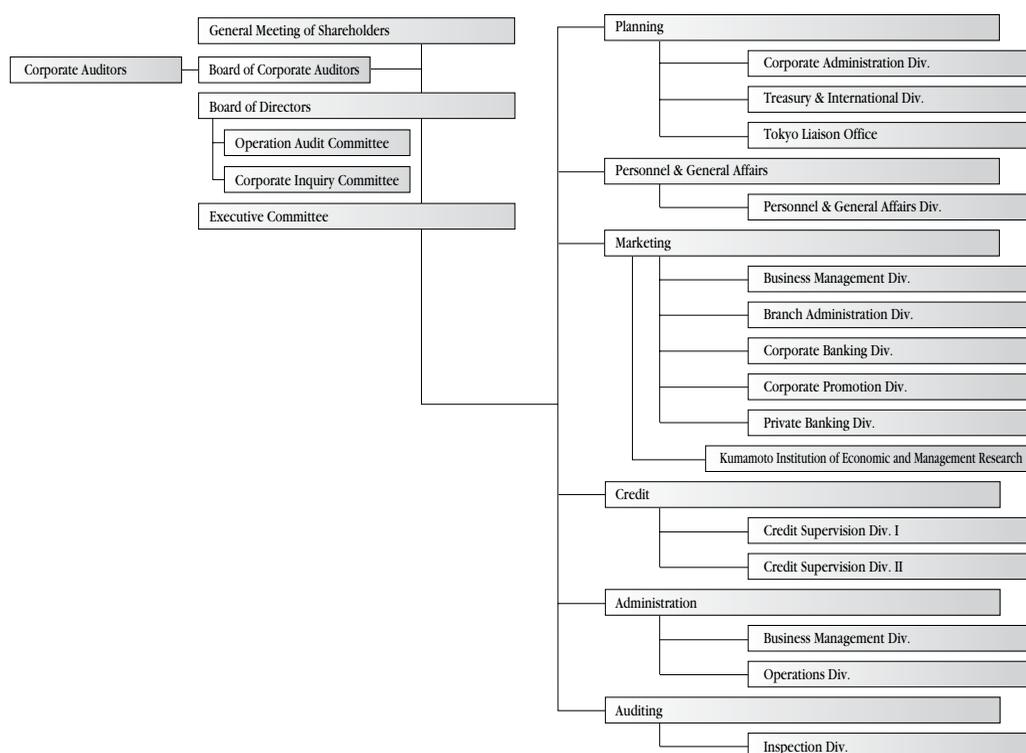
Toshihiko Wakisaka
Kazuyuki Uchida
Yoshihiro Furushoh
Hironao Nishiyama

Executive Officers

Kazuharu Yoshida
Shigehiro Uemura
Shuitsu Teramoto
Noritaka Murayama
Toru Higashi
Ichiro Sakai

(As of June 29, 2005)

Organization



Corporate Directory

Corporate Data

Established: January 1929

Paid-in Capital: ¥34,262 million

Head Office:

29-20, Suizenji 6-chome, Kumamoto 862-8601, Japan
Telephone: +81-96-385-1111

Number of Domestic Offices: 77

Number of Employees: 1,147

Authorized Shares: 439,630,000

Issued and Outstanding Shares: 182,036,000

Number of Shareholders: 4,592

Major Shareholders

	Thousands of Shares	Percentage of Total Shareholdings
Mizuho Corporate Bank, Ltd.	7,855	6.41%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,107	3.35%
Nippon Life Insurance Company	2,926	2.39%
Aozora Bank, Ltd.	2,832	2.31%
The Nishi-Nippon City Bank, Ltd.	2,795	2.28%
Shinsei Bank, Limited	2,439	1.99%
Jono Printing Co., Ltd.	2,284	1.86%
Kumamoto Family Bank Employees' Shareholdings Association	2,264	1.85%
Japan Trustee Services Bank, Ltd. (trust account)	2,236	1.82%
Higo Bank, Ltd.	2,134	1.74%

(As of March 31, 2005)

 THE KUMAMOTO FAMILY BANK, LTD.

29-20, Suizenji 6-chome,
Kumamoto 862-8601, Japan