

KUMAMOTO FAMILY BANK, LTD.



Financial Statements 2006

Message from the President



K. Kawaguchi

Kazuyuki Kawaguchi
President

FINANCIAL AND ECONOMIC ENVIRONMENT

During the term ended March 2006, the Japanese economy entered into a phase of steady recovery, with continued increases in exports and capital investment and increasing firmness in consumer spending. The consumer price index began to rise year-on-year into the second half, and we expect steady growth in consumer prices to continue going forward. Under these circumstances, the Bank of Japan ended its monetary easing policies in March 2006. However, despite moderate growth overall in the prefectural economy with improvements in economic sentiment and corporate earnings, intensifying competition among small and medium-sized enterprises, the Bank's main customers, continued to exacerbate the division of sectors and companies into "winners" and "losers," and land prices fell by even steeper margins. Due to these factors, regional financial institutions continued to face a very difficult operating environment. Turning to finance, long-term and medium-term interest rates have factored in the ending of the BoJ's quantitative easing policies and have been rising. The Nikkei stock average climbed from ¥11,668 at the end of March 2005 to ¥17,059 at the end of March 2006, driven by steady recovery in the Japanese economy. Meanwhile, the dollar strengthened against the yen against a backdrop of rising US interest rates, from ¥106 at the end of March 2005 to ¥117 at the end of March 2006.

REVIEW OF OPERATIONS (on a consolidated basis)

In this financial environment, the Bank aggressively pursued various policies aimed at changing 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.

As a result of these efforts, ordinary income increased ¥100 million year-on-year to ¥5.4 billion (US\$46 million) during the term. Despite a fall in interest on loans and bills discounted and an increase in expenses from disposal of non-performing debt, the Bank posted increases in interest

and dividends on securities and fees and commissions, as well as gains on sales of securities and other instruments. Net income declined ¥1.6 billion year-on-year to ¥3.4 billion (US\$29 million), partly reflecting impairment losses posted on real estate assets. The (consolidated) capital ratio rose 1.27 point year-on-year to 9.28%, with an issue of subordinated bonds supplementing the net income. Total assets at the end of the term under review (on a consolidated basis) rose ¥20.0 billion to ¥1,317.4 billion (US\$11,215 million) and shareholders' equity grew ¥1.3 billion to ¥67.4 billion (US\$574 million) from the previous term-end. Deposits rose ¥11.7 billion to end the term at ¥1,205.3 billion (US\$10,260 million), with an important contribution coming from increased time deposits (medium and small-lot) held by individuals. Meanwhile, loans and bills discounted rose ¥9.5 billion to end the term at ¥1,009.3 billion (US\$8,592 million), due chiefly to an increase in housing loans. The balance of securities rose ¥33.9 billion during the term to ¥180.0 billion (US\$1,532 million), reflecting systematic efforts to enhance interest income through measures such as credit purchasing.

MEDIUM-TERM BUSINESS STRATEGY AND PRIORITY MANAGEMENT TASKS

We had a considerable measure of success in achieving the objectives of the fifth medium-term management plan in 2005, restoring public trust through resolute reform on various fronts, including changing mindsets and posting a V-shaped recovery in earnings, enabling us to pay a dividend again. However, the operating environment faced by regional financial institutions remains difficult as the financial industry continues its rapid evolution, generating not only intensified competition with other banks but also challenges such as privatization of Japan Post and the use of outsourcing by banks. The Bank must strengthen its management capabilities to address the creation of effective internal control systems and the new capital ratio requirements introduced under Basel II. It also needs to take due measures to deal with the increasing sophistication of risk management.

Against this background, we launched our sixth medium-term management plan. Through basic policies such as strengthening profitability and expanding at business share, completing disposal of non-performing debt, promoting CSR, ensuring rigid legal and regulatory compliance, further strengthening risk management, and upgrading personnel training bringing new vigor to the workplace, we aim to rebuild public trust in our operations, enabling us to become the bank that makes the main contribution to the regional economy and provides the most satisfaction to the customer.

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

Type	Amount (Billions of yen)	Coverage rate (%)
Rehabilitated and corresponding claims	33.5	100.0
High-risk claims	27.7	89.9
Claims requiring supervision	17.1	49.1
Subtotal	78.5	85.2
Normal claims	948.7	
Total	1,027.2	

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 2006, consolidated total deposits stood at ¥1,205,345 million (US\$10,261 million), while paid-in capital amounted to ¥34,262 million (US\$292 million). The Bank had 1,121 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
	2006	2005	2006
For the Year Ended			
Total income	¥ 42,721	¥ 38,825	\$ 363,676
Total expenses	37,230	33,518	316,932
Income before income taxes	3,646	4,958	31,038
Net income	3,499	5,110	29,786
At Year End			
Total assets	¥1,317,438	¥1,297,437	\$11,215,102
Deposits	1,205,345	1,193,549	10,260,875
Loans and bills discounted	1,009,363	999,796	8,592,517
Securities	180,069	146,144	1,532,894
Reserve for possible loan losses	(21,830)	(25,504)	(185,835)
Capital stock	34,262	34,262	291,666
Total shareholders' equity	67,412	66,031	573,866

Note: Figures stated in U.S. dollars are translated from Japanese yen, solely for convenience, at the rate of ¥117.47=US\$1.00, the approximate exchange rate prevailing at March 31, 2006.

Operational and Capital Alliance with The Bank of Fukuoka, Ltd.

On May 12, 2006, the Bank signed a basic agreement with The Bank of Fukuoka, Ltd. to create an operational and capital alliance, and begin discussions for future management integration with establishment of a joint holding company. Through this operational and capital alliance, and possible management integration,

both banks aim to enhance customer services by expanding their operating networks, contribute to regional society, achieve sustained growth in enterprise value, and enhance workforce morale on both sides.

DETAILS OF OPERATIONAL ALLIANCE

Area of collaboration	Measures
Support for corporate rehabilitation	Joint support for turning around ailing customer businesses of both banks and restoring them to soundness
Mutual use of ATMs without charge	Customers of one bank will be able to use ATMs of the other without charge
Joint provision of business loans	Joint development of small-lot corporate finance business using automated credit rating
Joint provision of corporate solutions	Joint development of syndicated loans, non-recourse loans and merger and acquisition business, tailored to customer business categories
Alliance on products for individuals	Joint marketing of asset management products and individual loan products
Alliance to raise operational efficiency	Joint outsourcing, branch interior design and purchase of equipment

Consolidated Balance Sheets

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries

March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
ASSETS			
Cash and due from banks	¥ 77,065	¥ 98,943	\$ 656,040
Commercial paper and other debt purchased	90	77	766
Money held in trust	3,986	3,996	33,932
Securities	180,069	146,144	1,532,894
Loans and bills discounted	1,009,363	999,796	8,592,517
Foreign exchange	460	422	3,916
Other assets	8,079	7,775	68,775
Premises and equipment, net	19,560	22,301	166,511
Deferred tax assets	21,899	21,247	186,422
Customers' liabilities for acceptances and guarantees	18,768	22,311	159,768
Reserve for possible loan losses	(21,830)	(25,504)	(185,835)
Reserve for possible losses on investments	(75)	(75)	(638)
Total assets	¥1,317,438	¥1,297,437	\$11,215,102
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits	¥1,205,345	¥1,193,549	\$10,260,875
Foreign exchange	17	4	145
Bonds	10,000	—	85,128
Other liabilities	7,499	7,189	63,838
Accrued bonuses	429	443	3,652
Reserve for retirement benefits	5,749	5,077	48,940
Reserve for contingency	55	539	468
Reserve for impairment loss on fixed assets	11	—	94
Deferred tax liabilities resulting from land revaluation	2,139	2,276	18,209
Acceptances and guarantees	18,768	22,311	159,768
Total liabilities	1,250,017	1,231,392	10,641,159
Minority interests	9	13	77
Shareholders' equity			
Capital stock	34,262	34,262	291,666
Capital surplus	23,164	23,164	197,191
Retained earnings	8,539	5,668	72,691
Land revaluation excess	871	1,038	7,415
Unrealized gain on available-for-sale securities	700	2,012	5,959
Treasury stock	(125)	(114)	(1,064)
Total shareholders' equity	67,412	66,031	573,866
Total liabilities, minority interests and shareholders' equity	¥1,317,438	¥1,297,437	\$11,215,102

Consolidated Statements of Income

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Income	¥42,721	¥38,825	\$363,676
Interest income:	31,196	31,374	265,566
Interest on loans and bills discounted	28,521	30,399	242,794
Interest and dividends on securities	1,729	905	14,719
Interest on due from banks	0	0	0
Interest on interest-rate swaps	103	—	877
Other interest received	842	68	7,168
Fees and commissions	4,042	3,620	34,409
Other operating income	1,119	2,644	9,526
Other income	6,363	1,186	54,167
Expenses	37,230	33,518	316,932
Interest expenses:	2,766	2,109	23,546
Interest on deposits	2,669	2,046	22,721
Negotiable certificates of deposit	—	0	—
Interest on call money and bills sold	0	4	0
Interest on borrowed money	1	0	9
Interest on bonds	21	—	179
Other interest paid	73	56	621
Fees and commissions	2,407	2,449	20,490
Other operating expenses	1,758	1,825	14,966
General and administrative expenses	16,147	16,276	137,456
Other expenses:	14,150	10,857	120,456
Provision for possible loan losses	12,964	9,013	110,360
Others	1,184	1,841	10,079
Ordinary income	5,491	5,306	46,744
Extraordinary income	495	51	4,214
Gains on sale of properties and premises	—	0	—
Gains on collection of loan assets	5	27	43
Other extraordinary income	490	22	4,171
Extraordinary losses	2,339	399	19,911
Losses on sale of premises and equipment	14	395	119
Impairment loss on fixed assets	2,324	—	19,784
Other extraordinary losses	0	4	0
Income before income taxes	3,646	4,958	31,038
Income taxes			
Current	50	38	426
Deferred	100	(202)	851
Minority interests	(3)	12	(26)
Net income	¥ 3,499	¥ 5,110	\$ 29,786

Consolidated Statements of Retained Earnings

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Capital surplus			
Balance at beginning of year	¥23,164	¥31,097	\$197,191
Decrease during year:	—	7,933	—
Transfer to retained earnings	—	7,933	—
Balance at end of year	¥23,164	¥23,164	\$197,191
Retained earnings			
Balance at beginning of year	¥ 5,668	¥(7,421)	\$ 48,251
Increase during year:	3,667	13,090	31,216
Transfer from capital surplus	—	7,933	—
Net income	3,499	5,110	29,786
Reversal of land revaluation excess	167	46	1,422
Decrease during year:	796	0	6,776
Cash dividend	796	—	6,776
Losses on disposal of treasury stock	0	0	0
Balance at end of year	¥ 8,539	¥ 5,668	\$ 72,691

Consolidated Statements of Cash Flows

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 3,646	¥ 4,958	\$ 31,038
Depreciation	781	789	6,649
Impairment loss on fixed assets	2,324	—	19,784
Increase in reserve for possible loan losses	7,632	77	64,970
Decrease in reserve for possible losses on investments	—	(27)	—
Increase (decrease) in accrued bonuses	(13)	3	(111)
Increase in reserve for retirement benefits	672	612	5,721
Increase (decrease) in reserve for contingent liabilities	(483)	490	(4,112)
Interest income	(31,196)	(31,374)	(265,566)
Interest expenses	2,766	2,109	23,546
Gains on sale and valuation of securities, net	(5,985)	(554)	(50,949)
Gains on money held in trust	(290)	(56)	(2,469)
Gains on foreign exchange	(44)	(38)	(375)
Losses on sale of premises and equipment	14	394	119
Net decrease (increase) in loans and bills discounted	(20,452)	21,332	(174,104)
Net increase in deposits	11,795	1,436	100,409
Net decrease in negotiable certificates of deposit	—	(2,000)	—
Net decrease in collateral money deposited	—	(2)	—
Net decrease (increase) in due from banks (excluding that from Bank of Japan)	1,925	(1,384)	16,387
Net decrease in call loans and others	(13)	(77)	(111)
Net decrease (increase) in foreign exchange (assets)	(37)	33	(315)
Net increase in foreign exchange (liabilities)	12	0	102
Proceeds from fund operations	31,123	31,629	264,944
Expenditure for fund procurement	(2,389)	(2,864)	(20,337)
Others	(299)	131	(2,545)
Subtotal	1,490	25,618	12,684
Income taxes paid	(34)	(218)	(289)
Net cash provided by operating activities	1,456	25,400	12,395
Cash flows from investing activities			
Purchases of securities	(113,916)	(66,481)	(969,745)
Proceeds from sale of securities	59,150	53,566	503,533
Proceeds from redemption of bonds	24,422	8,690	207,900
Increase in money held in trust	—	(500)	—
Decrease in money held in trust	—	536	—
Purchase of premises and equipment	(208)	(564)	(1,771)
Proceeds from sale of premises and equipment	23	273	196
Net cash used in investing activities	(30,528)	(4,478)	(259,879)
Cash flows from financing activities			
Proceeds from issuance of bonds	9,915	—	84,405
Cash dividends paid	(796)	—	(6,776)
Acquisition of Company shares	(11)	(14)	(94)
Proceeds from sale of shares in treasury	0	0	0
Net cash provided by (used in) financing activities	9,107	(14)	77,526
Effect of exchange rate change on cash and cash equivalents	11	8	94
Net increase (decrease) in cash and cash equivalents	(19,953)	20,915	(169,856)
Cash and cash equivalents at beginning of year	96,699	75,784	823,180
Cash and cash equivalents at end of year	¥ 76,746	¥96,699	\$653,324

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

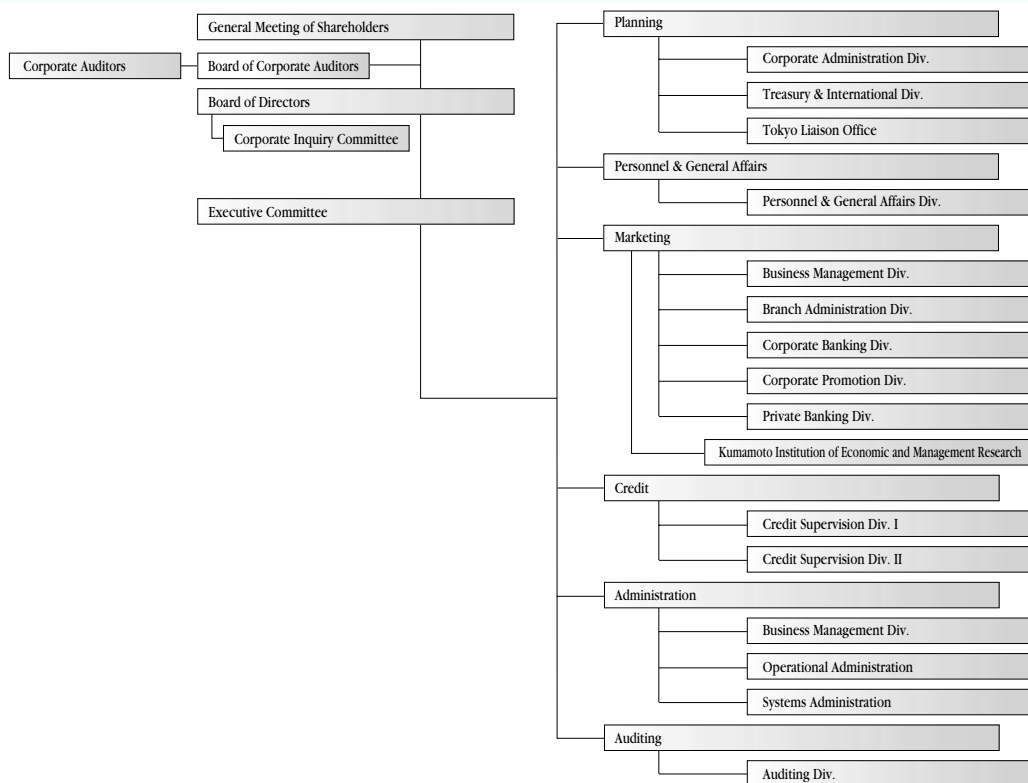
Toshihiko Wakisaka
Kazuharu Yoshida
Yoshihiro Furushoh
Hironao Nishiyama

Executive Officers

Shigehiro Uemura
Shuitsu Teramoto
Noritaka Murayama
Toru Higashi
Ichiro Sakai
Takashi Nomura

(As of June 29, 2006)

Organization



(As of June 13, 2006)

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: 1,121

Issued and Outstanding Shares: 182,134,000

Number of Shareholders: 4,577

Major Shareholders

	Thousands of Shares	Percentage of Total Shareholdings
Mizuho Corporate Bank, Ltd.	7,855	6.39%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,107	3.34%
Nippon Life Insurance Company	2,926	2.38%
Aozora Bank, Ltd.	2,832	2.30%
The Nishi-Nippon City Bank, Ltd.	2,795	2.27%
Japan Trustee Services Bank, Ltd. (trust account 4)	2,439	1.98%
Kumamoto Family Bank Employees' Shareholdings Association	2,303	1.87%
Jono Printing Co., Ltd.	2,284	1.85%
Japan Trustee Services Bank, Ltd. (trust account)	2,241	1.82%
Higo Bank, Ltd.	2,134	1.73%

(As of March 31, 2006)

