

KUMAMOTO FAMILY BANK, LTD.



Financial Statements 2007

Message from the Management



*Chairman and
Representative Director*
Kazuyuki Kawaguchi



*President and
Representative Director*
Hajime Suzuki

FINANCIAL AND ECONOMIC ENVIRONMENT

The Japanese economy maintained its gradual growth trend during fiscal 2006, the term ended March 2007, supported by favorable exports driven by the continued expansion of the global economy. The growth in exports led to improved business performances by the private sector, stimulating increased capital investment and an improvement in the employment situation. Wage-earners' income, however, grew only sluggishly: as a result, consumer spending grew sluggishly in the first-half period and failed to achieve further growth in the second half.

Following the ending by the Bank of Japan of its quantitative monetary easing policy in March 2006, the central bank raised the key policy rate in July, marking the end of its de facto zero interest rate policy. In February 2007 the BOJ then raised the rate for a second time, and short-term interest rates began to move gradually upward. Conversely, projected stability in the Japanese economy and in the price of goods caused long-term interest rates to trend downward. Stock prices temporarily declined on the impact of a global wave of risk aversion, but subsequently rose across the board as news of good corporate business performances filtered through. On the foreign exchange markets, the dollar moved weakly at times on expectations of a slowdown in the U.S. economy, but the yen nonetheless lost some ground against the dollar during the latter half of the reporting term.

Small and medium-sized companies constitute the principal corporate customer category for Kumamoto Family Bank. During the term under review, with corporate earnings and business confidence recovering slowly but steadily, these customers faced growing disparities in business performance between different industries and between companies in the same industry, amid increasingly severe competition. On top of this, the downward trend of land prices had still not come to a halt. Overall, therefore, the Japanese economy's growth pace was sluggish.

REVIEW OF OPERATIONS

Amid this operating environment, with respect to the financial statements of Kumamoto Family Bank on a consolidated basis for fiscal 2006, the management took into account the need to standardize the Bank's self-assessment standards and criteria for bad debt write-offs and for loan-loss provisions with those of The Bank of Fukuoka, Ltd. (which are among the most conservative such standards in the Japanese regional bank sector), in order to prepare for the planned management integration with that bank. As a result of the implementation of asset self-assessments using the new standards, we recorded expenses of ¥59.2 billion for the disposal of nonperforming loans during fiscal 2006. As a result of this, the Bank registered an ordinary loss of ¥59.9 billion (US\$507 million) on a consolidated basis, compared with an ordinary income of ¥5.4 billion for the previous year. A net loss of ¥55.1 billion (US\$467 million) was registered, compared with net income of ¥3.4 billion for the previous year.

Total assets at the end of the term under review, on a consolidated basis, amounted to ¥1,316.2 billion (US\$11,150 million), for a decrease of ¥1.1 billion from the previous term-end.

As a result of a decline in the value of corporate demand deposits,

the total value of deposits fell by ¥28.3 billion during the reporting term to reach ¥1,176.9 billion (US\$9,970 million) at the term-end (March 31, 2007). In spite of an increase in mortgage loans made, loans and bills discounted as a whole registered a decrease of ¥29.9 billion during the reporting term, caused by the selloff of loan assets in line with the disposal of bad debt. The term-end balance of loans and bills discounted came to ¥979.3 billion (US\$8296 million). The term-end balance of securities increased by ¥53.3 billion to ¥233.4 billion (US\$1,977 million) owing to an aggressive investment policy, including the buying of bonds to take advantage of the rising trend of short-term interest rates.

In line with the deterioration in earnings, the Bank's capital ratio also deteriorated by a substantial margin, but thanks to support provided by the Bank of Fukuoka, the year-on-year decline in the capital ratio was held to only 2.67 percentage points, for a ratio of 6.61% on a consolidated basis.

MEDIUM-TERM BUSINESS STRATEGY, AND PRIORITY MANAGEMENT TASKS

Supported by brisk exports on the back of sustained growth by the world economy, the Japanese economy continues to expand at a moderate pace. Regarding interest rates, the end of the BOJ's quantitative monetary easing policy in March 2006, followed in July by a raise in the key policy rate and a second rate raise in February 2007 has caused rates to move back into more normal territory. Against this backdrop, companies in the financial sector are being forced to proactively address the impact of expected further deregulation, as well as of the projected increasingly severe competition set to arise both from the privatization of the Postal Savings System and the entry into the market of companies from outside the financial sector. To do this, they must speed up the switch from "saving" to "investment" to meet customers' diversifying needs and the requirements of the increasingly global economy. Banks and other financial sector players will have to adopt ever more sophisticated financial engineering techniques, and offer higher-quality products and services. In parallel with these exigencies, other pressing needs include the protection of customer data (recently mandated by law) and the design and implementation of stricter internal controls.

Amid these circumstances, the holding company Fukuoka Financial Group Inc. (FFG) was jointly established on April 2, 2007 through share transfer by Kumamoto Family Bank and The Bank of Fukuoka. The new company has adopted the motto: Your First Choice.

Simultaneously with the establishment of FFG, Kumamoto Family Bank announced and initiated its latest medium-term business plan. Our main goal under this medium-term plan is to become an even more indispensable part of the local financial scene by leveraging the synergies generated by our business integration with the Bank of Fukuoka to obtain a larger share of the region's banking services market. Our concrete numerical target is to rack up the top earnings figures for financial institutions in Kumamoto Prefecture as soon as possible. We intend to achieve this as part of the integrated business strategy of FFG through the use of aggressive and optimally effective marketing methods, targeting our base of existing and potential customers. At the same time, we will practice stricter risk management and internal control, and will deploy state-of-the-art skills in the field of banking operations. We intend to become known for our practice of disciplined management.

By further enhancing the Bank's earning power and the health of its financial position, and by working toward more effective management, we intend to fulfill our mission as a regional financial institution – to provide the local community with high-quality financial services, and thereby contribute to the economic development of our home region. In this way, the management and employees of Kumamoto Family Bank are united in their determination to raise the enterprise value of the Bank.

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.

In April 2007, Kumamoto Family Bank and the Bank of Fukuoka jointly established a shareholding company under the name of Fukuoka Financial Group Inc. (FFG). Since then, as members of a new regional financial group, the two banks have been engaged in an ongoing process of management integration.

We intend to make the birth of this new financial group an opportunity for further improving and expanding the network of relationships with our customers that we have built up over many years. At Kumamoto Family Bank, we will continue working to serve as a bridge between individuals and corporations throughout our home region. Through the financial services we provide, we aim to contribute even more effectively to the economic development of the local community.

Financial Highlights

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

<i>Consolidated</i>	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
For the Year Ended			
Ordinary income	¥ 35,901	¥ 42,721	\$ 304,117
Ordinary expenses	95,816	37,230	811,656
Income (loss) before income taxes	(60,021)	3,646	(508,437)
Net income (loss)	(55,195)	3,499	(467,556)
At Year End			
Total assets	¥1,316,270	¥1,317,438	\$11,150,106
Deposits	1,176,954	1,205,345	9,969,962
Loans and bills discounted	979,364	1,009,363	8,296,180
Securities	233,408	180,069	1,977,196
Capital stock	34,262	34,262	290,233
Net assets	35,744	—	302,787
Shareholders' equity	—	67,412	—

Note: Figures stated in U.S. dollars are translated from Japanese yen, solely for convenience, at the rate of ¥118.05=US\$1.00, the approximate exchange rate prevailing at March 31, 2007.

The Year in Review

AIMING TO BE AN INDISPENSABLE PLAYER ON THE LOCAL FINANCIAL SCENE

On April 2, 2007, Kumamoto Family Bank and The Bank of Fukuoka jointly established Fukuoka Financial Group Inc. (hereinafter referred to as FFG) to serve as a holding company for Kumamoto Family Bank and the Bank of Fukuoka. The primary aim of this move was to ensure our ability to make an even more substantial contribution to the economic life of the region (Kumamoto and Fukuoka prefectures and surrounding areas) through the provision of financial services. The secondary aim, which flows naturally from the first, is to raise the enterprise value of group companies under FFG, thereby more than fulfilling the expectations of our stakeholders.

Under the first medium-term business plan drawn up by FFG, Kumamoto Family Bank commenced its "2007 medium-term business plan," (covering the period April 2007 to March 2009), in which the various specific measures are subordinated to the overarching goal of becoming an indispensable player in the regional financial scene.

THE GOALS OF KUMAMOTO FAMILY BANK

- | |
|--|
| <p>To become an indispensable financial institution</p> <ul style="list-style-type: none"> • The bank that makes the greatest contribution to the business life of the community • The bank that enjoys the No. 1 reputation in terms of customer satisfaction |
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Our future business strategy will focus on raising the enterprise value of the FFG group as a whole while providing support to our corporate customers and making a significant contribution to regional economic activity. We aim to grow into a bank that is indispensable to the business scene of Kumamoto Prefecture.

Under the first medium-term business plan promulgated by FFG, the Bank itself has commenced its "2007 medium-term business plan," a two-year plan covering the period from April 2007 to March 2009. The principal policy incorporated within the strategies and measures of this plan is to pursue an aggressive and effective marketing approach to our base for existing and potential customers that is in line with the integrated strategy of FFG. At the same time, we will practice stricter risk management and internal control, and will deploy state-of-the-art skills in the fields of banking services. We intend to become known for our practice of disciplined management.

Consolidated Balance Sheets

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries

March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Assets			
Cash and due from banks	¥ 63,162	¥ 77,065	\$ 535,044
Commercial paper and other debt purchased	136	90	1,152
Money held in trust	—	3,986	—
Securities	233,408	180,069	1,977,196
Loans and bills discounted	979,364	1,009,363	8,296,180
Foreign exchange	440	460	3,727
Other assets	6,513	8,079	55,172
Tangible fixed assets	18,836	—	159,560
Intangible fixed assets	500	—	4,235
Premises and equipment, net	—	19,560	—
Deferred tax assets	26,943	21,899	228,234
Customers' liabilities for acceptances and guarantees	14,294	18,768	121,084
Reserve for possible loan losses	(27,330)	(21,830)	(231,512)
Reserve for possible losses on investments	—	(75)	—
Total assets	¥1,316,270	¥1,317,438	\$11,150,106
Liabilities			
Deposits	¥1,176,954	¥1,205,345	\$ 9,969,962
Negotiable certificates of deposit	16,000	—	135,536
Borrowed money	45,800	—	387,971
Foreign exchange	2	17	17
Bonds	10,000	10,000	84,710
Other liabilities	8,607	7,510	72,910
Accrued bonuses	519	429	4,396
Reserve for retirement benefits	6,174	5,749	52,300
Reserve for contingent liabilities	59	55	500
Deferred tax liabilities resulting from land revaluation	2,113	2,139	17,899
Acceptances and guarantees	14,294	18,768	121,084
Total liabilities	1,280,526	1,250,017	10,847,319
Net assets			
Capital stock	34,262	—	290,233
Capital surplus	23,164	—	196,222
Retained earnings (deficit)	(47,784)	—	(404,778)
Treasury stock	(121)	—	(1,025)
Total shareholders' equity	9,521	—	80,652
Unrealized gain on available-for-sale securities	357	—	3,024
Land revaluation excess	833	—	7,056
Total valuation and translation adjustments	1,190	—	10,080
Minority interests	25,032	—	212,046
Total net assets	35,744	—	302,787
Total liabilities and net assets	¥1,316,270	—	\$11,150,106
Minority interests			
	—	9	—
Shareholders' equity			
Capital stock	—	34,262	—
Capital surplus	—	23,164	—
Retained earnings	—	8,539	—
Land revaluation excess	—	871	—
Unrealized gain on available-for-sale securities	—	700	—
Treasury stock	—	(125)	—
Total shareholders' equity	—	67,412	—
Total liabilities, minority interests and shareholders' equity	—	¥1,317,438	—

Consolidated Statements of Income

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Ordinary income	¥ 35,901	¥42,721	\$ 304,117
Interest income:	29,261	31,196	247,870
Interest on loans and bills discounted	26,783	28,521	226,878
Interest and dividends on securities	2,207	1,729	18,695
Interest on due from banks	1	0	8
Interest on call loans and bills bought	72	—	610
Interest on receivables under resale agreements	5	—	42
Interest on interest-rate swaps	174	103	1,474
Other interest received	16	842	136
Fees and commissions	4,403	4,042	37,298
Other operating income	1,075	1,119	9,106
Other ordinary income	1,161	6,363	9,835
Ordinary expenses	95,816	37,230	811,656
Interest expenses:	3,078	2,766	26,074
Interest on deposits	2,472	2,669	20,940
Interest on negotiable certificates of deposit	101	—	856
Interest on call money and bills sold	0	0	0
Interest on borrowed money	170	1	1,440
Interest on bonds	324	21	2,745
Other interest paid	9	73	76
Fees and commissions	2,252	2,407	19,077
Other operating expenses	2,821	1,758	23,897
General and administrative expenses	17,258	16,147	146,192
Other ordinary expenses:	70,405	14,150	596,400
Provision for possible loan losses	33,721	12,964	285,650
Other	36,684	1,186	310,750
Ordinary profit (loss)	(59,914)	5,491	(507,531)
Extraordinary income	30	495	254
Gains on sale of fixed assets	15	—	127
Gains on collection of written-off claims	3	5	25
Gains on reversal of reserve for contingent liabilities	—	482	—
Other extraordinary income	11	7	93
Extraordinary losses	137	2,339	1,161
Losses on sale of fixed assets	47	—	398
Losses on sale of premises and equipment	—	14	—
Impairment loss on fixed assets	90	2,324	762
Other extraordinary losses	—	0	—
Income (loss) before income taxes and minority interests	(60,021)	3,646	(508,437)
Income taxes			
Current	25	50	212
Deferred	(4,837)	100	(40,974)
Minority interests in loss	(14)	(3)	(119)
Net income (loss)	¥(55,195)	¥ 3,499	\$ (467,556)

Consolidated Statement of Retained Earnings

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

	Millions of Yen 2006
Capital surplus	
Balance at beginning of year	¥23,164
Balance at end of year	¥23,164
Retained earnings	
Balance at beginning of year	¥ 5,668
Increase during year:	3,667
Net income	3,499
Reversal of land revaluation excess	167
Decrease during year:	796
Cash dividends	796
Losses on disposal of treasury stock	0
Balance at end of year	¥ 8,539

Consolidated Statements of Cash Flows

THE KUMAMOTO FAMILY BANK, LTD. and subsidiaries
Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ (60,021)	¥ 3,646	\$ (508,437)
Depreciation	751	781	6,362
Impairment loss on fixed assets	90	2,324	762
Increase (decrease) in reserve for possible loan losses	(8,886)	7,632	(75,273)
Decrease in reserve for possible losses on investments	(75)	—	(635)
Increase (decrease) in accrued bonuses	89	(13)	754
Increase in reserve for retirement benefits	424	672	3,592
Increase (decrease) in reserve for contingent liabilities	3	(483)	25
Interest income	(29,261)	(31,196)	(247,870)
Interest expenses	3,078	2,766	26,074
Gains (losses) on sale and valuation of securities, net	1,146	(5,985)	9,708
Losses (gains) on money held in trust	65	(290)	551
Gains on foreign exchange	(48)	(44)	(407)
Losses on sale of fixed assets	31	—	263
Losses on sale of premises and equipment	—	14	—
Net decrease (increase) in loans and bills discounted	46,276	(20,452)	392,003
Net increase (decrease) in deposits	(28,390)	11,795	(240,491)
Net increase in negotiable certificates of deposit	16,000	—	135,536
Net increase in borrowed money (excluding subordinated borrowings)	35,800	—	303,261
Net decrease (increase) in due from banks (excluding the Bank of Japan)	(478)	1,925	(4,049)
Net increase in call loans and others	(45)	(13)	(381)
Net decrease (increase) in foreign exchange assets	19	(37)	161
Net increase (decrease) in foreign exchange liabilities	(14)	12	(119)
Proceeds from fund operations	29,232	31,123	247,624
Expenditure for fund procurement	(3,198)	(2,389)	(27,090)
Other, net	1,531	(299)	12,969
Subtotal	4,118	1,490	34,884
Income taxes paid	(48)	(34)	(407)
Net cash provided by operating activities	4,070	1,456	34,477
Cash flows from investing activities			
Purchases of securities	(137,645)	(113,916)	(1,165,989)
Proceeds from sale of securities	67,019	59,150	567,717
Proceeds from redemption of securities	14,936	24,422	126,523
Decrease in money held in trust	3,920	—	33,206
Purchases of tangible fixed assets	(734)	—	(6,218)
Purchases of intangible fixed assets	(126)	—	(1,067)
Proceeds from sale of tangible fixed assets	293	—	2,482
Purchases of premises and equipment	—	(208)	—
Proceeds from sale of premises and equipment	—	23	—
Net cash used in investing activities	(52,336)	(30,528)	(443,338)
Cash flows from financing activities			
Proceeds from issuance of subordinated bonds	—	9,915	—
Proceeds from subordinated borrowings	10,000	—	84,710
Proceeds from minority shareholders	25,000	—	211,775
Cash dividends paid	(791)	(796)	(6,701)
Cash dividends paid to minority shareholders	(334)	—	(2,829)
Purchases of treasury stock	(21)	(11)	(178)
Proceeds from sale of treasury stock	24	0	203
Net cash provided by financing activities	33,876	9,107	286,963
Effect of exchange rate change on cash and cash equivalents	7	11	59
Net decrease in cash and cash equivalents	(14,381)	(19,953)	(121,821)
Cash and cash equivalents at beginning of year	76,746	96,699	650,114
Cash and cash equivalents at end of year	¥ 62,365	¥ 76,746	\$ 528,293

Board of Directors, Corporate Auditors and Executive Officers

Chairman and Representative Director
Kazuyuki Kawaguchi

President and Representative Director
Hajime Suzuki

Representative Director and Senior Managing Executive Officer
Takayuki Nagatani

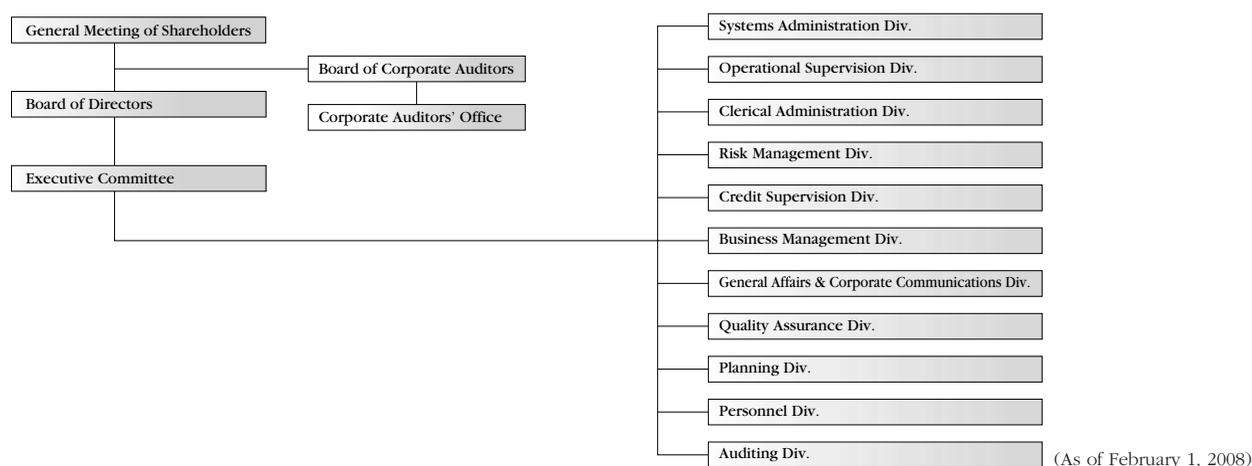
Director and Managing Executive Officers
Masaharu Koba
Ei Takeshita
Kiyokazu Kishimoto

Director
Kazutoshi Nakamura

Auditors
Kazuharu Yoshida
Yoshihiro Furushoh*
Hironao Nishiyama*
(* Outside auditor)

Executive Officers
Shuitsu Teramoto
Noritaka Murayama
Toru Higashi
Ichiro Sakai
Takashi Nomura
Kazunori Bando
Tetsuro Irie
(As of February 1, 2008)

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: 79

Number of Employees: 1,074

Issued and Outstanding Shares: 182,258,250

Number of Shareholders: 4,495

Major Shareholders

	Thousands of Shares	Percentage of Total Shareholdings
Mizuho Corporate Bank, Ltd.	7,855	6.36%
Japan Trustee Services Bank, Ltd. (trust account 4)	5,271	4.26%
Tokio Marine & Nichido Fire Insurance Co., Ltd.	4,107	3.32%
Nippon Life Insurance Company	2,926	2.36%
The Nishi-Nippon City Bank, Ltd.	2,795	2.26%
Kumamoto Family Bank Employees' Shareholdings Association	2,545	2.06%
Japan Trustee Services Bank, Ltd. (trust account)	2,505	2.02%
Jono Printing Co., Ltd.	2,284	1.84%
The Higo Bank, Ltd.	2,134	1.72%
The Minami-Nippon Bank, Ltd.	2,115	1.71%

(As of March 31, 2007)

 THE KUMAMOTO FAMILY BANK, LTD.

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