Consolidated Balance Sheets

THE KIYO BANK, LTD. and its consolidated subsidiaries   As of March 31, 2005 and 2004

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Assets:			
Cash and due from banks	**¥ 51,536**	¥ 41,731	**$ 479,905**
Call loans and bills bought	**20,354**	9,179	**189,537**
Receivables under resale agreements	**9,999**	—	**93,118**
Pledged money for securities lending transactions	**96,495**	88,253	**898,555**
Commercial paper and other debt purchased (Note 3)	**9,030**	913	**84,092**
Trading account securities (Note 3)	**3,631**	3,983	**33,818**
Securities (Notes 3 and 6)	**725,084**	728,059	**6,751,884**
Loans and bills discounted (Notes 4 and 18)	**1,756,634**	1,813,748	**16,357,521**
Foreign exchanges (Note 6)	**1,653**	1,504	**15,397**
Other assets	**32,763**	17,621	**305,089**
Premises and equipment (Notes 5 and 6)	**39,437**	40,005	**367,239**
Deferred tax assets (Note 12)	**34,627**	35,781	**322,450**
Customers' liabilities for acceptances and guarantees (Note 14)	**46,488**	50,716	**432,892**
Reserve for possible loan losses	**(30,243)**	(26,201)	**(281,619)**
Total assets	**¥2,797,496**	¥2,805,297	**$26,049,878**
Liabilities:			
Deposits (Note 6)	**¥2,582,076**	¥2,610,981	**$24,043,919**
Call money (Note 6)	**—**	3,970	**—**
Deposits received for securities lending transactions (Note 6)	**30,838**	11,207	**287,161**
Borrowed money (Note 8)	**22,062**	29,928	**205,438**
Foreign exchanges	**16**	84	**151**
Bonds (Note 9)	**13,000**	3,000	**121,054**
Other liabilities (Note 6)	**16,032**	12,429	**149,294**
Accrued employees' severance and retirement benefits (Note 13)	**1,318**	2,328	**12,277**
Deferred tax liabilities (Note 12)	**86**	2	**803**
Acceptances and guarantees (Note 14)	**46,488**	50,716	**432,892**
Total liabilities	**2,711,918**	2,724,649	**25,252,989**
Minority interest	**1,048**	525	**9,761**
Shareholders' equity (Notes 15 and 19)**:**			
Preferred and common stock	**60,346**	60,346	**561,940**
Capital surplus	**2,509**	2,509	**23,368**
Retained earnings	**13,856**	10,473	**129,025**
Net unrealized holding gains on securities	**7,935**	6,853	**73,895**
Less: treasury stock (547 thousand shares), at cost	**(118)**	(61)	**(1,100)**
Total shareholders' equity	**84,529**	80,121	**787,128**
Total liabilities, minority interest and shareholders' equity	**¥2,797,496**	¥2,805,297	**$26,049,878**

See accompanying notes.

Consolidated Statements of Income and Retained Earnings

THE KIYO BANK, LTD. and its consolidated subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Income:			
Interest income:			
Interest on loans and discounts	**¥39,087**	¥40,192	**$363,975**
Interest and dividends on securities	**9,003**	12,601	**83,840**
Other interest income	**401**	239	**3,738**
Fees and commissions	**9,689**	7,978	**90,224**
Other operating income	**6,134**	5,292	**57,127**
Other income (Note 10)	**8,524**	5,263	**79,382**
Total income	**72,841**	71,569	**678,286**
Expenses:			
Interest expenses:			
Interest on deposits	**1,206**	1,584	**11,232**
Interest on borrowings	**1,414**	921	**13,169**
Other interest expenses	**1,438**	1,503	**13,394**
Fees and commissions	**2,937**	2,702	**27,349**
Other operating expenses	**4,101**	347	**38,194**
General and administrative expenses	**32,494**	33,517	**302,586**
Other expenses (Note 11)	**20,653**	17,746	**192,323**
Total expenses	**64,245**	58,323	**598,247**
Income before income taxes and minority interests	**8,595**	13,245	**80,039**
Income taxes (Note 12)**:**			
Current	**256**	170	**2,386**
Deferred	**2,608**	3,177	**24,293**
Minority interests in net loss	**(17)**	(10)	**(162)**
Net income	**5,747**	9,907	**53,522**
Retained earnings (accumulated deficit) at beginning of year	**10,473**	(11,771)	**97,528**
Increase:			
Merger with a subsidiary	**—**	5,549	**—**
Addition for merger of affiliated companies accounted for by the equity-method	**82**	—	**765**
Transfer from capital surplus	**—**	6,788	**—**
Decrease:			
Dividends	**(2,447)**	—	**(22,790)**
Retained earnings at end of year	**¥13,856**	¥10,473	**$129,025**

	Yen		U.S. dollars (Note 1)
Net income per share:			
Basic	**¥12.53**	¥22.80	**$0.117**
Diluted	**10.12**	17.46	**0.094**

See accompanying notes.

Consolidated Statements of Cash Flows

THE KIYO BANK, LTD. and its consolidated subsidiaries Years ended March 31, 2005 and 2004

	Millions of yen (Note 1)		Thousands of U.S. dollars (Note 1)
	2005	2004	**2005**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 8,595**	¥ 13,245	**$ 80,039**
Depreciation	**6,002**	2,188	**55,890**
Amortization of goodwill	**(281)**	—	**(2,623)**
Investment income on equity method	**(42)**	(52)	**(393)**
Increase (decrease) in reserve for possible loan losses	**3,759**	(127)	**35,007**
Decrease in reserve for residual losses on loans sold	**—**	(4,957)	**—**
Decrease in accrued employees' severance and retirement benefits	**(1,014)**	(2,020)	**(9,449)**
Interest income	**(48,492)**	(53,033)	**(451,553)**
Interest expenses	**4,058**	4,009	**37,795**
Gains on securities transactions	**(4,766)**	(4,269)	**(44,385)**
Losses (gains) on foreign exchange transactions	**(4,150)**	7,686	**(38,648)**
Losses on sales of premises and equipment	**253**	170	**2,357**
Net decrease in trading account securities	**352**	886	**3,279**
Net decrease (increase) in loans and bills discounted	**48,360**	(19,403)	**450,328**
Net decrease in deposits	**(28,691)**	(13,148)	**(267,172)**
Net decrease (increase) in call loans	**(29,292)**	13,695	**(272,767)**
Net decrease (increase) in pledged money for securities lending transactions	**(8,242)**	47,564	**(76,751)**
Net decrease in call money	**(3,837)**	(8,144)	**(35,732)**
Net increase in deposits received for securities lending transactions	**19,630**	11,207	**182,795**
Net decrease (increase) in foreign exchange assets	**(149)**	362	**(1,388)**
Net increase (decrease) in foreign exchange liabilities	**(67)**	34	**(632)**
Interest income received	**50,199**	55,307	**467,446**
Interest paid	**(4,202)**	(4,211)	**(39,134)**
Other, net	**5,696**	(1,073)	**53,041**
Sub-total	**13,676**	45,916	**127,350**
Payment of income taxes	**(440)**	(90)	**(4,100)**
Net cash provided by operating activities	**13,235**	45,825	**123,250**
Cash flows from investing activities:			
Purchase of securities	**(535,525)**	(676,959)	**(4,986,735)**
Proceeds from sales of securities	**191,318**	296,465	**1,781,525**
Redemption of securities	**343,261**	313,357	**3,196,397**
Purchase of premises and equipment	**(2,248)**	(4,561)	**(20,942)**
Proceeds from sales of premises and equipment	**317**	477	**2,958**
Purchase of equity in additional consolidated subsidiary	**(141)**	—	**(1,316)**
Net cash used in investing activities	**(3,019)**	(71,219)	**(28,113)**
Cash flows from financing activities:			
Increase in subordinated loans	**8,000**	—	**74,495**
Decrease in subordinated loans	**(16,000)**	—	**(148,990)**
Proceeds from subordinated bonds	**10,000**	1,000	**93,118**
Payment of cash dividends	**(2,447)**	—	**(22,790)**
Payment of cash dividends to minority interests	**(1)**	(1)	**(11)**
Net cash provided by (used in) financing activities	**(448)**	998	**(4,178)**
Foreign currency translation adjustments of cash and cash equivalents	**10**	(38)	**98**
Net increase (decrease) in cash and cash equivalents	**9,778**	(24,433)	**91,057**
Cash and cash equivalents at beginning of year	**41,731**	66,164	**388,596**
Increase of due to additional consolidated subsidiary	**27**	—	**252**
Cash and cash equivalents at end of year	**¥ 51,536**	¥ 41,731	**$ 479,905**

See accompanying notes.

Notes to Consolidated Financial Statements

THE KIYO BANK, LTD. and its consolidated subsidiaries

1. Basis of presenting consolidated financial statements

The Kiyo Bank, Ltd. (the "Bank") and its consolidated subsidiaries maintain their official accounting records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the Japanese Banking Law, in general conformity with the Japanese regulatory authorities and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Bank did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Bank has begun its analysis of possible impairment of fixed assets. The Bank cannot currently estimate the effect of adoption of the new standard, because the Bank has not yet completed its analysis. However, adoption of the new standard could have a material effect on the Bank's financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to U.S.$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Amounts of less than million yen have been round down. As a result, the totals shown in the financial statements do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

(a) Consolidation — The consolidated financial statements include the accounts of the Bank and six (three in 2004) subsidiaries.

All significant inter-company transactions and unrealized profits have been eliminated. One (four in 2004) significant affiliated company is accounted for by the equity method.

Goodwill is expensed in the year that it arises.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Bank acquired control of the respective subsidiaries.

(b) Trading account securities — Trading account securities are stated at fair market value. Gains and losses realized on sale and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Realized gains and losses on sale of such securities are computed using moving average cost.

(c) Securities — The Bank classifies securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible.

Available-for-sale securities with fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no fair market values are stated at moving-average cost or amortized cost.

Securities under repurchase agreements, which are permitted to be sold or pledged without restrictions at March 31, 2005 and 2004 were ¥106,586 million (US$992,517 thousand) and ¥88,148 million, respectively.

(d) Derivatives and hedge accounting — Derivatives are stated at fair value except when derivatives are used for hedging purposes. If derivatives are used for hedging purposes and meet certain hedging criteria, recognition of gains or losses resulting from changes in fair value are deferred until the related losses or gains on the hedged items are recognized.

Effective from the year ended March 31, 2004 the Bank applies the basic provisions of JICPA Industry Audit Committee Report No. 25 to currency swap and foreign exchange swap transactions, which are made for converting funds raised in Japanese yen to funds invested in foreign currencies and other purposes.

The Bank assesses the effectiveness of currency swap and foreign exchange swap transactions executed for offsetting the risk of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

(e) Premises and equipment and depreciation — Premises and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. Buildings acquired after March 31, 1998 are depreciated using the straight-line method. The ranges of useful lives of buildings and equipment are 6 to 50 years and 3 to 20 years, respectively.

Lease assets are depreciated using the straight-line method over the lease term.

Software for internal use is amortized using the straight-line method over its estimated useful life of 5 years.

(f) Reserve for possible loan losses — Based on the self assessment rule, the Bank makes provisions for possible loan losses as follows:

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings or in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the fair value of any underlying collateral or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for which there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition. For other loans the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

The reserves for possible loan losses of consolidated subsidiaries are provided for general claims by the amount deemed necessary based on the rate of losses in the past, and for doubtful claims by the amount deemed uncollectible based on the respective assessments. The Bank and the consolidated subsidiaries wrote off loans of ¥142,022 million (US$1,322,488 thousand) and ¥138,062 million for the years ended March 31, 2005 and 2004, respectively.

(g) Accrued employees' severance and retirement benefits — Under the retirement plans of the Bank and its consolidated subsidiaries, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement.

The Bank has a contributory funded pension plan which covers substantially all employees and a non-contributory funded pension plan.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Bank and its consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000, the date of adopting a new accounting standard, and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") amounted to ¥10,215 million, as adjusted at March 31, 2003, which is being recognized in expenses in equal amounts primarily over 5 years commencing with the year ended March 31, 2001.

Prior service costs are recognized as expenses in the year they arise and actuarial gains and losses are recognized in expenses using the straight-line method over 13 years which is within the average of the estimated remaining service lives commencing with the following period.

As for the other principal assumptions used in calculating projected benefit obligation and plan assets, the discount rate is 2.0%, expected rate of return on plan assets is 2.0% (2.5% in 2004), and projected benefit is allocated to each period by the straight-line method.

(Accounting change)

A revision of the Accounting Standards for Retirement Benefits, effective on March 16, 2005, requires the recognition of the excess of fair value of pension assets over the projected benefit obligation, "unrecognized pension asset," as an asset on the balance sheet. The Bank adopted early the accounting method, effective from the year ended March 31, 2005 and recorded the pension asset.

Based on the return of the substitutional portion of the employee pension fund to the government, the Bank shifted its welfare pension fund to the defined benefit corporation pension (funded plan) in March 2005 under the permission of the Minister of Health, Labour and Welfare on April 1, 2005. As a result, the projected benefit obligation decreased for this plan by ¥1,711 million (US$15,939 thousand) in conformity with "Accounting for Transfer between Different Pension plans" (Application Guide No. 1 issued by the Accounting Standard of Japan).

The effect of the change was to decrease accrued employees' severance and retirement benefits by ¥712 million (US$6,633 thousand), to increase pension assets in other assets by ¥1,571 million (US$14,632 thousand) and to increase income before income taxes and minority interests by ¥2,283 million (US$21,266 thousand).

(h) Foreign currency translation — Receivables and payables in foreign currencies are translated into Japanese yen at the year-end rates.

Hedge accounting is outlined in the above Note 2 (d).

(i) Income taxes — Income taxes comprise corporation, inhabitants and enterprise taxes. From the year ended March 31, 2003, the Bank adopted the consolidated tax reporting system. Deferred tax assets are recorded based on loss carry forwards and the temporary differences between the financial statement and tax bases of assets and liabilities.

In accordance with the law on amendment of local tax laws and so forth, effective April 1, 2004, enterprise tax based on business size went into effect. A domestic corporation with capital in excess of ¥100 million is subject to tax based on business size on the basis of the total amount of valued added, the size of its capital and its taxable income. Based on the new accounting standard on the tax based on business size, the Bank and certain domestic consolidated subsidiaries have accounted for taxes based on business size with respect to the amounts of value added and capital in general and administrative expenses.

(j) Finance leases — Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

(k) Consolidated statements of cash flows — Cash and deposits with the Bank of Japan that are included in the consolidated balance sheets under the caption cash and due from banks are considered to be cash and cash equivalents in the statements of cash flows.

(l) Net income per share — Net income per share is computed by deducting dividends for preferred stock from net income, and dividing the balance by the weighted average number of shares of common stock, excluding treasury shares, outstanding during each fiscal year.

3. Trading account securities and securities

Net valuation gains (losses) arising from trading account securities, for the years ended March 31, 2005 and 2004, amounted to ¥9 million (US$91 thousand) and ¥(11) million, respectively. Market values and unrealized gains (losses) on held-to-maturity debt securities, and available-for-sale securities with available fair market values, as of March 31, 2005 and 2004 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen					
	2005			2004		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Bonds	**¥ 8,019**	**¥ 8,142**	**¥ 123**	¥ 5,914	¥ 5,942	¥ 27
Other	**28,567**	**28,240**	**(326)**	32,729	32,840	111
Total	**¥36,586**	**¥36,383**	**¥(202)**	¥38,644	¥38,783	¥138

	Thousands of U.S. dollars		
	2005		
	Book value	Market value	Unrealized gains (losses)
Bonds	**$ 74,672**	**$ 75,825**	**$ 1,153**
Other	**266,014**	**262,973**	**(3,041)**
Total	**$340,686**	**$338,798**	**$(1,888)**

(b) Available-for-sale securities with available fair market values (Securities listed below include beneficial interests in trusts which are included in "Commercial paper and other debt purchased")

	Millions of yen					
	2005			2004		
	Acquisition cost	Market value	Unrealized gains (losses)	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**¥ 29,132**	**¥ 36,941**	**¥ 7,809**	¥ 32,881	¥ 44,416	¥11,534
Bonds	**493,924**	**497,658**	**3,734**	501,060	499,040	(2,019)
Other	**140,104**	**140,055**	**(49)**	142,925	144,804	1,878
Total	**¥663,161**	**¥674,655**	**¥11,493**	¥676,867	¥688,261	¥11,394

	Thousands of U.S. dollars		
	2005		
	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**$ 271,275**	**$ 343,992**	**$ 72,717**
Bonds	**4,599,354**	**4,634,127**	**34,773**
Other	**1,304,635**	**1,304,172**	**(463)**
Total	**$6,175,264**	**$6,282,291**	**$107,027**

Available-for-sale securities, whose market values have decreased 30% or more of acquisition cost, are considered to have market values that have "greatly declined." In such cases, the market value is recognized as the balance sheet amount and valuation losses are recognized in the current fiscal year. The amounts of impairment loss for these securities for the years ended March 31, 2005 and 2004, included in Other expenses, were ¥233 million (US$2,175 thousand) and ¥238 million, respectively.

(c) The following table summarizes book values of most securities with no available fair values as of March 31, 2005 and 2004:

	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities:	**2005**	2004	**2005**
Non-listed securities	**¥14,593**	¥1,451	**$135,889**

(d) Maturities of available-for-sale securities with maturities and held-to-maturity debt securities are as follows:

	Millions of yen			
	2005			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Bonds	**¥54,772**	**¥240,972**	**¥161,332**	**¥61,680**
Other	**4,242**	**103,121**	**47,057**	**996**
Total	**¥59,014**	**¥344,094**	**¥208,389**	**¥62,676**

	Millions of yen			
	2004			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Bonds	¥49,149	¥289,442	¥105,578	¥60,785
Other	6,518	90,589	72,308	—
Total	¥55,667	¥380,032	¥177,886	¥60,785

	Thousands of U.S. dollars			
	2005			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Bonds	**$510,029**	**$2,243,903**	**$1,502,301**	**$574,359**
Other	**39,502**	**960,252**	**438,193**	**9,279**
Total	**$549,531**	**$3,204,155**	**$1,940,494**	**$583,638**

(e) Total sales of available-for-sale securities in the years ended March 31, 2005 and 2004 amounted to ¥197,695 million (US$1,840,915 thousand) and ¥266,327 million, respectively. The related gains and losses for the year ended March 31, 2005 amounted to ¥5,897 million (US$54,920 thousand) and ¥734 million (US$6,839 thousand), respectively. For the year ended March 31, 2004 the related gains and losses were ¥5,197 million and ¥241 million, respectively.

Securities include ¥353 million (US$3,294 thousand) and ¥503 million of investments in shares of affiliated companies as of March 31, 2005 and 2004, respectively.

4. Loans and bills discounted

Loans and bills discounted at March 31, 2005 and 2004 included the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Loans to borrowers legally bankrupt	**¥ 7,098**	¥ 8,471	**$ 66,098**
Other delinquent loans	**60,358**	63,942	**562,053**
Loans past due over 3 months	**384**	2,299	**3,582**
Restructured loans	**51,714**	57,405	**481,554**
Total	**¥119,555**	¥132,119	**$1,113,287**

Loans to borrowers legally bankrupt are loans to customers who met specific credit risk criteria, such as undergoing bankruptcy proceedings. Interest is not being accrued on these loans.

Other delinquent loans are loans on which the recognition of accrued interest has been suspended in accordance with the results of the self-assessment of asset quality, other than those included in "Loans to borrowers legally bankrupt."

Loans past due over 3 months are loans for which principal or interest payments are past due for three months or more.

Restructured loans are loans for which the Bank has granted certain concessions to borrowers (interest reduced or exempted, payment of interest suspended, repayment of principal delayed, waiver of claims, etc.) to allow borrowers to implement business restructuring or provide them with support. This category of loans excludes loans to borrowers legally bankrupt, other delinquent loans, and loans past due over 3 months.

The Bank applies "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24) and accounts for bills discounted as financial transactions. The face values of bank acceptances, bills of exchange and bills of lading which are permitted to be sold or pledged without restrictions and are acquired at a discount amounted to ¥42,198 million (US$392,948 thousand) and ¥43,394 million at March 31, 2005 and 2004, respectively.

5. Accumulated depreciation for premises and equipment

Accumulated depreciation for premises and equipment at March 31, 2005 and 2004, were ¥36,735 million (US$342,074 thousand) and ¥34,891 million, respectively.

6. Assets pledged as collateral

At March 31, 2005 and 2004, assets pledged as collateral are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Securities	**¥93,255**	¥76,125	**$868,381**

The above pledged assets secure the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deposits	**¥10,340**	¥ 6,181	**$ 96,286**
Call money	**—**	3,758	**—**
Deposits received for securities lending transactions	**30,838**	11,207	**287,161**
Other liabilities	**60**	—	**559**

In addition to the above, securities pledged as collateral for transaction guarantees of foreign exchange or forward exchange at March 31, 2005 and 2004 are ¥80,250 million (US$747,283 thousand) and ¥76,277 million, respectively. Premises and equipment at March 31, 2005 and 2004, include guarantees of ¥1,929 million (US$17,969 thousand) and ¥1,994 million, respectively.

The Bank applies "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry"(JICPA Industry Audit Committee Report No. 24) and accounts for bills rediscounted as financial transactions. The total face amounts of foreign exchanges bought were ¥6 million (US$61 thousand) and ¥4 million at March 31, 2005 and 2004, respectively.

7. Finance leases

Information for non-capitalized finance leases for equipment and other at March 31, 2005 and 2004 were as follows:

(a) Lessee side

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Original lease obligations (including finance charges)	**¥46**	¥3,579	**$437**
Payments remaining:			
Payments due within one year	**¥ 9**	¥ 273	**$ 86**
Payments due after one year	**10**	917	**99**
Total	**¥19**	¥1,190	**$185**

Lease payments for such leases for the years ended March 31, 2005 and 2004 were ¥8 million (US$83 thousand) and ¥600 million, respectively.

(b) Lessor side

	Millions of yen		
	2005		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**¥12,698**	**¥6,614**	**¥6,083**
Other	**899**	**408**	**490**
Total	**¥13,597**	**¥7,023**	**¥6,573**

	Thousands of U.S. dollars		
	2005		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**$118,242**	**$61,597**	**$56,645**
Other	**8,379**	**3,809**	**4,570**
Total	**$126,621**	**$65,406**	**$61,215**

Total lease income for the year ended March 31, 2005 is ¥3,032 million (US$28,235 thousand). Depreciation for the year ended March 31, 2005 amounted to ¥2,589 million (US$24,117 thousand). The allocation of such interest income over the lease term is computed using the effective interest method. Interest income for the year ended March 31, 2005 amounted to ¥432 million (US$4,025 thousand).

Future lease payments receivable excluding interests as of March 31, 2005 was as follows:

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Due within one year	**¥2,295**	**$21,375**
Due after one year	**4,618**	**43,005**
Total	**¥6,913**	**$64,380**

8. Borrowed money

Borrowed money consisted of loans from other financial institutions.

As of March 31, 2005 and 2004, subordinated loans in the amounts of ¥21,500 million (US$200,205 thousand), and ¥29,500 million, respectively, are included in borrowed money. Annual maturities of borrowed money as of March 31, 2005, were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2006	¥ 166	$ 1,553
2007	151	1,406
2008	2,617	24,373
2009	80	749
2010	4,046	37,679
2011 and thereafter	15,000	139,678
Total	¥22,062	$205,438

9. Bonds

On March 25, 2005 the Bank issued 2.0675% unsecured subordinated bonds of ¥10,000 million (US$93,118 thousand), due in March 2015.

The Bank also issued 2.5% unsecured subordinated bonds of ¥2,000 million (US$18,624 thousand) due in April 2012, in March 2002 and ¥1,000 million (US$9,312 thousand), due in April 2014, in January 2004.

10. Other income

For the years ended March 31, 2005 and 2004, other income includes gains on setting up employees benefit trust, amounting to ¥1,583 million (US$14,742 thousand) and ¥2,686 million, respectively and collection of written-off claims, amounting to ¥1,867 million (US$17,389 thousand) and ¥763 million, respectively.

11. Other expenses

For the years ended March 31, 2005 and 2004, other expenses include impairment losses on securities, amounting to ¥396 million (US$3,696 thousand) and ¥686 million, respectively, and losses on loans written off, amounting to ¥10,802 million (US$100,588 thousand) and ¥10,217 million, respectively.

12. Income taxes

The differences between the statutory income tax rates of 40.4% and 41.7% and the Bank's effective income tax rates of 33.3% and 25.2% for the years ended March 31, 2005 and 2004, respectively, were mainly caused by decreases in the valuation allowance for deferred tax assets.

Significant components of the Bank's and consolidated subsidiaries' deferred tax assets and liabilities as March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Deferred tax assets:			
Non-deductible reserve for possible loan losses	**¥38,576**	¥38,075	**$359,223**
Write-down of securities	**12,633**	14,013	**117,640**
Operating loss carried forwards	**3,145**	4,729	**29,292**
Retirement benefits	**6,655**	6,471	**61,974**
Other	**2,827**	2,582	**26,331**
Total deferred tax assets	**63,839**	65,871	**594,460**
Valuation allowance	**(24,887)**	(25,285)	**(231,751)**
Deferred tax liabilities	**(4,409)**	(4,807)	**(41,062)**
Net deferred tax assets	**¥34,541**	¥35,778	**$321,647**

13. Employees' severance and retirement benefits

The liabilities for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2005 and 2004 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Projected benefit obligation	**¥(27,806)**	¥(27,937)	**$(258,928)**
Unrecognized actuarial differences	**(856)**	(2,029)	**(7,975)**
Unrecognized pension assets	**—**	(1,726)	**—**
Fair value of pension assets	**29,181**	27,320	**271,729**
Unrecognized net transition obligation	**—**	2,043	**—**
Prepaid contribution	**1,836**	—	**17,103**
Liability for severance and retirement benefits	**¥ (1,318)**	¥ (2,328)	**$ (12,277)**

Included in the consolidated statements of income for the years ended March 31, 2005 and 2004 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	**2005**
Service costs — benefits earned during the year	**¥1,057**	¥1,023	**$ 9,850**
Interest cost on projected benefit obligation	**558**	664	**5,201**
Expected return on plan assets	**(123)**	(128)	**(1,146)**
Reversal of prior service cost	**(1,711)**	—	**(15,939)**
Amortization of actuarial differences	**(214)**	594	**(1,997)**
Amortization of net transition obligation	**2,043**	2,043	**19,025**
Other	**33**	211	**308**
Severance and retirement benefit expenses	**¥1,643**	¥4,408	**$15,302**

14. Acceptances and guarantees

All contingent liabilities including letters of credit, acceptances, and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Bank's right of indemnity from customers.

15. Shareholders' equity

The Bank has issued 40,864 thousand and 49,165 thousand preferred shares out of the authorized 71,699 thousand and 80,000 thousand preferred shares as of March 31, 2005 and 2004, respectively.

The Bank also has issued 432,811 thousand and 404,590 thousand common shares out of the authorized 820,000 thousand common shares as of March 31, 2005 and 2004, respectively.

For the fiscal year ended March 31, 2005, 8,301 thousand shares of preferred stock were converted into 28,220 thousand shares of common stock at the option of the shareholders.

Under the Commercial Code of Japan, at least 50% of the issue price of new shares, is required to be designated as stated capital. The portion which is to be credited to stated capital is determined by resolution of the Board of Directors.

The maximum amount that the Bank can distribute as dividends is calculated based on the unconsolidated financial statements of the Bank in accordance with the Commercial Code of Japan.

16. Derivative transactions

The Bank enters into various contracts, including swaps, options, forwards and futures covering interest rates, foreign currencies, stocks and bonds in order to meet customers' needs and manage risk of market fluctuations related to the Bank's assets, liabilities and interest rates. The Bank also uses interest futures, bond futures and options, and foreign currency options for limited dealing purposes.

The Bank has established procedures and controls to minimize market and credit risk including limits on transaction levels, hedging exposed positions, reporting to management, and outside review of trading department activities.

At March 31, 2005 and 2004, information on derivative contracts outstanding which are revalued at market value and the gains (losses) recognized in the consolidated statements of income is as follows:

	Millions of yen					
	2005			2004		
	Contract amount	Market value	Recognized gain (loss)	Contract amount	Market value	Recognized gain (loss)
Currency swaps	**¥42,521**	**¥85**	**¥85**	¥2,534	¥ 1	¥ 1
Forward foreign exchanges:						
Sell	**10,202**	**(37)**	**(37)**	4,893	40	40
Buy	**8,527**	**27**	**27**	865	(24)	(24)
Currency options:						
Sell	**—**	**—**	**—**	440	7	(1)
Buy	**—**	**—**	**—**	440	7	1
Total		**¥75**	**¥75**		¥34	¥18

	Thousands of U.S. dollars		
	2005		
	Contract amount	Market value	Recognized gain (loss)
Currency swaps	**$395,958**	**$797**	**$797**
Forward foreign exchanges:			
Sell	**95,009**	**(351)**	**(351)**
Buy	**79,404**	**258**	**258**
Currency options:			
Sell	**—**	**—**	**—**
Buy	**—**	**—**	**—**
Total		**$704**	**$704**

	Millions of yen					
	2005			2004		
	Contract amount	Market value	Recognized gain (loss)	Contract amount	Market value	Recognized gain (loss)
Credit derivative transactions						
Credit default option	**—**	**—**	**—**	—	—	—
Others:						
Sell	**¥2,000**	**¥1**	**¥1**	¥3,420	¥0	¥0

	Thousands of U.S. dollars		
	2005		
	Contract amount	Market value	Recognized gain (loss)
Credit derivative transactions			
Credit default option	**—**	**—**	**—**
Others:			
Sell	**$18,624**	**$15**	**$15**

The transactions are valued at market and valuation gains (losses) are credited or charged to income.
Derivative transactions to which deferred hedge accounting is applied are not included in the above amounts.

17. Segment information

Business segment information is not disclosed, because the Bank and its subsidiaries operate primarily in the banking business.

Geographic segment information is not disclosed, because the Bank has no foreign subsidiaries or branches.

Operating income from international operations for 2004 is as follows:

	Millions of yen
	2004
Operating income from international operations in Japan (a)	¥ 8,579
Consolidated operating income (b)	68,071
(a)/(b)	12.6%

Operating income from international operations information for 2005 is not disclosed, because operating income from international operations is less than 10% of consolidated operating income.

18. Commitment lines

Loan agreements and commitment line agreements are agreements, which oblige the Bank to lend funds up to a certain limit, agreed in advance. The Bank makes the loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreements. The unused commitment balance relating to these loan agreements at March 31, 2005 and 2004 amounted to ¥325,439 million (US$3,030,445 thousand) and ¥263,118 million, respectively, and the amounts of unused commitments, whose original contract terms are within one year or unconditionally cancelable at any time, were ¥321,226 million (US$2,991,216 thousand) and ¥260,148 million at March 31, 2005 and 2004, respectively.

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flow. Conditions are included in certain loan agreements which allow the Bank to decline the request for a loan draw down or to reduce the agreed limit amount where there is due cause to do so, such as when there is a change in financial condition, or when it is necessary to do so in order to protect the Bank's credit. The Bank takes various measures to protect its credit. Such measures include having the obligor pledge collateral to the Bank in the form of real estate, securities etc. on signing the loan agreements or in accordance with the Bank's established internal procedures confirming the obligor's financial condition etc. at regular half-yearly intervals.

19. Subsequent events

At the general stockholders meeting held on June 29, 2005, the Bank's stockholders approved the following appropriations of retained earnings as of March 31, 2005.

	Millions of yen	Thousands of U.S. dollars
	2005	**2005**
Dividends:		
Preferred shares (¥7 per share)	**¥286**	**$2,664**
Common shares (¥1.50 per share)	**¥648**	**$6,038**

Independent Auditors' Report

To the Board of Directors of The Kiyo Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Kiyo Bank, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income and retained earnings and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Kiyo Bank, Ltd. and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
As discussed in Note 2 (g) to the consolidated financial statements, effective from the year ended March 31, 2005, The Bank adopted early the new method of accounting for recognizing pension assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Osaka, Japan
June 29, 2005