

MINATO BANK 2006

ANNUAL REPORT

For the year ended March 31, 2006



MINATO BANK

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CORPORATE DATA

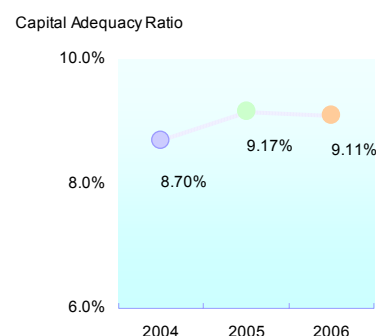
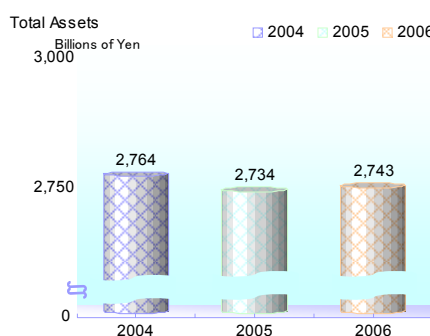
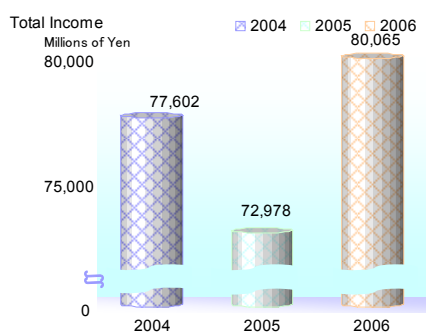
| | |
|-------------------------|---|
| Company Name: | The Minato Bank, Ltd. |
| Head Office: | 1-1, Sannomiya-cho 2-chome, Chuo-ku, Kobe, Hyogo, 651-0193, Japan Phone: 078-331-8141 URL: www.minatobk.co.jp |
| Authorized Shares: | 1,000 million shares |
| Outstanding Shares: | 382,940 thousand shares |
| Stated Capital: | 24,908 million yen |
| Number of Stockholders: | 8,786 |
| Date of Incorporation: | September 1949 (Company name was changed to The Minato Bank, Ltd. in April 1999) |
| Domestic Network: | 108 locations (Hyogo-103, Osaka-4, Tokyo-1) |
| Number of Employees: | 1,764 |
| Stock Listings: | The 1st section of Tokyo Stock Exchange and Osaka Securities Exchange |
| Credit Rating: | JCR A- (as of end of October 2005) |

CONSOLIDATED FINANCIAL HIGHLIGHTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2006, 2005 and 2004

| | Millions of Yen | | | Thousands of U.S. Dollars (Note) |
|---|-----------------|-------------|-------------|--|
| | 2006 | 2005 | 2004 | 2006 |
| FOR THE YEAR: | | | | |
| Total income | ¥ 80,065 | ¥ 72,978 | ¥ 77,602 | \$ 681,520 |
| Total expenses | 70,193 | 65,968 | 72,601 | 597,489 |
| Income before Income taxes and minority interests | 9,872 | 7,010 | 5,541 | 84,031 |
| Net income | 5,558 | 4,018 | 3,099 | 47,310 |
| AT YEAR-END: | | | | |
| Total assets | ¥ 2,742,960 | ¥ 2,733,599 | ¥ 2,764,140 | \$ 23,348,315 |
| Deposits | 2,505,975 | 2,522,411 | 2,547,493 | 21,331,078 |
| Loans and bills discounted | 2,098,926 | 2,040,827 | 2,017,509 | 17,866,241 |
| Investment securities | 401,320 | 499,582 | 545,950 | 3,416,071 |
| Minority interests | 923 | 278 | 144 | 7,857 |
| Common stock | 24,908 | 24,908 | 24,908 | 212,019 |
| Total stockholders' equity | 87,260 | 85,529 | 78,118 | 742,765 |
| <hr/> | | | | |
| Capital adequacy ratio | 9.11% | 9.17% | 8.70% | |

Note: U.S. dollar amounts represent translation of Japanese Yen at the rate of ¥117.48 to US\$1.00 on March 31, 2006, the final business day of term.



ATTENTION REGARDING FORWARD-LOOKING STATEMENTS

The reader is advised that this report contains forward-looking statements, which are not statements of historical fact but constitute estimates or projections based on facts known to the Bank's management as of the time of writing. Actual results may therefore differ substantially from such statements.

Committed to Being a “Valuable and Indispensable Bank for the Region.”



Nobuhiro Yabumoto, President

Prior Year's Results

We recorded our highest net income of ¥4,700 million for the year ended March 31, 2006, and paid subsequent annual dividends of ¥4 per share, for an increase of ¥1 per share. We could largely achieve this performance as projected, and appreciate each of our customers and shareholders who have continued to provide us with the same support and encouragement as before. We will pay more emphasis to the reform and enhancement of the Company's profit structure and try to push up earnings and dividend levels next year.

Supported by Customers

In the personal customer category, we sustained momentum with growing sales in terms of custody assets (comprising and defined as investment trusts, personal pension-type insurance, public bonds and foreign currency deposits). Particularly, our investment trust sales ranked close to the 10th position among regional banks in Japan for the year ended March 31, 2006. We also steadily boosted the outstanding balance of housing loans.

In the corporate customer category, we entered into transactions with over 2,000 new customers, supported by referrals by existing customers as well as our efforts. This led to the expansion of our customer base and loaned amounts.

To be acknowledged as a “Valuable and Indispensable Bank for the Region”

The Minato Bank, Ltd. is a regional financial institution with the largest network of branches in Hyogo Prefecture, Japan. Taking advantage of this network, we make constant efforts to take care of customer requests with a conscientious and heartfelt attitude, centering on “face-to-face” communications with each individual and corporate customer. It has been seven years since our bank commenced its operations under the new name “Minato Bank”, and we feel proud that the Minato Bank has fortunately gained a certain level of recognition. We will work much harder with the collective force of management and employees from now on, with the aim of making Minato Bank regarded as a “Valuable and Indispensable Bank for the Region” with an established presence.

July 2006

A handwritten signature in black ink that reads "N. Yabumoto". The signature is written in a cursive, flowing style.

Nobuhiro Yabumoto, President

Mid-term Management Plan “Challenge 21”

Basic Policy

“Aggressive Challenges to Innovation”

–Management Base Reinforcement and Profitability Enhancement

Key Indicators Improvement

Period: April 2005 to March 2008 (3 years)

| Major Operating Indicators (nonconsolidated, excluding capital adequacy ratio) | FY 2005 (Actual) | FY 2006 (Actual) | FY 2008 (Projected) |
|---|---------------------|---------------------|------------------------|
| Core banking profit ^{*1} (¥ billions) | 21.5 | 21.5 | 23.0 |
| Net income (¥ billions) | 3.3 | 4.7 | 6.0 |
| Overhead Ratio (OHR) ^{*2} (%) | 59 | 59 | 57 |
| Capital adequacy ratio ^{*3} (consolidated, %) | 9.17 | 9.11 | 9.7 |
| Outstanding housing loans (¥ billions) | 607.5 | 646.4 | 700.0 |
| Individual custody assets ^{*4} (¥ billions) | 300.1 | 417.9 | 600.0 |

*1 Core banking profit is obtained after adjusting banking profit for provision for general reserve for possible loan losses and gains (losses) on bonds.

*2 OHR is obtained by dividing expenses by core gross banking profits (calculated by gross banking profits less gains (losses) on bonds).

*3 Capital strategies and policies are not considered in the calculation of capital adequacy ratio. Capital adequacy ratio is calculated on a consolidated basis using the formulas based on the domestic standard prescribed in the "Matter concerning determination of capital adequacy ratio standards in compliance with the provisions of Article 14-2 of the Banking Law" (Finance Ministry Announcement No.55 issued in 1993).

*4 Total of investment trusts, personal pension-type insurance, public bonds and foreign currency deposits.

INITIATIVES AT THE BANK

● Basic Concept for Corporate Governance

Reinforcing and enhancing corporate governance is defined as a critical management issue at the Bank and each group company. We adhere to the "Management Philosophy" and "Principles of Conduct" described below,

and strive to pursue sound management and contribute to the sound and healthy development of regional communities.

Management
Philosophy

The Bank Exists and Prospers Together with the People in the Region.

We work for the region through the provision of financial and information services.

Principles of Conduct
(Corporate Ethics)

Awareness of the Public Nature and Social Responsibility of our Bank

A bank should be aware of its public role, execute sound and healthy operations according to principles of self-responsibility, and contribute to the steady development of the regional economy and society through the fulfillment of its social commitments.

Fully Customer-Focused

We are always conscious of our "customer-first" policy, and attend to our customers with an honest, faithful and kind spirit, listening to customer requests with a sincere attitude and providing precise, prompt and customer-satisfied financial services.

Fair and Faithful Conduct

We abide by laws, regulations and their spirit thereof and constantly behave in a fair and faithful manner so as to not deviate from social norms.

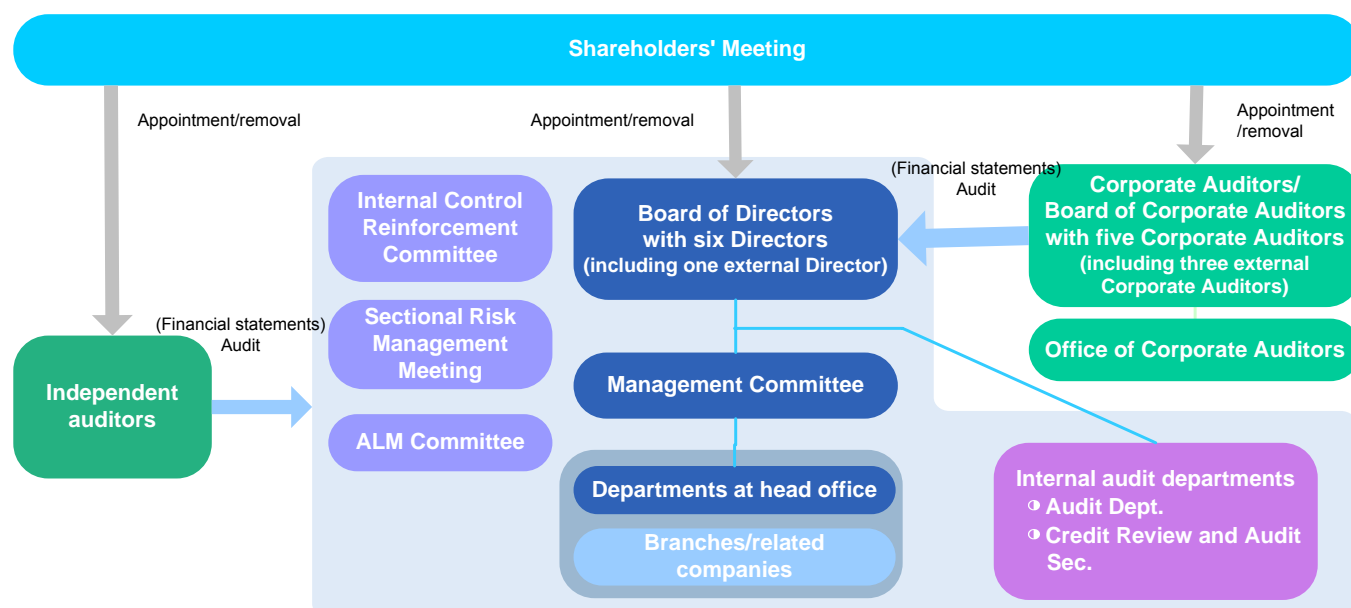
Contributing to Harmony with Regional Communities

The Bank's principles of conduct are to make contributions for local residents and remove anti-social or anti-ethical conduct from the course of our operations with the aim of becoming closer to being an ideal "bona fide corporate citizen". To realize this, we endeavor to hold close communications with society and ensure the Bank executes corporate activities in line with social common sense and expectations.

Humanity Respect

We are committed to developing a corporate culture which ensures respect for the open and affluent minds of our employees, abounding with power and energies and feelings of value for their employment at the Bank.

Structure Chart



INITIATIVES AT THE BANK

● Compliance Structure

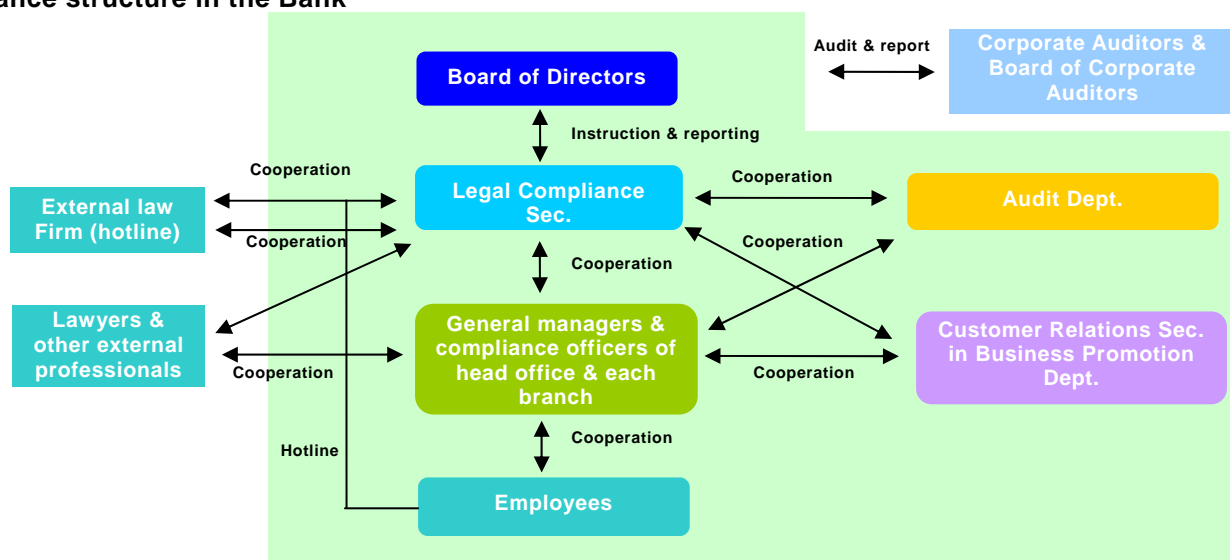
The Bank's Legal Compliance Section is the unit responsible for managing compliance related matters. The Legal Compliance Section is responsible for urging and educating officers and employees to comply with laws, regulations and social norms required to be abided by, in close cooperation with the Audit Department and the Customer Relations Section in the Business Promotion Department, with the support of lawyers and other external professionals. Its highest priority is the prevention of the occurrence of illegal conduct. General managers of the head office and each branch are fully responsible to manage and execute assigned operations in compliance with laws, regulations and social norms.

Also, a compliance officer is appointed for each of the

above locations, and is required to prevent anti-compliance conduct and detecting the occurrence of such conduct in its early stages.

All officers and employees are required to recognize the importance of legal compliance and behaving in the most appropriate manner with constant awareness of it in the course of day to day operations. If suspected anti-compliance conduct is detected, such conduct needs to be reported to both the general manager and compliance officer of each location and should also be reported directly to the Legal Compliance Section and/or the external law firm, a member of the Legal Compliance Section via hotline, as necessary.

Compliance structure in the Bank



● Fulfilling Compliance at the Bank

The Bank requires all officers and employees to recognize the public mission and social responsibilities to be fulfilled by a bank and to behave in line with the highest moral standards. To do that, we must comply with social norms as well as laws and regulations and behave with a fair attitude according to a determined sense of ethics. The Bank has established concrete regulations, described below, under which its officers and employees are encouraged to fulfill the above requirements: The Code of Conduct provides principles and guidance for all officers and employees to comply with; and the Compliance Guide which comprehensively describes overall compliance related matters (structure, system, roles, procedures, etc.), and the Compliance Manual which is compiled in a case study style and usable as a guidebook.

These three items are compiled into a booklet called "Compliance File", and the booklet has been provided to each officer and employee to achieve complete compliance.

Principles of Conduct at the Bank

1. The public-nature of a bank and awareness of its social responsibilities
2. Fully customer-focused
3. Fair and faithful conduct
4. Contribution for and harmony with regional communities
5. Respect for humanity

Guidance of Conduct for Officers and Employees

- Compliance with laws, regulations and rules
- Prohibition of unfair competition
- Duty of confidentiality
- Prohibition of illegal use of information
- Accountability of products and services
- Internal reporting requirements

INITIATIVES AT THE BANK

● Risk Management Structure

Banks encounter more diversified and complicated risks in line with expanding scope of operations and innovation of financial technologies. Thus, it is of utmost importance to accurately monitor and properly control these risks to retain and reinforce their sound management.

The establishment of a risk management structure is defined as one of the most critical management issues at the Bank. We assign departments or sections in charge of risk management by risk type and monitor a range of risks

in an appropriate manner to comprehensively develop and strengthen our risk management and control structure.

As an internal audit organization operating independently from other departments, the Audit Department reviews and checks the status of business operations and risk management at the head office, branches and related companies. We are also subject to an external audit by an independent audit firm.

Credit Risk Management

Credit risk is the possibility of a loss (diminution in or absence of value of assets including loans receivable) arising from a change in the credit status of borrowers, such as deterioration in their financial condition.

In compliance with the “Credit Policies” that explicitly state our lending operation rules, we promote healthy and proper business operations based on our principles of public-nature, safety, profitability, growth potential and liquidity.

We quantitatively grasp and manage credit risks for our borrowing customers by applying “Credit Ratings” and “Self-Assessments” procedures. We utilize the “continuous monitoring performed each time the credit conditions of our customers change” to react promptly and properly to signs of asset deterioration. We also work proactively to support corporate revitalizations using a specialized group

established in the Credit Department. We promote the improvement of the accuracy of “Credit Ratings” and “Self-Assessments” and develop system infrastructures to strengthen credit risk management.

Retaining soundness of our asset quality, we have the Credit Review and Audit Section in the Audit Department operating independently from credit related departments, and establish a system to check the accuracy of credit ratings and self-assessments as well as conditions of credit operations.

Furthermore, we place emphasis on personnel training. We develop the skills of head office personnel, and provide branch personnel with trainee programs and group training held at the head office and on-site guidance provided by credit related departments.

Market and Liquidity Risk Management

Market risk is the possibility of loss arising from fluctuations in values of financial assets and liabilities in line with fluctuations in interest rates, foreign exchange rates and stock prices.

We segregate front, middle and back office operations systematically to secure a mutual check and balance function. We determine market risk limits and set risk capital^{*1} limits, loss limits, VaR^{*2} limits and BPV^{*3} limits by transaction type. Each operating department makes efforts to increase profits within these limits.

Liquidity risk is the possibility of encountering a cash-flow problem or extraordinarily high interest rates in financing due to mismatching of periods between financing and fund investments or unexpected cash outflows.

We place the highest priority on cash-flow security, and periodically set and maintain funding gap^{*4} limits. We developed “Liquidity Crisis Measures Manual” that prescribes emergency action plans. We take all possible measures to ensure that our operating transactions are not interfered with in the event of market confusion, by carrying sufficient assets easily convertible to cash, such as government bonds.

The Asset and Liability Management (ALM) Committee holds monthly meetings to prepare forecasts for trends of business climate, interest rates, stock market prices and foreign exchange rates, and provides reporting and analysis

of profit and risk conditions. The Committee discusses and considers market risk controls, financing and fund operations to develop an asset and liability structure that ensures stable profitability.

*1 Risk capital

A method of allocating certain portions of capital to each transaction type to regulate probable maximum loss estimates, valuation loss currently existing and realized loss during the fiscal period within the scope of our management resources.

*2 Value at Risk (VaR)

A method of calculating a probable maximum potential loss statistically from existing assets and liabilities based on historical data.

*3 Basis Point Value (BPV)

A method of analyzing present value fluctuations of existing assets and liabilities compared to changes in interest rates.

*4 Funding gap

An estimated amount of future financing requirement arising from the mismatch of periods between financing and fund investments.

INITIATIVES AT THE BANK

Processing and Systems Risk Management

Processing risk is the possibility of loss arising from negligence of accurate processing, accidents or fraud.

We work to accelerate processing speeds, and improve the level of processing ability by providing group training and on-site guidance by the Operations Planning Department. In addition, we try to trim down processing work and centralize it at the head office. Moreover, the Audit Department periodically conducts on-site audits as well as self-inspections by departments of the head office and branches to prevent accidents and fraud from occurring.

Systems risk is the possibility of loss arising from failure or malfunction, unauthorized use or data leakage of computer systems.

Due to the significance of these risks, we recognize it is our social responsibility to maintain stable operations of computer systems and proper controls over customer information. We develop system risk management policies, such as Security Policies, and practical management standards, and operate and manage our systems strictly complying with them. To prepare for unforeseeable circumstances, we developed contingency plans and provide simulation trainings as necessary.

We provide internal and external audits for periodic system valuation and upgrades, and promote to achieve more secure operations of computer systems and strict data controls.

Reputation Risk Management

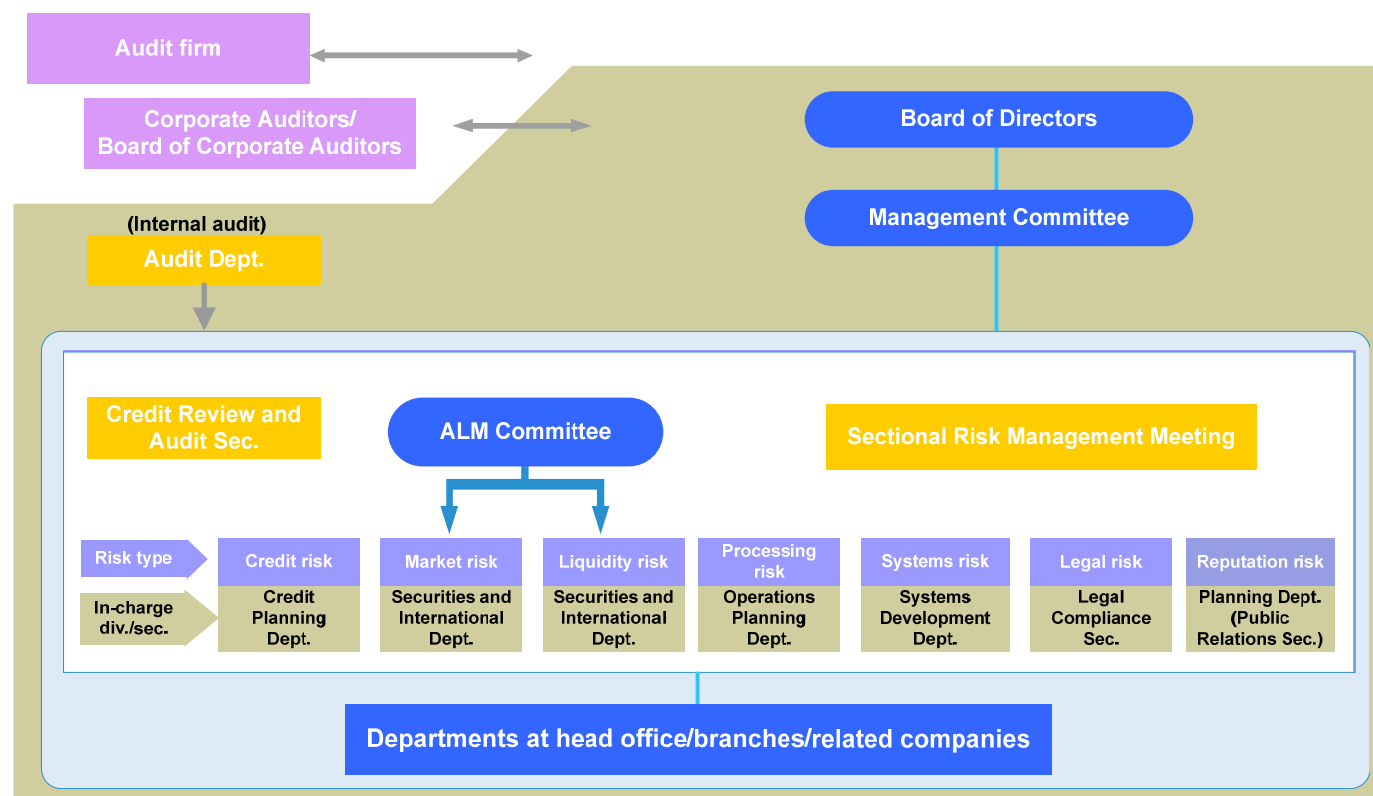
Reputation risk is the possibility of loss arising from damaged reputation arising from rumors of market players, media publicity, accidents or troubles.

We make efforts to earn understanding and trust from regional communities, customers and stockholders through active promotion of public and investor relations. We also disclose information in a timely and appropriate manner to

increase transparency of our management to restrain reputation risk.

We work to collect and monitor information released from mass media and rumors that could lead to reputation risk exposure, and maintain reporting systems to react promptly and accurately to unexpected situations.

Reputation Management Structure

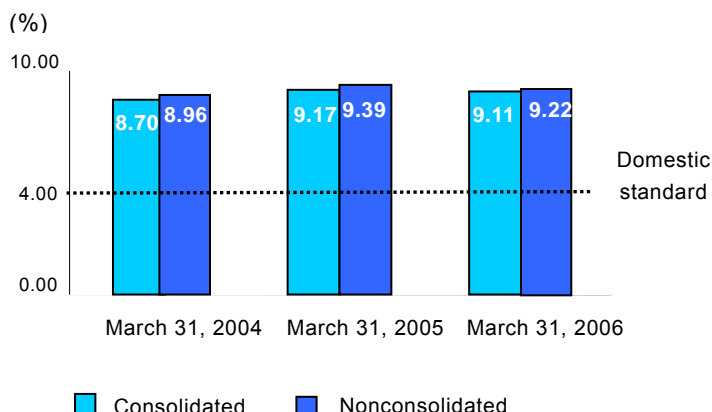


INITIATIVES AT THE BANK

■ Capital Adequacy Ratio (based on the domestic standard)

Capital adequacy ratios are calculated on a consolidated and nonconsolidated basis using formulas based on domestic standards prescribed in the "Matter concerning determination of capital adequacy ratio standards in compliance with the provisions of Article 14-2 of the Banking Law" (Finance Ministry Announcement No.55 issued in 1993).

Capital adequacy ratios were 9.22% (nonconsolidated) and 9.11% (consolidated) due to increases in risk assets, mainly an increase in loans and bills discounted. We maintained a satisfactory level over the 4 percent capital adequacy ratio required by the domestic standard.



■ Consolidated Capital Adequacy Ratio (domestic standard)

(In million yen)

| | March 31, 2005 | March 31, 2006 |
|--|----------------|----------------|
| (Consolidated) | (Domestic) | (Domestic) |
| Total capital adequacy ratios | 9.17% | 9.11% |
| Tier I capital | ¥79,600 | ¥84,227 |
| Tier II capital | 61,989 | 61,221 |
| General allowance for possible loan losses | 11,989 | 11,221 |
| Qualifying subordinated loans | 50,000 | 50,000 |
| Total capital | ¥139,070 | ¥144,103 |
| Risk-weighted assets | ¥1,515,120 | ¥1,580,148 |

■ Risk-Monitored Loans (Consolidated)

(In million yen)

| | March 31, 2005 | March 31, 2006 | Increase / (decrease) |
|--|----------------|----------------|-----------------------|
| Bankrupt loans | ¥8,047 | ¥5,935 | (¥2,112) |
| Non-accrual loans | 65,193 | 47,517 | (17,676) |
| Past due loans (3 months or longer) | 416 | 274 | (142) |
| Restructured loans | 37,201 | 28,746 | (8,455) |
| Total | ¥110,859 | ¥82,474 | (¥28,385) |
| Total risk-monitored loans to the total loans and bills discounted | 5.43% | 3.92% | (1.51%) |

● Progress in Locally-oriented Financial Promotion Plans

Our bank develops and promotes the "Locally-oriented financial promotion plan" as a part of our mid-term management plan "Challenge 21" (April 2005 through March 2008). Major milestones from April 2005 through March 2006 were as follows:

1. Revitalization of businesses and facilitation of small and medium enterprises (SME) finance

- Established an open investment fund "Minato Genki Fund II." Selected 13 companies for the fund investments (among 28 applicants).
- Offered Japan's first finance secured by trademarks of professional sport teams.
- As a result of our support for the better management of our customers, 55 companies upgraded their rank (April 2005 through March 2006).

2. Strengthening of business management capacity

- Introduction of "New credit rating and self-assessment system" to reinforce our risk management structure.
- Strengthened cost-profit management by section, customer and branch with application of cost accounting system to increase our profitability.
- Improved asset management consulting services with over-the-counter sales support system "Minato Pro (Professionals)" installed at all branches.

3. More convenience for customers in the region

- Conducted the "10,000 customers' satisfaction survey" to increase customer satisfaction.
- Established "consulting plazas" and "housing loan plazas".
- ATM tie-ups with Postal Savings Services of Japan Post and Seven Bank, Ltd.

LOCALLY-ORIENTED ACTIVITIES

● M&A Intermediation

Conclusion of M&A Deals

We have closed three M&A deals in FY2005, and a total of 18 deals since the commencement of M&A services. Currently, we have 15 cases undergoing specific M&A matching projects.

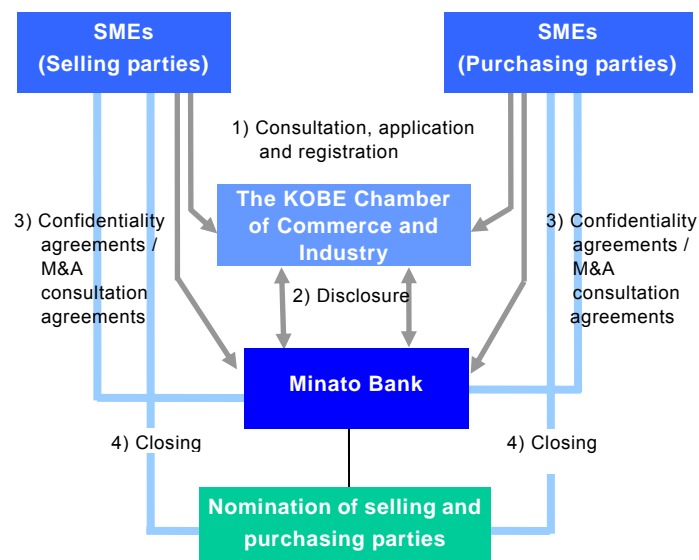
M&A Information Network

We formed business tie-ups with The Osaka Chamber of Commerce and Industry, The KOBE Chamber of Commerce and Industry, Sumitomo Mitsui Banking Corporation, Development Bank of Japan, ORIX Corporation, RECOF Corporation, and Japan M&A Center Co., Ltd. to enhance M&A information networks.

■ Hyogo-Style M&A Support System

We promote M&A services for SMEs in cooperation with The KOBE Chamber of Commerce and Industry. We collect information of local business entities in the Hyogo prefecture including members of The KOBE Chamber of Commerce and Industry. Four M&A deals have been closed under the system at present.

Hyogo-Style M&A Support System



● Venture Enterprise Support

We offer financial supports through extending loans and making investments to venture enterprises (VEs) seeking growth with new technologies and business models.

We assist VE fund procurement with VE finance featuring a method which requires no conventional collateral, but

security through intellectual property rights or share warrants, etc.

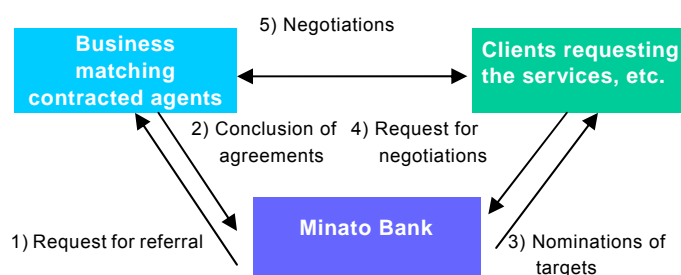
We also provide investment finance through our group company, Minato Capital Co., Ltd.

● Business Matching Services

In May 2006, we started offering business matching or referral services for fees; to introduce appropriate suppliers or entities to business clients that need products, services, technology, manpower, etc. We have concluded 15 agreements with partners including management consultants, securities companies, telegraph and telephone companies.

As such, utilizing the Bank's network, we provide SME customers with effective information leading to exact and prompt solutions for business matters.

Business matching services (for fees)



LOCALLY-ORIENTED ACTIVITIES

● Co-sponsorship of the Kobe Luminarie

In December 2005, we co-sponsored the 11th KOBE Luminarie, one of the most notable winter events in Kobe, as a regional financial institution following previous years.

Kobe Luminarie™

Luminarie was first held in December 1995 to commemorate the victims of the Great Hanshin-Awaji Earthquake disaster which occurred that year. Luminarie extended the hopes and dreams for the recovery and revitalization of communities, and gave the people of Kobe great courage and deep compassion.



C Valerio Festi / I&F Inc. / Kobe Luminarie O.C.

● The Minatobank Foundation for Culture – Cultural Supports for the Region



This foundation, established in October 1993, aims to contribute to regional communities through promotion of various cultural and sport programs in Hyogo prefecture. It has supported art exhibitions, music concerts, theatrical performances, and children's baseball workshops. (<http://www.minatofc.or.jp/>)

● Hyogo Economic Research Institute – Think Tank in the Region

This institute is established as a think tank in the region to offer range of information to people in the region, including economic and industrial trends and regional issues. It also hosts economy lectures, dispatches instructors to universities, institutes and enterprises in the region, and undertakes research works for governments and enterprises. (<http://www.heri.or.jp/>)

● Minato Bank Scholarship Foundation – Scholarship Program

This foundation provides financial-aid to university students to foster future talents contributing to our society. Scholarships have been granted to approximately 850 students up to this date.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Balance Sheets

The year-end balance of deposits, including negotiable certificates of deposit, stood at ¥2,505,975 million (US\$21,331 million), decrease of ¥16,436 million over the previous term-end. This decline was mainly due to the shift to asset management products, such as an investment trust used for diversification of asset management needs.

Meanwhile, the balance of loans and bills discounted increased ¥58,099 million, to ¥2,098,926 million (US\$17,866

million). This increase was attributable to increase of the loaned money for companies by the recovery of corporate earnings and increase of housing loans.

And investment securities decreased ¥98,262 million, to ¥401,320 million (US\$3,416 million). This is because the amount of national bond employment was compressed in order to avoid an interest rate rise risk.

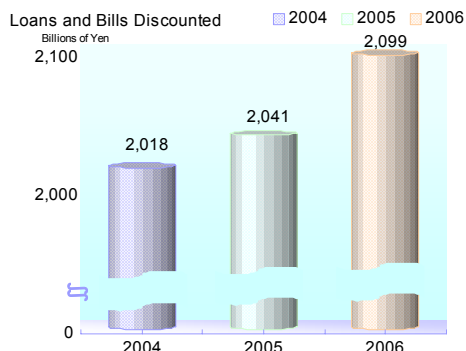
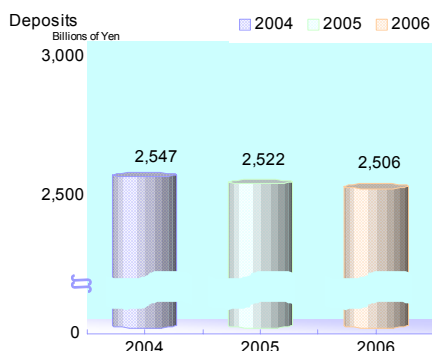
Statements of Income

Interest on loans and discounts for the year decreased ¥2,289 million year-on-year to ¥43,918 million (US\$374 million). This decline was mainly due to the decrease in income of the interest on loans and discount by the interest fall accompanying competition intensification with other banks, although the loaned money started to increase against the background of recovery of corporate earnings.

Meanwhile, total income for the year increased ¥7,087 million year-on-year to ¥80,065 million (US\$682 million). This is result of the increase of fees and commotions which is due to the

commission income by sale of asset management products, such as an investment trust, and the proposal sales corresponding to company needs, and the increase of other operating income which is contains the gains on sales of investment securities, such as domestic bonds.

Net income increased ¥1,540 million year-on-year to ¥5,558 million (US\$47 million). This increase was mainly due to the decrease or retirements benefit costs, although impairment losses on long-lived assets of ¥1,985 million (US\$17 million) were recognized.



Cash Flows

Cash and cash equivalents at year-end stood at ¥84,192 million (US\$717 million), up ¥25,773 million from a year earlier.

■ Cash flow from operating activities

Net cash used by operating activities amounted to ¥63,723 million (US\$542 million), an increase of ¥22,948 million over the previous fiscal year. This is primarily attributable to an increase in loans.

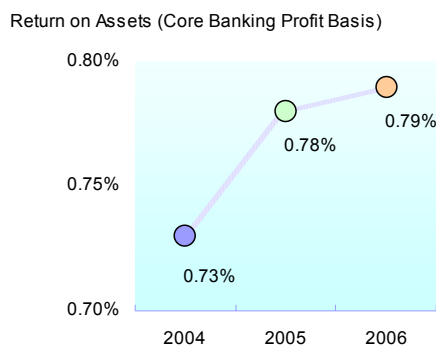
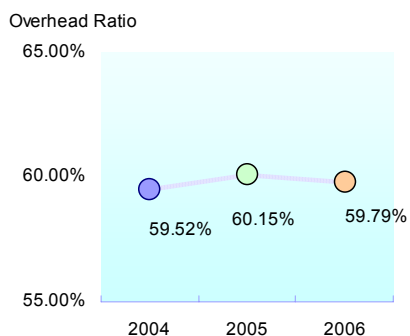
■ Cash flow from investing activities

Net cash provided by investing activities totaled ¥90,145

million (US\$767 million), up ¥42,055 million from the previous fiscal year. This resulted primarily from an increase in proceeds from sales of investment securities.

■ Cash flow from financing activities

Net cash used in financing activities came to ¥647 million (US\$6 million), down ¥12,106 million. The significant year-on-year decline resulted principally from decrease of repayments of subordinated loans.



FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED BALANCE SHEETS

The Minato Bank, Ltd. and Subsidiaries
As of March 31, 2006 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|--------------------|--------------------|--|
| | 2006 | 2005 | 2006 |
| ASSETS: | | | |
| Cash and due from banks (Notes 3 and 10) | ¥ 84,415 | ¥ 58,600 | \$ 718,548 |
| Call loans and bills bought | 13,172 | 11,906 | 112,121 |
| Debt purchased | 5,089 | 6,155 | 43,318 |
| Trading securities (Note 24) | 385 | 225 | 3,277 |
| Investment securities (Notes 4, 10 and 24) | 401,320 | 499,582 | 3,416,071 |
| Loans and bills discounted (Notes 5 and 11) | 2,098,926 | 2,040,827 | 17,866,241 |
| Foreign exchanges (Note 6) | 5,010 | 5,937 | 42,645 |
| Other assets (Notes 7 and 10) | 35,761 | 23,136 | 304,401 |
| Premises and equipment, net (Notes 8, 9 and 10) | 51,339 | 53,431 | 437,002 |
| Deferred tax assets (Note 23) | 21,146 | 23,103 | 179,997 |
| Customers' liabilities for acceptances and guarantees (Note 15) | 52,750 | 39,725 | 449,013 |
| Allowance for possible loan losses | (26,353) | (29,028) | (224,319) |
| TOTAL ASSETS | ¥ 2,742,960 | ¥ 2,733,599 | \$ 23,348,315 |
| LIABILITIES: | | | |
| Deposits (Notes 10 and 12) | ¥ 2,505,975 | ¥ 2,522,411 | \$ 21,331,078 |
| Borrowed money (Notes 13 and 26) | 52,895 | 52,828 | 450,247 |
| Foreign exchanges (Note 6) | 57 | 33 | 485 |
| Other liabilities (Notes 10 and 14) | 36,000 | 25,851 | 306,435 |
| Liability for employees' bonuses | 907 | 876 | 7,720 |
| Liability for employees' retirement benefits (Note 22) | 6,193 | 6,069 | 52,715 |
| Acceptances and guarantees (Note 15) | 52,750 | 39,725 | 449,013 |
| Total liabilities | 2,654,777 | 2,647,793 | 22,597,693 |
| MINORITY INTERESTS | 923 | 277 | 7,857 |
| STOCKHOLDERS' EQUITY (Note 16): | | | |
| Common stock, authorized, 900,000,000 shares; issued, 382,940,977 shares | 24,908 | 24,908 | 212,019 |
| Capital surplus | 46,961 | 46,961 | 399,736 |
| Retained earnings | 13,125 | 8,715 | 111,721 |
| Net unrealized gains on available-for-sale securities, net of taxes | 2,366 | 5,030 | 20,140 |
| Treasury stock - at cost 361,322 shares and 316,167 shares as of March 31, 2006 and 2005, respectively | (100) | (85) | (851) |
| Total stockholders' equity | 87,260 | 85,529 | 742,765 |
| TOTAL LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY | ¥ 2,742,960 | ¥ 2,733,599 | \$ 23,348,315 |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

The Minato Bank, Ltd. and Subsidiaries

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Years Ended March 31, 2006 and 2005

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------------|--|
| | 2006 | 2005 | 2006 |
| INCOME: | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 43,918 | ¥ 46,207 | \$ 373,834 |
| Interest and dividends on securities | 3,974 | 4,133 | 33,827 |
| Other interest income | 668 | 589 | 5,686 |
| Fees and commissions | 14,519 | 12,382 | 123,587 |
| Other operating income (Note 17) | 9,609 | 6,239 | 81,792 |
| Other income (Note 18) | 7,377 | 3,428 | 62,794 |
| Total income | 80,065 | 72,978 | 681,520 |
| EXPENSES: | | | |
| Interest expenses: | | | |
| Interest on deposits | 1,355 | 1,330 | 11,534 |
| Interest on borrowings and rediscounts | 805 | 783 | 6,852 |
| Other interest expenses | 995 | 1,272 | 8,470 |
| Fees and commissions | 3,070 | 3,017 | 26,132 |
| Other operating expenses (Note 19) | 8,488 | 5,664 | 72,251 |
| General and administrative expenses | 33,811 | 33,536 | 287,802 |
| Other expenses (Notes 9 and 20) | 21,669 | 20,366 | 184,448 |
| Total expenses | 70,193 | 65,968 | 597,489 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 9,872 | 7,010 | 84,031 |
| INCOME TAXES (Note 23): | | | |
| Current | 460 | 284 | 3,915 |
| Deferred | 3,755 | 2,607 | 31,963 |
| MINORITY INTERESTS | 99 | 101 | 843 |
| NET INCOME | ¥ 5,558 | ¥ 4,018 | \$ 47,310 |

| | Yen | | U.S. Dollars |
|---|---------|---------|--------------|
| | 2006 | 2005 | 2006 |
| PER SHARE INFORMATION (Note 2.s) | | | |
| Basic net income | ¥ 14.53 | ¥ 10.49 | \$ 0.124 |
| Cash dividends applicable to the year | 4.00 | 3.00 | 0.034 |

See Notes to Consolidated Financial Statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2006 and 2005

| | Thousands | | Millions of Yen | | | | |
|--|--|-----------------|--------------------|----------------------|--|-------------------|--|
| | Outstanding Number of Shares of Common Stock | Common Stock | Capital Surplus | Retained Earnings | Net Unrealized Gains on Available-for- Sale Securities | Treasury Stock | |
| BALANCE AT APRIL 1, 2004 | 382,662 | ¥ 24,908 | ¥ 46,961 | ¥ 5,462 | ¥ 863 | ¥ (77) | |
| Net income | | | | 4,018 | | | |
| Cash dividends, ¥2.00 per share | | | | (765) | | | |
| Purchases of treasury stock | (37) | | | | | (8) | |
| Net increase in unrealized gains on available-for-sale securities | | | | | 4,167 | | |
| BALANCE AT MARCH 31, 2005 | 382,625 | 24,908 | 46,961 | 8,715 | 5,030 | (85) | |
| Net income | | | | 5,558 | | | |
| Cash dividends, ¥3.00 per share | | | | (1,148) | | | |
| Purchases of treasury stock | (45) | | | | | (15) | |
| Net decrease in unrealized gains on available-for-sale securities | | | | | (2,664) | | |
| BALANCE AT MARCH 31, 2006 | 382,580 | ¥ 24,908 | ¥ 46,961 | ¥ 13,125 | ¥ 2,366 | ¥ (100) | |

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|--|------------------------------------|--------------------|----------------------|--|-------------------|--|
| | Common Stock | Capital Surplus | Retained Earnings | Net Unrealized Gains on Available-for- Sale Securities | Treasury Stock | |
| BALANCE AT MARCH 31, 2005 | \$ 212,019 | \$ 399,736 | \$ 74,183 | \$ 42,816 | \$ (723) | |
| Net income | | | 47,310 | | | |
| Cash dividends, \$0.026 per share | | | (9,772) | | | |
| Purchases of treasury stock | | | | | (128) | |
| Net decrease in unrealized gains on available-for-sale securities | | | | (22,676) | | |
| BALANCE AT MARCH 31, 2006 | \$ 212,019 | \$ 399,736 | \$ 111,721 | \$ 20,140 | \$ (851) | |

See Notes to Consolidated Financial Statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2006 and 2005

| | Millions of Yen | | Thousands of U. S. Dollars (Note 1) |
|---|-----------------|-----------------|---|
| | 2006 | 2005 | 2006 |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes and minority interests | ¥ 9,872 | ¥ 7,010 | \$ 84,031 |
| Depreciation | 5,525 | 3,789 | 47,029 |
| Losses on impairment of long-lived assets | 1,985 | | 16,897 |
| Increase in allowance for possible loan losses | 18,153 | 15,186 | 154,520 |
| Increase in liability for employees' bonuses | 30 | 120 | 255 |
| Increase in liability for employees' retirement benefits | 124 | 870 | 1,056 |
| Interest income | (48,560) | (50,929) | (413,347) |
| Interest expenses | 3,154 | 3,385 | 26,847 |
| Losses (gains) on sales and write-down of investment securities | (3,696) | 380 | (31,461) |
| Foreign exchange gains | (672) | (437) | (5,720) |
| Losses on sales of premises and equipment | 157 | 639 | 1,336 |
| Net increase in trading securities | (159) | (153) | (1,353) |
| Net increase in loans | (77,659) | (46,538) | (661,040) |
| Net decrease in deposits | (15,845) | (24,643) | (134,874) |
| Net increase (decrease) in borrowed money (excluding subordinated loans) | 67 | (622) | 570 |
| Net decrease (increase) in due from banks (excluding noninterest-bearing due from banks) | (41) | 69 | (349) |
| Net decrease (increase) in call loans and bills bought | (199) | 5,355 | (1,694) |
| Net increase (decrease) in foreign exchanges (assets) | 945 | (1,517) | 8,044 |
| Net increase (decrease) in foreign exchanges (liabilities) | 24 | (22) | 204 |
| Interest received (cash basis) | 48,511 | 52,182 | 412,930 |
| Interest paid (cash basis) | (3,019) | (4,026) | (25,698) |
| Other | (2,163) | (700) | (18,411) |
| Subtotal | (63,466) | (40,602) | (540,228) |
| Income taxes - paid | (257) | (173) | (2,188) |
| Net cash used in operating activities | (63,723) | (40,775) | (542,416) |
| INVESTING ACTIVITIES: | | | |
| Purchases of investment securities | (599,844) | (577,680) | (5,105,924) |
| Proceeds from sales of investment securities | 523,377 | 479,485 | 4,455,030 |
| Proceeds from redemptions of investment securities | 171,368 | 148,769 | 1,458,699 |
| Purchases of premises and equipment | (5,185) | (5,557) | (44,135) |
| Proceeds from sales of premises and equipment | 429 | 3,073 | 3,652 |
| Net cash provided by investing activities | 90,145 | 48,090 | 767,322 |
| FINANCING ACTIVITIES: | | | |
| Proceeds from borrowing of subordinated loans | | 10,000 | |
| Repayments of subordinated loans | | (22,000) | |
| Proceeds from issuance of common stock to minority stockholders | 515 | 20 | 4,384 |
| Dividends paid by the Bank | (1,147) | (765) | (9,763) |
| Purchases of treasury stock | (15) | (8) | (128) |
| Net cash used in financing activities | (647) | (12,753) | (5,507) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | | | |
| | (2) | (2) | (17) |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 25,773 | (5,440) | 219,382 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 58,419 | 63,859 | 497,268 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | ¥ 84,192 | ¥ 58,419 | \$ 716,650 |

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Minato Bank, Ltd. (the "Bank") and its subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more

familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.48 to \$1, the approximate rate of exchange at March 31, 2006, the final business day of the term. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Bank and all (14 in 2006 and 12 in 2005) of its subsidiaries (together, the "Group"). Under the control concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Assets and liabilities of consolidated subsidiaries including the portion attributable to the minority stockholders are valued for consolidation at fair value when the Bank acquired control.

b. Consolidated Subsidiaries' Fiscal Year-End

Fiscal years of 8 (8 in 2005) consolidated subsidiaries end on March 31, while 6 (4 in 2005) others end on December 31. Significant transactions between December 31 and March 31 are adjusted in consolidation.

c. Cash Equivalents

For purposes of the consolidated statements of cash flows, the Group considers noninterest-bearing deposits included in "Cash and due from banks" in the consolidated

balance sheets to be cash equivalents.

d. Trading Securities

Trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in the consolidated statements of income.

e. Investment Securities

Investment securities with readily obtainable market values are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity. The cost of securities sold is determined based on the moving-average cost method.

Other non-marketable securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Derivative Transactions

In July 2002, the Japanese Institute of Certified Public Accountants ("JICPA") issued the Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." In accordance with the report, the Bank applies hedge accounting to manage its exposures to fluctuations in interest rates associated with certain assets and liabilities. The Bank enters into derivative financial instruments, such as interest rate swaps, currency options and foreign exchange contracts. Subsidiaries do not perform any derivative transactions.

The Bank enters into derivatives principally as a means of managing its interest rate and foreign exchange rate exposures on certain assets. In addition, the Bank uses derivatives actively to meet its customers' needs for new financial instruments.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. Net unrealized losses related to hedging are classified as deferred unrealized losses on hedges in other assets.

g. Bills Discounted

Bills Discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values at March 31, 2006 and 2005 were ¥56,013 million (\$476,787 thousand) and ¥57,384 million, respectively.

h. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of premises and equipment of the Bank is computed using the declining-balance method while the straight-line method is applied to buildings at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 8 to 50 years for buildings and from 3 to 20 years for equipment.

Depreciation of premises and equipment owned by subsidiaries is computed principally using the straight-line

method over the estimated useful lives of the assets.

Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing special reserve in the stockholders' equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥81 million (\$689 thousand) as of March 31, 2006.

i. Long-lived Assets

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥1,985 million (\$16,897 thousand).

Accumulated impairment loss is directly deducted from the respective premises and equipment.

The effect of adoption of such new accounting standard on segment information is described in Note 27.

j. Software

Software costs for internal use are capitalized (presented as other assets) and amortized by the straight-line method over the estimated useful life of five years.

k. Deferred Assets

Special expenses related to business transfer are capitalized (presented as other assets) and amortized by the straight-line method over five years.

l. Allowance for Possible Loan Losses

The amount of the allowance for possible loan losses is determined based on management's judgment and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

The Bank implemented the self-assessment system for asset quality. The quality of all loans is assessed by branches and the Credit Supervision Division with a subsequent audit by the Asset Review and Inspection Division in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

For claims to debtors classified as legal bankruptcy or virtual bankruptcy, an allowance is provided at the remaining amount of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees.

For claims to debtors classified as possible bankruptcy, who are currently neither legally nor virtually bankrupt but are likely to become bankrupt, an allowance is provided at the amounts deemed necessary based on an overall solvency assessment performed for remains of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees.

For other claims, an allowance is provided based on historical loan loss experience.

Subsidiaries provide an allowance for general claims based on historical loan loss experience and for specific claims at the amounts individually estimated to be uncollectible.

m. Liability for Employees' Bonuses

The liability for employees' bonuses is provided for the payment of employees' bonuses based on estimated amounts of the future payments attributed to the current fiscal year.

n. Liability for Employees' Retirement Benefits

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. They may grant additional benefits in cases where certain

requirements are met when employees retire. In addition, the Bank contributed some of its marketable equity securities to employee retirement benefit trusts.

The Bank provides for the liability for employees' retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Subsidiaries provide for the liability for employees' severance payments based on amounts which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

o. Foreign Currency Transactions

Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

p. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases may be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

q. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon stockholders' approval.

s. Per Share Information

Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because no dilutive securities are outstanding.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

t. New Accounting Pronouncements

Business Combination and Business Separation - In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor stockholder group after the business combination is nearly equal, and
- (c) these are no other factors that would indicate any control exerted by any stockholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock Options - On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options and Related Guidance." The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of stockholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to Directors and Corporate Auditors - Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general stockholders' meeting. The ASBJ issued ASBJ Practical Issues Task Force No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct deduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" and "Cash and due from banks" in the consolidated balance sheets at March 31, 2006 and 2005, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Cash and due from banks | ¥ 84,415 | ¥ 58,600 | \$ 718,548 |
| Interest-bearing deposits included in due from banks | (223) | (181) | (1,898) |
| Cash and cash equivalents | ¥ 84,192 | ¥ 58,419 | \$ 716,650 |

4. INVESTMENT SECURITIES

Investment securities at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---------------------------------|-----------------|-----------|--|
| | 2006 | 2005 | 2006 |
| Japanese government bonds | ¥ 185,385 | ¥ 249,448 | \$ 1,578,013 |
| Japanese local government bonds | 54,284 | 80,300 | 462,070 |
| Japanese corporate bonds | 114,858 | 121,043 | 977,681 |
| Corporate stocks | 29,963 | 24,542 | 255,048 |
| Other securities | 16,830 | 24,249 | 143,259 |
| Total | ¥ 401,320 | ¥ 499,582 | \$ 3,416,071 |

5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|------------------|-----------------|-------------|--|
| | 2006 | 2005 | 2006 |
| Bills discounted | ¥ 55,091 | ¥ 56,159 | \$ 468,939 |
| Loans on bills | 159,928 | 155,195 | 1,361,321 |
| Loans on deeds | 1,695,368 | 1,655,128 | 14,431,120 |
| Overdrafts | 188,539 | 174,345 | 1,604,861 |
| Total | ¥ 2,098,926 | ¥ 2,040,827 | \$ 17,866,241 |

Loans in legal bankruptcy totaled ¥5,935 million (\$50,519 thousand) and ¥8,047 million as of March 31, 2006 and 2005, respectively. Nonaccrual loans totaled ¥47,518 million (\$404,477 thousand) and ¥65,194 million as of March 31, 2006 and 2005, respectively. Loans in legal bankruptcy are loans in which the interest accrual is discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectibility of principal or interest resulting from the delay in payments of interest or principal for a considerable period of time and other factors. Nonaccrual loans are loans in which the interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥275 million (\$2,341 thousand) and ¥416 million as of March 31, 2006 and 2005, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Restructured loans totaled ¥28,747 million (\$244,697 thousand) and ¥37,202 million as of March 31, 2006 and 2005, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive

measures) to the debtors to assist them to recover from the financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded.

6. FOREIGN EXCHANGES

Foreign exchange assets and liabilities at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--------------------------------------|-----------------|----------------|--|
| | 2006 | 2005 | 2006 |
| Assets: | | | |
| Due from foreign correspondents | ¥ 401 | ¥ 481 | \$ 3,413 |
| Foreign bills of exchange purchased | 923 | 1,225 | 7,857 |
| Foreign bills of exchange receivable | 3,686 | 4,231 | 31,375 |
| Total | ¥ 5,010 | ¥ 5,937 | \$ 42,645 |
| Liabilities: | | | |
| Foreign bills of exchange sold | ¥ 52 | ¥ 10 | \$ 443 |
| Accrued foreign bills of exchange | 5 | 23 | 42 |
| Total | ¥ 57 | ¥ 33 | \$ 485 |

7. OTHER ASSETS

Other assets at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--------------------------------------|-----------------|-----------------|--|
| | 2006 | 2005 | 2006 |
| Prepaid expenses | ¥ 17 | ¥ 22 | \$ 145 |
| Accrued income | 2,672 | 2,742 | 22,744 |
| Deferred unrealized losses on hedges | 910 | 2,055 | 7,746 |
| Derivatives | 1,776 | 549 | 15,118 |
| Other | 30,386 | 17,768 | 258,648 |
| Total | ¥ 35,761 | ¥ 23,136 | \$ 304,401 |

8. PREMISES AND EQUIPMENT

Accumulated depreciation on premises and equipment at March 31, 2006 and 2005 amounted to ¥25,711 million (\$218,854 thousand) and ¥23,625 million, respectively.

9. LONG-LIVED ASSETS

The Group recognized impairment losses for the year ended March 31, 2006 as follows:

| Location | Description | Classification | Impairment Losses | |
|------------------|---------------------------|----------------|--------------------|--|
| | | | Millions of Yen | Thousands of U.S. Dollars (Note 1) |
| Hyogo prefecture | Idle assets | Land | ¥ 5 | \$ 43 |
| Hyogo prefecture | Idle assets | Land | 2 | 17 |
| Osaka prefecture | Operating retail premises | Land | 1,109 | 9,440 |
| Hyogo prefecture | Operating retail premises | Land | 869 | 7,397 |
| Total | | | ¥ 1,985 | \$ 16,897 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

The Bank groups operating retail premises by operating block (a group of operation branches operating in close relationship).

Subsidiaries with rental premises group all of their assets by each premise, whereas each of the other subsidiaries is grouped as a single unit.

The Bank treats the head office, the computer center, the business concentration center, company condominiums and dormitories, and other, which do not generate independent cash flows, as assets in common use.

Idle assets of the Bank are treated as an independent

unit.

The Bank wrote down the carrying amounts to the recoverable amounts and recognized impairment losses of ¥1,985 million (\$16,896 thousand) for the year ended March 31, 2006 as other expenses, since the carrying amounts of the assets held by the above branches and other exceeded the sum of the undiscounted future cash flows.

The recoverable amounts of such assets were measured at their net realizable selling prices determined by quotations from real estate appraisal information less estimated costs to dispose.

10. ASSETS PLEDGED

Assets pledged as collateral and related liabilities at March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|-----------------------|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Investment securities | ¥ 35,137 | ¥ 35,545 | \$ 299,089 |
| Due from banks | 1 | 1 | 9 |
| Other assets | 18 | 15 | 153 |

Related liabilities:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|-------------------|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| Deposits | ¥ 6,625 | ¥ 9,093 | \$ 56,393 |
| Other liabilities | 180 | 305 | 1,532 |

In addition, investment securities totaling ¥47,948 million (\$408,138 thousand) and ¥53,307 million at March 31, 2006 and 2005, respectively, due from banks totaling ¥3 million (\$26 thousand) and ¥3 million at March 31, 2006 and 2005, respectively, and other assets totaling ¥7 million (\$60 thousand) and ¥7 million at March 31, 2006 and 2005,

respectively, were pledged as collateral for settlement of exchange, fund settlement for joint systems of the industry and derivative transactions.

Premises and equipment include surety deposits of ¥5,289 million (\$45,020 thousand) and ¥5,581 million at March 31, 2006 and 2005, respectively.

11. COMMITMENT LINE

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to the prescribed amount as long as there is no violation of any condition established in the contracts. The amount of unused commitments amounts to ¥432,423 million (\$3,680,822 thousand), of which ¥425,559 million (\$3,622,395 thousand) are those whose original contract terms are within one year or unconditionally cancelable at any time. Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent

actual future cash flow requirements. Many of these commitments have clauses that allow the Bank to reject the application from customers or reduce the contract amounts in case economic conditions change, the Bank needs to secure claims or others matters occur. In addition, the Bank requests customers to pledge collateral such as premises and securities at execution of the contracts, and takes necessary measures such as understanding customers' financial positions, revising contracts when the need arises and securing claims after execution of the contracts.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

12. DEPOSITS

Deposits at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|------------------------------------|-----------------|-------------|--|
| | 2006 | 2005 | 2006 |
| Current deposits | ¥ 129,654 | ¥ 120,688 | \$ 1,103,626 |
| Ordinary deposits | 1,245,644 | 1,149,006 | 10,603,030 |
| Savings deposits | 35,705 | 36,956 | 303,924 |
| Deposits at notice | 12,322 | 14,423 | 104,886 |
| Time deposits | 1,026,238 | 1,129,510 | 8,735,428 |
| Other deposits | 49,130 | 65,798 | 418,199 |
| Subtotal | 2,498,693 | 2,516,381 | 21,269,093 |
| Negotiable certificates of deposit | 7,282 | 6,030 | 61,985 |
| Total | ¥ 2,505,975 | ¥ 2,522,411 | \$ 21,331,078 |

13. BORROWED MONEY

At March 31, 2006 and 2005, the weighted average interest rates applicable to the borrowed money were 1.50% and 1.49%, respectively.

Borrowed money at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--------------------------------|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Subordinated loans | ¥ 50,000 | ¥ 50,000 | \$ 425,605 |
| Borrowing from banks and other | 2,895 | 2,828 | 24,642 |
| Total | ¥ 52,895 | ¥ 52,828 | \$ 450,247 |

Annual maturities of borrowed money at March 31, 2006, were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars (Note 1) |
|----------------------|-----------------|--|
| 2007 | ¥ 799 | \$ 6,801 |
| 2008 | 684 | 5,822 |
| 2009 | 498 | 4,239 |
| 2010 | 333 | 2,835 |
| 2011 | 191 | 1,626 |
| 2012 and thereafter | 50,390 | 428,924 |
| Total | ¥ 52,895 | \$ 450,247 |

14. OTHER LIABILITIES

Other liabilities at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|------------------------------|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Domestic exchange settlement | ¥ 82 | | \$ 698 |
| Accrued income taxes | 414 | ¥ 238 | 3,524 |
| Accrued expenses | 1,291 | 1,465 | 10,989 |
| Unearned income | 8,220 | 7,567 | 69,969 |
| Derivatives | 1,858 | 1,673 | 15,816 |
| Other | 24,135 | 14,908 | 205,439 |
| Total | ¥ 36,000 | ¥ 25,851 | \$ 306,435 |

15. ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in "Acceptances and guarantees." As a contra account, "Customers' liabilities for acceptances and guarantees," is shown as an asset representing the Bank's right of indemnity from the applicants.

16. STOCKHOLDERS' EQUITY

Through May 1, 2006, Japanese banks are subject to the Commercial Code of Japan (the "Code") and the Banking Law of Japan (the "Banking Law").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing stockholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the stockholders' accounts.

The Code also provides that an amount of 10% (20% for banks pursuant to the Banking Law) or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Law) of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% (100% for banks pursuant to the Banking Law) of the common stock may be available for dividends by resolution of the stockholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general stockholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on

the amount of capital surplus and retained earnings available for dividends.

Dividends are approved by the stockholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the Stockholders' Extraordinary Meeting held on December 22, 1998, the Bank's stockholders approved amendment of the Bank's Articles of Incorporation to authorize the Bank to issue preferred stock of 100,000,000 shares. No preferred stocks had been issued until March 31, 2006.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies may pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to stockholders subject to a certain limitation and additional requirements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate.

Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amount available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% (20% for banks pursuant to the Banking Law) of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Law) of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeded 25% (100% for banks pursuant to the Banking Law) of the common stock could be made available for dividends by resolution of the stockholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reserved without limitation of such threshold. The Corporate Law also provides that common stock, legal

reserve, additional paid-in capital, other capital surplus and retained earnings may be transferred among the accounts under certain conditions upon resolution of the stockholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to stockholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of stockholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of stockholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for the presentation of stockholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of stockholders' equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

17. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------------|--|
| | 2006 | 2005 | 2006 |
| Gains on foreign exchange transactions - net | ¥ 632 | ¥ 502 | \$ 5,380 |
| Gains on sales of bonds | 3,470 | 1,950 | 29,536 |
| Lease-related income | 2,562 | 1,898 | 21,808 |
| Other | 2,945 | 1,889 | 25,068 |
| Total | ¥ 9,609 | ¥ 6,239 | \$ 81,792 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

18. OTHER INCOME

Other income for the years ended March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| Gains on sales of stocks and other securities | ¥ 4,196 | ¥ 576 | \$ 35,717 |
| Gains on sales of premises and equipment | 0 | 9 | 0 |
| Recovery of claims previously charged-off | 291 | 73 | 2,477 |
| Other | 2,890 | 2,770 | 24,600 |
| Total | ¥ 7,377 | ¥ 3,428 | \$ 62,794 |

19. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--------------------------|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| Losses on sales of bonds | ¥ 3,743 | ¥ 2,008 | \$ 31,861 |
| Other | 4,745 | 3,656 | 40,390 |
| Total | ¥ 8,488 | ¥ 5,664 | \$ 72,251 |

20. OTHER EXPENSES

Other expenses for the years ended March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------|--|
| | 2006 | 2005 | 2006 |
| Provision for possible loan losses | ¥ 18,153 | ¥ 15,186 | \$ 154,520 |
| Losses on sales of stocks and other securities | 23 | 178 | 196 |
| Losses on devaluation of stocks and other securities | 154 | 80 | 1,311 |
| Losses on sales of premises and equipment | 157 | 1,794 | 1,336 |
| Losses on impairment of long-lived assets | 1,985 | | 16,896 |
| Other | 1,197 | 3,128 | 10,189 |
| Total | ¥ 21,669 | ¥ 20,366 | \$ 184,448 |

21. LEASES

Lessor

Lease receipts under finance leases amounted to ¥2,562 million (\$21,808 thousand) and ¥1,898 million, for the years ended March 31, 2006 and 2005, respectively.

Information of leased property including acquisition cost, accumulated depreciation, lessor's receivables under finance leases, and depreciation expense for the years ended March 31, 2006 and 2005 was as follows:

| | Millions of Yen | | | | | |
|--------------------------|-----------------|--------------|----------|-----------|--------------|----------|
| | 2006 | | | 2005 | | |
| | Equipment | Other Assets | Total | Equipment | Other Assets | Total |
| Acquisition cost | ¥ 11,130 | ¥ 1,435 | ¥ 12,565 | ¥ 9,387 | ¥ 1,266 | ¥ 10,653 |
| Accumulated depreciation | 4,558 | 627 | 5,185 | 3,500 | 510 | 4,010 |
| Net leased property | ¥ 6,572 | ¥ 808 | ¥ 7,380 | ¥ 5,887 | ¥ 756 | ¥ 6,643 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

| | Thousands of U.S. Dollars (Note 1) | | |
|--------------------------|------------------------------------|--------------|------------|
| | 2006 | | |
| | Equipment | Other Assets | Total |
| Acquisition cost | \$ 94,739 | \$ 12,215 | \$ 106,954 |
| Accumulated depreciation | 38,798 | 5,337 | 44,135 |
| Net leased property | \$ 55,941 | \$ 6,878 | \$ 62,819 |

Lessor's receivables under finance leases as of March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--------------------|---------------------|---------|--|
| | 2006 | 2005 | 2006 |
| | Due within one year | ¥ 2,514 | ¥ 2,190 |
| Due after one year | 5,827 | 5,341 | 49,600 |
| Total | ¥ 8,341 | ¥ 7,531 | \$ 70,999 |

The imputed interest income portion is included in the above lessor's receivables under finance leases, since the total of lessor's receivables under finance leases and estimated residual value accounted for a small proportion of operating receivables at the balance sheet date.

Depreciation expense under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|----------------------|---------|--|
| | 2006 | 2005 | 2006 |
| | Depreciation expense | ¥ 2,237 | ¥ 1,691 |

22. EMPLOYEES' RETIREMENT BENEFITS

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Subsidiaries have unfunded lump-sum severance payment plans.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|------------------------------|------------|--|
| | 2006 | 2005 | 2006 |
| | Projected benefit obligation | ¥ (18,063) | ¥ (17,730) |
| Plan assets (fair value) | 9,830 | 7,717 | 83,674 |
| Unfunded projected benefit obligation | (8,233) | (10,013) | (70,080) |
| Unrecognized actuarial net loss | 2,245 | 4,396 | 19,110 |
| Unrecognized prior service cost | (205) | (452) | (1,745) |
| Liability for employees' retirement benefits | ¥ (6,193) | ¥ (6,069) | \$ (52,715) |

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|---------|--|
| | 2006 | 2005 | 2006 |
| | Service cost | ¥ 620 | ¥ 639 |
| Interest cost | 443 | 445 | 3,771 |
| Expected return on plan assets | (62) | (90) | (528) |
| Recognized actuarial net loss | (50) | (46) | (426) |
| Amortization of prior service cost | 604 | 559 | 5,141 |
| Amortization of transitional obligation | | 818 | |
| Other | 500 | 364 | 4,256 |
| Net periodic retirements benefit costs | ¥ 2,055 | ¥ 2,689 | \$ 17,492 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

| | 2006 | 2005 |
|--|----------|----------|
| Discount rate | 2.5% | 2.5% |
| Expected rate of return on plan assets | 2.0% | 3.0% |
| Recognized period of actuarial gain or loss | 10 years | 10 years |
| Amortization period of prior service cost | 10 years | 10 years |
| Amortization period of transitional obligation | | 5 years |

23. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.5% for both of the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|------------------|------------------|--|
| | 2006 | 2005 | 2006 |
| Deferred tax assets: | | | |
| Allowance for possible loan losses | ¥ 18,116 | ¥ 20,895 | \$ 154,205 |
| Liability for employees' retirement benefits | 4,118 | 4,032 | 35,053 |
| Liability for employees' bonuses | 368 | 356 | 3,132 |
| Accrued enterprise tax | 86 | 120 | 732 |
| Accrued business office tax | 23 | 24 | 196 |
| Charge-off claims | 91 | 64 | 775 |
| Devaluation of stocks and other securities | 1,606 | 2,006 | 13,670 |
| Depreciation | 186 | 184 | 1,583 |
| Write off of premise | 833 | | 7,091 |
| Tax loss carryforwards | 1,202 | 1,545 | 10,232 |
| Other | 528 | 844 | 4,494 |
| Less valuation allowance | (2,368) | (2,116) | (20,157) |
| Total | ¥ 24,789 | ¥ 27,954 | \$ 211,006 |
| Deferred tax liabilities: | | | |
| Gains on securities contributed to employee retirement benefit trust | ¥ (684) | ¥ (684) | \$ (5,822) |
| Net unrealized gains on available-for-sale securities | (1,656) | (3,453) | (14,096) |
| Tax refund | (5) | (2) | (42) |
| Allowance for possible loan losses adjustment arising from debts and credits elimination | (1,298) | (712) | (11,049) |
| Total | ¥ (3,643) | ¥ (4,851) | \$ (31,009) |
| Net deferred tax assets | ¥ 21,146 | ¥ 23,103 | \$ 179,997 |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for both of the years ended March 31, 2006 and 2005 is as follows:

| | 2006 | 2005 |
|---|--------------|--------------|
| Normal effective statutory tax rate | 40.5% | 40.5% |
| Permanent differences-expenses | 0.2 | 0.3 |
| Permanent differences-income | (0.8) | (0.7) |
| Corporate inhabitant tax per capita | 0.6 | 0.9 |
| Valuation allowance | 2.5 | 4.6 |
| Adjustment of prior years' deferred tax | | (3.2) |
| Effect of consolidation elimination | | (1.9) |
| Other - net | (0.4) | 0.7 |
| Actual effective tax rate | 42.6% | 41.2% |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

24. MARKET VALUE AND OTHER INFORMATION ON SECURITIES

Market value and other information on securities as of March 31, 2006 and 2005 were as follows:

Securities

(1) Bonds classified as trading

| | Millions of Yen | | | |
|-----------------------------|-----------------------------------|---|-----------------------------------|---|
| | 2006 | | 2005 | |
| | Consolidated Balance Sheet Amount | Gains (Losses) Included in Profit/Loss during the Fiscal Year | Consolidated Balance Sheet Amount | Gains (Losses) Included in Profit/Loss during the Fiscal Year |
| Bonds classified as trading | ¥385 | Immaterial | ¥225 | Immaterial |

| | Thousands of U.S. Dollars (Note 1) | |
|-----------------------------|------------------------------------|---|
| | 2006 | |
| | Consolidated Balance Sheet Amount | Gains (Losses) Included in Profit/Loss during the Fiscal Year |
| Bonds classified as trading | \$3,277 | Immaterial |

(2) No bonds classified as held-to-maturity securities that have market value were held by the Group.

(3) Available-for-sale securities that have market value

| | Millions of Yen | | | | | | | | | |
|---------------------------------|-----------------|-----------------------------------|-------------------------------|------------------|-------------------|----------|-----------------------------------|-------------------------------|------------------|-------------------|
| | Cost | 2006 | | | | Cost | 2005 | | | |
| | | Consolidated Balance Sheet Amount | Net Unrealized Gains (Losses) | Unrealized Gains | Unrealized Losses | | Consolidated Balance Sheet Amount | Net Unrealized Gains (Losses) | Unrealized Gains | Unrealized Losses |
| Stocks | ¥ 13,333 | ¥ 27,054 | ¥ 13,721 | ¥ 14,157 | ¥ 436 | ¥ 15,304 | ¥ 21,967 | ¥ 6,663 | ¥ 7,447 | ¥ 784 |
| Bonds | 335,352 | 325,728 | (9,624) | 43 | 9,667 | 434,759 | 436,934 | 2,175 | 2,461 | 286 |
| Japanese government bonds | 193,644 | 185,385 | (8,259) | 8 | 8,267 | 247,854 | 249,448 | 1,594 | 1,639 | 45 |
| Japanese local government bonds | 55,258 | 54,284 | (974) | 7 | 981 | 80,330 | 80,300 | (30) | 202 | 232 |
| Japanese corporate bonds | 86,450 | 86,059 | (391) | 28 | 419 | 106,575 | 107,186 | 611 | 620 | 9 |
| Other | 15,400 | 15,384 | (16) | 102 | 118 | 23,285 | 22,958 | (327) | 123 | 450 |
| Total | ¥364,085 | ¥368,166 | ¥ 4,081 | ¥ 14,302 | ¥ 10,221 | ¥473,348 | ¥ 481,859 | ¥ 8,511 | ¥ 10,031 | ¥ 1,520 |

| | Thousands of U.S. Dollars (Note 1) | | | | |
|---------------------------------|------------------------------------|-----------------------------------|-------------------------------|------------------|-------------------|
| | Cost | 2006 | | | |
| | | Consolidated Balance Sheet Amount | Net Unrealized Gains (Losses) | Unrealized Gains | Unrealized Losses |
| Stocks | \$ 113,492 | \$ 230,286 | \$ 116,794 | \$ 120,505 | \$ 3,711 |
| Bonds | 2,854,545 | 2,772,625 | (81,920) | 366 | 82,286 |
| Japanese government bonds | 1,648,314 | 1,578,013 | (70,301) | 68 | 70,369 |
| Japanese local government bonds | 470,361 | 462,070 | (8,290) | 60 | 8,351 |
| Japanese corporate bonds | 735,870 | 732,542 | (3,329) | 238 | 3,567 |
| Other | 131,086 | 130,950 | (136) | 868 | 1,004 |
| Total | \$ 3,099,123 | \$ 3,133,861 | \$ 34,738 | \$ 121,739 | \$ 87,001 |

Note: Market value is calculated by using the market prices at the fiscal year end for bonds and other except that of stocks which is calculated by average market prices for previous month of the fiscal year end.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

(4) Bonds classified as held-to-maturity were not sold.

(5) Available-for-sale securities sold

| | Millions of Yen | | | | | |
|-------------------------------|-----------------|----------------|-----------------|--------------|----------------|-----------------|
| | 2006 | | | 2005 | | |
| | Sales Amount | Gains on Sales | Losses on Sales | Sales Amount | Gains on Sales | Losses on Sales |
| Available-for-sale securities | ¥ 537,630 | ¥ 6,198 | ¥ 2,547 | ¥ 479,439 | ¥ 2,372 | ¥ 970 |

| | Thousands of U.S. Dollars (Note 1) | | |
|-------------------------------|------------------------------------|----------------|-----------------|
| | 2006 | | |
| | Sales Amount | Gains on Sales | Losses on Sales |
| Available-for-sale securities | \$ 4,576 | \$ 53 | \$ 22 |

(6) Securities with no readily available market value

| | Consolidated Balance Sheet Amount | | |
|--------------------------------|-----------------------------------|----------|------------------------------------|
| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
| | 2006 | 2005 | 2006 |
| Available-for-sale securities: | | | |
| Non-listed corporate bonds | ¥ 28,799 | ¥ 13,857 | \$ 245,140 |
| Non-listed stocks | 2,909 | 2,574 | 24,762 |
| Limited liability partnership | 1,447 | 1,291 | 12,317 |

(7) The classification of securities has not been changed.

(8) Redemption schedule on available-for-sale securities that have maturities and bonds classified as held-to-maturity was as follows:

| | Millions of Yen | | | | | | | |
|---------------------------------|-----------------|--------------|---------------|---------------|----------------|--------------|---------------|---------------|
| | 2006 | | | | 2005 | | | |
| | 1 Year or Less | 1 to 5 Years | 5 to 10 Years | Over 10 Years | 1 Year or Less | 1 to 5 Years | 5 to 10 Years | Over 10 Years |
| Bonds | ¥ 50,143 | ¥ 132,169 | ¥ 91,534 | ¥ 80,681 | ¥ 28,928 | ¥ 255,537 | ¥ 82,939 | ¥ 83,387 |
| Japanese government bonds | | 21,256 | 83,448 | 80,681 | 8,578 | 92,376 | 65,604 | 82,890 |
| Japanese local government bonds | 7,067 | 41,933 | 5,283 | | 17,510 | 54,324 | 8,467 | |
| Japanese corporate bonds | 43,076 | 68,980 | 2,803 | | 2,840 | 108,837 | 8,868 | 497 |
| Other | 5,120 | 6,802 | 3,821 | | 6,435 | 10,754 | 4,925 | |
| Total | ¥ 55,263 | ¥ 138,971 | ¥ 95,355 | ¥ 80,681 | ¥ 35,363 | ¥ 266,291 | ¥ 87,864 | ¥ 83,387 |

| | Thousands of U.S. Dollars (Note 1) | | | |
|---------------------------------|------------------------------------|--------------|---------------|---------------|
| | 2006 | | | |
| | 1 Year or Less | 1 to 5 Years | 5 to 10 Years | Over 10 Years |
| Bonds | \$ 426,821 | \$ 1,125,034 | \$ 779,145 | \$ 686,764 |
| Japanese government bonds | | 180,933 | 710,317 | 686,764 |
| Japanese local government bonds | 60,155 | 356,937 | 44,969 | |
| Japanese corporate bonds | 366,666 | 587,164 | 23,859 | |
| Other | 43,582 | 57,899 | 32,525 | |
| Total | \$ 470,403 | \$ 1,182,933 | \$ 811,670 | \$ 686,764 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Net Unrealized Gains/Losses on Available-for-sale Securities

Available-for-sale securities were valued at market and net unrealized gains/losses on valuation were as follows:

| | Consolidated Balance Sheet Amount | | |
|---|-----------------------------------|---------|------------------------------------|
| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
| | 2006 | 2005 | 2006 |
| Net unrealized gains on investment securities | ¥ 4,081 | ¥ 8,511 | \$ 34,738 |
| (Deferred tax liabilities) | (1,656) | (3,453) | (14,096) |
| Net unrealized gains on valuation (before adjustment) | 2,425 | 5,058 | 20,642 |
| (Minority interests) | (59) | (28) | (502) |
| Net unrealized gains on valuation | 2,366 | 5,030 | 20,140 |

25. MARKET VALUE INFORMATION ON DERIVATIVE TRANSACTIONS

Derivatives are subject to market risk, which is the possibility that a loss may result from fluctuations in market conditions, and credit risk, which is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Since most of the Bank's derivative transactions are conducted to hedge underlying business exposures, market gain or risk in the derivative instruments is expected to be offset by an opposite movement in the value of hedged assets or liabilities. These figures are the measures used in the calculation of risk-based capital ratios under the Japanese capital ratio guidelines. The Bank adopts the current exposure method stipulated by the guidelines in calculating the amount.

As a risk control system for derivatives, the Bank has established a risk management division that operates independently from divisions executing derivative transactions. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate the authorization and credit limit amounts. In addition, positions and related gains or losses from derivatives are reported to management on a daily basis for monitoring and evaluation purposes.

The contract amounts of forward exchange contracts and option agreements do not necessarily measure the Bank's exposure to credit or market risk.

(1) Interest-rate-related transactions

Interest-rate-related transactions as of March 31, 2006 and 2005 are excluded from disclosure because all the interest-rate-related transactions entered into by the Bank qualified for hedge-accounting.

(2) Currency-related transactions

Market value information on revalued currency-related derivatives as of March 31, 2006 and 2005 was as follows:

| | Millions of Yen | | | | | | | |
|-----------------------------|-------------------|--------------------------------------|------------|-------------------------------|-------------------|--------------------------------------|------------|-------------------------------|
| | 2006 | | | | 2005 | | | |
| | Contractual Value | Contractual Value Due after One Year | Fair Value | Net Unrealized Gains (Losses) | Contractual Value | Contractual Value Due after One Year | Fair Value | Net Unrealized Gains (Losses) |
| Over-the-counter: | | | | | | | | |
| Forward exchange contracts: | | | | | | | | |
| Sold | ¥ 5,156 | ¥ 874 | ¥ (89) | ¥ (89) | ¥ 5,952 | | ¥ (113) | ¥ (113) |
| Bought | 4,907 | 803 | 96 | 96 | 5,490 | | 116 | 116 |
| Currency options: | | | | | | | | |
| Sold | 24,556 | 17,918 | 1,141 | (333) | 7,855 | ¥ 6,353 | 354 | (270) |
| Bought | 24,556 | 17,918 | 1,353 | 544 | 7,855 | 6,353 | 426 | 340 |
| Total | ¥ - | ¥ - | ¥ 2,501 | ¥ 218 | ¥ - | ¥ - | ¥ 783 | ¥ 73 |

FINANCIAL REVIEW (CONSOLIDATED BASIS)

| | Thousands of U.S. Dollars (Note 1) | | | |
|-----------------------------|------------------------------------|--------------------------------------|------------------|-------------------------------|
| | 2006 | | | |
| | Contractual Value | Contractual Value Due after One Year | Fair Value | Net Unrealized Gains (Losses) |
| Over-the-counter: | | | | |
| Forward exchange contracts: | | | | |
| Sold | \$ 43,888 | \$ 7,440 | \$ (758) | \$ (758) |
| Bought | 41,769 | 6,835 | 817 | 817 |
| Currency options: | | | | |
| Sold | 209,022 | 152,520 | 9,712 | (2,835) |
| Bought | 209,022 | 152,520 | 11,517 | 4,631 |
| Total | \$ - | \$ - | \$ 21,289 | \$ 1,856 |

Notes: 1. The above transactions were revalued at the end of each of the years and the related gain and loss are reflected in the accompanying consolidated statements of income.

2. Derivative transactions under hedge accounting, transactions reflected in financial assets and liabilities denominated in currencies and recognized in the consolidated balance sheets, or transactions denominated in foreign currencies which have been eliminated in the consolidation have been excluded from the above table.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

(5) Financial product-related transactions are not performed.

(6) Credit derivative transactions are not performed.

26. RELATED PARTY TRANSACTIONS

At March 31, 2006 and 2005, Sumitomo Mitsui Banking Corporation (the "Parent Company") owns 48.41% of the Bank's voting shares directly and 1.58% of the Bank's voting shares indirectly.

Balances and transactions of the Bank with the Parent Company as of and for the years ended March 31, 2006 and 2005 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|------------------------|--------------------|----------|------------------------------------|
| | 2006 | 2005 | 2006 |
| | Subordinated loans | ¥ 37,000 | ¥ 37,000 |
| Financial transactions | | 7,000 | |

27. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

On June 29, 2006, the Bank's general stockholders' meeting approved the payments of cash dividends to stockholders of record at March 31, 2006 of ¥4.00 (\$0.034) per share or a total of ¥1,530 million (\$13,023 thousand).

FINANCIAL REVIEW (CONSOLIDATED BASIS)

28. SEGMENT INFORMATION

i) Business Segment Information

Information about industry segments of the Group as of and for the year ended March 31, 2006 is as follows:

a. Operating Income

| | Millions of Yen | | | | | |
|----------------------------|-----------------|---------|---------|----------|----------------------------|--------------|
| | 2006 | | | | | |
| | Banking | Leasing | Other | Total | Eliminations/ Corporate | Consolidated |
| Operating Income: | | | | | | |
| Outside customers | ¥ 72,118 | ¥ 5,065 | ¥ 2,591 | ¥ 79,774 | | ¥ 79,774 |
| Intersegment income | 344 | 1,148 | 216 | 1,708 | ¥ (1,708) | |
| Total | 72,462 | 6,213 | 2,807 | 81,482 | (1,708) | 79,774 |
| Operating expenses | 61,275 | 5,909 | 2,578 | 69,762 | (1,711) | 68,051 |
| Net income for computation | ¥ 11,187 | ¥ 304 | ¥ 229 | ¥ 11,720 | ¥ 3 | ¥ 11,723 |

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

| | Millions of Yen | | | | | |
|----------------------|-----------------|----------|----------|-------------|----------------------------|--------------|
| | 2006 | | | | | |
| | Banking | Leasing | Other | Total | Eliminations/ Corporate | Consolidated |
| Total assets | ¥ 2,734,579 | ¥ 17,483 | ¥ 13,681 | ¥ 2,765,743 | ¥ (22,783) | ¥ 2,742,960 |
| Depreciation | 2,390 | 1,052 | 93 | 3,535 | (80) | 3,455 |
| Impairment loss | 1,985 | | | 1,985 | | 1,985 |
| Capital expenditures | 2,735 | 3,360 | 12 | 6,107 | | 6,107 |

a. Operating Income

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|----------------------------|------------------------------------|-----------|-----------|------------|----------------------------|--------------|
| | 2006 | | | | | |
| | Banking | Leasing | Other | Total | Eliminations/ Corporate | Consolidated |
| Operating Income: | | | | | | |
| Outside customers | \$ 613,875 | \$ 43,114 | \$ 22,054 | \$ 679,043 | | \$ 679,043 |
| Intersegment income | 2,928 | 9,772 | 1,839 | 14,539 | \$ (14,539) | |
| Total | 616,803 | 52,886 | 23,893 | 693,582 | (14,539) | 679,043 |
| Operating expenses | 521,578 | 50,298 | 21,944 | 593,820 | (14,564) | 579,256 |
| Net income for computation | \$ 95,225 | \$ 2,588 | \$ 1,949 | \$ 99,762 | \$ 25 | \$ 99,787 |

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

| | Thousands of U.S. Dollars (Note 1) | | | | | |
|----------------------|------------------------------------|------------|------------|---------------|----------------------------|---------------|
| | 2006 | | | | | |
| | Banking | Leasing | Other | Total | Eliminations/ Corporate | Consolidated |
| Total assets | \$ 23,276,975 | \$ 148,817 | \$ 116,454 | \$ 23,542,246 | \$ (193,931) | \$ 23,348,315 |
| Depreciation | 20,344 | 8,955 | 791 | 30,090 | (681) | 29,409 |
| Impairment loss | 16,897 | | | 16,897 | | 16,897 |
| Capital expenditures | 23,280 | 28,601 | 102 | 51,983 | | 51,983 |

Notes: 1. "Other" consists of other banking related activities such as credit guarantee, venture capital and entrusted account.

2. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.

3. Operating expenses mean total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of income.

Information about industry segments of the Group as of and for the year ended March 31, 2005 is not presented herein, since the relative size of businesses such as leasing and credit guarantees conducted by some subsidiaries was immaterial.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

ii) Segment information by geographic area

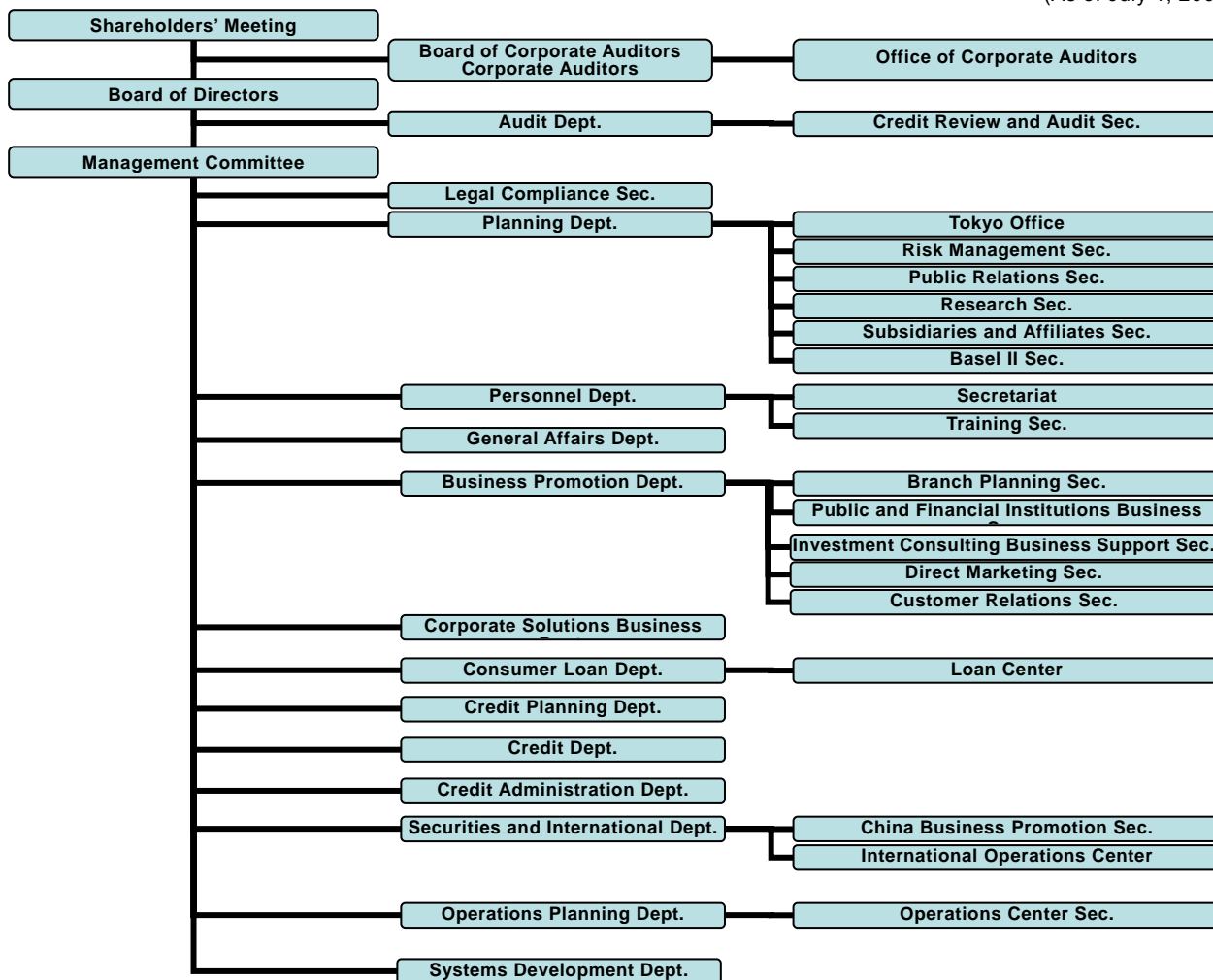
Segment information by geographic area is not presented herein for the years ended March 31, 2006 and 2005, as such information is permitted not to be disclosed if domestic share of both total income and total assets exceeds 90%.

iii) Operating income from international operations

Disclosure of operating income arising from international operations for the years ended March 31, 2006 and 2005 is not presented herein, as such information is permitted not to be disclosed if operating income arising from international operations is less than 10% of consolidated operating income.

CORPORATE ORGANIZATION

(As of July 1, 2006)



CORPORATE OFFICERS

(As of June 29, 2006)

Directors, Corporate Auditors and Executive Officers

President (Representative Director)

Nobuhiro Yabumoto

Senior Managing Director (Representative Director)

Kenji Takeuchi

Managing Directors

Shuji Nagahara

Hiroshi Fujiwara

Akifumi Imanishi

Director

Toshiro Ohta (external)

Corporate Auditors

Sadamitsu Motonishi (full-time)

Takeo Yamai (full-time)

Shingo Okada (external)

Sadayuki Tsuda (external)

Masaaki Hosome (external)

Executive Officers

Minoru Hirose

Nobuyuki Taira

Akira Yoshida

Takashi Yoshimi

Hiromi Yoshida

Seiji Masaki

Hideki Maruo

Masataka Imahashi

Kaoru Mori

Shirou Inoue

Seiji Goto

Kazuma Hara

Hiroyasu Yoshida

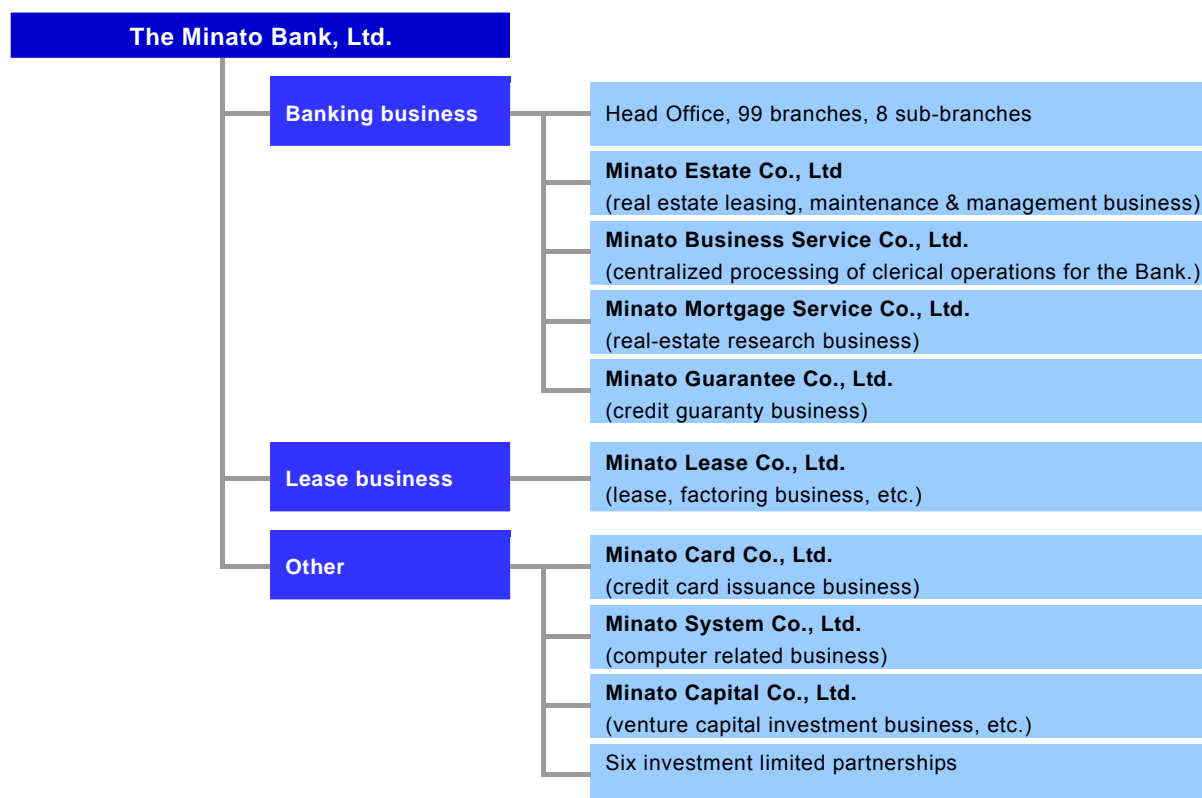
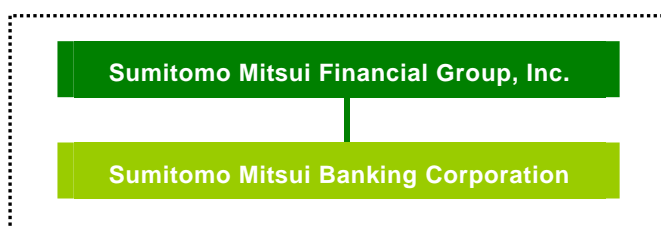
Akihiro Haku

Yasuki Ohara

CORPORATE INFORMATION

GROUP DIAGRAM (As of March 31, 2006)

Parent Companies



MAJOR STOCKHOLDERS

| Name | Number of Shares (Thousands) | Percentage (%) |
|--|---------------------------------|-------------------|
| Sumitomo Mitsui Banking Corporation | 184,828 | 48.26 |
| Minato Bank Kyoeikai | 12,769 | 3.33 |
| Nippon Life Insurance Company | 10,501 | 2.74 |
| Nissay Dowa General Insurance Co., Ltd. | 6,661 | 1.73 |
| Mitsui Sumitomo Insurance Co., Ltd. | 6,220 | 1.62 |
| Japan Trustee Services Bank, Ltd. (trust accounts) | 5,795 | 1.51 |
| Sumitomo Life Insurance Company | 5,203 | 1.35 |
| Minato Bank Employees' Shareholding Association | 4,109 | 1.07 |
| The Dai-ichi Mutual Life Insurance Company | 3,953 | 1.03 |
| Tokio Marine & Nichido Fire Insurance Co., Ltd. | 3,840 | 1.00 |



MINATO BANK