

# Consolidated Balance Sheets

THE EIGHTEENTH BANK, LIMITED and its Consolidated Subsidiaries  
March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Assets</b>			
Cash and due from banks (Note 15) .....	¥ 131,944	¥ 114,736	\$ 1,228,647
Call loans .....	2,953	1,247	27,500
Commercial paper and other debts purchased.....	47	46	442
Trading account securities (Note 3) .....	1,011	363	9,418
Money held in trust .....	5,121	8,106	47,687
Securities (Notes 3 and 5).....	631,643	570,251	5,881,771
Loans and bills discounted (Note 4).....	1,444,145	1,462,709	13,447,673
Reserve for loan losses.....	(64,424)	(51,880)	(599,915)
Foreign exchanges.....	688	705	6,414
Other assets.....	34,223	36,118	318,683
Premises and equipment, net (Notes 7 and 8).....	52,519	54,292	489,052
Deferred tax assets (Note 6).....	26,559	18,334	247,320
Customers' liabilities for acceptances and guarantees (Note 12).....	18,939	19,209	176,365
	¥2,285,372	¥2,234,241	\$21,281,057
<b>Liabilities, Minority Interest and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits (Note 5) .....	¥1,888,912	¥1,879,056	\$ 17,589,273
Negotiable certificates of deposit .....	55,031	52,470	512,442
Call money and borrowed money (Notes 5 and 9).....	119,015	72,883	1,108,252
Deposits received for bonds lending/borrowing transactions (Note 5) ....	34,531	29,195	321,555
Foreign exchanges.....	33	30	316
Bonds with non-detachable warrants (Note 13).....	8,374	8,518	77,978
Accrued expenses and other liabilities .....	21,161	20,791	197,057
Accrued retirement benefits (Note 11) .....	12,181	12,910	113,430
Deferred tax liabilities (Note 6).....	3	4	35
Deferred tax liabilities on revaluation of land (Note 8) .....	9,149	9,603	85,196
Acceptances and guarantees (Note 12) .....	18,939	19,209	176,365
Total liabilities .....	2,167,334	2,104,674	20,181,899
Minority interest.....	2,414	2,065	22,488
<b>Shareholders' equity:</b>			
Common stock:			
Authorized- 410,000 thousand shares			
Issued- 174,495 thousand shares in 2005 and 2004.....	22,886	22,886	213,115
Capital surplus.....	18,504	18,500	172,313
Retained earnings .....	55,086	69,264	512,960
Land revaluation account (Note 8) .....	13,459	14,129	125,337
Unrealized gains on available-for-sale securities.....	12,648	9,848	117,780
Treasury stock:			
15,167 thousand shares in 2005 and 15,563 thousand shares in 2004....	(6,962)	(7,127)	(64,835)
Total shareholders' equity.....	115,623	127,501	1,076,670
	¥2,285,372	¥2,234,241	\$21,281,057

See accompanying notes.

# Consolidated Statements of Operations

THE EIGHTEENTH BANK, LIMITED and its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Income:</b>			
Interest on loans and discounts.....	¥ 34,234	¥35,675	\$ 318,786
Interest and dividends on securities.....	8,273	7,704	77,045
Interest on call loans.....	28	18	264
Other interest.....	13	46	129
Fees and commissions.....	7,438	6,985	69,269
Other income.....	13,699	14,226	127,564
<b>Total income.....</b>	<b>63,688</b>	<b>64,657</b>	<b>593,057</b>
<b>Expenses:</b>			
Interest on deposits.....	911	1,030	8,483
Interest on call money and borrowed money.....	789	593	7,349
Interest on bonds with stock options.....	25	27	238
Other interest.....	1,368	1,491	12,745
General and administrative expenses.....	36,839	35,386	343,043
Fees and commissions.....	2,291	2,179	21,342
Provision for loan losses.....	33,419	12,671	311,200
Other expenses.....	10,867	6,719	101,199
<b>Total expenses.....</b>	<b>86,513</b>	<b>60,099</b>	<b>805,599</b>
Income (loss) before income taxes.....	(22,824)	4,558	(212,542)
Income taxes (Note 6):			
Current.....	1,469	1,004	13,682
Deferred.....	(10,607)	1,088	(98,778)
Minority interest in income.....	341	373	3,180
<b>Net income (loss).....</b>	<b>¥(14,027)</b>	<b>¥ 2,091</b>	<b>\$(130,626)</b>
	Yen		U.S. dollars
Net income (loss) per share:			
Basic.....	¥(88.32)	¥13.05	\$(0.82)
Diluted.....	—	11.71	—

See accompanying notes.

# Consolidated Statements of Retained Earnings

THE EIGHTEENTH BANK, LIMITED and its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Balance at beginning of year.....	¥69,264	¥67,848	\$644,982
Net income (loss).....	(14,027)	2,091	(130,626)
Reversal of land revaluation account.....	669	148	6,230
	55,905	70,088	520,586
<b>Appropriations:</b>			
Cash dividends.....	794	810	7,395
Bonuses to directors and statutory auditors.....	24	13	231
<b>Balance at end of year.....</b>	<b>¥55,086</b>	<b>¥69,264</b>	<b>\$512,960</b>

See accompanying notes.

# Consolidated Statements of Cash Flows

THE EIGHTEENTH BANK, LIMITED and its Consolidated Subsidiaries  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes.....	¥(22,824)	¥ 4,558	\$ (212,542)
Depreciation .....	9,154	8,368	85,245
Increase (decrease) in reserve for possible loan losses.....	12,544	(4,596)	116,808
Increase (decrease) in accrued retirement benefits.....	(729)	49	(6,789)
Interest and dividend income.....	(42,550)	(43,445)	(396,224)
Interest expense .....	3,094	3,142	28,815
Losses (gains) on sale of securities, net.....	(3,163)	5,094	(29,457)
Gains on sale of money in trust, net .....	(388)	(795)	(3,614)
Foreign currency gains.....	(133)	(32)	(1,240)
Losses on sale of premises and equipment, net.....	2,095	1,092	19,511
Net change in trading account securities .....	(625)	489	(5,824)
Net change in loans and bills discounted.....	18,577	38,692	172,995
Net change in deposits .....	9,705	27,568	90,375
Net change in negotiable certificates of deposit .....	2,560	4,214	23,843
Net change in borrowed money .....	1,649	108	15,364
Net change in deposits with banks.....	(458)	32	(4,274)
Net change in call loans .....	(1,686)	(1,241)	(15,708)
Net change in call money .....	43,684	30,015	406,787
Net change in deposits received for bond lending/borrowing transactions ...	5,336	(9,857)	49,694
Net change in foreign exchanges assets.....	917	(1,230)	8,544
Net change in foreign exchanges liabilities.....	135	8	1,262
Interest income received .....	42,473	42,553	395,503
Interest expense paid.....	(2,937)	(3,116)	(27,355)
Others .....	410	9,513	3,825
Subtotal.....	76,842	111,187	715,544
Income tax refunds.....	—	1,836	—
Income taxes paid.....	(1,240)	(627)	(11,548)
Net cash provided by operating activities .....	75,602	112,396	703,996
<b>Cash flows from investing activities:</b>			
Purchases of securities.....	(302,759)	(284,501)	(2,819,251)
Proceeds from sale of securities .....	116,731	103,332	1,086,986
Proceeds from maturities of securities .....	134,059	124,220	1,248,344
Net change in money held in trust.....	3,373	(3,570)	31,416
Purchases of premises and equipment.....	(10,567)	(8,168)	(98,407)
Proceeds from sale of premises and equipment.....	1,093	167	10,184
Net cash used in investing activities .....	(58,068)	(68,518)	(540,728)
<b>Cash flows from financing activities:</b>			
Cash dividends paid.....	(794)	(810)	(7,395)
Cash dividends paid to minority interests .....	(16)	1	(157)
Redemption of bonds with warrants.....	(144)	(1,482)	(1,341)
Purchases of treasury stock .....	(400)	(4,383)	(3,733)
Proceeds from sale of treasury stock.....	570	1,496	5,311
Net cash used in financing activities .....	(785)	(5,177)	(7,315)
Effect of foreign exchange rate changes .....	1	(9)	11
Net increase in cash and cash equivalents .....	16,748	38,690	155,964
Cash and cash equivalents at beginning of year .....	114,195	75,505	1,063,372
Cash and cash equivalents at end of year (Note 15).....	¥130,944	¥114,195	\$1,219,336

See accompanying notes.

# Notes to Consolidated Financial Statements

THE EIGHTEENTH BANK, LIMITED and its Consolidated Subsidiaries  
March 31, 2005 and 2004

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to US\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation**—In accordance with Japanese GAAP companies in Japan are required to consolidate all significant investments which are controlled through substantial ownership of majority voting rights or through certain other measures. The consolidated

financial statements include the accounts of the Bank and all 7 (7 for 2004) of its subsidiaries that are listed below:

Juhachi Business Service Co., Ltd.  
Juhachi Sogo Lease Co., Ltd.  
Nagasaki Hosho Service Co., Ltd.  
Juhachi Card Co., Ltd.  
Juhachi Capital Co., Ltd.  
Juhachi Software Co., Ltd.  
Nagasaki Research Institute Limited

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

All significant inter-company balances, transactions and unrealized profits and losses included in assets and liabilities have been eliminated.

**Trading Account Securities**—Trading account securities are stated at fair market value. Cost of securities sold, in principle, is computed by the moving-average method.

**Securities**—Held-to-maturity debt securities are stated at amortized cost using the straight-line method.

Available-for-sale securities are stated at fair market value when they have available market prices and are stated at moving-average cost or amortized cost when no market prices are available. Unrealized gains or losses, net of applicable income taxes, are stated as a separate component of shareholders' equity in the consolidated balance sheets. Cost of securities sold, in principle, is computed by the moving-average method.

Marketable securities included in money held in trust and treated as trust assets are stated at fair market value.

### **Hedge Accounting**—

(1) Hedging against interest rate changes  
The hedge accounting method applied to hedging transactions for interest rate risk related to financial assets and liabilities is the deferred hedge accounting method, as stipulated in the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank assesses the effectiveness of the hedges in offsetting fluctuations in fair value caused by changes in interest rates by grouping the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity. As to cash flow hedges, the Bank assesses the effectiveness of such hedges in fixing cash flows by verifying the correlation between the hedged items (mainly deposits) and the hedging instruments (interest swaps) after classifying hedged items and the hedging instruments by date of maturity.

In addition, deferred hedge losses that previously arose under the "macro hedge" method (the management of interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets) and interest-bearing liabilities as a whole using derivatives in accordance with the regulations set out in the "Accounting and Auditing Treatment of Preliminary Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 15), are periodically charged to interest expense over seven years commencing in fiscal 2003 according to the date of maturity and notional contract amounts of each hedging instrument. As of March 31, 2005 deferred hedge losses and income amounted to ¥1,248 million (US\$11,626 thousand) and ¥48 million (US\$451 thousand), respectively.

#### (2) Hedging against currency fluctuations

The Bank applies the deferred hedge accounting stipulated in the provisions of JICPA Industry Audit Committee Report No. 25 to currency swap and foreign exchange swap transactions executed for the purpose of lending or borrowing funds in different currencies. Pursuant to JICPA Industry Audit Committee Report No. 25, the Bank assesses the effectiveness of currency swap and foreign exchange swap transactions executed for the purpose of offsetting the risk of changes in currency exchange rates by verifying that there are foreign currency monetary claims and debts corresponding to the foreign-currency positions.

**Depreciation**—Depreciation of premises and equipment is calculated principally using the declining-balance method. Main useful lives of premises and equipment are as follows:

Buildings	5 to 50 years
Equipment	3 to 20 years

**Software Costs**—Amortization of software for internal use of the Bank and its subsidiaries is calculated using the straight-line method over the useful lives (principally 5 years).

**Reserve for Loan Losses**—A reserve for loan losses is provided based on the following rules, drawn up by the Bank:

A reserve for possible losses on loans to bankrupt or substantially bankrupt borrowers is provided based on the amount after deducting the collectible portion based on the fair value of any underlying collateral or guarantees, except for a portion written-off, as explained below.

A reserve for possible loan losses for borrowers not currently legally bankrupt but likely to go bankrupt (hereinafter, borrowers threatened with bankruptcy), is provided on the basis of an overall solvency assessment after deducting the collectible portion based on the fair value of any underlying collateral or guarantees.

A reserve for possible loan losses on loans other than the above is provided based on loan loss experience as calculated using historical default rates during a specific period in the past.

A reserve for possible loan losses on loans to certain foreign countries is provided after consideration of such factors as political and economic risks.

In accordance with the Bank's asset self-assessment standards, loans are assessed by branch staff and head office staff in charge of inspection, the results of which are audited by independent staff in charge of audits. Provision is made to reflect these assessment procedures.

In the case of loans to borrowers who are bankrupt or substantially bankrupt, the amount remaining after deduction of the amount of collateral considered to be disposable and the amount recoverable under guarantees is set off from the original outstanding loan balance. The amount of such write-offs totaled ¥10,566 million (US\$98,392 thousand) for the year ended March 31, 2005.

Effective the reporting term, the Bank has amended the methods utilized for estimation of required amounts in the reserve for possible loan losses.

Regarding large-scale loans to borrowers threatened with bankruptcy not covered by collateral or guarantees, the Bank provides reserves in an amount deemed irrecoverable after deduction of cash flow amounts expected to be generated from the operating activities of the borrowers in the future.

Regarding loans to borrowers requiring supervision, the Bank currently employs a method utilizing the historical default rates for calculation of provision for loan losses. Previously, the Bank utilized the probable default rates for calculation of the required reserve amount.

The changes in the calculation methods caused the reserve for possible loan losses to increase by ¥25,600 million (US\$238,383 thousand) for the year ended March 31, 2005.

Consolidated subsidiaries employ the same methods as the Bank to provide loan loss reserves.

**Accrued Retirement Benefits**—Accrued retirement benefits are provided to state the post-employment benefit obligations less the fair value of the pension assets.

Prior service costs are amortized over a certain period (3 years) within the average remaining service period of the employees at the time of occurrence.

Actuarial differences of the plans are amortized from the succeeding fiscal year over a certain period (10 years) within the average remaining service period of the employees at the time of occurrence.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme, which is contributory and operated by the government. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Bank decided to restructure its Employees' Pension Fund, and received the permission of the Ministry of Health, Labor and Welfare to be released from its future obligation for payments of the so-called substitutional portion of the Welfare Pension Insurance Scheme. In April 2004, the Bank revised its system for post-employment benefits, and in June of the same year adopted a new system under the Defined Benefit Corporate Pension Law, as a result of which the Bank will recognize gains in a total amount of ¥583 million (US\$5,434 thousand) over three years. The gain will be utilized in the calculation of periodical retirement benefit expenses.

**Finance Leases**—Finance leases which do not transfer ownership are accounted for in the same manner as operating leases.

**Foreign Currency Translation**—Receivables and payables in foreign currencies and foreign branch accounts are translated into Japanese yen principally at the rates prevailing at the balance sheet dates.

**Income Taxes**—Income taxes comprise corporation, enterprise and residents taxes.

Deferred tax assets are recorded based on loss carry-forwards and the temporary differences between the financial and tax bases of assets and liabilities.

**Statements of Cash Flows**—Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand and deposits with The Bank of Japan.

**Net Income per Share**—Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is computed assuming all dilutive stock options were exercised at the beginning of the year or later date of issuance.

### 3. TRADING ACCOUNT SECURITIES AND SECURITIES

#### (1) Trading account securities

Trading account securities as of March 31, 2005 and 2004 were stated at fair market value of ¥1,011 million (US\$9,418 thousand) and ¥363 million, respectively, and valuation gains recognized for the years ended March 31, 2005 and 2004 were ¥1 million (US\$13 thousand) and ¥0 million, respectively.

#### (2) Held-to-maturity debt securities

Held-to-maturity debt securities with fair market values consisted of local government, corporate and other bonds. Book value and market value of the securities amounted to ¥17,958 million (US\$167,227 thousand) and ¥18,275 million (US\$170,180 thousand) as of March 31, 2005, respectively, and ¥12,805 million and ¥12,824 million, respectively, as of March 31, 2004.

#### (3) Available-for-sale securities

Acquisition costs, market values (balance sheet amounts) and net valuation gains of available-for-sale securities with available fair market values as of March 31, 2005 and 2004 were as follows:

2005	Millions of yen		
	Acquisition cost	Balance sheet amount	Net valuation gains
Equity stocks.....	¥ 34,650	¥ 49,663	¥15,013
Bonds:			
National .....	251,447	254,365	2,918
Local .....	60,661	62,050	1,388
Corporate.....	108,878	110,135	1,256
Total bonds.....	420,987	426,551	5,564
Other.....	128,592	129,328	735
Total.....	¥584,230	¥605,543	¥21,312

2004	Millions of yen		
	Acquisition cost	Balance sheet amount	Net valuation gains
Equity stocks.....	¥ 30,796	¥ 43,293	¥12,497
Bonds:			
National .....	249,494	250,220	725
Local .....	55,147	55,793	646
Corporate.....	89,690	90,590	900
Total bonds.....	394,332	396,604	2,272
Other.....	109,409	111,186	1,776
Total.....	¥534,538	¥551,085	¥16,546

2005	Thousands of U.S. dollars		
	Acquisition cost	Balance sheet amount	Net valuation gains
Equity stocks.....	\$ 322,658	\$ 462,458	\$139,800
Bonds:			
National .....	2,341,440	2,368,619	27,179
Local .....	564,871	577,805	12,934
Corporate.....	1,013,865	1,025,564	11,699
Total bonds.....	3,920,176	3,971,988	51,812
Other.....	1,197,437	1,204,287	6,850
Total.....	\$5,440,271	\$5,638,733	\$198,462

During the year ended March 31, 2005 proceeds from sales of available-for-sale securities and aggregate gains and losses amounted to ¥117,675 million (US\$1,095,781 thousand), ¥2,169 million (US\$20,200 thousand) and ¥1,224 million (US\$11,405 thousand), respectively.

During the year ended March 31, 2004 proceeds from sales of available-for-sale securities and aggregate gains and losses amounted to ¥106,854 million, ¥3,676 million and ¥155 million, respectively.

#### (4) Securities with no available fair market values

Securities with no available fair market values as of March 31, 2005 and 2004 are summarized below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Held-to-maturity debt securities:			
Private corporate bonds .....	¥4,920	¥3,550	\$45,814
Available-for-sale securities:			
Unlisted equity stock (excluding OTC stock) .....	1,661	1,674	15,473
Investments .....	1,539	1,116	14,334

## (5) Maturities of securities

Maturities of available-for-sale securities with maturities and held-to-maturity securities as of March 31, 2005 and 2004 are summarized as follows:

2005	Millions of yen			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
<b>Bonds:</b>				
National.....	¥ 57,345	¥ 90,015	¥ 60,152	¥60,200
Local.....	12,139	31,353	18,557	—
Corporate.....	17,364	85,870	16,431	—
Total bonds...	86,849	207,239	95,141	60,200
Other .....	15,299	63,545	15,523	—
<b>Total.....</b>	<b>¥102,149</b>	<b>¥270,784</b>	<b>¥110,664</b>	<b>¥60,200</b>

2004	Millions of yen			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
<b>Bonds:</b>				
National.....	¥26,155	¥120,518	¥54,677	¥57,195
Local.....	7,103	32,720	15,969	—
Corporate.....	18,114	63,275	17,229	—
Total bonds...	51,374	216,514	87,876	57,195
Other .....	11,116	62,143	11,999	—
<b>Total.....</b>	<b>¥62,490</b>	<b>¥278,657</b>	<b>¥99,875</b>	<b>¥57,195</b>

2005	Thousands of U.S. dollars			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
<b>Bonds:</b>				
National.....	\$533,990	\$ 838,207	\$ 560,133	\$560,578
Local.....	113,045	291,959	172,801	—
Corporate.....	161,694	799,615	153,008	—
Total bonds...	808,729	1,929,781	885,942	560,578
Other .....	142,468	591,727	144,549	—
<b>Total.....</b>	<b>\$951,197</b>	<b>\$2,521,508</b>	<b>\$1,030,491</b>	<b>\$560,578</b>

## 4. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as of March 31, 2005 and 2004 included the following non-performing amounts:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Loans to borrowers legally</b>			
bankrupt.....	¥ 2,624	¥ 8,157	\$ 24,434
Loans past due over 6 months...	69,051	76,725	642,993
Loans past due over 3 months...	102	25	950
Restructured loans .....	25,518	36,774	237,620
<b>Total.....</b>	<b>¥97,295</b>	<b>¥121,681</b>	<b>\$905,997</b>

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, up to a designated amount, as long as there is no violation of any condition in the contracts. As of March 31, 2005 the amount of unused commitments was ¥404,066 million (US\$3,762,611 thousand) and the amount of unused commitments of which original contract terms are within one year or unconditionally cancelable at any time was ¥402,906 million (US\$3,751,810 thousand).

Since most of these commitments are expected to expire without being drawn up, the total amount of unused commitments does not necessarily represent actual future cash flow requirements.

## 5. ASSETS PLEDGED AS COLLATERAL

As of March 31, 2005 securities with book values of ¥164,198 million (US\$1,528,990 thousand) were pledged as collateral for deposits, call money and deposits received for bond lending / borrowing transactions amounting to ¥16,957 million (US\$157,901 thousand), ¥70,000 million (US\$651,830 thousand) and ¥20,696 million (US\$192,720 thousand), respectively. In addition, securities with book values of ¥36,502 million (US\$339,902 thousand) were pledged as collateral for exchange clearance transactions.

As of March 31, 2004 securities with book values of ¥106,903 million were pledged as collateral for deposits amounting to ¥16,000 million and other debts. In addition, securities with book values of ¥34,734 million were pledged as collateral for exchange clearance transactions.

## 6. DEFERRED TAX ASSETS

Major components of deferred tax assets as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Excess reserve for loan losses ....	¥28,223	¥17,678	\$262,817
Excess reserve for retirement benefits.....	4,796	5,059	44,664
Excess depreciation.....	811	808	7,552
Other .....	1,566	1,571	14,584
Subtotal .....	35,397	25,117	329,617
Valuation allowance.....	(127)	—	(1,183)
Deferred tax assets .....	35,270	25,117	328,434
<b>Unrealized gains on</b>			
available-for-sale securities .....	(8,616)	(6,689)	(80,238)
Other .....	(97)	(98)	(911)
Deferred tax liabilities .....	(8,714)	(6,788)	(81,149)
<b>Net deferred tax assets.....</b>	<b>¥26,555</b>	<b>¥18,329</b>	<b>\$247,285</b>

For the current term, there exist no material differences between the statutory effective tax rates and the income tax rates under tax-effect accounting applied to the reporting entity.

Major factors that caused the material differences for the previous term are as follows.

	2004
Statutory tax rate .....	41.7%
Decrease in deferred tax assets due to change of statutory tax rate .....	3.9
Non-taxable income (including dividend income) .....	(2.3)
Non-deductible expenses (including entertainment expenses) .....	1.4
Inhabitants taxes per capita .....	0.8
Other .....	0.2
<b>Effective tax rate.....</b>	<b>45.9%</b>

## 7. ACCUMULATED DEPRECIATION

Accumulated depreciation of premises and equipment as of March 31, 2005 and 2004 amounted to ¥59,193 million (US\$551,200 thousand) and ¥60,360 million, respectively.

## 8. REVALUATION OF LAND

In accordance with the Land Properties Revaluation Act, the Bank revalued land used in the ordinary course of business as of March 31, 1998. The amount equal to estimated taxes on the revaluation excess was recorded as deferred tax liabilities on revaluation of land and the remaining balance after deducting such amount from the revaluation excess is shown as a separate component of shareholders' equity in the consolidated balance sheets.

The unrealized loss of revalued land was ¥17,530 million (US\$163,243 thousand) as of March 31, 2005.

## 9. BORROWED MONEY

Borrowed money consisted of borrowings from other banks of which the average interest rate was 0.94% as of March 31, 2005.

The aggregate annual maturities for five years of borrowed money outstanding at March 31, 2005 are as follows:

	Millions of yen	Thousands of U.S. dollars
2006.....	¥7,342	\$68,368
2007.....	4,109	38,262
2008.....	3,241	30,180
2009.....	2,013	18,745
2010.....	669	6,230

## 10. FINANCE LEASES

Information on finance leases for equipment and other assets without transfer of ownership as lessee and as lessor as of March 31, 2005 and 2004 was as follows:

### (1) As lessee

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Pro forma capitalization:			
Acquisition cost equivalent...	¥417	¥349	\$3,888
Accumulated depreciation equivalent.....	(89)	(21)	(833)
Book value equivalent.....	¥328	¥327	\$3,055
Minimum future lease payments:			
Due within one year.....	¥ 88	¥ 88	\$ 827
Due over one year.....	245	263	2,287
Total .....	¥334	¥352	\$3,114

The above "as if capitalized" depreciation is calculated on the straight-line method over lease terms.

Total lease payments under non-capitalized financial leases for the years ended March 31, 2005 and 2004 were ¥99 million (US\$924 thousand) and ¥235 million, respectively. If the above finance leases had been capitalized, depreciation of ¥70 million (US\$656 thousand) and ¥209 million and interest of ¥5 million (US\$52 thousand) and ¥2 million would have been recorded for the years ended March 31, 2005 and 2004, respectively.

### (2) As lessor

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Capitalization:			
Acquisition cost .....	¥44,835	¥45,244	\$417,498
Accumulated depreciation ....	(25,426)	(26,841)	(236,764)
Book value .....	¥19,409	¥18,403	\$180,734
Minimum future lease revenues:			
Due within one year.....	¥ 5,708	¥ 5,117	\$ 53,159
Due over one year.....	12,601	12,291	117,346
Total .....	¥18,310	¥17,409	\$170,505

Total lease payments received for the years ended March 31, 2005 and 2004 were ¥6,941 million (US\$64,643 thousand) and ¥6,459 million, respectively. Interest income for the years ended March 31, 2005 and 2004 was ¥786 million (US\$7,323 thousand) and ¥790 million, respectively. Depreciation expense for the years ended March 31, 2005 and 2004 was ¥6,059 million (US\$56,423 thousand) and ¥5,514 million, respectively.

## 11. ACCRUED RETIREMENT BENEFITS

### (1) Retirement benefit plans

The Bank has a lump-sum payment plan, a welfare pension plan and a tax-qualified pension plan.

### (2) Accrued retirement benefits

Accrued retirement benefits as of March 31, 2005 and 2004 were calculated as below:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Retirement benefit obligation...	¥(19,691)	¥(20,724)	\$(183,367)
Fair value of pension assets.....	7,154	6,472	66,621
Benefit obligation in excess of pension assets .....	(12,537)	(14,251)	(116,746)
Unrecognized actuarial loss .....	1,588	2,521	14,793
Unrecognized prior service cost...	(1,116)	(1,180)	(10,400)
Unrecognized pension assets....	(19)	—	(185)
Net addition to balance sheet...	(12,085)	(12,910)	(112,538)
Prepaid pension costs .....	95	—	892
Accrued retirement benefits ....	¥(12,181)	¥(12,910)	\$(113,430)

### (3) Retirement benefits expenses

Retirement benefits expenses for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service costs.....	¥850	¥ 818	\$7,919
Interest costs.....	504	521	4,699
Estimated return on pension assets .....	(131)	(112)	(1,226)
Amortization of prior service costs .....	(634)	(322)	(5,906)
Amortization of actuarial differences .....	307	336	2,865
Total retirement benefits expenses...	¥896	¥1,241	\$8,351

#### (4) Basis of computations

The above computations were based on the following assumptions:

	2005	2004
Discount rate .....	2.50%	2.50%
Expected return on pension assets .....	2.00%	2.00%

#### 12. CONTINGENT LIABILITIES—ACCEPTANCES AND GUARANTEES

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

#### 13. BONDS WITH NON-DETACHABLE WARRANTS

On December 20, 2002 the Bank issued unsecured 0.3% bonds with non-detachable warrants due on March 31, 2006, of which ¥144 million (US\$1,341 thousand) were redeemed during the year ended March 31, 2005. The holders of the bonds are entitled to exercise warrants at ¥487 per share of common stock during the period from February 3, 2003 to March 30, 2006 by applying the bond principal.

#### 14. MARKET VALUE OF DERIVATIVES TRANSACTIONS

Information on market value of derivatives transactions was as follows:

##### (1) Interest-rate related transactions

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
OTC interest-rate swaps (receiving fixed/paying floating):			
Contract amount .....	¥1,671	¥2,336	\$15,568
Contract amount (over one year) .....	1,630	2,079	15,181
Market value .....	47	67	444
Valuation gain .....	47	67	444

#### 16. SEGMENT INFORMATION

Segment information by type of business for the years ended March 31, 2005 and 2004 is as follows:

2005	Millions of yen					
	Banking operations	Leasing	Other	Total	Elimination or corporate	Consolidated
Ordinary income with external customers .....	¥ 52,466	¥ 9,359	¥ 1,851	¥ 63,677	¥ —	¥ 63,677
Ordinary income from internal transactions ....	311	887	3,008	4,206	(4,206)	—
Total .....	52,777	10,246	4,859	67,883	(4,206)	63,677
Ordinary expenses .....	75,188	9,895	4,535	89,619	(4,211)	85,407
Ordinary net income (loss) .....	¥ (22,410)	¥ 351	¥ 324	¥ (21,735)	¥ 5	¥ (21,730)
Assets .....	¥2,265,652	¥26,869	¥12,760	¥2,305,283	¥(19,910)	¥2,285,372
Depreciation .....	2,819	6,255	76	9,151	—	9,151
Capital expenditures .....	2,500	7,273	60	9,834	—	9,834

#### (2) Foreign exchange related transactions

	Millions of yen			
	2005		2004	
	Sold	Bought	Sold	Bought
OTC forward foreign exchange contracts:				
Contract amount .....	¥5,632	¥321	¥2,889	¥1,196
Contract amount (over one year) .....	—	—	—	—
Market value .....	(62)	6	66	(10)
Valuation gain (loss) ...	(62)	6	66	(10)

	Thousands of U.S. dollars	
	2005	2004
	Sold	Bought
OTC forward foreign exchange contract:		
Contract amount .....	\$52,453	\$2,993
Contract amount (over one year) .....	—	—
Market value .....	(580)	60
Valuation gain (loss) ...	(580)	60

#### 15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at end of year in the consolidated statements of cash flows for the years ended March 31, 2005 and 2004 are reconciled with cash and due from banks in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Cash and due from banks in consolidated balance sheets ...	¥131,944	¥114,736	\$1,228,647
Due from banks except deposits with the Bank of Japan .....	(999)	(540)	(9,311)
Cash and cash equivalents .....	¥130,944	¥114,195	\$1,219,336

## Millions of yen

2004	Banking operations	Leasing	Other	Total	Elimination or corporate	Consolidated
Ordinary income with external customers .....	¥ 54,525	¥ 7,675	¥ 1,864	¥ 64,064	¥ —	¥ 64,064
Ordinary income from internal transactions ....	323	623	2,978	3,925	(3,925)	—
Total .....	54,848	8,298	4,842	67,990	(3,925)	64,064
Ordinary expenses .....	51,532	7,910	4,226	63,669	(3,927)	59,742
Ordinary net income .....	¥ 3,316	¥ 388	¥ 616	¥ 4,321	¥ 1	¥ 4,322
Assets .....	¥2,216,885	¥25,863	¥12,166	¥2,254,915	¥(20,673)	¥2,234,241
Depreciation.....	2,632	5,663	68	8,365	—	8,365
Capital expenditures.....	2,157	9,982	37	12,177	—	12,177

## Thousands of U.S. dollars

2005	Banking operations	Leasing	Other	Total	Elimination or corporate	Consolidated
Ordinary income with external customers .....	\$ 488,560	\$ 87,155	\$ 17,239	\$ 592,594	\$ —	\$ 592,954
Ordinary income from internal transactions ....	2,899	8,260	28,012	39,171	(39,171)	—
Total .....	491,459	95,415	45,251	632,125	(39,171)	592,954
Ordinary expenses .....	700,146	92,145	42,233	834,524	(39,220)	795,304
Ordinary net income (loss).....	\$ (208,687)	\$ 3,270	\$ 3,018	\$ (202,399)	\$ 49	\$ (202,350)
Assets .....	\$21,097,429	\$250,207	\$118,823	\$21,466,459	\$ (185,402)	\$21,281,057
Depreciation.....	26,257	58,246	714	85,217	—	85,217
Capital expenditures.....	23,281	67,734	566	91,581	—	91,581

Note: Ordinary income represents total income excluding gains on disposal of premises and equipment, collection of written-off claims and a gain on release from the substitutional portion of the Welfare Pension Insurance Scheme. Ordinary expenses represent total expenses excluding losses on disposal of premises and equipment.

Segment information by geographic area is omitted since the Bank has no consolidated subsidiaries or branches outside Japan.

## 17. STOCK OPTION

At the general meeting of the shareholders held on June 28, 2005, the Bank's shareholders passed a resolution to allow the Bank to issue share subscription rights under a stock option scheme to directors and employees in accordance with stipulations in Articles 280-20 and 280-21 of the Commercial Code.

### (1) Eligible beneficiaries

Share subscription rights shall be issued for directors and employees of the Bank.

(2) Number of shares to be issued upon exercise of the subscription rights: not exceeding 240 million ordinary shares

(3) Number of share subscription rights: not exceeding 2,400 (1,000 ordinary shares for one subscription right)

(4) Offer price of share subscription rights:  
Free of charge

(5) Period for exercising share subscription rights:  
From July 1, 2007 to June 30, 2010

### (6) Conditions for exercise of share subscription rights.

- a) Persons to whom the share subscription rights are granted shall be allowed to exercise share subscription rights, even if they lose their status to be qualified for the receipt of new rights.
- b) Neither transfer of nor putting in pledge of the share subscription rights, or similar transactions, shall be allowed.
- c) If any person granted share subscription rights dies, the rights shall not pass to his or her heir.
- d) Other conditions than described above shall be determined in accordance with an agreement to be concluded between the Bank and eligible persons pursuant to resolutions at the general meeting of shareholders and the Board of the Directors.

# Independent Auditors' Report

To the Board of Directors of  
The Eighteenth Bank, Limited:

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

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Eighteenth Bank, Limited and subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Nagasaki, Japan  
June 28, 2005

*KPMG AZSA & Co.*

KPMG AZSA & Co.

# Non-Consolidated Balance Sheets

THE EIGHTEENTH BANK, LIMITED

March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Assets</b>			
Cash and due from banks .....	¥ 131,279	¥ 114,572	\$ 1,222,457
Call loans .....	2,953	1,247	27,500
Commercial paper and other debts purchased.....	47	46	442
Trading account securities.....	1,011	363	9,418
Money held in trust.....	5,121	8,106	47,687
Securities (Note 4).....	631,210	569,921	5,877,737
Loans and bills discounted (Note 3).....	1,450,651	1,471,175	13,508,256
Reserve for loan losses.....	(61,377)	(48,847)	(571,536)
Foreign exchanges (Note 5).....	688	705	6,414
Other assets.....	9,901	11,908	92,203
Premises and equipment, net (Notes 7 and 8).....	50,791	52,552	472,965
Deferred tax assets (Note 6).....	25,515	17,200	237,595
Customers' liabilities for acceptances and guarantees (Note 12).....	17,858	17,932	166,291
	¥2,265,652	¥2,216,885	\$21,097,429
<b>Liabilities and Shareholders' Equity</b>			
<b>Liabilities:</b>			
Deposits (Note 4):			
Demand.....	¥ 76,193	¥ 75,453	\$ 709,501
Ordinary .....	874,194	814,182	8,140,368
Savings .....	71,166	72,725	662,695
At notice.....	6,584	7,969	61,316
Time .....	794,154	872,769	7,395,054
Other.....	72,548	41,325	675,564
	1,894,842	1,884,425	17,644,498
Negotiable certificates of deposit .....	55,031	52,470	512,442
Call money and borrowed money (Note 4).....	108,057	63,576	1,006,217
Deposits received for bonds lending/borrowing transactions (Note 4) ....	34,531	29,195	321,555
Foreign exchanges (Note 5).....	33	30	316
Bonds with non-detachable warrants (Note 13).....	8,374	8,518	77,977
Accrued expenses and other liabilities .....	11,005	11,695	102,486
Accrued retirement benefits .....	12,050	12,805	112,213
Deferred tax liabilities on revaluation of land (Note 8) .....	9,149	9,603	85,196
Acceptances and guarantees (Note 12) .....	17,858	17,932	166,291
Total liabilities .....	2,150,934	2,090,253	20,029,191
<b>Shareholders' equity (Notes 14 and 15):</b>			
Common stock:			
Authorized- 410,000 thousand shares			
Issued- 174,495 thousand shares in 2005 and 2004.....	22,886	22,886	213,115
Capital surplus.....	18,504	18,500	172,313
Legal reserve.....	7,531	7,531	70,135
General reserve .....	58,294	57,294	542,828
Unappropriated retained earnings (deficit).....	(11,698)	3,514	(108,935)
Land revaluation account (Note 8) .....	13,480	14,149	125,528
Unrealized gains on available-for-sale securities.....	12,645	9,847	117,753
Treasury stock:			
15,117 thousand shares in 2005 and 15,514 thousand shares in 2004 ...	(6,926)	(7,091)	(64,499)
Total shareholders' equity.....	114,718	126,632	1,068,238
	¥2,265,652	¥2,216,885	\$21,097,429

See accompanying notes.

# Non-Consolidated Statements of Operations and Retained Earnings (Deficit)

THE EIGHTEENTH BANK, LIMITED  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
<b>Income</b>			
Interest on loans and discounts.....	¥ 33,958	¥35,428	\$ 316,215
Interest and dividends on securities.....	8,261	7,696	76,933
Interest on call loans.....	28	18	263
Other interest.....	13	46	129
Fees and commissions.....	6,753	6,378	62,886
Other income (Note 10).....	3,766	5,860	35,069
<b>Total income.....</b>	<b>52,781</b>	<b>55,429</b>	<b>491,495</b>
<b>Expenses</b>			
Interest on deposits.....	911	1,030	8,491
Interest on call money and borrowed money.....	798	458	7,437
Interest on bonds with stock options.....	25	27	238
Other interest.....	1,174	1,488	10,936
General and administrative expenses.....	27,362	27,498	254,800
Fees and commissions.....	2,680	2,600	24,963
Provision for loan losses.....	37,487	12,441	349,083
Other expenses (Note 11).....	5,820	6,334	54,203
<b>Total expenses.....</b>	<b>76,263</b>	<b>51,880</b>	<b>710,151</b>
Income (loss) before income taxes.....	(23,481)	3,549	(218,656)
Income taxes:			
Current.....	1,251	720	11,651
Deferred.....	(10,668)	987	(99,340)
Net income (loss).....	(14,064)	1,841	(130,967)
Unappropriated retained earnings at beginning of year.....	3,514	2,372	32,728
Reversal of land revaluation account.....	669	148	6,230
Appropriations:			
Transfer to general reserve.....	(1,000)	(24)	(9,312)
Cash dividends.....	(794)	(810)	(7,395)
Bonuses to directors and statutory auditors.....	(23)	(12)	(219)
<b>Total appropriations.....</b>	<b>(1,817)</b>	<b>(846)</b>	<b>(16,926)</b>
<b>Unappropriated retained earnings (deficit) at end of year.....</b>	<b>¥(11,698)</b>	<b>¥ 3,514</b>	<b>\$(108,935)</b>
	Yen		U.S. dollars (Note 1)
Net income (loss) per share:			
Basic.....	¥(88.53)	¥11.41	\$(0.82)
Diluted.....	—	10.25	—
Cash dividends per share applicable to the year.....	5.00	5.00	0.05

See accompanying notes.

# Notes to Non-Consolidated Financial Statements

THE EIGHTEENTH BANK, LIMITED

March 31, 2005 and 2004

## 1. BASIS OF PRESENTATION

The accompanying non-consolidated financial statements 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying non-consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of non-consolidated statements of shareholders' equity) from the non-consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language non-consolidated financial statements, but not required for fair presentation, is not presented in the accompanying non-consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was ¥107.39 to US\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Trading Account Securities**—Trading account securities are stated at fair market value. Cost of the securities sold, in principle, is computed by the moving-average method.

**Securities**—Held-to-maturity debt securities are stated at amortized cost using the straight-line method.

Available-for-sale securities are stated at fair market value when they have available market prices and are stated at moving-average cost or amortized cost when no market prices are available. Unrealized gains or losses, net of applicable income taxes, are stated as a separate component of shareholders' equity in the consolidated balance sheet. Cost of securities sold, in principle, is computed by the moving-average method.

Marketable securities included in money held in trust and treated as trust assets are stated at fair market value.

### Hedge Accounting—

(1) Hedging against interest rate changes

The hedge accounting method applied to hedging transactions for interest rate risk related to financial assets and liabilities is the deferred hedge accounting method, as stipulated in the "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24). The Bank assesses the effectiveness of the hedges in offsetting fluctuations in fair value caused by changes in interest rates by grouping the hedged items such as deposits and loans and the hedging instruments such as interest rate swaps by their maturity. As to cash flow hedges, the Bank assesses the effectiveness of such hedges in fixing cash flows by verifying the correlation between the hedged items (mainly deposits) and the hedging instruments (interest swaps) after classifying hedged items and the hedging instruments by date of maturity.

In addition, deferred hedge losses that previously arose under the "macro hedge" method (the management of interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets) and interest-bearing liabilities as a whole using derivatives in accordance with the regulations set out in the "Accounting and Auditing Treatment of Preliminary Accounting Standards for Financial Instruments in the Banking Industry" (JICPA Industry Audit Committee Report No. 15), are periodically charged to interest expense over seven years commencing in fiscal 2003 according to the date of maturity and notional contract amounts of each hedging instrument. As of March 31, 2005 deferred hedge losses and income amounted to ¥1,248 million (US\$11,626 thousand) and ¥48 million (US\$451 thousand), respectively.

## (2) Hedging against currency fluctuations

The Bank applies the deferred hedge accounting stipulated in the provisions of JICPA Industry Audit Committee Report No. 25 to currency swap and foreign exchange swap transactions executed for the purpose of lending or borrowing funds in different currencies. Pursuant to JICPA Industry Audit Committee Report No. 25, the Bank assesses the effectiveness of currency swap and foreign exchange swap transactions executed for the purpose of offsetting the risk of changes in currency exchange rates by verifying that there are foreign currency monetary claims and debts corresponding to the foreign-currency positions.

**Depreciation**—Depreciation of premises and equipment is calculated principally using the declining-balance method. Main useful lives of premises and equipment are as follows:

Buildings	5 to 50 years
Equipment	3 to 20 years

**Software Costs**—Amortization of software for internal use is calculated using the straight-line method over the useful lives (principally 5 years).

**Reserve for Loan Losses**—A reserve for loan losses is provided based on the following rules, drawn up by the Bank:

A reserve for possible losses on loans to bankrupt or substantially bankrupt borrowers is provided based on the amount after deducting the collectible portion based on the fair value of any underlying collateral or guarantees, except for a portion written-off, as explained below.

A reserve for possible loan losses for borrowers not currently legally bankrupt but likely to go bankrupt (hereinafter, borrowers threatened with bankruptcy), is provided on the basis of an overall solvency assessment after deducting the collectible portion based on the fair value of any underlying collateral or guarantees.

A reserve for possible loan losses on loans other than the above is provided based on loan loss experience as calculated using historical default rates during a specific period in the past.

A reserve for possible loan losses on loans to certain foreign countries is provided after consideration of such factors as political and economic risks.

In accordance with the Bank's asset self-assessment standards, loans are assessed by branch staff and head office staff in charge of inspection, the results of which are audited by independent staff in charge of audits. Provision is made to reflect these assessment procedures.

In the case of loans to borrowers who are bankrupt or substantially bankrupt, the amount remaining after deduction of the amount of collateral considered to be disposable and the amount recoverable under guarantees is set off from the original outstanding loan balance. The amount of such write-offs totaled ¥10,566 million (US\$98,392 thousand) for the year ended March 31, 2005.

Effective the reporting term, the Bank has amended the methods utilized for estimation of required amounts in the reserve for possible loan losses.

Regarding large-scale loans to borrowers threatened with bankruptcy not covered by collateral or guarantees, the Bank provides reserves in an amount deemed irrecoverable after deduction of cash flow amounts expected to be generated from the operating activities of the borrowers in the future.

Regarding loans to borrowers requiring supervision, the Bank currently employs a method utilizing the historical default rates for calculation of provision for loan losses. Previously, the Bank utilized the probable default rates for calculation of the required reserve amount.

The changes in the calculation methods caused the reserve for possible loan losses to increase by ¥25,600 million (US\$238,383 thousand) for the year ended March 31, 2005.

**Accrued Retirement Benefits**—Accrued retirement benefits are provided to state the post-employment benefit obligations less the fair value of the pension assets.

Prior service costs are amortized over a certain period (3 years) within the average remaining service period of the employees at the time of occurrence.

Actuarial differences of the plans are amortized from the succeeding fiscal year over a certain period (10 years) within the average remaining service period of the employees.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme, which is contributory and operated by the government. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund under the government's permission and supervision.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Bank decided to restructure its Employees' Pension Fund, and received the permission of the Ministry of Health, Labor and Welfare to be released from its future obligation for payments of the so-called substitutional portion of the Welfare Pension Insurance Scheme. In April 2004, the Bank revised its system for post-employment benefits, and in June of the same year adopted a new system under the Defined Benefit Corporate Pension Law, as a result of which the Bank will recognize gains in a total amount of ¥583 million (US\$5,434 thousand) over three years. The gain will be utilized in the calculation of periodical retirement benefit expenses.

**Finance Leases**—Finance leases which do not transfer ownership are accounted for in the same manner as operating leases.

**Foreign Currency Translation**—Receivables and payables in foreign currencies and foreign branch accounts are translated into Japanese yen principally at the rates prevailing at the balance sheet dates.

**Income Taxes**—Income taxes comprise corporation, enterprise and residents taxes.

Deferred tax assets are recorded based on loss carry-forwards and the temporary differences between the financial and tax bases of assets and liabilities.

**Net Income per Share**—Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during the year. Diluted net income per share is computed assuming all dilutive convertible bonds were converted and stock options exercised at beginning of the year or on a later date of issuance.

### 3. LOANS AND BILLS DISCOUNTED

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Commercial bills discounted.....	¥ 21,548	¥ 25,812	\$ 200,653
Loans on notes.....	119,492	155,671	1,112,696
Loans on deeds.....	1,085,627	1,048,327	10,109,207
Overdrafts.....	223,983	241,365	2,085,700
<b>Total.....</b>	<b>¥1,450,651</b>	<b>¥1,471,175</b>	<b>\$13,508,256</b>

Loans and bills discounted as of March 31, 2005 and 2004 included the following non-performing amounts:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans to borrowers			
legally bankrupt.....	¥ 1,678	¥ 7,044	\$ 15,625
Loans past due over 6 months...	67,043	74,899	624,295
Loans past due over 3 months...	102	—	950
Restructured loans.....	25,518	36,695	237,620
<b>Total.....</b>	<b>¥94,341</b>	<b>¥118,638</b>	<b>\$878,490</b>

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, up to a designated amount, as long as there is no violation of any condition in the contracts. As of March 31, 2005 the amount of unused commitments was ¥368,811 million (US\$3,434,319 thousand) and the amount of unused commitments of which original contract terms are within one year or unconditionally cancelable at any time was ¥367,651 million (US\$3,423,517 thousand).

Since most of these commitments are expected to expire without being drawn up, the total amount of unused commitments does not necessarily represent actual future cash flow requirements.

### 4. ASSETS PLEDGED AS COLLATERAL

As of March 31, 2005 securities with book values of ¥164,198 million (US\$1,528,990 thousand) were pledged as collateral for deposits, call money and deposits received for bonds lending / borrowing transactions amounting to ¥16,957 million (US\$157,901 thousand), ¥70,000 million (US\$651,830 thousand) and ¥20,696 million (US\$192,720 thousand), respectively. In addition, securities with book values of ¥36,502 million (US\$339,902 thousand) were pledged as collateral for exchange clearance transactions.

### 5. FOREIGN EXCHANGES

Foreign exchanges at March 31, 2005 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Assets:</b>			
Due from foreign correspondents .....	¥493	¥584	\$4,599
Foreign bills of exchange purchased .....	28	20	262
Foreign bills of exchange receivable .....	166	100	1,553
<b>Total .....</b>	<b>¥688</b>	<b>¥705</b>	<b>\$6,414</b>
<b>Liabilities:</b>			
Foreign bills of exchange sold ...	¥ 17	¥ 27	\$ 161
Foreign bills of exchange payable.....	16	3	155
<b>Total .....</b>	<b>¥ 33</b>	<b>¥ 30</b>	<b>\$ 316</b>

### 6. DEFERRED TAX ASSETS

Major components of deferred tax assets as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Excess reserve for loan losses ....	¥27,431	¥16,887	\$255,433
Excess reserve for retirement benefits .....	4,756	5,024	44,296
Excess depreciation.....	684	683	6,376
Other .....	1,446	1,382	13,467
Subtotal .....	34,318	23,977	319,572
Valuation allowance.....	(127)	—	(1,183)
<b>Total deferred tax assets .....</b>	<b>34,191</b>	<b>23,977</b>	<b>318,389</b>
<b>Unrealized gains on</b>			
available-for-sale securities .....	(8,582)	(6,683)	(79,919)
Other .....	(94)	(94)	(875)
<b>Deferred tax liabilities .....</b>	<b>(8,676)</b>	<b>(6,777)</b>	<b>(80,794)</b>
<b>Net deferred tax assets.....</b>	<b>¥25,515</b>	<b>¥17,200</b>	<b>\$237,595</b>

For the current term, there exist no material differences between the statutory effective tax rates and the income tax rates under tax-effect accounting applied to the reporting entity.

Major factors that caused the material differences for the previous term are as follows.

	2004
Statutory tax rate.....	41.7%
Decrease in deferred tax assets due to change of statutory tax rate .....	4.7
Non-taxable income (including dividend income) .....	(2.9)
Non-deductible expenses (including entertainment expenses) .....	1.6
Inhabitants taxes per capita .....	1.0
Other .....	1.9
Effective tax rate.....	48.1%

## 7. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Land .....	¥33,832	¥35,227	\$315,044
Buildings .....	31,193	31,400	290,465
Equipment and other .....	19,688	19,856	183,337
Subtotal .....	84,714	86,484	788,846
Less accumulated depreciation...	(34,838)	(34,866)	(324,411)
Total .....	49,875	51,617	464,435
Deposits and guarantees .....	916	934	8,530
Net book value .....	¥50,791	¥52,552	\$472,965

Depreciation expense for 2005 and 2004 amounted to ¥2,154 million (US\$20,067 thousand) and ¥2,014 million, respectively.

## 8. REVALUATION OF LAND

In accordance with the Land Properties Revaluation Act, the Bank revalued land used in the ordinary course of business as of March 31, 1998. The amount equal to estimated taxes on the revaluation excess was recorded as deferred tax on revaluation of land and the remaining balance after deducting such amount from the revaluation excess is shown as a separate component of shareholders' equity in the non-consolidated balance sheets.

The unrealized loss of revalued land was ¥17,488 million (US\$162,852 thousand) as of March 31, 2005.

## 9. FINANCE LEASES

Information on finance leases, as lessee, for equipment and other assets without transfer of ownership as lessee as of March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Pro forma capitalization:			
Acquisition cost equivalent.....	¥3,883	¥3,915	\$36,160
Accumulated depreciation equivalent .....	(1,399)	(831)	(13,036)
Book value equivalent.....	¥2,483	¥3,083	\$23,124
Minimum future lease payments:			
Due within one year.....	¥ 741	¥ 762	\$ 6,907
Due over one year .....	1,805	2,380	16,814
Total .....	¥2,547	¥3,142	\$23,721

The above "as if capitalized" depreciation is calculated by the straight-line method over lease terms.

Total lease payments under non-capitalized finance leases for the years ended March 31, 2005 and 2004 were ¥926 million (US\$8,623 thousand) and ¥790 million, respectively. If the above finance leases had been capitalized, depreciation of ¥792 million (US\$7,381 thousand) and ¥684 million, and interest of ¥99 million (US\$925 thousand) and ¥70 million would have been recorded for the years ended March 31, 2005 and 2004, respectively.

## 10. OTHER INCOME

Other income for the years ended March 31, 2005 and 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Gains on foreign exchange transactions .....	¥ —	¥ 32	\$ —
Gains on trading account securities .....	—	41	—
Gains on sale of bonds .....	667	518	6,217
Gains on sale of stocks .....	1,570	3,158	14,627
Other .....	1,527	2,109	14,225
Total .....	¥3,766	¥5,860	\$35,069

## 11. OTHER EXPENSES

Other expenses for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of
	2005	2004	U.S. dollars 2005
Losses on sale of stocks and other securities.....	¥ 89	¥ 0	\$ 829
Losses on devaluation of stocks and other securities .....	72	63	674
Losses on money held in trust...	355	199	3,314
Losses on sale of loans.....	2,626	5,274	24,461
Other .....	2,677	798	24,925
Total .....	¥5,820	¥6,334	\$54,203

## 12. CONTINGENT LIABILITIES—ACCEPTANCES AND GUARANTEES

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

## 13. BONDS WITH NON-DETACHABLE WARRANTS

On December 20, 2002 the Bank issued unsecured 0.3% bonds with non-detachable warrants due on March 31, 2006, of which ¥144 million (US\$1,341 thousand) were redeemed during the year ended March 31, 2005. The holders of the bonds are entitled to exercise warrants at ¥487 per share of common stock during the period from February 3, 2003 to March 30, 2006 by applying the bond principal.

## 14. SHAREHOLDERS' EQUITY

The Japanese Banking Law provides that an amount equal to at least 20% of cash dividends paid and other cash appropriations of retained earnings shall be appropriated as a legal reserve until the total of capital surplus and such reserve equals 100% of common stock. The legal reserve is, in principle, not available for distribution as dividends but may be used to reduce a deficit by resolution of a stockholders' meeting or may be transferred to common stock by resolution of the Board of Directors.

## 15. SUBSEQUENT EVENTS

The shareholders of the Bank approved the following appropriations of retained earnings at the annual meeting on June 25, 2005.

	Millions of yen		Thousands of
			U.S. dollars
Unappropriated deficit.....	¥(11,698)		\$(108,936)
Transfer from general reserve .....	14,000		130,366
Total .....	2,301		21,430
Appropriations:			
Cash dividends, ¥2.50 per share ...	398		3,710
Retained earnings carried forward ....	¥ 1,902		\$ 17,720

## 16. STOCK OPTION

At the general meeting of the shareholders held on June 28, 2005, the Bank's shareholders passed a resolution to allow the Bank to issue share subscription rights under a stock option scheme to directors and employees in accordance with stipulations in Articles 280-20 and 280-21 of the Commercial Code.

### (1) Eligible beneficiaries

Share subscription rights shall be issued for directors and employees of the Bank.

(2) Number of shares to be issued upon exercise of the subscription rights: not exceeding 240 million ordinary shares

(3) Number of share subscription rights: not exceeding 2,400 (1,000 ordinary shares for one subscription right)

(4) Offer price of share subscription rights: Free of charge

(5) Period for exercising share subscription rights: From July 1, 2007 to June 30, 2010

(6) Conditions for exercise of share subscription rights.

a) Persons to whom the share subscription rights are granted shall be allowed to exercise share subscription rights, even if they lose their status to be qualified for the receipt of new rights.

b) Neither transfer of nor putting in pledge of the share subscription rights, or similar transactions, shall be allowed.

c) If any person granted share subscription rights dies, the rights shall not pass to his or her heir.

d) Other conditions than described above shall be determined in accordance with an agreement to be concluded between the Bank and eligible persons pursuant to resolutions at the general meeting of shareholders and the Board of the Directors.

# Independent Auditors' Report

To the Board of Directors of  
The Eighteenth Bank, Limited:

We have audited the accompanying non-consolidated balance sheets of The Eighteenth Bank, Limited as of March 31, 2005 and 2004, and the related non-consolidated statements of operations and retained earnings (deficit) for the years then ended, expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to independently express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of The Eighteenth Bank, Limited as of March 31, 2005 and 2004, and the non-consolidated results of its operations for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying non-consolidated financial statements with respect to the year ended March 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the non-consolidated financial statements.

Nagasaki, Japan  
June 28, 2005

*KPMG AZSA & Co.*

KPMG AZSA & Co.