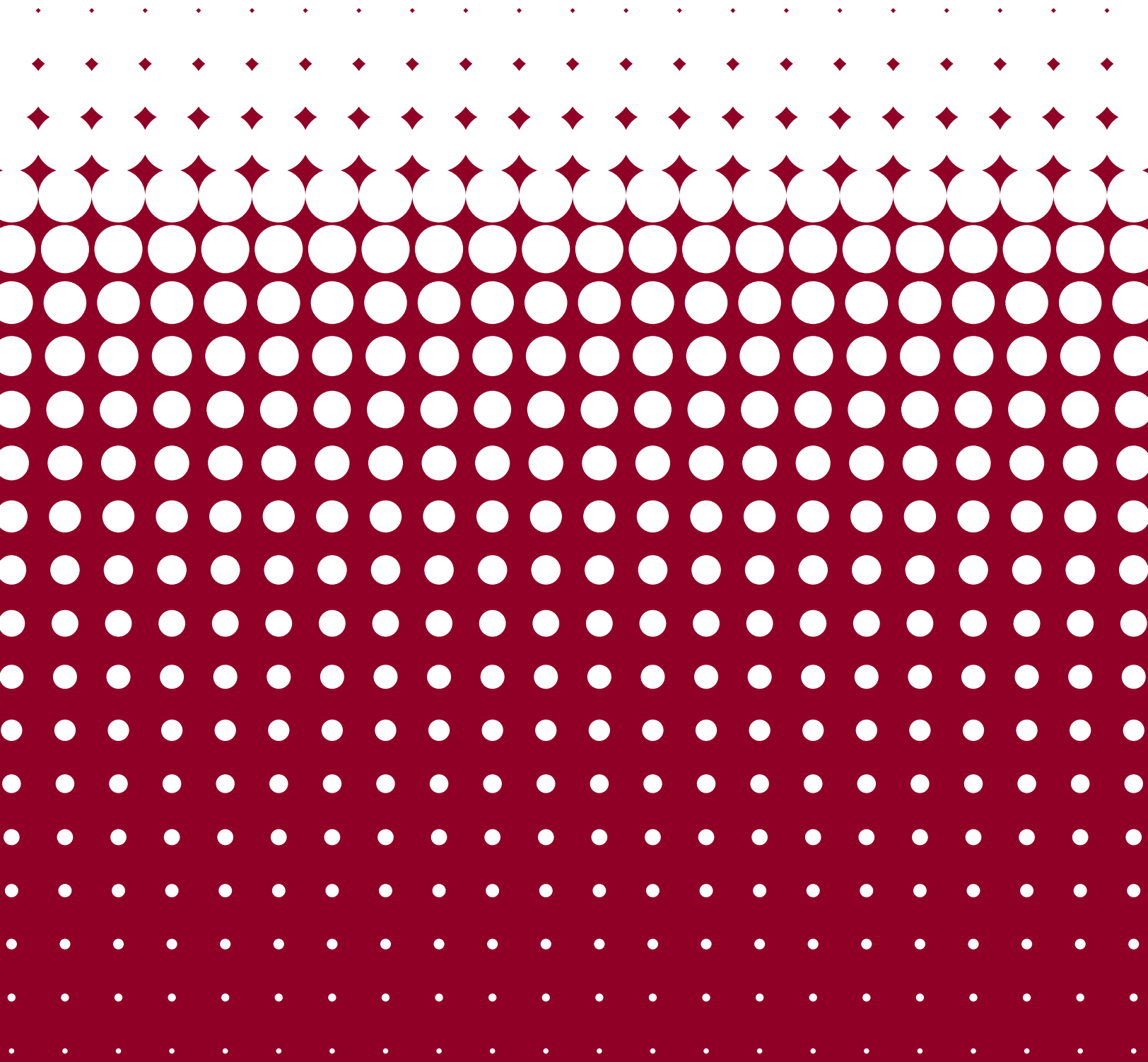




**MUSASHINO**  
B A N K



# Profile

Musashino Bank, headquartered in the city of Saitama, is a regional bank based in Saitama Prefecture bordering Tokyo to the north, from which much of the capital's workforce commutes. Established in 1952, the Bank plays an important role in the development of the regional communities it serves.

With 90 offices, the Bank has also played its part in the growth of the Japanese economy through its contribution to the development of Saitama Prefecture, while expanding its domestic and international operations.

The Musashino Bank Group comprises the parent bank and 8 consolidated subsidiaries. With the banking business at its core, the Group offers a wide range of financial services including leasing, and pursues an active marketing development policy focused on the needs of the region. As of March 31, 2005, the Bank's consolidated total assets stood at ¥3,042.8 billion (US\$28,334 million), and paid-in capital amounted to ¥36,690 million (US\$341 million).

Putting the customer first, Musashino Bank focuses on sound and balanced development in close touch with its regional communities.

## Musashino Bank Announces New Logo and New Corporate Color

### Our Logo

With effect from July 1, 2005 Musashino Bank has adopted a new logo. The tripartite design of the new logo is intended to express - by means of a futuristic design - the three-way relationship of equality and strong ties between the individual citizens of Saitama Prefecture, the prefecture's industrial economy, and Musashino Bank itself, as well as the Bank's unshakeable commitment to ongoing development.

### Our Corporate Color

As our new corporate color, we have selected a particular shade of red, which we have dubbed "Musashino Red." This particular hue gives a feeling of calm and stability, and in addition, we believe that it is equally suitable to conveying the sense of Bank staff with a pioneering spirit who at the same time treat their customers with warmth and understanding.

## Consolidated Financial Highlights

The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars*
	2005	2004	2005
<b>For the Year</b>			
Total Income .....	¥ 75,341	¥ 73,141	\$ 701,568
Total Expenses .....	59,865	60,884	557,460
Income before Income Taxes .....	15,475	12,256	144,108
Net Income for Year .....	8,631	6,216	80,371
<b>At Year-end</b>			
Total Assets .....	¥3,042,885	¥2,956,278	\$28,334,908
Deposits .....	2,800,826	2,716,666	26,080,889
Loans and Bills Discounted .....	2,078,213	1,937,287	19,352,021
Trading Account Securities and Investment Securities .....	612,332	602,985	5,701,961
Total Shareholders' Equity .....	121,204	112,101	1,128,640
Shareholders' Equity Ratio (based on domestic standards) (%) .....	9.34	9.33	—

\* U.S. dollar figures have been translated at the rate ¥107.39 to U.S.\$1, the prevailing market rate as of March 31, 2005.

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## Message from the President



Katsuaki Miwa, *President*

During the term under review, the economy in our operating base of Saitama Prefecture continued to exhibit a mild recovery trend. Although consumer spending in general saw repeated cycles of growth and stagnation, housing investment maintained a steady pace, while capital investment remained brisk against the backdrop of a favorable corporate earnings performance.

From the middle of 2004 onward, the tempo of economic activity slowed as manufacturing activity slackened its pace, reflecting the deceleration seen in the domestic economy as a whole. The local economy, nevertheless, is expected to remain steady. We have made our economic assessment based on the following two factors: 1) Housing investment has remained strong

thanks to the favorable location of Saitama Prefecture for commuters to workplaces in Tokyo; and 2) capital investment is forecast to increase. In addition to investments by manufacturers, new construction (including expansion of existing facilities) is projected in large-scale commercial facilities, logistics/distribution facilities, and medical facilities.

Amid this business environment, the Bank began the second year of its new medium-term management plan JUMP UP 21, introduced in April 2004. The Bank's executives and staff are working together to achieve the objectives outlined in this plan so as to become the No. 1 bank in terms of contributions to the local community, the leader in retail banking in Saitama, and the prefecture's most trusted bank.

## **Recent Management Initiatives**

Recent advances in financial deregulation have made it possible for banks to undertake securities intermediary services and serve as agents for trust banking operations, thereby expanding business opportunities for members of the financial sector. At the same time, banks have begun forming tie-ups and alliances with securities companies, life and non-life insurers and other non-banking members of the financial sector. The result has been an intensification of competition among financial institutions. Against this backdrop, the Bank drafted various measures in accordance with the basic policies outlined in its medium-term management plan, aiming to respond to the needs and expectations of local customers.

The new initiatives include the opening of new branches and increasing the number of Housing Loan Centers to enhance customer convenience and expand our marketing channels.

We plan to increase the number of bank branches undertaking securities intermediary operations, with the aim of expanding the investment options available to individuals in addition to investment trusts and pension insurance products.

To strengthen support services for the management of small and medium-sized enterprises and expand assistance for restructuring, start-ups and new business ventures, we will strengthen the sections in charge of overseeing these operations. Simultaneously, we will form tie-ups with outside specialized organizations, making efforts to develop loan products that precisely match the specific requirements of our customers. In this way, we will work to provide enhanced financial

support to small and medium-sized firms, and establish even closer ties with the local business community.

Meanwhile, we intend to raise management efficiency within the Bank by sharing core computer systems with seven other regional banks. This is one of the ways in which we will work ceaselessly to improve our management system.

Through these initiatives, we aim to realize our goal of becoming the No. 1 bank in terms of contribution to the local community, offering the best retail banking services in Saitama. We will continue working to create high-quality, attractive products and services, and remain committed to enhancing the Bank's enterprise value by further improving the soundness of our financial position and achieving a high degree of transparency in the management of banking operations.



*President*

Katsuaki Miwa

# Initiatives for Stimulating the Local Economy

## **Supporting Start-ups and New Ventures**

In December 2003, the Bank established the Musashino Community Revitalization Fund to provide financial support for small and medium-sized companies, as well as start-ups and new ventures, which until then had been difficult to serve. We also created the Musashino New Business Fund.

In addition, we provide a business matching service for customers who are starting up new businesses or who have research and development-related needs. We introduce these customers to universities within the prefecture, thereby supporting collaborations between academia and the private sector. From May 2005, the Bank concluded a basic alliance with Toyo University for the promotion of collaborations between the university and private companies in the region. In the future, we will put even greater effort into measures supporting collaborations between universities and private companies for the purpose of strengthening the financing function of local enterprises.

## **Aiding Companies to Curb Capital Procurement and Labor Costs**

To help smaller companies reduce their labor costs, the Bank formed a tie-up with Tokio Marine & Nichido Fire Insurance Co., Ltd. from May 2005 to offer a 401k-type defined-contribution pension plan. Under the defined-contribution pension scheme, funds contributed by multiple enterprises are operated under a single pension fund. The distinctive feature of this revolutionary defined-contribution pension plan is that it can be tailored to match the specific circumstances of each participating company.

## **Helping Corporate Customers to Restructure Operations**

At Musashino Bank, designated staff at Bank branches and headquarters have been working together to serve, as much as possible, as a back-up for local companies that are undergoing restructuring. In the two-year period when intensive efforts were requested by the Government to improve regional banks' relationship banking function, we assisted 780 corporate customers requiring support for management reforms, primarily in the form of a wide range of proposals and consulting activities. Specific activities include the introduction in October 2003 of the Management Program Drafting Support System. The first system of its kind to be introduced by a regional bank, it enables: 1) an accurate assessment of a company's current situation; 2) the drafting of a reform plan; 3) an easy confirmation of results. The system makes it possible to draft objective proposals based on specific quantitative data, and contributes significantly to corporate revitalization activities.

## **Environmental Initiatives**

- *The Musashino Green Fund Charitable Trust*

Through a charitable trust known as the Musashino Green Fund, established in July 1992, Musashino Bank provides grants for environmental conservation and the fostering of creative activities within Saitama Prefecture. Since 1992, the trust has provided financial assistance totaling ¥32 million to 87 recipients, including public institutions, private companies, organizations, and individuals undertaking environmental conservation activities within the prefecture.

# FINANCIAL SECTION

## Consolidated Financial Review

### Earnings

During the term, we focused on strengthening lending capabilities and increasing revenue from fees and commissions on investment trusts and insurance products. As a result, the Bank posted a business profit on core banking operations of ¥20,654 million (US\$192 million), up ¥944 million from the previous fiscal year, and net income of ¥8,631 million (US\$80 million) on a consolidated basis, up ¥2,415 million, both of which were record-high figures for the third straight year.

### Overhead Ratio and Other Costs

The Bank's overhead ratio on core banking operations, which stood at the high level of 69.93% in fiscal 2001 and exceeded the regional banks' average by 4.4 percentage points, had improved to 61.68% in fiscal 2004. Thus, in three years, we have been able to close the gap to 1.13 percentage points with the average of 60.55% for the 64 members of the Regional Banks Association. An increase in gross profit on core banking operations led to a decline in the overhead ratio despite an increase in expenses. We believe that the Bank's earnings structure

has changed, in that revenues are growing at a faster rate than expenses.

### Deposits, Loans and Securities

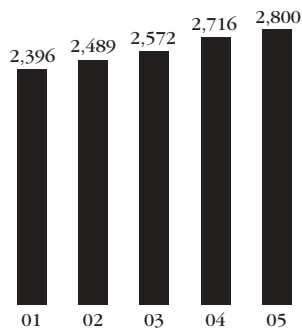
Amid the intensifying competition among financial institutions, the Bank worked hard to expand its operating base by conducting marketing aimed at increasing the volume of deposits mainly of individual customers. As a result of these efforts, deposits excluding CDs at the end of the term increased ¥89.1 million, to ¥2,792.2 billion (US\$26,000 million) on a consolidated basis.

Regarding the loan balance, we are actively implementing measures to better serve the specific needs of locally owned businesses and individuals, while maintaining the soundness of the Bank's asset quality. As a result, the Bank recorded a ¥140.9 billion increase in total loans in the term under review, to ¥2,078.2 billion (US\$19,352 million).

While underwriting the issuance of Japanese Government Bonds as well as other public bonds, the Bank took a cautious stance to efficiently trade its

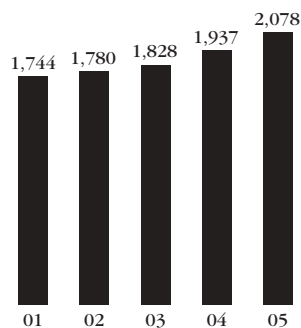
### Deposits

(¥ billion)



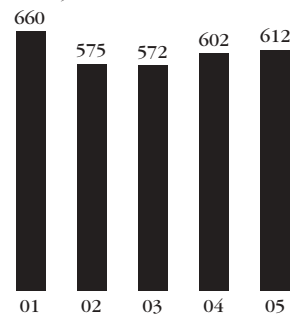
### Loans and Bills Discounted

(¥ billion)



### Trading Account Securities and Investment Securities

(¥ billion)



securities. As a result, investment securities at term-end increased ¥10.3 billion, to ¥611.8 billion (US\$5,697 million). The balance of trading account securities at term-end totaled ¥400 million.

**Shareholders’ Equity Ratio**

At the term-end, the Bank’s shareholders’ equity ratio stood at 9.34% on a consolidated basis. This figure is substantially higher than the minimum requirement of 4% for domestic standards, and shows a high level of soundness in the Bank’s operations.

**International Operations**

To actively respond to the needs of our customers, we undertake foreign exchange transactions and maintain foreign currency-denominated deposits. Foreign currency transaction volumes for the term totaled \$1,653 million, up 14.2% from the previous term.

**Non-Performing Loans**

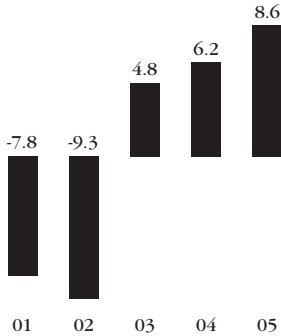
The balance of non-performing loans (NPLs) stood at ¥81.0 billion, marking a dramatic decline of ¥102.6 billion from the previous term-end. The NPL ratio\*, which

indicates the proportion of non-performing loans to total loans, stood at 3.82%, compared with a ratio of 7.23% in fiscal 2001, which was the peak. Thus, we are confident that we will achieve, ahead of schedule, the priority goal of our medium-term management plan, which is to reduce the NPL ratio below 3%. In our view, the NPL problem has already peaked out. The total credit cost for fiscal 2004, including provisions for possible loan losses, at ¥4.7 billion, remained far below the fiscal 2002 level, and the credit cost ratio (credit cost to total loans), at 0.24%, was nearly on par with previous year’s low figure, due partially to an increase in loans, which is the denominator of that equation.

\* This is defined as total bad debt as a percentage of total credit subject to mandatory disclosure under the Financial Reconstruction Law.

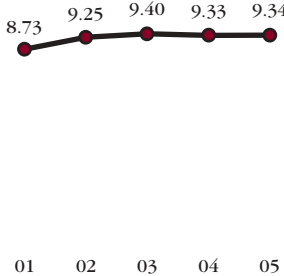
**Net Income (Loss)**

(¥ billion)



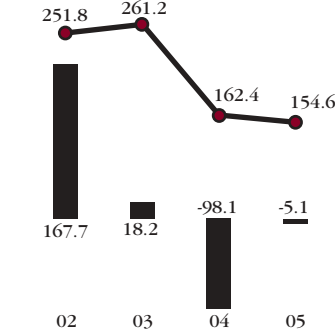
**Shareholders’ Equity Ratio (based on domestic standards)**

(%)



**Cash Flows**

(¥ billion)



● Cash and Cash Equivalents at the End of the Year  
 ■ Free Cash Flows = Cash Flows from Operating Activities + Cash Flows from Investing Activities

# Consolidated Balance Sheets

The Musashino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2005	2004	2005
<b>Assets</b>			
Cash and Due from Banks .....	¥ 155,572	¥ 166,625	\$ 1,448,670
Call Loans .....	69,877	126,504	650,688
Commercial Paper and Other Debt Purchased.....	23,774	22,480	221,388
Trading Account Securities (Note 6) .....	435	1,487	4,057
Money Held in Trust .....	1,500	1,458	13,968
Investment Securities (Note 7).....	611,897	601,498	5,697,904
Loans and Bills Discounted (Note 8).....	2,078,213	1,937,287	19,352,021
Foreign Exchanges .....	1,639	3,032	15,267
Other Assets .....	44,727	39,557	416,498
Premises and Equipment (Note 9) .....	36,738	36,476	342,105
Deferred Income Taxes Asset.....	14,393	18,173	134,034
Customers' Liabilities for Acceptances and Guarantees (Note 13).....	26,949	27,460	250,948
Reserve for Possible Loan Losses .....	(22,835)	(25,764)	(212,639)
Reserve for Devaluation of Investment Securities .....	(0)	—	(1)
<b>Total Assets</b> .....	<b>¥3,042,885</b>	<b>¥2,956,278</b>	<b>\$28,334,908</b>
<b>Liabilities</b>			
Deposits (Note 10).....	¥2,800,826	¥2,716,666	\$26,080,889
Call Money .....	8,165	17,931	76,035
Borrowed Money.....	40,766	43,768	379,610
Foreign Exchanges .....	90	313	847
Other Liabilities .....	30,901	25,047	287,752
Reserve for Employee Bonuses .....	1,418	1,321	13,211
Reserve for Employee Retirement Benefits (Note 12).....	5,463	4,991	50,871
Reserve for Losses on Loans Sold .....	—	10	—
Deferred Income Taxes Liability on Premises Revaluation (Note 9)....	5,100	5,185	47,496
Acceptances and Guarantees (Note 13).....	26,949	27,460	250,948
<b>Total Liabilities</b> .....	<b>2,919,682</b>	<b>2,842,696</b>	<b>27,187,659</b>
<b>Minority Interest</b> .....	<b>1,998</b>	<b>1,480</b>	<b>18,609</b>
<b>Shareholders' Equity</b> (Note 14)			
Common Stock .....	36,690	36,690	341,660
Capital Surplus .....	29,301	29,301	272,855
Retained Earnings.....	38,629	31,473	359,710
Premises Revaluation Account (Note 9).....	7,496	7,621	69,808
Unrealized Gain on Available-for-Sale Securities .....	10,797	7,584	100,546
Treasury Stock .....	(1,711)	(571)	(15,939)
<b>Total Shareholders' Equity</b> .....	<b>121,204</b>	<b>112,101</b>	<b>1,128,640</b>
<b>Total Liabilities, Minority Interest and Shareholders' Equity</b> .....	<b>¥3,042,885</b>	<b>¥2,956,278</b>	<b>\$28,334,908</b>

See Notes to Consolidated Financial Statements.



# Consolidated Statements of Capital Surplus and Retained Earnings

The Musasbino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2005	2004	2005
<b>Capital Surplus</b>			
Balance at Beginning of Year .....	¥29,301	¥29,301	\$272,855
Increase:			
Gains on Sale of Shares of Treasury Stock .....	0	—	0
Balance at End of Year .....	¥29,301	¥29,301	\$272,855
<b>Retained Earnings</b>			
Balance at Beginning of Year .....	¥31,473	¥26,843	\$293,077
Increase:			
Transfer from Premises Revaluation Account .....	124	110	1,163
Decrease:			
Cash Dividends .....	(1,572)	(1,573)	(14,645)
Bonuses for Directors and Statutory Auditors .....	(27)	—	(256)
Losses on Sale of Shares of Treasury Stock .....	—	(122)	—
Net Income for Year .....	8,631	6,216	80,371
Balance at End of Year .....	¥38,629	¥31,473	\$359,710

See Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2005 and 2004

	Millions of Yen (Note 2)		Thousands of U.S. Dollars (Note 2)
	2005	2004	2005
<b>Cash Flows from Operating Activities</b>			
Income before Income Taxes .....	¥ 15,475	¥ 12,256	\$ 144,108
Depreciation.....	964	861	8,981
Net Increase (Decrease) in Reserve for Possible Loan Losses .....	(2,928)	(3,107)	(27,274)
Net Increase (Decrease) in Reserve for Devaluation of Investment Securities ...	0	—	1
Net Increase (Decrease) in Reserve for Losses on Loan Sold .....	(10)	(353)	(99)
Net Increase (Decrease) in Reserve for Employee Bonuses.....	97	254	908
Net Increase (Decrease) in Reserve for Employee Retirement Benefits.....	471	(338)	4,389
Interest Income .....	(50,129)	(48,682)	(466,799)
Interest Expenses .....	2,179	2,413	20,297
Net Loss (Gain) from Investment Securities .....	(76)	1,304	(715)
Net Loss (Gain) from Money Held in Trust .....	(35)	39	(330)
Net Foreign Exchanges Loss (Gain) .....	(263)	895	(2,449)
Net Loss (Gain) from Disposition on Premises and Equipment .....	104	443	971
Net Decrease (Increase) in Trading Account Securities .....	1,051	(300)	9,791
Net Decrease (Increase) in Loans and Bills Discounted.....	(140,926)	(108,433)	(1,312,283)
Net Increase (Decrease) in Deposits .....	84,160	144,652	783,689
Net Increase (Decrease) in Borrowed Money .....	(3,002)	61	(27,957)
Net Decrease (Increase) in Call Loans and Others.....	55,332	(121,914)	515,249
Net Increase (Decrease) in Call Money and Others.....	(9,765)	365	(90,936)
Net Decrease (Increase) in Due from Banks (excluding Due from Bank of Japan).....	3,215	(2,680)	29,942
Net Decrease (Increase) in Foreign Exchange (Assets) .....	1,393	(1,669)	12,976
Net Increase (Decrease) in Foreign Exchange (Liabilities).....	(222)	238	(2,074)
Interest Received .....	53,374	49,530	497,013
Interest Paid.....	(2,271)	(2,869)	(21,155)
Other, Net.....	(3,753)	9,219	(34,946)
Subtotal.....	4,435	(67,810)	41,298
Income Taxes Paid.....	(4)	(623)	(37)
<b>Net Cash Provided by (Used in) Operating Activities.....</b>	<b>4,430</b>	<b>(68,433)</b>	<b>41,261</b>
<b>Cash Flows from Investing Activities</b>			
Payments of Purchase of Securities .....	(284,469)	(234,474)	(2,648,942)
Proceeds from Sale of Securities .....	218,327	140,925	2,033,030
Proceeds from Maturities of Securities .....	58,595	63,753	545,632
Increase in Money Held in Trust.....	(1,203)	(990)	(11,206)
Decrease in Money Held in Trust.....	1,193	1,641	11,112
Proceeds from Sale of Premises and Equipment .....	566	562	5,271
Payments of Purchase of Premises and Equipment.....	(2,562)	(1,113)	(23,864)
<b>Net Cash Used in Investing Activities .....</b>	<b>(9,554)</b>	<b>(29,695)</b>	<b>(88,967)</b>
<b>Cash Flows from Financing Activities</b>			
Payments of Purchase of Shares of Treasury Stock .....	(1,142)	(64)	(10,642)
Proceeds from Sale of Shares of Treasury Stock .....	3	924	29
Dividends Paid.....	(1,572)	(1,547)	(14,645)
Dividends Paid for Minority Interest .....	(1)	(1)	(16)
<b>Net Cash Used in Financing Activities.....</b>	<b>(2,714)</b>	<b>(688)</b>	<b>(25,274)</b>
<b>Net Decrease in Cash and Cash Equivalents .....</b>	<b>(7,837)</b>	<b>(98,817)</b>	<b>(72,980)</b>
<b>Cash and Cash Equivalents at Beginning of Year .....</b>	<b>162,454</b>	<b>261,271</b>	<b>1,512,750</b>
<b>Cash and Cash Equivalents at End of Year (Note 19).....</b>	<b>¥154,616</b>	<b>¥162,454</b>	<b>\$1,439,770</b>

See Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

*The Musashino Bank, Ltd. and Consolidated Subsidiaries*

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of The Musashino Bank, Ltd. (the "Bank") and consolidated subsidiaries (together referred to as "Bugin Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Securities and Exchange Law of Japan.

## 2. Yen and U.S. Dollar Amounts

Under the Enforcement Regulations of Banking Law, all yen figures are rounded down to the nearest one million yen. Accordingly, breakdown figures may not add up to sums.

U.S. dollar amounts presented in the accompanying financial statements are included solely for convenience and should not be construed as representations that Japanese yen amounts have been or could in the future be converted into U.S. dollars. The rate of ¥107.39 to U.S.\$1.00, prevailing on March 31, 2005, has been used for translation into U.S. dollar amounts in the financial statements.

## 3. Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bank and its all (8) subsidiaries for the year ended March 31, 2005. The major consolidated subsidiaries are listed below.

- The Bugin General Lease Co., Ltd.
- The Bugin Guarantee Co., Ltd.
- The Musashino Card Co., Ltd.

All significant inter-company accounts and transactions, and unrealized gains and losses, between members of the Bugin Group, have been eliminated in consolidation.

## 4. Fiscal Year-Ends of Consolidated Subsidiaries

Fiscal year-ends for the consolidated subsidiaries are as follows:

March 31                      8 consolidated subsidiaries

## 5. Summary of Significant Accounting Policies

### (a) Securities and Money Held in Trust

1. Trading account securities are stated at fair value.
2. Held-to-maturity bonds, which are expected to be held to maturity with positive intent and ability, are reported at amortized cost.

### 3. Available-for-sale securities:

Listed securities are stated at fair value, with unrealized gains and losses, net of applicable taxes, in a separate component of shareholders' equity as Unrealized Gain on Available-for-Sale Securities in the balance sheet.

Unlisted securities are valued at the moving-average cost or amortized cost.

### 4. Listed securities in money held in trust are stated at fair value.

### (b) Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation for buildings acquired before April 1, 1998, furniture and fixtures is computed by the declining balance method over the estimated useful lives. Depreciation for buildings acquired after April 1, 1998 is computed by the straight-line method over the estimated useful lives.

### (c) Foreign Currency Translation

Assets and liabilities in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the end of each fiscal year.

### (d) Reserve for Possible Loan Losses

The Bugin Group maintains a reserve for possible loan losses that consists of a specific provision and a general reserve.

The reserve for possible loan losses is estimated against all receivables by the standards for self-assessment of assets, at amounts sufficient to cover possible losses on collection for doubtful receivables, and at amounts calculated by historical bad debt loss percentage for other receivables.

### (e) Reserve for Employee Bonuses

Reserve for employee bonuses is provided, in provision for payment of bonuses to employees, by the amount of estimated bonuses, which are attributable to this fiscal term.

### (f) Reserve for Employee Retirement Benefit

The reserve for employee retirement benefit is recorded based on an actuarial computation, which uses the present value of the projected benefit obligation and plan assets at the balance sheet date. Transitional obligation from the initial application of the new accounting standard for employee retirement benefits of ¥4,089 million (\$38,084 thousand) is amortized using the straight-line method over 5 years.

(g) Financial Instruments

Effective April 1, 2000, the Bank adopted a new accounting standard for financial instruments and accounted all derivatives at fair value and recognized gains and losses on derivative transactions in the statements of operations.

(h) Income Taxes

Income taxes in Japan applicable to the Bugin Group consisted of corporation tax (national), inhabitant taxes (local) and enterprise taxes (local).

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled.

(i) Regional Taxes

With the enactment of "Revision of Law regarding Regional Taxation, etc." (Law No.9 of March 2003) on March 31, 2003, certain parts of the basis of the enterprise taxes imposed on banks were changed effective the consolidated fiscal year beginning April 1, 2004 to "added value" and "amount of capital, etc." As a result, effective this consolidated fiscal year, The Bugin Group included the enterprise taxes based on "added value" and "amount of capital, etc." in "General and Administrative Expenses" on the Consolidated Statement of Income, in accordance with "Practical Treatment of Presentation of External Standards Taxation portion of Enterprise Taxes on the Statement of Income" (the Accounting Standards Board of Japan (the "ASBJ") Report of Practical Issues No. 12).

(j) Lease Transactions

Finance lease transactions, except for those which meet the conditions that the ownership of the leased assets is substantially transferred to the lessee, are accounted for on a basis similar to ordinary rental transactions.

(k) Consumption Taxes

Transactions are recorded at the amounts not including consumption tax and municipal consumption tax.

## 6. Trading Account Securities

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
National Government Bonds .....	¥435	\$4,057
<b>Total</b> .....	<b>¥435</b>	<b>\$4,057</b>

## 7. Investment Securities

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
National Government Bonds .....	¥243,351	\$2,266,051
Local Government Bonds.....	109,433	1,019,033
Corporate Bonds .....	126,061	1,173,871
Share Stocks .....	47,385	441,246
Other Securities .....	85,665	797,703
<b>Total</b> .....	<b>¥611,897</b>	<b>\$5,697,904</b>

## 8. Loans and Bills Discounted

(a) Loans and Bills Discounted as at March 31, 2005 consisted of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Bills Discounted .....	¥ 45,973	\$ 428,100
Loans on Bills .....	184,120	1,714,505
Loans on Deeds .....	1,690,229	15,739,174
Overdrafts .....	157,889	1,470,242
<b>Total</b> .....	<b>¥2,078,213</b>	<b>\$19,352,021</b>

(b) Risk-Monitored Loans

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Loans to Companies Legally		
Bankrupted .....	¥ 3,051	\$ 28,417
Non-Accrual Loans.....	49,893	464,600
Loans Past Due Over 3 Months .....	175	1,630
Restructured Loans.....	31,458	292,936
<b>Total</b> .....	<b>¥84,578</b>	<b>\$787,583</b>

(c) Commitment Lines

Loan agreements and commitment line agreements relating to loans are agreements which oblige the bank and its consolidated subsidiaries to lend funds up to a certain limit agreed in advance. The bank and its consolidated subsidiaries make the loans upon the request of an obligor to draw down funds under such loan agreements, as long as there is no breach of the various terms and conditions stipulated in the relevant loan agreement. The unused commitment balance relating to those loan agreements at March 31, 2005 amounted to ¥247,560 million (\$2,305,243 thousand). Of this amount, ¥185,392 million (\$1,726,343 thousand) relates to loans where the term of the agreement is one year or less, or unconditional cancellation of the agreement is at any time.

## 9. Premises and Equipment

(a) The accumulated depreciation of premises and equipment as of March 31, 2005 and 2004 amounted to ¥20,551 million (\$191,373 thousand) and ¥20,419 million, respectively.

### (b) Premises Revaluation Account

Based on the Law Concerning Land Revaluation (Law No.34, promulgated March 31, 1998), the Bank has revalued its landholdings used for business purposes. Moreover, previously the full amount of the revaluation differences was shown in the item, "Premises Revaluation Account," among liabilities on the balance sheet. As a result of the revision of this law, effective March 31, 1999, since this fiscal year, the amount of tax payable on the amount of the revaluation differences has been shown in the item "Deferred Income Taxes Liability on Premises Revaluation." In addition, the amount of the revaluation differences less this tax liability has been shown in the item "Premises Revaluation Account" indicated under shareholders' equity.

Revaluation date: March 31, 1998

Revaluation method as stated in Article 3-3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2-4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No.119, promulgated March 31, 1998), after making reasonable adjustments.

## 10. Deposits

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Current Deposits.....	¥ 108,035	\$ 1,006,011
Ordinary Deposits.....	1,190,301	11,083,911
Saving Deposits .....	92,852	864,631
Deposits at Notice .....	6,344	59,076
Time Deposits .....	1,335,580	12,436,732
Others.....	64,102	596,912
Subtotal.....	2,797,216	26,047,273
Negotiable Certificates of Deposit .....	3,610	33,616
<b>Total.....</b>	<b>¥2,800,826</b>	<b>\$26,080,889</b>

## 11. Pledged Assets

Assets that are pledged as collateral as of March 31, 2005 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Assets that are Pledged as Collateral:		
Other Assets .....	¥6,026	\$56,122
Obligations Corresponding to Collateral Assets:		
Borrowed Money.....	5,714	53,213

In addition to the above, as collateral relating to transactions on exchange settlements or as substitutes for futures transaction margins, securities of ¥104,711 million (\$975,056 thousand) are deposited items. Of equipment and premises, ¥2,234 million (\$20,809 thousand) consists of guarantee deposits.

## 12. Reserve for Employee Retirement Benefits and Related Items

The liability (asset) for employees' retirement benefits as at March 31, 2005 consists of the following:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Present Value of Projected Benefit		
Obligation .....	¥(26,317)	\$(245,066)
Fair Value of Plan Assets.....	17,153	159,732
Unfunded Retirement Benefit		
Obligation .....	(9,163)	(85,334)
Unrecognized Loss at Transitional		
Obligation .....	—	—
Unrecognized Actuarial Difference .....	4,561	42,476
Unrecognized Prior Service Costs.....	529	4,927
Net Liability on the Balance Sheet .....	¥ (4,073)	\$ (37,931)
Prepaid Pension Cost .....	¥ 1,389	\$ 12,940
Reserve for Employee Retirement Benefits.....		
	¥ (5,463)	\$ (50,871)

The components of net periodic benefit costs for the year ended March 31, 2005 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Service Cost.....	¥1,043	\$ 9,717
Interest Cost .....	496	4,624
Expected Return on Plan Assets .....	(534)	(4,978)
Amortization of Prior Service Cost.....	59	553
Recognized Actuarial Difference.....	1,264	11,778
Amortization of Transitional		
Obligation .....	817	7,612
Net Periodic Benefit Cost .....	¥3,147	\$29,306

Assumptions used for the year ended March 31, 2005 are set forth as follows:

Discount Rate.....	2.0%
Expected Rate of Return on Plan Assets.....	3.5%
Amortization Period for Prior Service Cost.....	10 years
Recognition Period of Actuarial Difference.....	10 years
Amortization Period of Transitional Obligation.....	5 years

### 13. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payment of loans from other financial institutions. As a contra account, "Customers' Liabilities for Acceptances and Guarantees" are shown on the assets side, indicating the Bank's right of indemnity from the applicants.

### 14. Shareholders' Equity

#### (a) Common Stock and Capital Surplus

On March 31, 2005, the authorized share capital of the Bank consisted of 80,000,000 shares, of which 31,755,456 shares were issued and outstanding.

Under the Commercial Code of Japan at least 50 percent of the issue price of new shares is required to be designated as stated capital. The remaining portion is credited to capital surplus.

#### (b) Cash Dividends

Cash Dividends are paid semi-annually. An interim dividend may be approved by the Board of Directors and a year-end dividend may be approved by the shareholders after the end of each fiscal year. The year-end dividend and the related appropriations of retained earnings are not reflected in the financial statements at the end of each fiscal year but are recorded at the time they are approved.

### 15. Other Income

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Gains on Sale of Stocks and Other Securities.....	¥ 2,559	\$ 23,835
Gains on Money Held in Trust.....	35	330
Gains on Sale of Premises and Equipment.....	24	224
Others.....	10,455	97,362
<b>Total.....</b>	<b>¥13,074</b>	<b>\$121,751</b>

### 16. Other Expenses

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
Provision for Possible Loan Losses.....	¥ 4,990	\$ 46,475
Write-off of Claims.....	564	5,253
Losses on Sale of Stocks and Other Securities.....	96	897
Losses on Devaluation of Stocks and Other Securities.....	1,104	10,287
Losses on Money Held in Trust.....	0	0
Losses on Disposal of Premises and Equipment.....	128	1,195
Amortization of Transitional Obligation.....	813	7,573
Others.....	9,575	89,166
<b>Total.....</b>	<b>¥17,273</b>	<b>\$160,846</b>

### 17. Income Taxes

Significant components of deferred tax assets and liabilities for the year ended March 31, 2005 are as follows:

March 31	Thousands of	
	Millions of Yen	U.S. Dollars
	2005	2005
<b>Deferred Tax Assets</b>		
Reserve for Possible Loan Losses.....	¥14,746	\$137,321
Software.....	2,282	21,250
Losses on Devaluation of Stocks and Other Securities.....	2,171	20,223
Reserve for Employee Retirement Benefits.....	1,571	14,633
Other.....	2,952	27,502
Subtotal.....	23,725	220,929
Less, Valuation Allowance.....	(1,640)	(15,274)
Deferred Tax Assets.....	22,085	205,655
Deferred Tax Liabilities.....	(7,691)	(71,621)
<b>Net Deferred Tax Assets.....</b>	<b>¥14,393</b>	<b>\$134,034</b>

## 18. Lease Transactions

Finance lease transactions that do not transfer ownership of the lease property for the year ended March 31, 2005 are as follows:

(Lessor)

Acquisition cost, accumulated depreciation and balance at March 31, 2005 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Acquisition Cost .....	¥44,358	\$413,062
Accumulated Depreciation .....	26,665	248,308
<b>Total</b> .....	<b>¥17,692</b>	<b>\$164,754</b>

The pro forma amounts of lease receivable under finance lease at March 31, 2005 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Within One Year .....	¥ 5,235	\$ 48,748
Over One Year .....	12,667	117,958
<b>Total</b> .....	<b>¥17,902</b>	<b>\$166,706</b>

Lease payment received, depreciation expenses and amounts equivalent to interest income for the year ended March 31, 2005 are as follows:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Lease Payment Received .....	¥6,963	\$64,842
Depreciation Expenses .....	5,515	51,356
Interest Income .....	1,529	14,245

## 21. Segment Information

(a) Segment information by business

For the fiscal year ended March 31, 2005 on a consolidated basis is as follows:

	Millions of Yen				Elimination or corporate	Consolidated
	Banking	Lease	Other business	Total		
<b>Ordinary Revenue</b>						
Ordinary Revenue from Outside .....	¥ 63,653	¥ 9,102	¥ 2,443	¥ 75,200	¥ —	¥ 75,200
Ordinary Revenue from Intersegment Transactions .....	268	957	1,011	2,237	(2,237)	—
<b>Total</b> .....	<b>63,921</b>	<b>10,060</b>	<b>3,454</b>	<b>77,437</b>	<b>(2,237)</b>	<b>75,200</b>
Ordinary Expenses.....	48,848	9,362	2,948	61,159	(2,237)	58,923
Ordinary Income (Loss) .....	¥ 15,073	¥ 697	¥ 506	¥ 16,277	¥ (1)	¥ 16,276
<b>Identifiable Assets</b>						
Identifiable Assets .....	¥3,021,146	¥30,066	¥17,094	¥3,068,307	¥(25,421)	¥3,042,885
Depreciation Expenses.....	947	13	4	964	—	964
Capital Expenditures .....	2,550	5	7	2,562	—	2,562

The method of calculating the pro forma amounts of depreciation expenses for the year ended March 31, 2005 are as follows:

Depreciation is computed based on the straight-line method over the period of lease, with no residual value.

## 19. Cash and Cash Equivalents

In the consolidated statement of cash flow, scope of capital is cash and due from the Bank of Japan in “cash and due from banks” in the consolidated balance sheets.

The reconciliation between the Cash and Cash Equivalents at the end of period of the Consolidated Statements of Cash Flows and Cash and Due from Banks on the Consolidated Balance Sheet is as follow:

March 31	Millions of Yen	Thousands of U.S. Dollars
	2005	2005
Cash and Due from Banks.....	¥155,572	\$1,448,670
Due from Banks except for Deposits with Bank of Japan.....	(955)	(8,900)
<b>Cash and Cash Equivalent</b> .....	<b>¥154,616</b>	<b>\$1,439,770</b>

## 20. Subsequent Event

The appropriation of retained earnings applicable to the year ended March 31, 2005 was approved at the shareholders' meeting of the Bank held on June 29, 2005.

	Millions of Yen	Thousands of U.S. Dollars
	Cash Dividends (¥25.0 per share).....	¥783
Bonuses for Directors and Statutory Auditors.....	34	324

Thousands of U.S. Dollars

	Banking	Lease	Other business	Total	Elimination or corporate	Consolidated
Ordinary Revenue						
Ordinary Revenue from Outside .....	\$ 592,734	\$ 84,764	\$ 22,755	\$ 700,253	\$ —	\$ 700,253
Ordinary Revenue from						
Intersegment Transactions .....	2,497	8,920	9,415	20,832	(20,832)	—
<b>Total</b> .....	<b>595,230</b>	<b>93,684</b>	<b>32,171</b>	<b>721,085</b>	<b>(20,832)</b>	<b>700,253</b>
Ordinary Expenses.....	454,871	87,184	27,452	569,507	(20,817)	548,690
Ordinary Income (Loss) .....	\$ 140,359	\$ 6,499	\$ 4,718	\$ 151,578	\$ (15)	\$ 151,563
Identifiable Assets .....	\$28,132,471	\$279,977	\$159,184	\$28,571,632	\$(236,724)	\$28,334,908
Depreciation Expenses.....	8,820	123	38	8,981	—	8,981
Capital Expenditures .....	23,746	52	66	23,864	—	23,864

Notes:

1. The business segmentation is determined based on the Bank's internal administrative purpose.
2. "Other business" includes credit card, loans, guarantees, venture capital, system development and information processing.
3. Under Japanese accounting principles, ordinary income and expenses are defined as total income and expenses less those income and expense items classified as extraordinary income and expenses (such as gains or losses on the sale of real estate).

(b) As operations in Japan, in terms of all segments and total assets for all segments, accounted for more than 90% of total ordinary income, information by location has been omitted.

(c) As ordinary income from international operations accounted for less than 10% of total ordinary income, information about the ordinary income from international operations has been omitted.

## 22. Market Information

### 1. Securities

Securities transactions in Trading Account Securities are excluded from the table below because they are revalued at the end of the fiscal year and evaluation gains and losses are recognized in the Financial Statements.

For the fiscal year ended March 31, 2005 on a consolidated basis is as follows:

Available-for-Sale Securities that have Market Value

Millions of Yen					Thousands of U.S. Dollars				
Acquisition cost	Book value	Net (A)-(B)	Unrealized gain (A)	Unrealized loss (B)	Acquisition cost	Book value	Net (A)-(B)	Unrealized gain (A)	Unrealized loss (B)
¥586,955	¥605,100	¥18,144	¥20,622	¥2,478	\$5,465,647	\$5,634,604	\$168,956	\$192,033	\$23,077

At March 31, 2005, the Bank and its consolidated subsidiaries had no Held-to-Maturity Bonds that have a Market Value.

### 2. Derivatives

For the fiscal year ended March 31, 2005 on a consolidated basis is as follows:

Interest Rate Related Transactions

Millions of Yen			Thousands of U.S. Dollars		
Contract value	Market value	Unrealized gain (loss)	Contract value	Market value	Unrealized gain (loss)
¥4,493	¥(38)	¥(38)	\$41,839	\$(356)	\$(356)

Currency Related Transactions

Millions of Yen			Thousands of U.S. Dollars		
Contract value	Market value	Unrealized gain (loss)	Contract value	Market value	Unrealized gain (loss)
¥3,058	¥3,122	¥(5)	\$28,483	\$29,079	\$(50)

At March 31, 2005, the Bank and its consolidated subsidiaries had no outstanding contractions in stock related transactions, bond related transactions, product related transactions and credit derivative transactions.

# Report of Independent Auditors

The Board of Directors  
The Musashino Bank, Ltd.

We have audited the accompanying consolidated balance sheets of The Musashino Bank, Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, capital surplus and retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Musashino Bank, Ltd. and consolidated subsidiaries at 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 2.

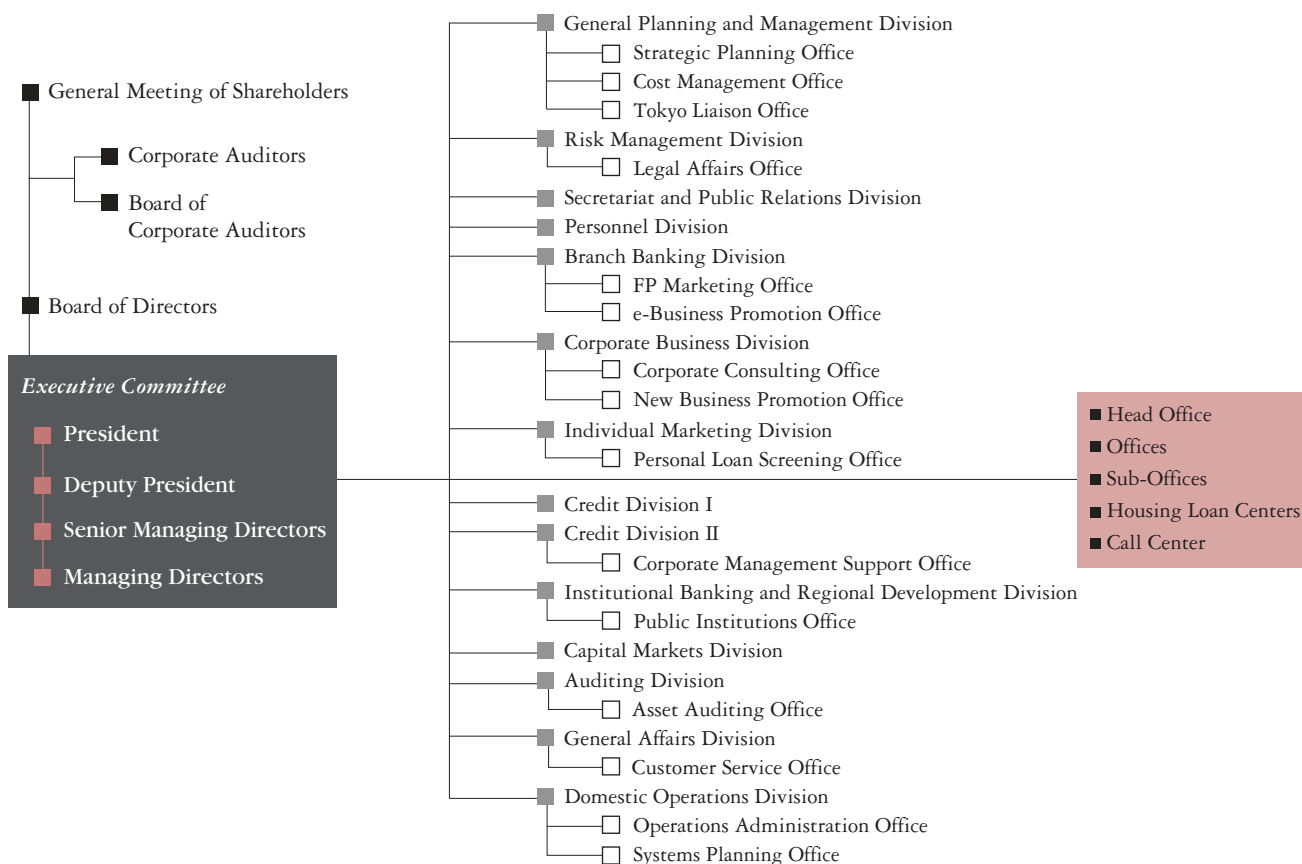
June 29, 2005

*Ernst & Young ShinNihon*

# Directory

(As of July 1, 2005)

## Organization Chart



## Board of Directors, Corporate Auditors and Executive Officers

### President

Katsuaki Miwa

### Deputy President

Kikuo Kato

### Senior Managing Director

Yoshiro Oshiba

### Managing Directors

Nobuhiro Fukazawa  
Masami Kurihara  
Hiromu Matsushima  
Tsuneshi Kurihara

### Corporate Auditors

Katsuo Nojiri (standing)  
Seiichiro Ihara (standing)  
Shozo Nishijima  
Zenji Kobayashi

### Managing Executive Officers

Masunao Kaneko  
Seiichi Sawada

### Executive Officers

Naosi Shukuya  
Osamu Kobayashi  
Kenji Kimura  
Hidemi Shimizu  
Hideo Machida  
Masaaki Okano  
Hideo Nomoto  
Shigeyuki Miyahara  
Kenichiro Inaba  
Soe Iijima  
Hiroshi Shimao  
Makoto Ishikawa  
Teiji Komoriya

## Subsidiaries and Affiliated Companies

Name	Line of Business
The Bugin Business Service Co., Ltd.	Clerical work for Musashino Bank
The Bugin Building Maintenance Co., Ltd.	Leasing & management of buildings and welfare service for Bank employees
The Bugin General Lease Co., Ltd.	Leasing, factoring and corporate financing
The Bugin Guarantee Co., Ltd.	Loan guarantees for individuals
The Musashino Card Co., Ltd.	Credit card business (JCB, VISA), loans and loan guarantees
The Bugin System Service Co., Ltd.	Development, sale and maintenance of computer systems
The Bugin Economic Research Institute	Research into the regional economy, consultation, information services, and holding of seminars
Bugin Capital Co., Ltd.	Management support for venture businesses



**The Musashino Bank, Ltd.**

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