

# Consolidated Balance Sheet

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>Assets</b>			
Cash and due from banks (Notes 3 and 16)	¥ 108,423	¥ 119,061	\$ 1,319,177
Call loans and bills purchased (Note 16)	12,466	54,978	151,669
Monetary receivables bought	9,404	8,066	114,422
Trading securities (Notes 4 and 16)	158	232	1,922
Money held in trust (Note 5)	9,964	12,442	121,233
Investment securities (Notes 4, 9 and 16)	1,103,906	1,062,983	13,431,148
Loans and bills discounted (Notes 6, 15 and 16)	2,203,893	2,121,130	26,814,610
Foreign exchange assets (Note 7)	1,215	1,516	14,786
Lease receivables and investments in leases (Note 9)	19,563	19,605	238,032
Other assets (Note 9)	26,475	28,641	322,105
Tangible fixed assets (Note 8)	55,984	55,646	681,156
Intangible fixed assets (Note 8)	10,788	12,603	131,259
Deferred tax assets (Note 18)	712	2,595	8,660
Customers' liabilities for acceptances and guarantees (Note 13)	26,319	26,178	320,216
Allowance for doubtful accounts (Note 16)	(28,313)	(31,030)	(344,483)
Total assets	<u>¥ 3,560,957</u>	<u>¥ 3,494,646</u>	<u>\$ 43,325,912</u>
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 9, 10 and 16)	¥ 3,098,416	¥ 3,015,936	\$ 37,698,214
Negotiable certificates of deposit (Note 16)	52,980	47,433	644,603
Call money and bills sold (Note 16)	6,822	30,267	83,000
Payables under repurchase transactions (Note 9 and 16)	55,964	41,752	680,909
Borrowed money (Notes 9, 11 and 16)	19,720	47,198	239,928
Foreign exchange liabilities (Note 7)	36	54	437
Other liabilities	23,976	22,927	291,746
Accrued bonuses to directors and corporate auditors	51	51	617
Provision for retirement benefits (Note 12)	994	825	12,089
Provision for directors' and corporate auditors' retirement benefits	739	670	8,989
Provision for reimbursement of deposits	637	903	7,753
Provision for contingent losses	282	221	3,431
Deferred tax liabilities (Note 18)	935		11,371
Deferred tax liabilities for land revaluation (Notes 2(f) and 18)	8,597	9,862	104,597
Acceptances and guarantees (Note 13)	26,319	26,178	320,216
Total liabilities	<u>3,296,468</u>	<u>3,244,277</u>	<u>40,107,900</u>
<b>Equity (Notes 14 and 20):</b>			
Common stock, no par value;			
Authorized: 800,000,000 shares			
Issued: 210,403,655 shares in 2012 and 2011	18,131	18,131	220,596
Capital surplus	11,217	11,217	136,471
Retained earnings	191,243	184,139	2,326,847
Treasury stock, at cost, 504,565 shares in 2012 and 492,096 shares in 2011	(338)	(332)	(4,115)
Accumulated other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities (Note 4)	20,077	14,963	244,274
Deferred gains (losses) on derivatives under hedge accounting	(360)	(408)	(4,381)
Land revaluation surplus (Note 2(f))	14,820	13,612	180,314
Total	<u>254,790</u>	<u>241,322</u>	<u>3,100,006</u>
Minority interests	9,699	9,047	118,006
Total equity	<u>264,489</u>	<u>250,369</u>	<u>3,218,012</u>
Total liabilities and equity	<u>¥ 3,560,957</u>	<u>¥ 3,494,646</u>	<u>\$ 43,325,912</u>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Income

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>Income:</b>			
Interest income and dividends:			
Interest on loans and discounts	¥ 39,835	¥ 41,019	\$ 484,671
Interest and dividends on securities	10,895	11,964	132,556
Other interest income	91	81	1,113
Total interest income and dividends	50,821	53,064	618,340
Fees and commissions	11,476	11,207	139,633
Other operating income	14,468	14,979	176,031
Other income	2,548	1,848	30,987
Total income	79,313	81,098	964,991
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	1,504	2,361	18,304
Interest on borrowings and rediscounts	172	247	2,093
Interest on repurchase transactions	69	76	841
Other interest expenses	1,015	1,217	12,346
Total interest expenses	2,760	3,901	33,584
Fees and commissions	2,823	2,874	34,351
Other operating expenses	10,820	12,814	131,651
General and administrative expenses	42,435	40,729	516,301
Transfer to allowance for doubtful accounts		5,093	
Other expenses	2,719	2,973	33,077
Total expenses	61,557	68,384	748,964
<b>Income before income taxes and minority interests</b>	<b>17,756</b>	<b>12,714</b>	<b>216,027</b>
<b>Income taxes:</b>			
Current	6,655	6,152	80,969
Deferred	1,709	(1,301)	20,794
Total income taxes (Note 18)	8,364	4,851	101,763
<b>Net income before minority interests</b>	<b>9,392</b>	<b>7,863</b>	<b>114,264</b>
<b>Minority interests in net income</b>	<b>642</b>	<b>727</b>	<b>7,808</b>
<b>Net income</b>	<b>¥ 8,750</b>	<b>¥ 7,136</b>	<b>\$ 106,456</b>
	Yen		U.S. Dollars
<b>Per share information:</b>			
Net income-basic (Note 21)	¥ 41.68	¥ 33.98	\$ 0.51
Cash dividends applicable to the year	8.00	8.00	0.10

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Comprehensive Income

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
For the Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>NET INCOME BEFORE MINORITY INTERESTS</b>	<b>¥ 9,392</b>	<b>¥ 7,863</b>	<b>\$ 114,264</b>
<b>OTHER COMPREHENSIVE INCOME (Note 19):</b>			
Unrealized gains (losses) on available-for-sale securities	5,131	(4,800)	62,437
Deferred gains (losses) on derivatives under hedge accounting	48	45	589
Land revaluation surplus	1,242		15,112
Total other comprehensive income	<u>6,421</u>	<u>(4,755)</u>	<u>78,138</u>
<b>COMPREHENSIVE INCOME</b>	<b>¥ 15,813</b>	<b>¥ 3,108</b>	<b>\$ 192,402</b>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO</b>			
Owners of the parent	¥ 15,154	¥ 2,398	\$ 184,378
Minority interests	659	710	8,024

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Changes in Equity

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
Year Ended March 31, 2012

	Millions of Yen										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gains (Losses) on Available for-sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Total	Minority Interests	Total Equity
<b>BALANCE, APRIL 1, 2010</b>	210,403,655	¥18,131	¥11,221	¥178,667	¥(300)	¥19,746	¥(453)	¥13,629	¥240,641	¥8,344	¥248,985
Net income				7,136					7,136		7,136
Cash dividends, ¥8.00 per share				(1,680)					(1,680)		(1,680)
Purchases of treasury stock (105,024 shares)					(55)				(55)		(55)
Disposals of treasury stock (34,609 shares)			(4)	(1)	23				18		18
Reversal of land revaluation surplus				17				(17)			
Net change in the year						(4,783)	45		(4,738)	703	(4,035)
<b>BALANCE, MARCH 31, 2011</b>	210,403,655	18,131	11,217	184,139	(332)	14,963	(408)	13,612	241,322	9,047	250,369
Net income				8,750					8,750		8,750
Cash dividends, ¥8.00 per share				(1,679)					(1,679)		(1,679)
Purchases of treasury stock (13,864 shares)					(7)				(7)		(7)
Disposals of treasury stock (1,395 shares)				(1)	1				0		0
Reversal of land revaluation surplus				34					34		34
Net change in the year						5,114	48	1,208	6,370	652	7,022
<b>BALANCE, MARCH 31, 2012</b>	<u>210,403,655</u>	<u>¥18,131</u>	<u>¥11,217</u>	<u>¥191,243</u>	<u>¥(338)</u>	<u>¥20,077</u>	<u>¥(360)</u>	<u>¥14,820</u>	<u>¥254,790</u>	<u>¥9,699</u>	<u>¥264,489</u>

	Thousands of U.S. Dollars									
<b>BALANCE, MARCH 31, 2011</b>	\$220,596	\$136,471	\$2,240,411	\$(4,038)	\$182,053	\$(4,970)	\$165,617	\$2,936,140	\$110,071	\$3,046,211
Net income			106,456					106,456		106,456
Cash dividends, \$0.10 per share			(20,431)					(20,431)		(20,431)
Purchases of treasury stock (13,864 shares)					(89)			(89)		(89)
Disposals of treasury stock (1,395 shares)			(3)	12				9		9
Reversal of land revaluation surplus			414					414		414
Net change in the year					62,221	589	14,697	77,507	7,935	85,442
<b>BALANCE, MARCH 31, 2012</b>	<u>\$220,596</u>	<u>\$136,471</u>	<u>\$2,326,847</u>	<u>\$(4,115)</u>	<u>\$244,274</u>	<u>\$(4,381)</u>	<u>\$180,314</u>	<u>\$3,100,006</u>	<u>\$118,006</u>	<u>\$3,218,012</u>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statement of Cash Flows

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 17,756	¥ 12,714	\$ 216,027
Adjustments for:			
Depreciation	5,465	4,172	66,495
Increase (decrease) in allowance for doubtful accounts	(2,717)	3,413	(33,054)
Interest income and dividends recognized on statement of income	(50,821)	(53,064)	(618,340)
Interest expenses recognized on statement of income	2,760	3,901	33,584
Net loss on sales or maturities of investment securities	114	1,170	1,392
(Increase) in loans and bills discounted	(82,763)	(39,230)	(1,006,968)
Increase in deposits	82,481	64,143	1,003,537
Increase in negotiable certificates of deposit	5,547	6,236	67,490
Increase (decrease) in borrowed money	(27,478)	36,046	(334,323)
Decrease in due from banks	223	751	2,716
Decrease (increase) in call loans and bills purchased	41,174	(45,805)	500,966
Increase (decrease) in call money and bills sold	(23,445)	2,355	(285,252)
Increase in payables under repurchase transactions	14,212	36,329	172,911
Interest income and dividends received	51,900	54,304	631,462
Interest expenses paid	(3,190)	(4,684)	(38,808)
Decrease in lease receivables and investments in leases	41	1,574	506
Other, net	3,808	803	46,311
Subtotal	35,067	85,128	426,652
Income taxes paid	(6,516)	(6,363)	(79,270)
Net cash provided by operating activities	28,551	78,765	347,382
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(349,183)	(424,154)	(4,248,480)
Proceeds from sales or maturities of investment securities	313,141	346,158	3,809,965
Net change in money held in trust	2,442	(2,604)	29,707
Purchases of tangible fixed assets	(2,382)	(2,688)	(28,986)
Proceeds from sales of tangible fixed assets	16	420	198
Purchases of intangible fixed assets	(1,293)	(4,508)	(15,734)
Net cash used in investing activities	(37,259)	(87,376)	(453,330)
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,679)	(1,677)	(20,434)
Other, net	(26)	(45)	(307)
Net cash used in financing activities	(1,705)	(1,722)	(20,741)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(2)	(12)	(30)
<b>Net (decrease) in cash and cash equivalents</b>	(10,415)	(10,345)	(126,719)
<b>Cash and cash equivalents at beginning of year</b>	117,881	128,226	1,434,255
<b>Cash and cash equivalents at end of year (Note 3)</b>	¥ 107,466	¥ 117,881	\$ 1,307,536

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of THE KAGOSHIMA BANK, LTD. (the "Bank") and consolidated subsidiaries (together, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, Enforcement Regulation for the Banking Law of Japan and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 financial statements to conform to the classifications used in 2012.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥82.19 to \$1, the approximate rate of exchange at March 31, 2012. Such translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. Summary of Significant Accounting Policies

### (a) Principles of consolidation

The accompanying consolidated financial statements included the accounts of the Bank and its significant subsidiaries. The Kagin Business Service Co., Ltd. was merged by absorption into the Kagin Office Service Co., Ltd. and the merged entity was renamed the Kagin Office Business Co., Ltd. as of April 1, 2011. As the result of this transaction, the number of consolidated subsidiaries was seven as of March 31, 2012, and eight as of March 31, 2011.

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are to be fully consolidated.

The consolidated financial statements do not include the accounts of one of the subsidiaries in 2012 and 2011 because the majority of operating profit from that subsidiary was not retained by the subsidiary (paid out to investors).

Investments in the unconsolidated subsidiaries were stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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

Fiscal year-ends of all consolidated subsidiaries are at the end of March.

### (b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of cash flows are comprised of cash on hand and due from The Bank of Japan.

### (c) Trading securities

Trading securities are stated at fair value at the fiscal year-ends. Related gains or losses, both realized and unrealized, are included in current earnings. Accrued interest on trading securities is included in other assets.

### (d) Investment securities

Debt securities for which the Group has ability to hold to maturity are stated at amortized cost. Marketable securities are carried at fair value as available-for-sale securities, with the net unrealized gains or losses reported as a separate component of shareholders' equity, net of applicable income taxes. Available-for-sale securities whose fair values cannot be reliably determined are stated at the moving average cost or amortized cost. The carrying amounts of individual investment securities are reduced, if necessary, through write-downs to reflect other-than-temporary impairments in value. For other-than-temporary declines in fair value, securities are reduced to net realizable value by a charge to income. Accrued interest on securities is included in other assets. Funds entrusted to trust banks for securities (included in "Money held in trust") of the Bank are stated at fair value.

### (e) Derivatives and hedge accounting

The Bank uses swaps, forward and option contracts and other types of derivative contracts. These derivative instruments are used for trading purposes to generate revenues and fee income, and to hedge exposures due to fluctuations in interest and foreign exchange rates.

Derivatives are carried at fair value, with the unrealized and realized gains and losses recorded in current earnings.

#### (1) Hedging against interest rate changes

The Bank applies deferred hedge accounting based on the rules of the Japanese Institute of Certified Public Accountants (the "JICPA") Industry Audit Committee Report No. 24 for interest rate derivatives to manage interest rate risk from various financial assets and liabilities as a whole.

Under this rule, the effectiveness of cash flow hedges is assessed based on the correlation between a base interest rate index of the hedged cash flow and that of the hedging instrument.

#### (2) Hedging against currency fluctuations

The Bank applies deferred hedge accounting based on the rules of the JICPA Industry Audit Committee Report No. 25 to funding swap transactions and currency swap transactions related to lending or borrowing in different currencies.

Pursuant to the rules, the Bank assesses the effectiveness of funding swap transactions and currency 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.

### (f) Tangible fixed assets

(1) Tangible fixed assets are stated at cost less accumulated depreciation.

Tangible fixed assets of the Bank are depreciated using the declining-balance method over the following estimated useful lives of the assets, except for buildings acquired on or after April 1, 1998 which have been depreciated using the straight-line method.

Buildings	19 years to 50 years
Other	2 years to 20 years

Tangible fixed assets of the consolidated subsidiaries are principally depreciated by the straight-line method over the estimated useful lives of the assets.

**(2) Land revaluation**

Under the "Law of Land Revaluation", the Bank elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 1998. The resulting land revaluation surplus is stated as a component of equity, and represents the total of unrealized appreciation of land, net of income taxes, and unrealized losses on the land. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2012 and 2011, the difference in the carrying values of land used for the banking business after reassessment of the current fair value of such land at the respective year-ends amounted to ¥14,123 million (\$171,828 thousand) and ¥13,429 million, respectively.

**(g) Intangible fixed assets**

Intangible fixed assets mainly consisted of computer software developed or obtained for internal use and are amortized using the straight-line method over the estimated useful lives, mainly five years.

**(h) Long-lived assets**

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

**(i) Allowance for doubtful accounts**

The allowance for doubtful accounts of the Bank is established to cover future credit losses in accordance with the internal rules for self-assessment of asset quality.

The allowance for doubtful accounts is calculated in accordance with the Bank's internal rules based on the "Practical Guidelines for Audits of the Self-Assessment of Assets of Financial Institutions Including Banks, Write-Down and Allowance for Doubtful Accounts" (Report No. 4 of the Ad Hoc Committee for the Audit of Banks etc. of JICPA).

For claims to borrowers who are legally bankrupt and virtually bankrupt, an allowance has been provided based on the net of amounts exceeding the expected collectible amounts through the disposal of collateral or execution of guarantees. For claims to borrowers who are possibly bankrupt, an allowance has been provided for the loan losses at the amounts considered to be necessary based on an overall solvency assessment of the borrowers and expected collectible amounts through the disposal of collateral or execution of guarantees. For claims to large-lot borrowers who are classified as "Need attention", whose loans are classified as restructured loans and whose future cash flows of principal and interest are reasonably estimated, an allowance is provided for as the difference between the present value of expected future cash flows discounted at the contracted interest rate and the carrying amount of the claims. In cases where it is difficult to reasonably estimate

future cash flows, an allowance is provided based on the estimated credit losses within the remaining loan terms calculated by the Bank. For other claims, an allowance is provided based on historical loan loss experience.

All claims are assessed by the Bank's operating divisions in accordance with the Bank's internal rules for the self-assessment of asset quality. The inspection division, which is independent from operating divisions, conducts audits of these assessments and an allowance is provided based on the results of these audits.

Regarding the consolidated subsidiaries, a general allowance for loan losses is provided in the amount deemed necessary based on the historical loan-loss ratio, and for specific claims an allowance is provided in the amount deemed uncollectible based on the respective assessments.

**(j) Accrued bonuses to directors and corporate auditors**

Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

**(k) Provision for retirement benefits**

The Group accounts for the provision for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Prior service cost is amortized using the straight-line method over 10 years as a certain term within the employees' average remaining service period. Net actuarial gain and loss is amortized using the declining-balance method over 10 years as a certain term within the employees' average remaining service period commencing from the next fiscal year after incurrence.

**(l) Provision for directors' and corporate auditors' retirement benefits**

Retirement benefits to directors and corporate auditors are provided at the amount that would be required if all directors and corporate auditors retired at the balance sheet date.

**(m) Provision for reimbursement of deposits**

Provision for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for possible losses on future claims of withdrawal based on the historical reimbursement experience.

**(n) Provision for contingent losses**

Provision for contingent losses is provided for possible losses from contingent events related to the enforcement of the "responsibility-sharing system", and is calculated by estimation of future burden charges and other payments to the Credit Guarantee Institution.

**(o) Leases**

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the notes to the lessor's financial statements. The revised accounting standard requires that all finance leases that are deemed to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that are not deemed to transfer ownership of the leased property to the

lessee should be recognized as investments in leases. The Group applied the revised accounting standard effective April 1, 2008. Lease revenue and lease costs are recognized over the lease period.

**(p) Foreign currency translation**

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at year-end. Revenues and expenses are translated at the exchange rates at transaction dates. Gains or losses resulting from foreign currency translation are included in the determination of net income.

**(q) Per share information**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

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

**(r) Income taxes**

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

A valuation allowance is provided for any portion of the deferred tax assets if it is considered more likely than not that they will not be realized.

**(s) Accounting changes and error corrections**

In December 2009, the ASBJ issued ASBJ Statement No.24, "Accounting Standard for Accounting Changes and Error Corrections", and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows:

(1)Changes in Accounting Policies

When a new accounting policy is applied due to a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2)Changes in Presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3)Changes in Accounting Estimates

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4)Corrections of Prior-Period Errors

When an error in prior-period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior-period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**(t) New accounting pronouncements**

**Accounting standard for retirement benefits**

—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits", and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits", which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and are yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior-periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior-periods is required.

The Group expects to apply the revised accounting standard from the fiscal year beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the fiscal year ending March 31, 2014.

**3. Cash and Cash Equivalents**

A reconciliation of the cash and cash equivalent balances on the consolidated statements of cash flows and the account balances on the consolidated balance sheets is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Cash and due from banks	¥ 108,423	¥ 119,061	\$ 1,319,177
Less: due from banks other than The Bank of Japan	(957)	(1,180)	(11,641)
Cash and cash equivalents	¥ 107,466	¥ 117,881	\$ 1,307,536

#### 4. Trading Securities and Investment Securities

Trading securities consisted of national government bonds and local government bonds.

At March 31, 2012 and 2011, trading securities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
National government bonds	¥ 29	¥ 47	\$ 357
Local government bonds	129	185	1,565
Total	¥ 158	¥ 232	\$ 1,922

At March 31, 2012 and 2011, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
National government bonds	¥ 458,645	¥ 457,036	\$ 5,580,296
Local government bonds	98,925	109,960	1,203,616
Corporate bonds	428,522	358,654	5,213,796
Equity securities	55,772	56,585	678,570
Other	62,042	80,748	754,870
Total	¥1,103,906	¥1,062,983	\$13,431,148

At March 31, 2012 and 2011, carrying amounts of trading securities and the related net unrealized gains or losses included in current earnings were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2012	2011	2012	2011
Trading securities	Carrying amounts	Unrealized gains	Carrying amounts	Unrealized gains
	¥ 158	¥ (1)	¥ 232	¥ (1)
			\$ 1,922	\$ (7)

Trading

securities ¥ 158 ¥ (1) ¥ 232 ¥ (1) \$ 1,922 \$ (7)

At March 31, 2012 and 2011, gross unrealized gains and losses for available-for-sale securities with fair value were summarized as follows:

	Millions of Yen			Fair value
	Cost	Gross unrealized gains	Gross unrealized losses	

At March 31, 2012

Bonds:

	Millions of Yen		Gross unrealized losses	Fair value
	2012	2011		
National government bonds	¥ 451,001	¥ 7,744	¥ (100)	¥ 458,645
Local government bonds	96,796	2,129		98,925
Corporate bonds	423,911	4,765	(154)	428,522
Equity securities	37,055	18,082	(1,535)	53,602
Other	60,563	514	(784)	60,293
Total	¥1,069,326	¥33,234	¥(2,573)	¥1,099,987

	Millions of Yen			Fair value
	Cost	Gross unrealized gains	Gross unrealized losses	

At March 31, 2011:

Bonds:

National government bonds	¥453,424	¥ 4,780	¥ (1,168)	¥457,036
Local government bonds	108,232	2,142	(414)	109,960
Corporate bonds	355,189	4,107	(642)	358,654
Equity securities	38,388	18,908	(2,917)	54,379
Other	79,208	295	(568)	78,935
Total	¥1,034,441	¥30,232	¥ (5,709)	¥1,058,964

	Thousands of U.S. Dollars			Fair value
	Cost	Gross unrealized gains	Gross unrealized losses	

At March 31, 2012:

Bonds:

National government bonds	\$ 5,487,297	\$ 94,224	\$ (1,225)	\$ 5,580,296
Local government bonds	1,177,713	25,903		1,203,616
Corporate bonds	5,157,699	57,973	(1,876)	5,213,796
Equity securities	450,852	220,002	(18,677)	652,177
Other	736,867	6,257	(9,538)	733,586
Total	\$13,010,428	\$ 404,359	\$ (31,316)	\$13,383,471

At March 31, 2012 and 2011, net unrealized gains on available-for-sale securities, net of applicable income taxes and minority interests, recorded in a separate component of shareholders' equity on the accompanying consolidated balance sheet were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Unrealized gains	¥ 30,661	¥ 24,523	\$ 373,043
Less, applicable income taxes	(10,549)	(9,543)	(128,345)
Less, minority interests portion	(35)	(17)	(424)
Net unrealized gains in shareholders' equity	¥ 20,077	¥ 14,963	\$ 244,274

During the years ended March 31, 2012 and 2011, the Group sold available-for-sale securities and recorded gains of ¥1,819 million (\$22,136 thousand) and ¥1,809 million, respectively, and losses of ¥869 million (\$10,573 thousand) and ¥2,093 million, respectively, on the accompanying consolidated statement of income.

## 5. Money Held in Trust

The carrying amounts and unrealized gains of money held in trust, at March 31, 2012 and 2011 were as follows:

### (a) Money held in trust for investment

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Carrying amounts	¥ 9,964	¥ 12,442	\$ 121,233
Unrealized gains (losses) recognized in income	71	(80)	868

### (b) Money held in trust held to maturity

None.

### (c) Other money held in trust (money held in trust other than held for investment or held to maturity)

None.

## 6. Loans and Bills Discounted

At March 31, 2012 and 2011, loans and bills discounted consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Bills discounted	¥ 15,578	¥ 14,210	\$ 189,532
Loans on notes	150,702	151,182	1,833,577
Loans on deeds	1,757,137	1,691,983	21,378,958
Overdrafts	280,476	263,755	3,412,543
Total	¥ 2,203,893	¥ 2,121,130	\$ 26,814,610

The loans and bills discounted include "loans to borrowers in bankruptcy" totaling ¥4,991 million (\$60,721 thousand) and ¥7,806 million as of March 31, 2012 and 2011, respectively, as well as "past due loans" totaling ¥26,256 million (\$319,458 thousand) and ¥26,823 million as of March 31, 2012 and 2011, respectively. "Loans to borrowers in bankruptcy" are loans to borrowers who are legally bankrupt and are placed on non-accrued status. "Past due loans" include loans classified as "possible bankruptcy" and "virtual bankruptcy" under the Bank's self-assessment guidelines and are loans on which accrued interest income is not recognized, excluding loans to bankrupt borrowers and loans on which interest payments are deferred in order to support the borrower's recovery from financial difficulties.

In addition to "past due loans" as defined, certain other loans classified as "in need of caution" under the Bank's self-assessment guidelines include "accruing loans contractually past due for three months or more" which are loans on which the principal and/or interest is three months or more past due but exclude "loans to borrowers in bankruptcy" or "past due loans". The balances of "accruing loans contractually past due for three months or more" as of March 31, 2012 and 2011 were ¥38 million (\$458 thousand) and ¥895 million, respectively.

"Restructured loans" are loans where the Bank has restructured lending conditions, such as by a reduction of the original interest rate, forbearance of interest payments, principal repayments, or renunciation of claims to support the borrowers' reorganization, but exclude "loans to borrowers in bankruptcy", "past due loans" and "accruing loans contractually past due for three months or more". The outstanding balances of "restructured loans" as of March 31, 2012 and 2011 were ¥28,744 million (\$349,726 thousand) and ¥28,638 million, respectively.

Total amount of assets which consisted of "loans to borrowers in bankruptcy", "past due loans", "accruing loans contractually past due for three months or more" and "restructured loans" as of March 31, 2012 and 2011 were ¥60,029 million (\$730,363 thousand) and ¥64,162 million, respectively. The allowance for doubtful accounts is not deducted from the amounts of loans shown in the above. Bills discounted are treated as secured lending transactions.

As of March 31, 2012 and 2011, the Bank had the right by contract or custom to sell or repledge bills discounted and foreign exchange bills bought and their total face value were ¥15,578 million (\$189,540 thousand) and ¥14,257 million, respectively.

## 7. Foreign Exchange

At March 31, 2012 and 2011, foreign exchanges assets and liabilities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>Assets:</b>			
Due from banks	¥ 1,076	¥ 1,413	\$ 13,096
Foreign bills of exchange purchased	1	47	8
Foreign bills of exchange receivable	138	56	1,682
Total	¥ 1,215	¥ 1,516	\$ 14,786
<b>Liabilities:</b>			
Foreign bills of exchange sold	¥ 18	¥ 15	\$ 217
Foreign bills of exchange payable	18	39	220
Total	¥ 36	¥ 54	\$ 437

## 8. Tangible Fixed Assets and Intangible Fixed Assets

At March 31, 2012 and 2011, the major classifications of tangible fixed assets and intangible fixed assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
<b>Tangible fixed assets</b>			
Buildings	¥ 36,153	¥ 33,819	\$ 439,866
Land	37,135	37,127	451,823
Construction in progress	80	501	979
Other	15,597	17,929	189,762
	88,965	89,376	1,082,430
Less, accumulated depreciation	(32,981)	(33,730)	(401,274)
Total	¥ 55,984	¥ 55,646	\$ 681,156
<b>Intangible fixed assets</b>			
Software	¥ 10,501	¥ 12,414	\$ 127,770
Other	287	189	3,489
Total	¥ 10,788	¥ 12,603	\$ 131,259

## 9. Assets Pledged

At March 31, 2012 and 2011, assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Investment securities	¥ 314,657	¥ 227,402	\$ 3,828,413
Investment in leases	2,752	3,964	33,484
Other	2,918	3,337	35,506

At March 31, 2012 and 2011, the liabilities related to the above pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deposits	¥ 9,926	¥ 19,775	\$ 120,769
Borrowed money	17,088	44,140	207,909
Payables under repurchase transaction	55,964	41,752	680,909

In addition, securities totaling ¥34,822 million (\$423,674 thousand) and ¥58,991 million at March 31, 2012 and 2011, respectively, were pledged as collateral for the settlement of exchange, derivatives and other transactions.

## 10. Deposits

At March 31, 2012 and 2011, deposits consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Demand deposits	¥ 1,893,234	¥ 1,788,399	\$ 23,034,841
Time deposits	1,182,746	1,191,205	14,390,393
Other	22,436	36,332	272,980
Total	¥ 3,098,416	¥ 3,015,936	\$ 37,698,214

## 11. Borrowed Money

At March 31, 2012, the annual maturities of borrowed money, which were due through March 2017 with an average interest rate of 0.49% per annum, were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 14,745	\$ 179,397
2014	2,043	24,852
2015	1,640	19,949
2016	965	11,744
2017	309	3,771
Total	¥ 19,702	\$ 239,713

Apart from borrowed money, lease obligations are included in 'Other liabilities.'

At March 31, 2012, the annual maturities of lease obligations, which were due through March 2017 with an average interest rate of 2.07% per annum, were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2013	¥ 12	\$ 141
2014	12	144
2015	12	147
2016	11	137
2017		
Total	¥ 47	\$ 569

## 12. Employee Retirement Benefits

The Bank has a cash-balance type pension plan and unfunded retirement benefit plans. Consolidated subsidiaries have unfunded retirement benefit plans.

The following table reconciles the benefit liability and net periodic retirement benefit expenses as at, and for the years ended March 31, 2012 and 2011:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Reconciliation of benefit liability:			
Projected benefit obligation	¥(22,478)	¥(22,088)	\$ (273,485)
Fair value of pension plan assets at year end	23,573	23,779	286,813
	1,095	1,691	13,328
Unrecognized actuarial differences	5,827	5,489	70,900
Unrecognized prior service cost of retroactive benefits granted by plan amendment	474	264	5,764
Net amounts of provision for retirement benefits recognized on the consolidated balance sheet	¥ 7,396	¥ 7,444	\$ 89,992
Balance Sheet Presentation			
Prepaid pension cost (Other assets)	¥ 8,390	¥ 8,269	\$ 102,081
Provision for retirement benefits	¥ (994)	¥ (825)	\$ (12,089)
Components of net periodic retirement benefit expenses:			
Service cost	¥ 798	¥ 773	\$ 9,714
Interest cost	441	468	5,362
Expected return on pension plan assets	(237)	(258)	(2,875)
Amortization of prior service cost	(209)	(209)	(2,548)
Amortization of actuarial differences	1,131	883	13,758
Net periodic retirement benefit expense	¥ 1,924	¥ 1,657	\$ 23,411

Major assumptions used in the calculation of the above information for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	1.8%	2.0%
Expected rate of return on pension plan assets:		
Defined benefit pension plan	0.5%	0.5%
Trusts for retirement benefits	2.5%	2.5%
Amortization of prior service cost	10 years	10 years
Amortization of actuarial differences	10 years	10 years

### 13. Acceptances and Guarantees

The Bank provides guarantees for the liabilities of its customers for payments of loans or other liabilities to other financial institutions. As a contra account, "Customers' liabilities for acceptances and guarantees" are shown as assets on the accompanying consolidated balance sheet indicating the Bank's right of indemnity from the customers.

### 14. Equity

Japanese banks are subject to the Banking Law and the Companies Act of Japan (the "Companies Act"). The significant provisions in the Banking Law and the Companies Act that affect financial and accounting matters are summarized below:

#### (a) Dividends

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

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act and the Banking Law provide certain limitations on the amounts available for dividends or the purchase of treasury stock.

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

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate the amount of the legal reserve and additional paid-in capital equals 100% of capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

#### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### 15. Loan Commitments

Contracts for overdraft facilities and loan commitment limits are contracts that the Bank makes with customers up to prescribed limits in response to customers' loan applications as long as there is no violation of any condition in the contracts. The amount of unused commitments at March 31, 2012 and 2011 was ¥589,777 million (\$7,175,781 thousand) and ¥621,304 million, respectively, and the amount of unused commitments whose original contract terms are within one year or unconditionally cancelable at any time at March 31, 2012 and 2011 was ¥581,268 million (\$7,072,246 thousand) and ¥616,195 million, respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that allow the Bank to refuse customers' loan applications or decrease the contract limits for legitimate reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of the contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs a periodic review of customers' business results based on internal rules and takes necessary measures to reconsider conditions in the contracts and/or require additional collateral and guarantees.

### 16. Financial Instruments and Related Disclosures

#### (a) Policy on financial instruments

The main business of the Group is banking operations, which consists of deposit-taking and lending services, securities investment, etc. Additionally, the Group provides other financial services, such as leasing services.

Accordingly, the Bank holds financial assets and liabilities that are subject to interest rate fluctuations and conducts Asset-Liability Management (ALM) in order to minimize any unfavorable impacts from interest rate fluctuations. The Bank also conducts derivative transactions as part of its ALM.

#### (b) Nature and extent of risks arising from financial instruments

The main financial instruments that the Group has are as follows:

The Group provides loans mainly to domestic corporations and individual customers. Loans are exposed to credit risk which represents losses on defaults caused by a deterioration in a borrower's financial condition. Moreover, fixed interest rate loans are exposed to interest rate risks.

Securities which the Group has are mainly national government bonds, local government bonds, corporate bonds and equity securities. These securities are exposed to interest rate risks, market price risks, foreign exchange risks and credit risks.

The Bank handles deposits and negotiable certificates of deposit from customers. These deposits are exposed to interest rate risks.

Call money is exposed to liquidity risk, which may lead the Bank to face difficulties in raising necessary funds under certain circumstances.

The Group conducts derivative transactions mainly to manage market risks of loans and securities, etc. and partly applies hedge accounting to them.

#### (c) Risk management for financial instruments

##### (1) Credit risk management

As a basis of credit risk management, the Bank periodically monitors the debtors' financial status. This checking system is called the "Monitoring System of Customers".

The Bank has established a "Lending Policy" to advance the credit risk control systems for individual accounts and to enhance the effectiveness of these credit portfolio management measures. In addition, the Bank assists debtors, which have problems in their financial conditions

and guides their management in financial aspects. To enhance its risk management system, the Bank has established a system of checks and balances in its credit risk management operations by separating the Corporate Risk Management Department from the Credit & Investment Planning Department. In addition, regarding business loans, the Corporate Risk Management Department is responsible for measuring credit risks and planning a credit rating system.

Corporate credit rates are decided by the Monitoring System of Customers with a financial support system "Key Man". The Monitoring System of Customers gives corporate credit rates with internal standards based on actual financial or non-financial conditions and decides the credit rating classification, lending policies and lending rates according to the corporate credit rates.

The Credit Risk Management Department reports the management situation of the credit portfolio to the Risk Management Committee and the ALM Committee regularly or as needed, and the agenda is reported to the Board of Directors.

Regarding credit examinations and lending judgment on individual transactions, the Bank establishes a "Lending Policy" which determines the basic lending policies, individual lending criterion and to prevent the concentration of lending and conducts credit examinations in accordance with the policy.

## (2) Market risk management

The Bank recognizes the importance of appropriate market risk management to attain its purpose. Therefore, its basic policy is to understand the market risk management situation precisely and to take appropriate business risks by establishing an appropriate market risk management system which enables it to manage and take certain market risks.

The Bank has separated its departments into the Market Department (front office), the Office Management Department (back office) and the Risk Management Department (middle office), and has established an effective mutual monitoring system.

Moreover, the Bank conducts strict operational management with retention limits, Value at Risk (VaR) limits and loss limits which are decided by the Executive Board on a semi-annually basis.

The middle office reports to directors on a daily basis and to the Risk Management Committee on a monthly basis on the situation of risks of market transactions such as retention limits, unrealized gains or losses, Basis Point Value (BPV) of the securities portfolio and VaR, etc. The study results of the Risk Management Committee are reported to the Board of Directors.

The ALM Committee monitors market risks including interest risk of bank accounting in terms of comprehensive management of assets and liabilities and studies hedging strategies based on the financial environment and market forecasts.

(Quantitative information of market risk)

### 1) Financial instruments held for trading purposes

Concerning trading securities and fund trusts, the Bank has set upper holding limits. As of March 31, 2012 and 2011, the limits were ¥10,000 million (\$121,669 thousand) for trading securities and ¥14,000 million (\$170,337 thousand) for fund trusts. For trading securities, the Bank has not set an allowable potential loss amount to trade securities with customers smoothly. The Bank holds fund trusts to earn profit by taking advantage of short-term fluctuations in the market or discrepancies in interest rates, currency exchange rates, or other market indices in different markets. In order to manage risks, the Bank has set an allowable potential loss amount for fund trusts which was ¥450 million (\$5,475 thousand) and ¥400 million, as of March 31, 2012 and 2011, respectively.

### 2) Financial instruments held for other than trading purposes

#### (a) Management of interest rate risks

The main financial instruments which are affected by interest rate risks in the Bank are "Loans and bills discounted", bonds within "Securities", "Deposits", and interest rate swaps of "Derivative transactions".

The Bank has computed the VaR of these financial assets and liabilities with the variance-covariance method and uses that method for quantitative analysis of interest rate risk management. The assumptions for computing VaR are based on a 60-day holding period, 99% confidence level and a 5-year observation period. The aggregate amount of interest rate risks (value of estimated record of losses) were ¥9,000 million (\$109,502 thousand) and ¥8,600 million as of March 31, 2012 and 2011, respectively. The Bank conducts back testing to verify the reliability of VaR by monthly monitoring and analysis. The results support the reliability of the Bank's model which has captured interest rate risks with sufficient accuracy.

The Bank has computed interest rate risks with core deposits estimated by the core deposits measurement model. In this model, the Bank estimates the amount of core deposits from a shift of the lower 99th percentile of deposit decrease in the future distribution of demand deposits. The distribution is computed by a linear regression model and a future interest rate scenario, and the linear regression model uses the 1 month TIBOR as an explanatory variable.

The Bank conducts back testing to verify the reliability of the core deposits measurement model by comparing core deposits expectations and core deposits actual values which are measured with the core deposits measurement model. The results support the reliability of the Bank's model which has captured core deposits movements with sufficient accuracy.

The VaR and the core deposits measurement model represent the amount of interest rate risks and core deposits arising with a certain probability using a statistical methodology based on historical interest rate fluctuations and the relationship between interest rate fluctuations and deposit fluctuations. It may not be able to capture the interest rate risks and movements of core deposits arising under drastic market movements beyond normal estimates.

#### (b) Management of market price risks

The Bank uses VaR for quantitative analysis on market price risk of trading securities in "Securities". The assumptions for computing VaR include a 60-day holding period (regarding a part of asset, for example, cross-shareholdings is 125-day), a 99% confidence level and a 1-year observation period. The VaR were ¥16,300 million (\$198,321 thousand) and ¥37,300 million as of March 31, 2012 and 2011, respectively.

The Bank conducts research to compare the VaR calculated using the model with gains or losses, which are assumed to have been incurred when the portfolio was fixed. According to the results of the research, it is believed that the measurement model used is adequate to capture market risk. It should be noted that VaR measures the amount of market risk at certain probability levels statistically calculated based on historical market fluctuations, and therefore there may be cases where market risk cannot be captured in such situations when market conditions change dramatically beyond what was experienced historically.

### (3) Liquidity risk management

The financing condition of the Bank is stable because the Bank raises most of operational funds by deposits. The Financing Management Department which is established in the Market Financing Department monitors the

Bank's financing conditions on a daily, weekly and monthly basis and conducts adequate market funding as needed.

The Risk Management Department which is independent from the Financing Management Department monitors the Bank's financing conditions on a daily basis, and endeavors to secure available funding methods such as preparation of market funding with holding securities to prepare for contingencies.

The monitoring results of financing and market liquidity risks are reported to the Risk Management Committee and the study results of the Risk Management Committee are reported to the Board of Directors.

(4) Derivative transactions risk management

As for derivative transactions, the basic policy of the Bank is to reduce market risks of loans and securities. Market risks and credit risks are inherent in derivative transactions used by the Bank.

Market risks include interest rate risks in interest-related derivative transactions, exchange rate risks in currency-related derivative transactions, and market price risks in security/bond-related derivative transactions.

As for credit risks, the Bank handles trades with stock exchanges and only creditable banks and securities companies, and reduces default risks appropriately by operational limits.

The Bank manages its risks mainly by checking whether the effective derivative transactions are used to reduce asset and liability risks such as fluctuations in interest rates and foreign exchange rates. The basic policy is studied at the ALM Committee, and the transactions and management are conducted by the Market Financing Department.

**(d) Supplementary explanation of matters relating to fair value of financial instruments and others**

Fair values of financial instruments include values based on market prices, and values deemed to be market prices obtained by a reasonable estimate when financial instruments do not have market prices. Because certain assumptions are adopted for calculating such values, values may differ when adopting different assumptions.

**(e) Fair value of financial instruments**

The following table summarizes the carrying amount and the fair value of financial instruments as of March 31, 2012 and 2011 together with their differences. Note that the following table does not include unlisted equity securities and certain other securities for which fair value is extremely difficult to determine.

**Fair value of financial instruments**

	Millions of Yen		
	Carrying Amount	Fair value	Unrealized Gains/Losses
At March 31, 2012			
<b>Assets</b>			
Cash and due from banks	¥ 108,423	¥ 108,423	¥
Call loans and bills purchased	12,466	12,466	
Trading securities	158	158	
Available-for-sale securities	1,099,987	1,099,987	
Loans and bills discounted	2,203,893		
Allowance for doubtful accounts (*1)	(26,247)		
	<u>2,177,646</u>	<u>2,209,662</u>	<u>32,016</u>
<b>Total</b>	<u>¥ 3,398,680</u>	<u>¥ 3,430,696</u>	<u>¥ 32,016</u>
<b>Liabilities</b>			
Deposits	3,098,416	3,099,493	1,077
Negotiable certificates of deposit	52,980	52,994	14
Call money and bills sold	6,822	6,822	
Payables under repurchase transactions	55,964	55,964	
<b>Total</b>	<u>¥ 3,214,182</u>	<u>¥ 3,215,273</u>	<u>¥ 1,091</u>
Derivative transactions (*2)			
Hedge accounting is not applied	62	62	
Hedge accounting is applied	(557)	(557)	
<b>Total</b>	<u>¥ (495)</u>	<u>¥ (495)</u>	<u>¥</u>

	Millions of Yen		
	Carrying Amount	Fair value	Unrealized Gains/Losses
At March 31, 2011			
<b>Assets</b>			
Cash and due from banks	¥ 119,061	¥ 119,061	¥
Call loans and bills purchased	54,978	54,978	
Trading securities	232	232	
Available-for-sale securities	1,058,964	1,058,964	
Loans and bills discounted	2,121,130		
Allowance for doubtful accounts (*1)	(28,683)		
	<u>2,092,447</u>	<u>2,118,609</u>	<u>26,162</u>
<b>Total</b>	<u>¥ 3,325,682</u>	<u>¥ 3,351,844</u>	<u>¥ 26,162</u>
<b>Liabilities</b>			
Deposits	3,015,936	3,017,690	1,754
Negotiable certificates of deposit	47,433	47,449	16
Call money and bills sold	30,267	30,267	
Payables under repurchase transactions	41,752	41,752	
Borrowed money	47,198	47,228	30
<b>Total</b>	<u>¥ 3,182,586</u>	<u>¥ 3,184,386</u>	<u>¥ 1,800</u>
Derivative transactions (*2)			
Hedge accounting is not applied	57	57	
Hedge accounting is applied	(684)	(684)	
<b>Total</b>	<u>¥ (627)</u>	<u>¥ (627)</u>	<u>¥</u>

At March 31, 2012	Thousands of U.S.Dollars		
	Carrying Amount	Fair value	Unrealized Gains/Losses
<b>Assets</b>			
Cash and due from banks	\$ 1,319,177	\$ 1,319,177	\$
Call loans and bills purchased	151,669	151,669	
Trading securities	1,922	1,922	
Available-for-sale securities	13,383,472	13,383,472	
Loans and bills discounted	26,814,610		
Allowance for doubtful accounts (*1)	(319,342)		
	<u>26,495,268</u>	<u>26,884,799</u>	<u>389,531</u>
<b>Total</b>	<b><u>\$41,351,508</u></b>	<b><u>\$41,741,039</u></b>	<b><u>\$ 389,531</u></b>
<b>Liabilities</b>			
Deposits	37,698,214	37,711,312	13,098
Negotiable certificates of deposit	644,603	644,775	172
Call money and bills sold	83,000	83,000	
Payables under repurchase transactions	680,909	680,909	
<b>Total</b>	<b><u>\$39,106,726</u></b>	<b><u>\$39,119,996</u></b>	<b><u>\$ 13,270</u></b>
<b>Derivative transactions (*2)</b>			
Hedge accounting is not applied	753	753	
Hedge accounting is applied	(6,773)	(6,773)	
<b>Total</b>	<b><u>\$ (6,020)</u></b>	<b><u>\$ (6,020)</u></b>	<b><u>\$</u></b>

(\*1) Allowance for doubtful accounts relevant to loans and bills discounted have been deducted.

(\*2) Derivatives recorded in "Other assets" and "Other liabilities" are aggregated and shown herein in total. Derivative instruments are presented as net of assets and liabilities associated with derivative transactions.

#### (f) Method used for determining the fair value of financial instruments

##### Assets

##### (1) Cash and due from banks

Fair values of cash and due from banks which have no maturity dates are approximately equivalent to carrying amounts.

Regarding cash and due from banks with maturity dates, the fair value of certain products with short maturities (less than one year) are approximately equivalent to the carrying amounts.

##### (2) Call loans and bills purchased

Fair values of call loans and bills purchased are approximately equivalent to carrying amounts because of their short maturities.

##### (3) Trading securities

For securities such as bonds that are held for trading, fair values of these securities are measured at the quoted market prices in bond markets or the quoted prices obtained from financial institutions.

##### (4) Investment securities

Fair values of stocks are measured at the quoted market prices in stock markets. Fair values of bonds are mainly measured at the quoted market prices in bond markets or the quoted prices obtained from financial institutions. Fair values of investment trusts are measured at the standard prices disclosed publicly.

Information related to securities by holding purpose is mentioned in Note 4.

##### (5) Loans and bills discounted

Because floating rate loans are immediately affected by the movement of market rates, the fair values of these loans are equivalent to carrying amounts in cases where the credit risk of debtors has not significantly changed from the execution of the loans.

Fixed-rate loans are segmented by loan type, internal rating and period, and their fair value is determined by discounting the total amount of principal and interest by the assumed interest rate on new lending of a similar type.

For loans to debtors who are legally bankrupt, virtually bankrupt and possible bankrupt, an allowance for doubtful accounts calculated from the current value of expected future cash flows or from the amount expected to be collected through disposal of collateral or execution of guarantees is provided. Therefore, the carrying amounts at the balance sheet date, net of reserve amounts, are regarded as the fair values.

The carrying amounts of loans and bills discounted that do not have fixed maturities due to loan characteristics, such as limited loan amounts within the value of pledged assets, approximate fair value due to their expected repayment periods and interest rate conditions.

##### Liabilities

##### (1) Deposits

Fair value of demand deposits is recognized as the payment amount required at the balance sheet date (i.e., carrying amounts). The fair value of time deposits is calculated by classifying them on the basis of their terms and by discounting future cash flows. The discount rates used in such calculations are interest rates used when accepting new deposits.

##### (2) Negotiable certificates of deposit

Fair value of fixed negotiable certificates of deposit is calculated by classifying them on the basis of their terms and by discounting future cash flows. The discount rates used in such calculations are interest rates used when accepting new negotiable certificates of deposit.

##### (3) Call money and bills sold

Fair values of call money and bills sold are equivalent to carrying amounts because of their short maturities.

##### (4) Payables under repurchase transactions

Fair values of payables under repurchase transactions are approximately equivalent to carrying amounts because of their short maturities.

##### (5) Borrowed money

The carrying amount of borrowed money with floating interest rates approximates fair value because the market rates are promptly reflected in the floating interest rate, and the credit risks of the Bank and its consolidated subsidiaries have not changed significantly after borrowing. The fair value of borrowed money with fixed interest rates is determined by discounting future cash flows at the rate that would be applied for similar new contracts. Fair values of borrowed money with maturity of less than one year are approximately equivalent to carrying amounts because of their short maturities.

##### Derivatives

Please see Note 17 for the fair value of derivatives.

**(g) Financial instruments whose fair value cannot be reliably determined**

	Carrying amount		
	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Unlisted stocks (*1) (*2)	¥ 2,169	¥ 2,206	\$ 26,394
Investments in partnerships (*3)	1,749	1,813	21,283
Total	¥ 3,918	¥ 4,019	\$ 47,677

(\*1) Equity securities without a readily available market price are out of the scope of the fair value disclosure because their fair values cannot be readily determined.

(\*2) During the year ended March 31, 2012, impairment losses on equity securities without a readily available market price of ¥70 million (\$852 thousand) were recognized. During the year ended March 31, 2011, impairment losses on equity securities without a readily available market price of ¥7 million were recognized.

(\*3) Investments in partnerships, the assets of which comprise equity securities without a readily available market price, are out of the scope of the fair value disclosure because the fair value of those investments cannot be readily determined.

**(h) Maturity analysis for financial assets and securities with contractual maturities**

	Millions of Yen		
	Due in 1 year or Less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2012			
Due from banks	¥ 67,087	¥	¥
Call loans and bills purchased	12,466		
Available-for-sale securities	122,317	264,224	305,394
National government bonds	31,146	121,354	98,836
Local government bonds	6,345	32,576	36,369
Corporate bonds	67,742	96,205	155,336
Others	17,084	14,089	14,853
Loans and bills discounted (*)	701,542	415,267	358,193
Total	¥ 903,412	¥ 679,491	¥ 663,587

	Millions of Yen		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2012			
Due from banks	¥	¥	¥
Call loans and bills purchased			
Available-for-sale securities	169,377	153,967	21,324
National government bonds	110,796	96,512	
Local government bonds	13,543	10,092	
Corporate bonds	42,675	45,240	21,324
Others	2,363	2,123	
Loans and bills discounted (*)	214,284	177,513	306,628
Total	¥ 383,661	¥ 331,480	¥ 327,952

(\*) Loans and bills discounted to borrowers who are legally bankrupt, virtually bankrupt and possibly bankrupt amounting to ¥30,464 million are excluded from the table above as of March 31, 2012.

	Millions of Yen		
	Due in 1 year or Less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2011			
Due from banks	¥ 77,703	¥	¥
Call loans and bills purchased	54,978		
Available-for-sale securities	156,675	241,323	300,361
National government bonds	38,253	73,180	131,089
Local government bonds	20,725	27,147	38,083
Corporate bonds	81,057	98,948	112,905
Others	16,640	42,048	18,284
Loans and bills discounted (*)	656,689	403,248	320,140
Total	¥ 946,045	¥ 644,571	¥ 620,501

	Millions of Yen		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2011			
Due from banks	¥	¥	¥
Call loans and bills purchased			
Available-for-sale securities	66,255	211,737	29,031
National government bonds	43,910	167,578	3,027
Local government bonds	9,394	14,611	
Corporate bonds	10,192	29,548	26,004
Others	2,759		
Loans and bills discounted (*)	210,051	195,596	301,878
Total	¥ 276,306	¥ 407,333	¥ 330,909

(\*) Loans and bills discounted to borrowers who are legally bankrupt, virtually bankrupt and possibly bankrupt amounting to ¥33,528 million are excluded from the table above as of March 31, 2011.

	Thousands of U.S. Dollars		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2012			
Due from banks	\$ 816,247	\$	\$
Call loans and bills purchased	151,669		
Available-for-sale securities	1,488,213	3,214,795	3,715,710
National government bonds	378,950	1,476,509	1,202,536
Local government bonds	77,202	396,347	442,499
Corporate bonds	824,211	1,170,524	1,889,957
Others	207,850	171,415	180,718
Loans and bills discounted (*)	8,535,617	5,052,530	4,358,112
Total	\$10,991,746	\$8,267,325	\$8,073,822

	Thousands of U.S. Dollars		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2012			
Due from banks	\$	\$	\$
Call loans and bills purchased			
Available-for-sale securities	2,060,797	1,873,306	259,442
National government bonds	1,348,051	1,174,251	
Local government bonds	164,780	122,789	
Corporate bonds	519,228	550,433	259,442
Others	28,738	25,833	
Loans and bills discounted (*)	2,607,183	2,159,790	3,730,723
Total	\$4,667,980	\$4,033,096	\$3,990,165

(\*) Loans and bills discounted to borrowers who are legally bankrupt, virtually bankrupt and possibly bankrupt amounting to \$370,654 thousand are excluded from the table above as of March 31, 2012.

(i) **Scheduled repayment amount after the balance sheet date for borrowed money and other interest bearing liabilities**

	Millions of Yen		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2012			
Deposits (*)	¥2,982,053	¥ 104,552	¥ 11,811
Negotiable certificates of deposit	50,799	2,181	
Call money and bills sold	6,822		
Payables under repurchase transactions	55,964		
<b>Total</b>	<b>¥3,095,638</b>	<b>¥ 106,733</b>	<b>¥ 11,811</b>

	Millions of Yen		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2012			
Deposits (*)	¥	¥	¥
Negotiable certificates of deposit			
Call money and bills sold			
Payables under repurchase transactions			
<b>Total</b>	<b>¥</b>	<b>¥</b>	<b>¥</b>

	Millions of Yen		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2011			
Deposits (*)	¥2,881,314	¥ 120,828	¥ 13,793
Negotiable certificates of deposit	47,413	20	
Call money and bills sold	30,267		
Payables under repurchase transactions	41,752		
Borrowed money	40,963	4,314	1,832
<b>Total</b>	<b>¥3,041,709</b>	<b>¥ 125,162</b>	<b>¥ 15,625</b>

	Millions of Yen		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2011			
Deposits (*)	¥ 0	¥	¥
Negotiable certificates of deposit			
Call money and bills sold			
Payables under repurchase transactions			
Borrowed money	75	10	4
<b>Total</b>	<b>¥ 75</b>	<b>¥ 10</b>	<b>¥ 4</b>

	Thousands of U.S. Dollars		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
At March 31, 2012			
Deposits (*)	\$36,282,431	\$ 1,272,077	\$ 143,706
Negotiable certificates of deposit	618,066	26,537	
Call money and bills sold	83,000		
Payables under repurchase transactions	680,909		
<b>Total</b>	<b>\$37,664,406</b>	<b>\$ 1,298,614</b>	<b>\$ 143,706</b>

	Thousands of U.S. Dollars		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
At March 31, 2012			
Deposits (*)	\$	\$	\$
Negotiable certificates of deposit			
Call money and bills sold			
Payables under repurchase transactions			
<b>Total</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

(\*) Regarding deposits, demand deposits are included in deposits with maturity dates of one year or less. Please see Note 11 for annual maturities of borrowed money.

**17. Derivative Instruments**

The Bank has entered into various transactions involving derivative instruments in the normal course of business to meet the financing needs of its customers for risk management, the Bank's asset-liability management, and as a source of income. These derivative instruments involve, in varying degrees, elements of credit and market risk. The Bank is exposed to credit losses in the event of non-performance by third parties. However, the Bank does not expect non-performance by its counterparties because the counterparties to these derivatives are limited to major international financial institutions.

**(a) Derivative transactions to which hedge accounting is not applied at March 31, 2012 and 2011**

	Millions of Yen			
	Notional principal or contract amounts	Contract Amount due after one year	Fair value	Valuation gains (losses)
At March 31, 2012				
Foreign exchange contracts:				
Currency swaps	¥31,611	¥26,351	¥ 38	¥ 38
Foreign exchange forward contracts				
Forward exchange contracts written	153		(4)	(4)
Forward exchange contracts purchased	114		4	4

	Millions of Yen			
	Notional principal or contract amounts	Contract Amount due after one year	Fair value	Valuation gains (losses)
At March 31, 2011				
Foreign exchange contracts:				
Currency swaps	¥32,991	¥31,767	¥ 45	¥ 45
Foreign exchange forward contracts				
Forward exchange contracts written	77		(1)	(1)
Forward exchange contracts purchased	258		1	1

	Thousands of U.S. Dollars			Valuation gains (losses)
	Notional principal or contract amounts	Contract Amount due after one year	Fair value	
At March 31, 2012				
Foreign exchange contracts:				
Currency swaps	\$ 384,605	\$ 320,606	\$ 458	\$ 458
Foreign exchange forward contracts				
Forward exchange contracts written	1,857		(52)	(52)
Forward exchange contracts purchased	1,390		52	52

**(b) Derivative transactions to which hedge accounting is applied at March 31, 2012 and 2011**

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	¥ 14,086	¥ 12,862	¥ (557)

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Foreign exchange:				
Forward contracts	<b>Foreign currency call loans</b>	¥ 5,349	¥	¥ 0

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2011				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	¥ 25,323	¥ 15,293	¥ (684)

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2011				
Foreign exchange:				
Forward contracts	<b>Foreign currency call loans</b>	¥ 9,990	¥	¥ (5)

	Thousands of U. S. Dollars			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	\$ 171,379	\$ 156,487	\$(6,773)

	Thousands of U. S. Dollars			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Foreign exchange:				
Forward contracts	<b>Foreign currency call loans</b>	\$ 65,081	\$	\$ 1

The below interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 16 is included in that of the hedged items (i.e. Loans and bills discounted).

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	¥ 54,955	¥ 44,509	¥

	Millions of Yen			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2011				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	¥ 76,068	¥ 66,401	¥

	Thousands of U. S. Dollars			Fair value
	Hedged item	Contract Amount	Contract Amount due after one year	
At March 31, 2012				
Interest rate contracts:				
Interest rate swaps- receive floating and pay fixed	<b>Loans and bills discounted</b>	\$ 668,633	\$ 541,533	\$

Note. Fair values are calculated based on the discounted cash flow method or another valuation method.

## 18. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for doubtful accounts	¥ 9,043	¥ 10,734	\$ 110,021
Provision for retirement benefits	352	333	4,277
Provision for directors' and corporate auditors' retirement benefits	262	271	3,183
Provision for reimbursement of deposits	236	365	2,869
Depreciation	365	443	4,442
Write-downs of investment securities	1,233	1,286	15,005
Unrealized losses on available-for-sale securities	909	2,307	11,055
Losses on impairment of fixed assets	2,312	2,649	28,125
Other	2,363	2,531	28,774
Less, valuation allowance	(3,868)	(4,213)	(47,063)
Subtotal	13,207	16,706	160,688
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,457)	(11,850)	(139,401)
Other	(1,973)	(2,261)	(23,998)
Subtotal	(13,430)	(14,111)	(163,399)
Net deferred tax assets (liabilities)	¥ (223)	¥ 2,595	\$ (2,711)

A reconciliation of the differences between the Japanese statutory effective tax rate and the actual effective tax rate on pretax income reflected in the accompanying consolidated statement of income for the years ended March 31, 2012 and 2011 is as follows:

	Percentage of pretax income	
	2012	2011
Japanese statutory effective tax rate	40.4 %	40.4 %
Increase (decrease) due to:		
Non-deductible expenses	0.7	0.8
Non-taxable income	(1.8)	(2.7)
Effect of tax rate reduction	6.2	
Resident tax per capital levy	0.2	0.4
Increase in valuation allowance	1.1	(1.2)
Other	0.3	0.4
Actual effective income tax rate	47.1 %	38.1 %

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.4% to 37.7% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.3% afterwards. As the result of this change in tax rate, deferred tax assets and deferred tax liabilities in the consolidated balance sheet as of March 31, 2012 decreased by ¥49 million (\$596) and ¥435 million (\$5,293), respectively. Unrealized gains on available-for-sale securities and deferred losses on derivatives under hedge accounting in the consolidated balance sheet as of March 31, 2012 increased by ¥1,523 million

(\$18,530 thousand) and ¥28 million (\$341 thousand), respectively. Deferred tax liabilities for land revaluation in the consolidated balance sheet as of March 31, 2012 decreased by ¥1,242 million (\$15,111 thousand) and land revaluation surplus in the consolidated balance sheet as of March 31, 2012 increased by the same amount. Income taxes – deferred in the consolidated statement of income for the year then ended increased by ¥1,109 million (\$13,493 thousand).

## 19. Other Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2012 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Unrealized gains (losses) on available-for-sale securities		
Gains arising during the year	¥ 6,089	\$ 74,089
Reclassification adjustments to profit or loss	47	578
Amount before income tax effect	6,136	74,667
Income tax effect	(1,005)	(12,230)
Total	¥ 5,131	\$ 62,437
Deferred gains (losses) on derivatives under hedge accounting		
Gains arising during the year	(152)	(1,844)
Reclassification adjustments to profit or loss	280	3,412
Amount before income tax effect	128	1,568
Income tax effect	(80)	(979)
Total	¥ 48	\$ 589
Land revaluation surplus		
Gains arising during the year		
Reclassification adjustments to profit or loss		
Amount before income tax effect		
Income tax effect	1,242	15,112
Total	¥ 1,242	\$ 15,112
Total other comprehensive income	¥ 6,421	\$ 78,138

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and therefore it is not disclosed herein.

## 20. Per Share Information

Net income per share, as presented consolidated statement of income, is based on the weighted average number of common shares outstanding during each year. The weighted average number of common shares outstanding for the years ended March 31, 2012 and 2011 were 209,904 thousand and 209,959 thousand, respectively.

## 21. Subsequent Event

Appropriation of retained earnings

The shareholders of the Bank approved the following appropriations of retained earnings at the annual general meeting on June 27, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 840	\$ 10,216

## 22. SEGMENT INFORMATION

Year Ended March 31, 2012

### 1. Description of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group.

The Bank concentrates on the banking business, and also conducts other financial services business including leasing. Therefore, the Group's reportable segments consist of Banking and Leasing.

Banking consists of deposit business, loan business, foreign (domestic) exchange business, and securities business.

Leasing consists of leasing business.

### 2. Methods of measurement for the amounts of ordinary income, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies".

### 3. Information about ordinary income, profit (loss), assets and other items is as follows.

Millions of Yen

2012

	Reportable segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	¥ 65,520	¥ 12,370	¥ 77,890	¥ 1,420	¥ 79,310	¥	¥ 79,310
Inter segment	243	1,252	1,495	523	2,018	(2,018)	
Total	65,763	13,622	79,385	1,943	81,328	(2,018)	79,310
Segment profit	16,299	1,106	17,405	691	18,096	(44)	18,052
Segment assets	3,541,909	29,761	3,571,670	13,699	3,585,369	(24,412)	3,560,957
Other:							
Depreciation	¥ 5,110	¥ 341	¥ 5,451	¥ 14	¥ 5,465	¥	¥ 5,465
Interest income and dividends	50,757	35	50,792	191	50,983	(162)	50,821
Interest expenses	2,803	224	3,027	3	3,030	(270)	2,760

Millions of Yen

2011

	Reportable segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	¥ 66,801	¥ 12,685	¥ 79,486	¥ 1,592	¥ 81,078	¥	¥ 81,078
Inter segment	295	1,348	1,643	572	2,215	(2,215)	
Total	67,096	14,033	81,129	2,164	83,293	(2,215)	81,078
Segment profit	11,299	890	12,189	767	12,956	199	13,155
Segment assets	3,473,486	31,632	3,505,118	13,430	3,518,548	(23,902)	3,494,646
Other:							
Depreciation	¥ 3,748	¥ 412	¥ 4,160	¥ 12	¥ 4,172	¥	¥ 4,172
Interest income and dividends	52,921	86	53,007	245	53,252	(188)	53,064
Interest expenses	3,913	275	4,188	7	4,195	(294)	3,901

Thousands of U.S. Dollars

	2012						
	Reportable segment			Other	Total	Reconciliations	Consolidated
	Banking	Leasing	Total				
Ordinary income:							
Outside customers	\$ 797,182	\$ 150,511	\$ 947,693	\$ 17,274	\$ 964,967	\$	\$ 964,967
Inter segment	2,958	15,238	18,196	6,369	24,565	(24,565)	
Total	800,140	165,749	965,889	23,643	989,532	(24,565)	964,967
Segment profit	198,310	13,464	211,774	8,405	220,179	(545)	219,634
Segment assets	43,094,160	362,104	43,456,264	166,670	43,622,934	(297,022)	43,325,912
Other:							
Depreciation	\$ 62,183	\$ 4,158	\$ 66,341	\$ 154	\$ 66,495	\$	\$ 66,495
Interest income and dividends	617,564	435	617,999	2,323	620,322	(1,982)	618,340
Interest expenses	34,109	2,734	36,843	33	36,876	(3,292)	33,584

- Note: 1. The "Other" segment contains business that is not included in these reportable segments, such as the guarantee and credit card business.  
2. Adjustments for the years ended March 31, 2012 and 2011 are as follows:  
(1) For the year ended March 31, 2012, reconciliations of segment profit were eliminations of intersegment transactions.  
(2) For the year ended March 31, 2011, reconciliations of segment profit of ¥(43) million were eliminations of intersegment transactions.  
(3) For the year ended March 31, 2011, reconciliations of segment profit of ¥242 million were adjustments for allowance for doubtful accounts.  
(4) Reconciliations of segment assets and other were eliminations of intersegment transactions.  
3. Segment profit represents profit which is deducted for certain special income and loss from income before income taxes and minority interests in the accompanying consolidated statement of income.

Related Information for the year ended March 31, 2012

Segment information by services

	Millions of Yen				
	2012				
	Loan Business	Securities Investment Business	Leasing Business	Other	Total
Ordinary income from external customers	¥ 39,600	¥ 12,824	¥ 12,082	¥ 14,804	¥ 79,310
	Millions of Yen				
	2011				
	Loan Business	Securities Investment Business	Leasing Business	Other	Total
Ordinary income from external customers	¥ 40,863	¥ 13,920	¥ 12,517	¥ 13,778	¥ 81,078
	Thousands of U.S. Dollars				
	2012				
	Loan Business	Securities Investment Business	Leasing Business	Other	Total
Ordinary income from external customers	\$ 481,806	\$ 156,034	\$ 147,005	\$ 180,122	\$ 964,967

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
THE KAGOSHIMA BANK, Ltd.:

We have audited the accompanying consolidated balance sheet of THE KAGOSHIMA BANK, Ltd. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of THE KAGOSHIMA BANK, Ltd. and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 27, 2012