

# Financial Highlights

## Consolidated Basis

	Millions of Yen				
	2009	2008	2007	2006	2005
As of March 31					
Total Assets	<b>3,176,656</b>	3,147,644	3,144,993	3,116,258	3,111,523
Deposits and NCD	<b>2,835,660</b>	2,797,878	2,769,047	2,723,527	2,749,959
Loans and Bills Discounted	<b>2,064,761</b>	2,036,502	2,002,114	1,969,237	1,870,081
Investment Securities	<b>916,565</b>	927,782	936,270	927,144	870,075
Total Equity	<b>227,410</b>	233,240	245,420	231,790	215,436
Years ended March 31					
Total Income	<b>85,090</b>	92,757	84,075	86,015	76,094
Total Expenses	<b>72,268</b>	75,627	68,221	68,272	62,132
Income before Income Taxes and Minority Interests	<b>12,821</b>	17,130	15,854	17,742	13,961
Net Income	<b>6,720</b>	9,137	9,446	9,878	9,466
Capital Adequacy Ratio	<b>13.56%</b>	13.87%	13.71%	13.91%	13.98%
Per Share					
Yen					
Net Income	<b>32.00</b>	43.52	44.98	46.81	44.83
Cash Dividends	<b>8.00</b>	8.00	7.00	7.00	6.00

## Non-Consolidated Basis

	Millions of Yen				
	2009	2008	2007	2006	2005
As of March 31					
Total Assets	<b>3,153,030</b>	3,120,460	3,117,684	3,088,173	3,083,275
Deposits and NCD	<b>2,842,941</b>	2,805,681	2,775,975	2,730,125	2,756,139
Loans and Bills Discounted	<b>2,075,518</b>	2,047,089	2,012,934	1,979,225	1,879,225
Investment Securities	<b>916,468</b>	927,406	935,510	926,039	869,160
Total Equity	<b>216,707</b>	223,105	236,143	229,802	214,061
Years ended March 31					
Total Income	<b>70,983</b>	77,383	68,791	70,590	61,104
Total Expenses	<b>59,228</b>	61,905	54,134	54,569	48,701
Income before Income Taxes	<b>11,754</b>	15,478	14,657	16,021	12,403
Net Income	<b>6,468</b>	8,750	9,144	9,298	8,910
Capital Adequacy Ratio	<b>13.15%</b>	13.51%	13.38%	13.58%	13.73%
Per Share					
Yen					
Net Income	<b>30.80</b>	41.68	43.54	44.04	42.17



President **Fumiharu Nagata**

\*Photographic shoot in  
“Cool Biz” style (July 2009)

Having four key contents - “sound management”, “regional contribution”, “customer focused” and “improved corporate vitality”- as corporate mission, Kagoshima Bank continues to progress and achieve favourable business performance to date and has built a solid foundation as a main financial institute firmly rooted in its local region.

Even Kagoshima and Miyazaki prefectures, which represent the main business base of our bank, are being affected by factors such as the once-in-a-hundred year concurrent global recession as well as rapid depopulation caused by Japan's low birth rate and the ageing of its population. As such, the environment in which our bank operates is becoming increasingly severe.

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## The Fourth Master Plan

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Amidst this kind of business environment, Kagoshima Bank started its Fourth Business Strategy Plan (abbr. The Fourth Master Plan) in April 2009. The three years through to March 2012 are intended to be spent as “two years of streamlining and strengthening of our foundations, followed by rapid progress in the third year”. For the first two years we will focus on local growth fields such as agriculture and medical care (nursing), further strengthening the local-based financing we have been carrying out until now. Together with this, we are also implementing future-oriented promotion of streamlining, strengthening of our foundations, and training of personnel, which will enable us to aim for rapid progress in the third year.

In the corporate banking sector, we plan to improve the effectiveness of our “Corporate Client Operating Profit Improvement Activities” on which we have worked to date and further strengthen activities connected to the persistence and profit increase of our customers' businesses. These activities will allow us to offer even greater levels of customer satisfaction, ensuring that we always remain the bank of choice.

In personal banking, we will continue aiming to fulfil our role as our customers' lifelong bank by offering information and financial services that are tailored to the lifestyles and life stages of our customers in the region.

In addition, we will continue to diligently strengthen our customer care, risk management and compliance with regulations so that our customers can use Kagoshima Bank with peace of mind.

## “Happy 130th anniversary – we will always stay together with the region”

On October 6th, 2009, Kagoshima Bank celebrated 130 years since its establishment of our predecessor as the 147th National Bank. To commemorate this, we would like to express our heartfelt gratitude for the patronage of all customers, shareholders and regions through development of various anniversary projects.

For our 130th anniversary, we have decided to adopt the following slogan:  
“Happy 130th anniversary – we will always stay together with the region”

As a financial institute with its roots in the Kagoshima and Miyazaki prefectures of Southern Kyushu, Kagoshima Bank recognizes the importance of growth of the regional community, without which its own development would be impossible. One significant item listed in our corporate mission is “regional contribution”, and we are diligently putting this into practice.

Kagoshima Bank continues to expand its range of social contribution activities that respond to the needs of the region. We continue to implement our “Agri-Cluster Plan”, promote support for the regional economy, carry out corporate patronage of the arts by means of the “Kagoshima Bank Cultural Assets Team”, engage in environmental conservation activities, and so on.

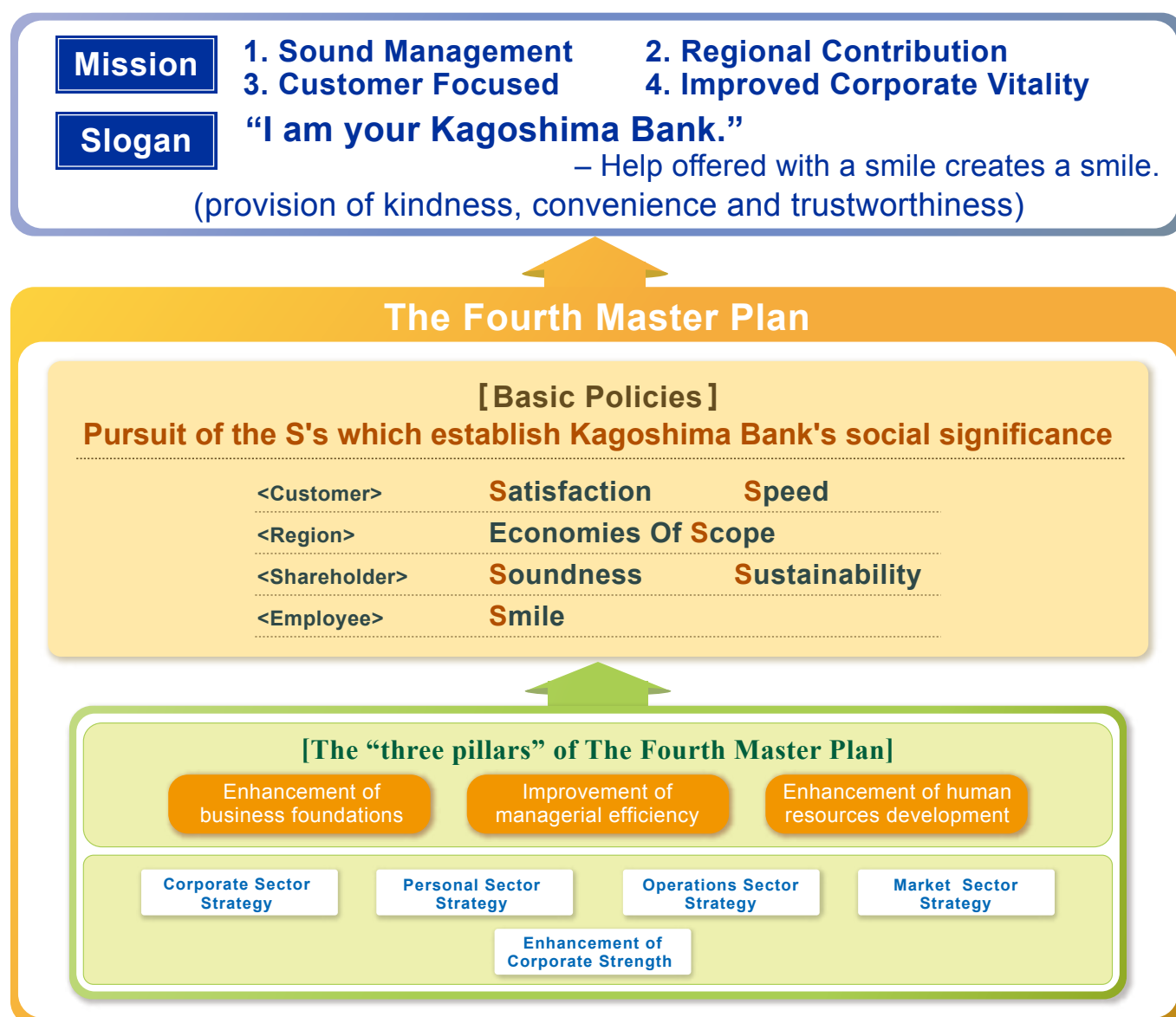
We would, therefore, like to invite you to extend your kind and continued patronage and support to Kagoshima Bank.

## ▶ Objectives of the Plan

“Two years of streamlining and strengthening of our foundations, followed by rapid progress in the third year”.

For the first two years we will focus on local growth fields, further strengthening the local-based financing we have been carrying out until now. Together with this, we are also implementing future-oriented promotion of streamlining, strengthening of our foundations, and training of personnel, which will enable us to aim for rapid progress in the third year.

## ▶ Conceptual Diagram (April 2009 to March 2012)



## ▶ Challenge Targets (FY 2012)

### Profit Target

Gross profit	¥58.0 billion or greater
Core business profit	¥17.0 billion or greater
Net income	¥9.0 billion or greater

### Management Index Target

OHR	Under 70.0%
Tier 1 ROE	4.2% or greater
Capital adequacy ratio	13.5% or greater
Tier 1 ratio	12.5% or greater

## ► Strategies of the Fourth Master Plan

### Corporate Sector Strategy

We are striving to improve the effectiveness of our “Operating Profit Improvement Activities”, which also appeared in The Third Master Plan, to further strengthen our activities with regard to the persistence and profit increase of our customers' businesses. In this way we are aiming to improve levels of customer satisfaction and, in turn, to always remain the bank of choice for our customers. In addition, we are planning to improve our corporate sales strength through effective use of our Corporate Business Center in the training of personnel. We are also constructing an efficient sales system that will enable our sales branches to focus on practicing relationship banking.

### Personal Sector Strategy

Kagoshima Bank is a regional financial institute. As such, we try to be always there for our customers and offer information and services tailored to our customers' life stages. Our goal is to be a bank that understands its customers and which can act as a trusted lifelong associate. We are also striving to build intimate relationships with our property investment and mortgage customers through repeated face-to-face communication at our sales branches. Our aim is to be a bank that you can consult all kinds of matters. Likewise, we hope to receive our customers' support through effective use of direct channels and improved customer convenience.

### Operations Sector Strategy

In 2008 we installed a sales branch computer terminal called “LINKER”, utilisation of which enables us to achieve “error-free” transactions. We are also planning main office centralisation, channel shifts, etc., to further reduce the volume of office work carried out in our branches. We will conduct a radical review of office work carried out at our branches to coincide with the renewal of the enterprise system scheduled for May 2011. We are also planning to improve the current office work flow and expand the feature set of LINKER, among other things, to ensure that “everyone can perform office work without error”. By means of such initiatives, we are aiming to pursue a “low cost, high quality” business transaction model, and at the same time we are working towards an office work reform that will lead to enhanced “sales force strength and profitability”.

### Market Sector Strategy

Kagoshima Bank's stock and bond investments are designed to contribute to sound bank management by means of the stable acquisition of periodic income and securing of liquidity assets. The Fourth Master Plan dictates that we aim for stable revenue results and invest mainly in bonds, even while chaos in the money markets and the stagnation of the economy continue. At the same time, together with building simple and flexible portfolio of stocks and bonds, we can prepare ourselves to react quickly to changes in the money markets and increase the sophistication of our risk management.

### Enhancement of Corporate Strength

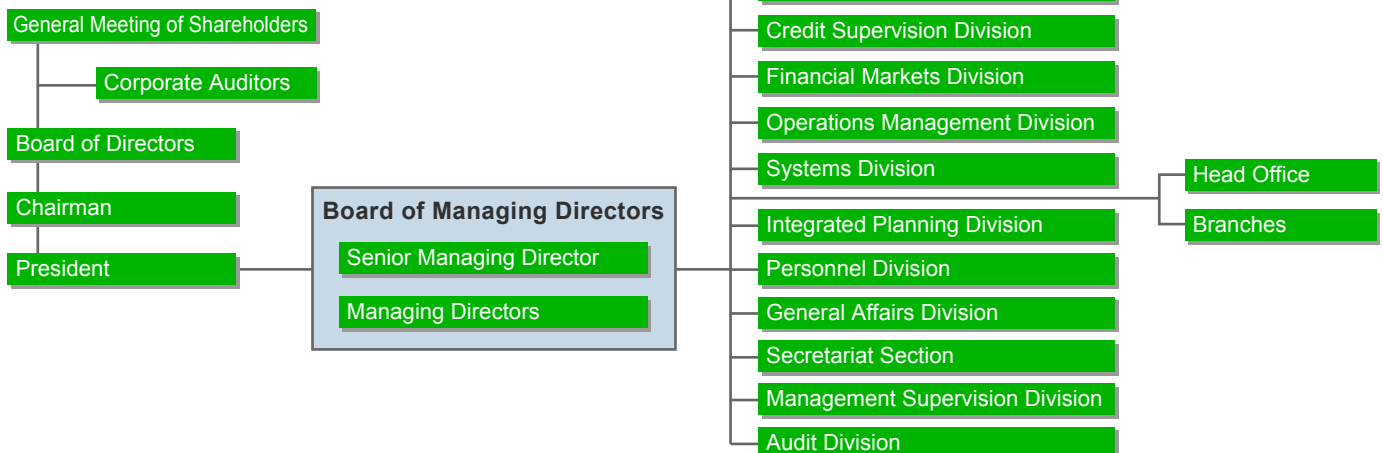
While “Corporate Sector”, “Personal Sector”, “Operations Sector” and “Market Sector” each demonstrate their own strength, it is important to enhance our basic strength as a corporation in order to increase our corporate values from the standpoints of all stakeholders and make our social significance steadfast more than ever. In The Fourth Master Plan, we are working from three perspectives - “enhancement of business foundations”, “improvement of managerial efficiency” and “enhancement of human resources developments” - in order to build a strong physical foundation, which will enhance our corporate strength as a whole.



\*Photographic shoot in "Cool Biz" style (July 2009)

- **Chairman**  
Yoshio Ohno
- **President**  
Fumiharu Nagata
- **Senior Managing Director**  
Itaru Iwakiri
- **Managing Directors**  
Toshihiro Goryo  
Motohiro Kamimura  
Sumihiro Matsuyama  
Masafumi Hidaka
- **Directors**  
Yoshinobu Uchida  
Keihiro Hira  
Youichi Uenohara  
Toshihiro Maeda  
Shinichi Kato  
Seizaburo Higashi  
Tomihiko Kikunaga  
Hideto Tago
- **Standing Corporate Auditors**  
Masaharu Tanaka  
Koji Tsumagari
- **Corporate Auditors**  
Kyoichi Iwamoto  
Yutaka Tokuda  
Takejiro Sueyoshi

## Organization Chart



**ESTABLISHED:**

October 1879

**PAID-IN CAPITAL:**

¥18,130,760,235

**HEAD OFFICE:**

 6-6, Kinsei-cho,  
Kagoshima 892-0828, Japan  
Phone: (099) 225-3111

**FINANCIAL MARKETS DIVISION:**

 TOKYO MONEY MARKET CENTER  
3-15-2, Nihombashi,  
Chuo-ku, Tokyo 103-0027  
Phone: (03) 3272-3196  
SWIFT: KAGOJPJT  
Fax: (03) 3272-3180

**SHANGHAI**
**REPRESENTATIVE OFFICE:**

 Room 141, 27F, HSBC Tower,  
No.1000, Lujiazui Ring Road,  
Pudong New Area,  
Shanghai, P.R. China  
Phone: 010-86-21-6841-5185  
(established July 13, 2007)

**NUMBER OF BRANCHES:**

 162, plus 247 off-branch  
automatic teller machines

**CORRESPONDENT BANKS:**

 345 branches of 62 banks,  
in 165 cities of 33 countries

**NUMBER OF EMPLOYEES:**

2,485

**NUMBER OF SHARES:**

 Issued —  
210,403,655  
Authorized —  
800,000,000

**NUMBER OF SHAREHOLDERS:**

6,690

**RATING:**

 Long-term counterparty credit rating from  
Standard & Poor's **A**

(as of end March 2009)

**GROUP COMPANIES AT A GLANCE**

Name of Company	Address	Capital (Millions of Yen)	Voting Share	Voting Share of Other Group Companies	Established	Line of Business
The Kagin Business Service Co., Ltd.	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-216-5080	20	100.0%		September 1, 1983	Collateral evaluation, etc.
The Kagin Office Service Co., Ltd.	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-227-2141	30	100.0%		July 12, 1991	Personnel dispatch service Job placement service
The Kagin Accounting Service Co., Ltd.	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-239-9756	20	100.0%		April 1, 2004	Accounting service for the consolidated subsidiaries
The Kagin Agency Co., Ltd.	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-239-9822	50	100.0%		November 28, 2008	Bank agency services
The Kagoshima Regional Economic Research Institute Co., Ltd.	3-10, Gofuku-machi, Kagoshima 892-0826 Phone: 099-225-7491	20	45.0%	50.0%	April 16, 1990	Surveys and research in industry, economics, finance and regional development Management Consulting
The Kagoshima Card Co., Ltd.	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-223-2011	50	30.0%	38.0%	March 1, 1983	Credit card business, loan guarantee financing, etc.
The Kagoshima Lease Co., Ltd.	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-225-2455	66	5.0%	48.5%	September 25, 1974	Leasing, factoring, securities investment, etc.
The Kagoshima Guarantee Service Co., Ltd.	1-10, Yamanokuchi-cho, Kagoshima 892-0844 Phone: 099-224-2760	20	49.1%	11.4%	June 23, 1977	Loan guarantees for housing and consumer loans

(as of end June 2009)

# Consolidated Balance Sheets

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
<b>Assets</b>			
Cash and due from banks (Note 3)	¥ 56,095	¥ 57,425	\$ 571,054
Monetary receivables bought	9,204	9,719	93,703
Trading securities (Note 4)	849	811	8,639
Money held in trust (Note 5)	9,800	9,676	99,769
Investment securities (Notes 4 and 10)	916,565	927,783	9,330,809
Loans and bills discounted (Notes 6 and 10)	2,064,761	2,036,502	21,019,660
Foreign exchange (Note 7)	2,050	1,724	20,867
Lease receivables and investments in lease (Note 10 and 17)	21,705		220,961
Other assets (Note 17)	25,464	45,361	259,230
Tangible fixed assets (Note 2(f),8 and 9)	56,045	54,586	570,553
Intangible fixed assets (Note 8)	7,175	4,938	73,043
Deferred tax assets (Note 19)	7,596	2,578	77,327
Customers' liabilities for acceptances and guarantees (Note 14)	26,568	26,720	270,464
Reserve for possible loan losses	(27,221)	(30,178)	(277,116)
Total assets	<u>¥ 3,176,656</u>	<u>¥ 3,147,645</u>	<u>\$ 32,338,963</u>
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 10 and 11)	¥ 2,793,185	¥ 2,751,846	\$ 28,435,147
Negotiable certificates of deposit	42,477	46,032	432,422
Call money and bills sold (Note 10)	22,770	36,296	231,802
Payables under repurchase transaction (Note 10)	4,823		49,103
Borrowed money (Notes 10 and 12)	22,700	13,959	231,094
Foreign exchange (Note 7)	69	56	707
Other liabilities	24,284	27,651	247,219
Accrued bonuses to directors and corporate auditors	50	50	512
Reserve for employee retirement benefits (Note 13)	517	334	5,261
Reserve for directors' and corporate auditors' retirement benefits (Note 2(l))	797	839	8,115
Reserve for reimbursement of derecognized deposits	939	565	9,555
Reserve for contingent losses	117	66	1,193
Deferred tax liabilities for land revaluation (Note 2(f))	9,949	9,990	101,282
Acceptances and guarantees (Note 14)	26,568	26,720	270,464
Total liabilities	<u>2,949,245</u>	<u>2,914,404</u>	<u>30,023,876</u>
<b>Equity (Notes 15 and 21):</b>			
Common stock, no par value;			
Authorized: 800,000,000 shares			
Issued: 210,403,655 shares in 2009 and 2008	18,131	18,131	184,575
Capital surplus	11,221	11,223	114,236
Retained earnings	171,395	166,398	1,744,829
Unrealized gains on available-for-sale securities (Note 4)	6,085	17,256	61,953
Deferred losses on derivatives under hedge accounting	(432)	(445)	(4,399)
Land revaluation surplus (Note 2(f))	13,491	13,552	137,341
Less, Treasury stock, at cost, - 385,898 shares in 2009 and 492,492 shares in 2008	(276)	(349)	(2,811)
Total	<u>219,615</u>	<u>225,766</u>	<u>2,235,724</u>
Minority interests	7,796	7,475	79,363
Total equity	<u>227,411</u>	<u>233,241</u>	<u>2,315,087</u>
Total liabilities and equity	<u>¥ 3,176,656</u>	<u>¥ 3,147,645</u>	<u>\$ 32,338,963</u>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Income

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
<b>Income:</b>			
Interest income and dividends:			
Interest on loans and discounts	¥ 45,092	¥ 44,318	\$ 459,045
Interest and dividends on securities	10,135	12,909	103,171
Other interest income	94	94	959
Total interest income and dividends	55,321	57,321	563,175
Fees and commissions	10,575	10,940	107,653
Other operating income	14,817	15,613	150,836
Gain on sales of investment securities	226	7,351	2,306
Reversal of reserve for possible loan losses	2,279		23,200
Other income	1,873	1,533	19,067
Total income	85,091	92,758	866,237
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	6,801	6,786	69,238
Interest on borrowings and rediscounts	902	2,038	9,181
Interest on repurchase transaction	110	6	1,117
Other interest expenses	960	1,155	9,776
Total interest expenses	8,773	9,985	89,312
Fees and commissions	3,300	3,496	33,595
Other operating expenses	13,442	12,701	136,841
General and administrative expenses	38,901	36,076	396,020
Reserve for possible loan losses		8,755	
Other expenses	7,853	4,615	79,940
Total expenses	72,269	75,628	735,708
<b>Income before income taxes and minority interests</b>	<b>12,822</b>	<b>17,130</b>	<b>130,529</b>
<b>Income taxes:</b>			
Current	3,352	8,654	34,123
Deferred	2,413	(1,226)	24,565
Total income taxes (Note 19)	5,765	7,428	58,688
<b>Minority interests in net income</b>	<b>337</b>	<b>565</b>	<b>3,426</b>
<b>Net income</b>	<b>¥ 6,720</b>	<b>¥ 9,137</b>	<b>\$ 68,415</b>
	Yen		U.S. Dollars
<b>Per share information:</b>			
Net income basic (Note 20)	¥ 32.00	¥ 43.52	\$ 0.33
Cash dividends applicable to the year	8.00	8.00	0.08

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Equity

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2008

	Outstanding Number of shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available- for-sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Land Revaluation Surplus	Treasury Stock	Total	Minority Interests	Total Equity
Millions of Yen											
<b>BALANCE, APRIL 1, 2007</b>	210,403,655	¥18,131	¥11,221	¥158,707	¥37,324	(240)	¥13,576	(277)	¥238,442	¥6,979	¥245,421
Net income				9,137					9,137		9,137
Cash dividends, ¥7.0 per share				(1,470)					(1,470)		(1,470)
Purchase of treasury stock (107,180 shares)								(89)	(89)		(89)
Disposal of treasury stock (24,627 shares)			2						19		19
Reversal of land revaluation surplus				24			(24)	17			
Net change in the year					(20,068)	(205)			(20,273)	496	(19,777)
<b>BALANCE, MARCH 31, 2008</b>	210,403,655	18,131	11,223	166,398	17,256	(445)	13,552	(349)	225,766	7,475	233,241
Net income				6,720					6,720		6,720
Cash dividends, ¥8.0 per share				(1,784)					(1,784)		(1,784)
Purchase of treasury stock (166,661 shares)								(123)	(123)		(123)
Disposal of treasury stock (273,255 shares)			(2)					196	194		194
Reversal of land revaluation surplus				61			(61)				
Net change in the year					(11,171)	13			(11,158)	321	(10,837)
<b>BALANCE, MARCH 31, 2009</b>	210,403,655	¥18,131	¥11,221	¥171,395	¥6,085	(¥432)	¥13,491	(¥276)	¥219,615	¥7,796	¥227,411

	Thousands of U.S. Dollars										
<b>BALANCE, MARCH 31, 2008</b>	\$184,575	\$114,253	\$1,693,964	\$175,673	(\$4,533)	\$137,958	(\$3,555)	\$2,298,335	\$76,099	\$2,374,434	
Net income			68,415					68,415		68,415	
Cash dividends, \$0.08 per share			(18,167)					(18,167)		(18,167)	
Purchase of treasury stock (166,661 shares)							(1,255)	(1,255)		(1,255)	
Disposal of treasury stock (273,255 shares)			(17)					1,999	1,982	1,982	
Reversal of land revaluation surplus			617				(617)				
Net change in the year				(113,720)	134			(113,586)	3,264	(110,322)	
<b>BALANCE, MARCH 31, 2009</b>	\$184,575	\$114,236	\$1,744,829	\$61,953	(\$4,399)	\$137,341	(\$2,811)	\$2,235,724	\$79,363	\$2,315,087	

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 12,822	¥ 17,130	\$ 130,529
Adjustments for:			
Depreciation	3,739	12,191	38,067
Losses on impairment of fixed assets	87	93	883
(Decrease) increase in reserve for possible loan losses	(2,957)	7,398	(30,102)
Interest income and dividends recognized on statements of income	(55,321)	(57,321)	(563,175)
Interest expenses recognized on statements of income	8,773	9,985	89,312
Net loss (gain) on sale or maturities of investment securities	5,419	(5,931)	55,166
Decrease in loans and bills discounted	(28,259)	(34,388)	(287,684)
Increase in deposits	41,338	28,105	420,833
(Decrease) increase in negotiable certificates of deposit	(3,555)	726	(36,194)
Decrease in due from banks	(455)	(84)	(4,632)
Decrease in call loans and bills purchased	515	21,242	5,241
(Decrease) in call money and bills sold	(13,526)	(2,776)	(137,699)
Increase in payables under repurchase transaction	4,823		49,103
Interest income and dividends received	55,740	57,923	567,439
Interest expenses paid	(8,789)	(8,885)	(89,478)
Decrease in lease receivables and investment in lease	2,205		22,447
Other, net	6,037	3,267	61,474
Subtotal	28,636	48,675	291,530
Income taxes paid	(6,938)	(8,116)	(70,639)
Net cash provided by operating activities	21,698	40,559	220,891
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(293,718)	(297,006)	(2,990,101)
Proceeds from sales or maturities of investment securities	280,257	273,062	2,853,068
Net change in money held in trust	(277)	1,944	(2,822)
Purchases of tangible fixed assets	(5,042)	(11,916)	(51,331)
Proceeds from sales of tangible fixed assets	767	910	7,805
Purchases of intangible fixed assets	(3,748)	(2,153)	(38,151)
Proceeds from sales of intangible fixed assets		0	
Net cash used in investing activities	(21,761)	(35,159)	(221,532)
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,783)	(1,469)	(18,156)
Other, net	66	(76)	674
Net cash used in financing activities	(1,717)	(1,545)	(17,482)
Effect of exchange rate changes on cash and cash equivalents	(5)	(13)	(51)
Net (decrease) increase in cash and cash equivalents	(1,785)	3,842	(18,174)
Cash and cash equivalents at beginning of year	56,654	52,812	576,750
Cash and cash equivalents at end of year	¥ 54,869	¥ 56,654	\$ 558,576

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 and the Enforcement Regulation for the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 financial statements to conform to the classifications used in 2009.

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 ¥98.23 to \$1, the approximate rate of exchange at March 31, 2009. Such translation should not be construed as 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 number of consolidated subsidiaries as of March 31, 2009 and 2008 was eight and seven, respectively. During the fiscal year ended March 31, 2009, the Bank established The Kagin Agency Co., Ltd and included this company in the scope of consolidation. All intercompany transactions and accounts have been eliminated.

The scope of consolidation is determined based on the Bank's judgment as to its control and influence over the decision making body of investees as well as its ownership of voting shares in the investees. Though the Bank had nine subsidiaries in 2009 and eight subsidiaries in 2008 engaged in a wide range of financial services to customers as at March 31, the accounts of one of the subsidiaries were excluded from consolidation as the majority of operating profit from that subsidiary was not retained by the subsidiary (paid out to investors). The securities in the unconsolidated subsidiary amounting to ¥0 million (\$8 thousand) at March 31, 2009 and 2008 are stated at cost, and were included in investment securities. The Bank had no affiliates as at March 31, 2009 and 2008.

### (b) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements 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

Marketable securities, other than those classified as trading or held-to-maturity 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. Non-marketable securities among available-for-sale securities are stated at 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. Gains and losses on the disposal of investment securities are principally 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 options 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 as current earnings.

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

The Bank applies deferred hedge accounting to the derivative transactions used to hedge the interest rate risk arising from financial assets and liabilities.

In addition to the current hedge accounting method, the Bank applies a different hedge accounting method due to the exceptional treatments permitted for interest rate swaps.

#### (2) Hedging against currency fluctuations

The Bank applies deferred hedge accounting stipulated in the treatment of the Industry Audit Committee Report No.25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" issued by the Japanese Institute of Certified Public Accountant (the "JICPA") (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 JICPA Industry Auditing Committee Report No.25, 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

i) 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
Equipment	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.

ii) 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, 1999. 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 loss of 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, 2009 and 2008, 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 ¥11,798 million (\$120,111 thousand) and ¥10,719 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 circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**(i) Reserve for possible loan losses**

The reserve for possible loan losses of the Bank is established to cover future credit losses in accordance with the internal rules for self-assessment for asset quality and providing reserves for possible loan losses.

Such a reserve is made based on the Bank's internal rules for providing for possible loan losses in accordance with Report No.4 of the Ad Hoc Committee for Audits of Banks, "Practical Guideline for Valuation of Assets and Audits of Write-off of Bad Loans and Allowance for Doubtful Loans of Banks and Similar Financial Institutions" issued by the JICPA.

For claims to borrowers in legal bankruptcy and substantial bankruptcy, a reserve has been provided based on the amounts of the claims net of the amounts expected to be collected through the disposal of collateral or from guarantees. For claims to borrowers with possibility of bankruptcy, a reserve has been provided for amounts considered necessary based on an overall solvency assessment of amounts from claims net of amounts expected to be collected through the disposal of collateral or from guarantees. For claims to borrowers with significant credit balances, to whom the Bank has relaxed lending conditions and whose loans' future cash flows could be reasonably estimated, an allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rate and carrying amount of the claims. For claims to borrowers with significant credit balances, whose loans' future cash flows could not be reasonably estimated, an allowance is provided based on the estimated credit loss for a certain future period within the remaining loan terms calculated by the Bank. For claims to borrowers except for those as mentioned above, a reserve has been provided based on the historical loss experience of the Bank for a certain past period.

All claims are assessed by the Bank's operating divisions based on 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 a reserve is provided based on the results of these audits.

As for consolidated subsidiaries, a specific reserve has been provided as the aggregate amounts of the estimated credit loss for doubtful or troubled claims and a general reserve has been provided based on the historical loss experience for other claims.

**(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) Reserve for employee retirement benefits**

The Group has defined benefit pension plans, which cover substantially all of its employees. In accordance with the accounting standard for employee retirement benefits, the Group has principally recognized retirement benefits, including the pension cost and the related liability based on the projected benefit obligation and the pension plan assets. Unrecognized prior service cost is amortized using the straight-line method over ten years from the year in which it occurs. Unrecognized actuarial differences such as changes in the projected benefit obligation or pension plan assets resulting from actual experience differing from assumptions and from changes in assumptions are determined using the declining-balance method over ten years as a certain period within the remaining years of service of employees from the year following the year in which they arise.

**(l) Reserve 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. Retirement benefits to directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Act.

**(m) Reserve for reimbursement of derecognized deposits**

Reserve for reimbursement of derecognized 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) Reserve for contingent losses**

Reserve 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 Accounting Standards Board of Japan (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 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases 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 is disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases deemed to transfer ownership of the leased property to the lessee should be recognized as lease

receivables, and all finance leases deemed not to transfer ownership of the leased property to the lessee should be recognized as investments in lease.

The Group applied the revised accounting standard effective April 1, 2008. The effect of this change was not material on the consolidated statements of income.

For the year ended March 31, 2008, cash flows of lease related transactions (purchased lease assets amounting ¥9,655 million and proceeds from sales of leased property amounting ¥507 million) were treated as investing activities. For the year ended March 31, 2009, however, such lease related transactions are treated as operating activities.

#### (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 the transaction dates. Gains or losses resulting from foreign currency translation are included in the determination of net income.

#### (q) Valuation of assets and liabilities in consolidated subsidiaries

Assets and liabilities in consolidated subsidiaries are revalued to fair value when a majority interest in the subsidiaries is purchased.

#### (r) Per share information

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the year. The average number of common shares used in the computation was 209,966 thousand shares and 209,945 thousand shares for the years ended March 31, 2009 and 2008, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2009 and 2008 because there were no dilutive securities outstanding.

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

#### (s) Income taxes

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

#### (t) Appropriations of retained earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements for the following year upon shareholders' approval.

#### (u) New accounting pronouncements

##### Asset Retirement Obligations

On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No.18, "Accounting Standard for Asset Retirement Obligations", and ASBJ Guidance No.21, "Guidance on Accounting standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be

made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

### 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
	2009	2008	2009
Cash and due from banks	¥ 56,095	¥ 57,425	\$ 571,054
Less, due from banks other than The Bank of Japan	(1,226)	(771)	(12,478)
Cash and cash equivalents	¥ 54,869	¥ 56,654	\$ 558,576

### 4. Trading Securities and Investment Securities

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

At March 31, 2009 and 2008, trading securities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
National government bonds	¥ 751	¥ 781	\$ 7,642
Local government bonds	98	30	997
Total	¥ 849	¥ 811	\$ 8,639

At March 31, 2009 and 2008, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
National government bonds	¥ 285,114	¥ 305,782	\$ 2,902,513
Local government bonds	109,032	112,478	1,109,970
Corporate bonds	389,771	372,621	3,967,940
Equity securities	56,411	75,371	574,271
Other	76,237	61,531	776,115
Total	¥ 916,565	¥ 927,783	\$ 9,330,809

At March 31, 2009 and 2008, carrying amounts of trading securities and the related net unrealized gains or losses included in the current earnings were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2009		2008		2009	
	Carrying amounts	Unrealized gains	Carrying amounts	Unrealized gains	Carrying amounts	Unrealized gains

#### Trading

##### account

securities ¥ 849 ¥ (0) ¥ 811 ¥ 2 \$ 8,639 \$ (7)

At March 31, 2009 and 2008, gross unrealized gains and losses for available-for-sale securities with fair value are summarized as follows:

	Millions of Yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
At March 31, 2009:				
Bonds:				
National government bonds	¥289,046	¥ 2,159	¥ (6,091)	¥285,114
Local government bonds	107,856	1,281	(105)	109,032
Corporate bonds	379,168	2,074	(401)	380,841
Equity securities	39,384	16,840	(1,754)	54,470
Other	75,242	325	(4,162)	71,405
Total	¥890,696	¥22,679	¥(12,513)	¥900,862

	Millions of Yen			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
At March 31, 2008:				
Bonds:				
National government bonds	¥309,740	¥ 2,239	¥ (6,197)	¥305,782
Local government bonds	110,738	1,848	(108)	112,478
Corporate bonds	360,917	2,416	(293)	363,040
Equity securities	41,989	32,773	(1,272)	73,490
Other	59,261	422	(2,998)	56,685
Total	¥882,645	¥39,698	¥(10,868)	¥911,475

	Thousands of U.S. Dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
At March 31, 2009:				
Bonds:				
National government bonds	\$ 2,942,542	\$ 21,980	\$ (62,009)	\$2,902,513
Local government bonds	1,097,995	13,046	(1,071)	1,109,970
Corporate bonds	3,860,007	21,111	(4,087)	3,877,031
Equity securities	400,933	171,431	(17,854)	554,510
Other	765,976	3,304	(42,359)	726,921
Total	\$ 9,067,453	\$ 230,872	\$ (127,380)	\$9,170,945

At March 31, 2009 and 2008, 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 sheets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Unrealized gains	¥ 10,166	¥ 28,828	\$ 103,493
Less, applicable income taxes	(4,048)	(11,529)	(41,207)
Less, minority interests portion	(32)	(43)	(333)
Net unrealized gains in shareholders' equity	¥ 6,086	¥ 17,256	\$ 61,953

During the years ended March 31, 2009 and 2008, the Group sold available-for-sale securities and recorded gains of ¥1,133 million (\$11,537 thousand) and ¥8,069 million, respectively, and losses of ¥2,629 million (\$26,769 thousand) and ¥1,216 million, respectively, on the accompanying consolidated statements of income.

At March 31, 2009 and 2008, investment securities without fair value were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Stocks of subsidiaries and affiliates	¥ 1	¥ 1	\$ 8
Available-for-sale Securities:			
Bonds and debentures	8,930	9,581	90,909
Equity Securities	1,940	1,879	19,753
Foreign Securities	0	0	1
Other	4,832	4,847	49,193
Total	¥ 15,703	¥ 16,308	\$ 159,864

Expected maturities of available-for-sale securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
At March 31, 2009				
Bonds:				
National government bonds	¥ 18,035	¥122,062	¥ 81,916	¥ 63,101
Local government bonds	10,923	68,848	29,261	
Corporate bonds	98,585	238,457	18,911	33,818
Other	11,856	33,201	12,373	8,995
Total	¥139,399	¥462,568	¥142,461	¥105,914

	Millions of Yen			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
At March 31, 2008				
Bonds:				
National government bonds	¥ 22,018	¥154,092	¥ 22,098	¥107,572
Local government bonds	14,644	52,744	45,090	
Corporate bonds	85,891	248,628	13,184	24,919
Other	2,939	25,158	17,534	12,749
Total	¥125,492	¥480,622	¥ 97,906	¥145,240

	Thousands of U.S. dollars			
	Within 1 year	2 to 5 years	6 to 10 years	Over 10 years
At March 31, 2009				
Bonds:				
National				
government				
bonds	\$ 183,600	\$ 1,242,613	\$ 833,922	\$ 642,378
Local				
government				
bonds	111,202	700,887	297,881	
Corporate				
bonds	1,003,616	2,427,533	192,518	344,273
Other	120,699	337,994	125,957	91,574
Total	\$1,419,117	\$4,709,027	\$1,450,278	\$1,078,225

## 5. Money Held in Trust

The carrying amounts and unrealized gains of money held in trust, at March 31, 2009 and 2008, were as follows:

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Carrying amounts	¥ 9,800	¥ 9,675	\$ 99,769
Unrealized gains (losses)			
recognized in income	(437)	(1)	(4,452)

### (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, 2009 and 2008, loans and bills discounted consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Bills discounted	¥ 19,162	¥ 22,744	\$ 195,072
Loans on notes	154,775	150,477	1,575,640
Loans on deeds	1,621,118	1,609,344	16,503,291
Overdrafts	269,706	253,937	2,745,657
Total	¥2,064,761	¥ 2,036,502	\$21,019,660

At March 31, 2009 and 2008, non-accrual outstanding loans and bills discounted, on which interest revenue accruals have been suspended when loans are classified as claims to borrowers in bankruptcy and past due loans, in aggregate, amounted to ¥32,400 million (\$329,841 thousand) and ¥29,401 million, respectively. Loans are generally placed on non-accrual status when substantial doubt is judged to exist as to the ultimate collectability of either principal or interest if they are past due for a certain period or for other reasons. Claims to borrowers in bankruptcy represent non-accrual loans, after the charge-off of claims deemed uncollectible, to borrowers who are legally bankrupt, which are defined in Article 96, Paragraph 1, Subparagraphs 3 and 4 of the Enforcement Ordinance for the Corporation Tax Law of Japan. Past due loans are non-accrual loans other than claims to borrowers in bankruptcy and loans on which interest payments are deferred in order to assist the financial recovery of borrowers in financial difficulties.

At March 31, 2009 and 2008, accruing loans for which the payment of the principal and/or interest is contractually past due by three months or more, excluding non-accrual loans, amounted to ¥23 million (\$234 thousand) and ¥19 million, respectively.

At March 31, 2009 and 2008, restructured loans where the Bank has assisted borrowers in financial difficulties such as by a reduction of the original interest rate, forbearance of interest and/or principal payments or extension of the maturity date in order to support them in their financial recovery or restructuring, excluding non-accrual loans and accruing loans contractually past due by three months or more disclosed above, amounted to ¥25,542 million (\$260,021 thousand) and ¥35,546 million, respectively.

Total nonperforming assets net of charge-offs, which consisted of non-accrual loans, accruing loans contractually past due by three months or more and restructured loans, in aggregate, amounted to ¥57,965 million (\$590,096 thousand) and ¥64,966 million at March 31, 2009 and 2008, respectively.

At March 31, 2009 and 2008, loans included bills discounted amounting to ¥19,167 million (\$195,123 thousand) and ¥22,749 million, respectively. The Bank is entitled, without limitation, to dispose of these bills discounted.

## 7. Foreign Exchange

At March 31, 2009 and 2008, foreign exchanges consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Assets:			
Due from banks	¥ 2,022	¥ 1,576	\$ 20,586
Foreign bills of exchange purchased	5	6	51
Foreign bills of exchange receivable	23	142	230
Total	¥ 2,050	¥ 1,724	\$ 20,867
Liabilities:			
Foreign bills of exchange sold	¥ 29	¥ 21	\$ 299
Foreign bills of exchange payable	40	35	408
Total	¥ 69	¥ 56	\$ 707

## 8. Tangible Fixed Assets and Intangible Fixed Assets

At March 31, 2009 and 2008, the major classifications of tangible fixed assets and intangible fixed assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Tangible fixed assets			
Buildings	¥ 33,039	¥ 32,219	\$ 378,069
Land	37,138	36,836	336,346
Construction in progress	17	28	171
Other	17,490	21,789	178,057
	87,684	90,872	892,643
Less, accumulated depreciation	(31,639)	(36,286)	(322,090)
Total	¥ 56,045	¥ 54,586	\$ 570,553
Intangible fixed assets			
Software	¥ 7,021	¥ 4,783	\$ 71,477
Other	154	155	1,566
Total	¥ 7,175	¥ 4,938	\$ 73,043

## 9. Losses on Impairment of Fixed Assets

The differences between the recoverable amount and the book value of the following assets were recognized as losses on impairment of fixed assets in the year ended March 31, 2009 and 2008:

Year ended March 31, 2009

Purpose of use	Area	Items	Type	Thousands of U.S. Dollars	
				Millions of Yen	
Not in use	Kagoshima	3	Land and buildings	¥ 19	\$ 192
	Other	3	Land and buildings	68	691
				<u>¥ 87</u>	<u>\$ 883</u>

Year ended March 31, 2008

Purpose of use	Area	Items	Type	Millions of Yen
Not in use	Kagoshima	1	Land and buildings	¥ 93

The Bank groups assets by branch, which is a minimum unit for managerial accounting.

The Bank treats each consolidated domestic subsidiary as a unit for asset grouping.

The recoverable value is calculated based on the real estate appraisal value less the estimated cost of disposal.

## 10. Assets Pledged

At March 31, 2009 and 2008, assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Investment securities	¥ 201,296	¥ 95,315	\$ 2,049,233
Loans and bills discounted	2,344	2,737	23,862
Investments in lease	7,581		77,182

At March 31, 2009 and 2008, liabilities related to the above pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deposits	¥ 17,548	¥ 19,377	\$ 178,643
Call money	7,367	5,000	75,000
Borrowed money	10,460	11,659	106,480
Payables under repurchase transaction	4,823		49,103

A total of ¥10,519 million of unearned lease claims were pledged as collateral for the above mentioned borrowed money as of March 31, 2008.

In addition, securities totaling ¥59,337 million (\$604,067 thousand) and ¥59,415 million at March 31, 2009 and 2008, respectively, were pledged as collateral for the settlement of exchange, derivatives and other transactions.

## 11. Deposits

At March 31, 2009 and 2008, deposits consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Demand deposits	¥ 1,581,112	¥ 1,566,242	\$ 16,096,021
Time deposits	1,164,469	1,133,032	11,854,517
Other	47,604	52,572	484,609
Total	<u>¥ 2,793,185</u>	<u>¥ 2,751,846</u>	<u>\$ 28,435,147</u>

## 12. Borrowed Money

At March 31, 2009, the annual maturities of borrowed money, which was due through March 2014 with an average interest rate of 1.34% per annum, were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 14,719	\$ 149,841
2011	3,386	34,474
2012	2,502	25,475
2013	1,357	13,819
2014	455	4,636
Total	<u>¥ 22,419</u>	<u>\$ 228,245</u>

## 13. 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, 2009 and 2008:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Reconciliation of benefit liability:			
Projected benefit obligation	¥ (21,823)	¥ (21,470)	\$ (222,160)
Fair value of pension plan assets at year end	23,080	23,917	234,962
	<u>1,257</u>	<u>2,447</u>	<u>12,802</u>
Unrecognized actuarial differences	6,248	1,504	63,615
Unrecognized prior service cost of retroactive benefits granted by the plan amendment (gain)	(154)	(364)	(1,573)
Net amounts of reserve for employee retirement benefits recognized on the consolidated balance sheets	<u>¥ 7,351</u>	<u>¥ 3,587</u>	<u>\$ 74,844</u>

### Balance Sheet Presentation

Prepaid pension cost (Other assets)	¥ 7,868	¥ 3,921	\$ 80,105
Reserve for employee retirement	¥ (517)	¥ (334)	\$ (5,261)

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Components of net periodic retirement benefit expenses:			
Service cost	¥ 715	¥ 735	\$ 7,281
Interest cost	428	432	4,362
Expected return on pension plan assets	(1,166)	(1,190)	(11,880)
Amortization of prior service cost	(209)	(209)	(2,132)
Amortization of actuarial differences	309	(985)	3,155
Net periodic retirement benefit expense	<u>¥ 77</u>	<u>¥ (1,217)</u>	<u>\$ 786</u>

Major assumptions used in the calculation of the above information for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rate	<b>2.0%</b>	2.0%
Expected rate of return on pension plan assets:		
Defined benefit pension plan	<b>6.0%</b>	6.0%
Trusts for retirement benefits	<b>2.5%</b>	2.5%
Amortization of prior service cost	<b>10 years</b>	10 years
Amortization of actuarial differences	<b>10 years</b>	10 years

#### 14. 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 sheets, indicating the Bank's right of indemnity from the customers.

#### 15. Equity

On and after May 1, 2006, Japanese banks are subject to the Companies Act and the Banking Law. The Companies Act reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in 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 the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) 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 a certain limitation 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 provides 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 aggregate amount of 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, which were previously presented as a liability, are now 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.

#### 16. Commitments

Contracts for overdraft facilities and loan commitment limits are contracts that the Bank makes with customers up to the 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, 2009 and 2008 was ¥864,553 million (\$8,801,313 thousand) and ¥615,768 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, 2009 and 2008 was ¥591,377 million (\$6,020,332 thousand) and ¥605,786 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 with 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.

#### 17. Lease as Lessor

A consolidated subsidiary engaged in leasing operations entered into various long-term non-cancelable lease agreements with third parties as lessor, which were categorized as financing leases. The balances of leased assets are included in other assets on the consolidated balance sheets in 2008.

At March 31, 2008, acquisition cost, accumulated depreciation, net book value, lease income, depreciation expenses on the leased assets were as follows:

	Millions of Yen
	2008
Acquisition cost	¥ 67,426
Accumulated depreciation	43,404
Net book value	¥ 24,022
Lease income	¥ 10,083
Depreciation expenses	¥ 8,629

At March 31, 2008, the aggregate future minimum lease commitments to be received for such non-cancelable agreements, excluding the imputed interest, were as follows:

	Millions of Yen	
	2008	
Financing leases as lessor:		
Due within one year	¥ 8,855	
Due after one year	18,636	
Total	¥27,491	

## 18. 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 loss in the event of non-performance by third parties. However, the Bank does not expect non-performance by its counterparties. Because the counterparties to those derivatives are limited to major international financial institutions, the Bank does not anticipate any losses arising from credit risk. The Bank was adopted the accounting standard for financial instruments. At March 31, 2009 and 2008, derivative instruments which are traded on the over-the-counter market and stated at fair value with valuation gains and losses as current earnings, other than those to which hedge accounting is applied, were summarized as follows:

	Millions of Yen		
	Notional principal or contract amounts	Fair value	Valuation gains (losses)
At March 31, 2009:			
Foreign exchange contracts:			
Currency swaps	¥29,806	¥ 57	¥ 57
Foreign exchange forward contracts			
Forward exchange contracts written	80	(1)	(1)
Forward exchange contracts purchased	41	(0)	(0)
Credit derivative contracts:			
Credit default option			
Selling	2,000	(131)	(131)

	Millions of Yen		
	Notional principal or contract amounts	Fair value	Valuation gains (losses)
At March 31, 2008:			
Interest rate contracts:			
Interest rate swaps			
Receive floating and pay fixed	¥ 2,500	¥ (5)	¥ 43
Foreign exchange contracts:			
Currency swaps	30,080	64	64
Foreign exchange forward contracts			
Forward exchange contracts written	256	19	19
Forward exchange contracts purchased	186	(8)	(8)
Credit derivative contracts:			
Credit default option			
Selling	2,000	(44)	(44)

Thousands of U.S. Dollars

Notional principal or contract amounts	Fair value	Valuation gains (losses)
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At March 31, 2009:

Foreign exchange contracts:			
Currency swaps	\$303,439	\$ 585	\$ 585
Foreign exchange forward contracts			
Forward exchange contracts written	819	(13)	(13)
Forward exchange contracts purchased	424	2	2
Credit derivative contracts:			
Credit default option			
Selling	20,360	(1,336)	(1,336)

- Note 1. Fair values are calculated based on the discounted cash flow method or other valuation method.  
 Note 2. Derivative instruments, to which hedge accounting is applied, are excluded from the table above.  
 Note 3. Currency swaps, to which hedge accounting is applied, are excluded from the table above.

## 19. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Reserve for possible loan losses	¥ 10,017	¥ 11,807	\$ 101,974
Reserve for employee retirement benefits	208	134	2,120
Reserve for directors' and corporate auditors' retirement benefits	323	339	3,283
Reserve for reimbursement of derecognized deposits	379	228	3,860
Depreciation	534	588	5,440
Write-down of investment securities	2,358	661	24,008
Unrealized losses on available-for-sale securities	5,055	4,392	51,462
Losses on impairment of fixed assets	2,678	2,643	27,260
Other	1,881	2,094	19,147
Less, valuation allowance	(4,569)	(3,756)	(46,509)
Subtotal	18,864	19,130	192,045
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(9,102)	(15,921)	(92,668)
Other	(2,166)	(631)	(22,050)
Subtotal	(11,268)	(16,552)	(114,718)
Net deferred tax assets	¥ 7,596	¥ 2,578	\$ 77,327

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 year ended March 31, 2009 and 2008 is as follows:

	Percentage of pretax income	
	2009	2008
Japanese statutory effective tax rate	<b>40.4 %</b>	40.4 %
Increase (decrease) due to:		
Non-deductible expenses	<b>1.2</b>	0.8
Non-taxable income	<b>(2.2)</b>	(1.5)
Resident tax per capita levy	<b>0.3</b>	0.2
Increase in valuation allowance	<b>5.8</b>	3.4
Other	<b>(0.6)</b>	0.0
Actual effective income tax rate	<b>44.9 %</b>	43.3 %

## 20. Per Share Information

Net income and net assets per share are based on the weighted average number of shares of common stock outstanding during each year and the number of shares outstanding at each balance sheet date, respectively. The weighted average number of shares of common stock outstanding for the year ended March 31, 2009 was 209,966 thousand shares.

## 21. Subsequent Event

### (a) Appropriation of retained earnings

The shareholders of the Bank approved the following appropriations of retained earnings at the annual general meeting on June 26, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	<b>¥ 840</b>	<b>\$ 8,552</b>

## 22. Segment Information

A summary of information classified by lines of business of the Group for the years ended March 31, 2009 and 2008 was as follows:

	Banking	Leasing	Other	Total	Eliminations	Consolidated
	Millions of Yen					
For the year ended March 31, 2009:						
Ordinary income:						
Outside customers	¥ 67,599	¥ 13,265	¥ 1,714	¥ 82,578	¥	¥ 82,578
Inter-segment	353	1,215	499	2,067	(2,067)	
	<u>67,952</u>	<u>14,480</u>	<u>2,213</u>	<u>84,645</u>	<u>(2,067)</u>	<u>82,578</u>
Ordinary expenses	58,389	14,046	1,611	74,046	(2,622)	71,424
Ordinary profit	<u>¥ 9,563</u>	<u>¥ 434</u>	<u>¥ 602</u>	<u>¥ 10,599</u>	<u>¥ 555</u>	<u>¥ 11,154</u>
Identifiable assets	¥3,152,990	¥ 33,985	¥ 13,331	¥ 3,200,306	¥ (23,650)	¥ 3,176,656
Depreciation	2,838	894	7	3,739		3,739
Losses on impairment of fixed assets	87			87		87
Capital expenditures	<u>8,540</u>	<u>106</u>	<u>8</u>	<u>8,654</u>		<u>8,654</u>
For the year ended March 31, 2008:						
Ordinary income:						
Outside customers	¥ 77,051	¥ 13,936	¥ 1,761	¥ 92,748	¥	¥ 92,748
Inter-segment	365	1,067	505	1,937	(1,937)	
	<u>77,416</u>	<u>15,003</u>	<u>2,266</u>	<u>94,685</u>	<u>(1,937)</u>	<u>92,748</u>
Ordinary expenses	60,365	14,085	1,607	76,057	(1,936)	74,121
Ordinary profit	<u>¥ 17,051</u>	<u>¥ 918</u>	<u>¥ 659</u>	<u>¥ 18,628</u>	<u>¥ (1)</u>	<u>¥ 18,627</u>
Identifiable assets	¥3,106,997	¥ 34,715	¥ 5,932	¥ 3,147,644	¥	¥ 3,147,645
Depreciation	2,635	9,550	6	12,191		12,191
Losses on impairment of fixed assets	93			93		93
Capital expenditures	<u>4,165</u>	<u>9,752</u>	<u>3</u>	<u>13,920</u>		<u>13,920</u>
For the year ended March 31, 2009:						
	Thousands of U.S. Dollars					
Ordinary income:						
Outside customers	\$ 688,168	\$ 135,046	\$ 17,447	\$ 840,661	\$	\$ 840,661
Inter-segment	3,600	12,364	5,082	21,046	(21,046)	
	<u>691,768</u>	<u>147,410</u>	<u>22,529</u>	<u>861,707</u>	<u>(21,046)</u>	<u>840,661</u>
Ordinary expenses	594,412	142,992	16,402	753,806	(26,693)	727,113
Ordinary profit	<u>\$ 97,356</u>	<u>\$ 4,418</u>	<u>\$ 6,127</u>	<u>\$ 107,901</u>	<u>\$ 5,647</u>	<u>\$ 113,548</u>
Identifiable assets	\$ 32,098,036	\$ 345,975	\$ 135,709	\$ 32,579,720	\$ (240,757)	\$ 32,338,963
Depreciation	28,897	9,098	72	38,067		38,067
Losses on impairment of fixed assets	883			883		883
Capital expenditures	<u>86,934</u>	<u>1,083</u>	<u>85</u>	<u>88,102</u>		<u>88,102</u>

Note: (1) "Ordinary income" represents total income less certain special income included in other income on the accompanying consolidated statements of income. "Ordinary expenses" represents total expenses less certain special expenses, such as losses on impairment of fixed assets and prior expenses of reserve for directors' and corporate auditors' retirement benefits and reserve for reimbursement of derecognized deposits, included in other expenses. "Ordinary profit" represents ordinary income less ordinary expenses. "Other" business segment includes guarantee and credit card operations.

(2) Information of geographic segment and income from foreign operations is not presented, as such amounts were not material to be disclosed.

(3) As mentioned in Note 2. (O), "Accounting Standard for Lease Transactions" (ASBJ Statement NO. 13, issued on March 30, 2007) and "Implementation Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance NO. 16, issued on March 30, 2007) became effective from the fiscal year beginning on and after April 1, 2008, and the Group has applied them from the fiscal year ended March 31, 2009. As a result of the accounting change, depreciation of "Banking business" increased by ¥169 million (\$1,725 thousand), and "Leasing business" decreased by ¥9,320 million (\$94,888 thousand). Under the prior accounting standard, we treat it as the depreciation of the Other assets; which is included in the Ordinary expenses, and under the revised accounting standard, we treat it as the cost of sales in the Ordinary expenses. Therefore the effect of this change was not material on the Ordinary expenses. Capital expenditure of "Banking business" increased by ¥1,759 million (\$17,911 thousand), and "Leasing business" decreased by ¥10,980 million (\$111,781 thousand). The effect of this change was not reduction of "Leasing business".

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of  
The KAGOSHIMA Bank, Ltd.:

We have audited the accompanying consolidated balance sheets of The KAGOSHIMA Bank, Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The KAGOSHIMA Bank, Ltd. and consolidated subsidiaries as of March 31, 2009 and 2008, 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.

Our audits 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*

June 26, 2009