

# Financial Highlights

## Consolidated Basis

	Millions of Yen				
	2010	2009	2008	2007	2006
As of March 31					
Total Assets	<b>3,353,702</b>	3,176,656	3,147,644	3,144,993	3,116,258
Deposits and NCD	<b>2,992,988</b>	2,835,660	2,797,878	2,769,047	2,723,527
Loans and Bills Discounted	<b>2,081,900</b>	2,064,761	2,036,502	2,002,114	1,969,237
Investment Securities	<b>999,439</b>	916,565	927,782	936,270	927,144
Total Equity	<b>248,984</b>	227,410	233,240	245,420	231,790
Years ended March 31					
Total Income	<b>80,957</b>	85,090	92,757	84,075	86,015
Total Expenses	<b>65,234</b>	72,268	75,627	68,221	68,272
Income before Income Taxes and Minority Interests	<b>15,722</b>	12,821	17,130	15,854	17,742
Net Income	<b>9,300</b>	6,720	9,137	9,446	9,878
Capital Adequacy Ratio	<b>14.33%</b>	13.56%	13.87%	13.71%	13.91%
Per Share					
Yen					
Net Income	<b>44.28</b>	32.00	43.52	44.98	46.81
Cash Dividends	<b>9.00</b>	8.00	8.00	7.00	7.00

## Non-Consolidated Basis

	Millions of Yen				
	2010	2009	2008	2007	2006
As of March 31					
Total Assets	<b>3,331,114</b>	3,153,030	3,120,460	3,117,684	3,088,173
Deposits and NCD	<b>3,000,818</b>	2,842,941	2,805,681	2,775,975	2,730,125
Loans and Bills Discounted	<b>2,092,524</b>	2,075,518	2,047,089	2,012,934	1,979,225
Investment Securities	<b>999,344</b>	916,468	927,406	935,510	926,039
Total Equity	<b>237,395</b>	216,707	223,105	236,143	229,802
Years ended March 31					
Total Income	<b>66,920</b>	70,983	77,383	68,791	70,590
Total Expenses	<b>52,715</b>	59,228	61,905	54,134	54,569
Income before Income Taxes	<b>14,205</b>	11,754	15,478	14,657	16,021
Net Income	<b>8,963</b>	6,468	8,750	9,144	9,298
Capital Adequacy Ratio	<b>13.85%</b>	13.15%	13.51%	13.38%	13.58%
Per Share					
Yen					
Net Income	<b>42.68</b>	30.80	41.68	43.54	44.04

## Message from the President



President **Motohiro Kamimura**

\*Photographic shoot in  
“Cool Biz” style (July 2010)

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 though the recovery of exports and production is gradually spreading in the domestic market, Kagoshima and Miyazaki prefectures, which represent the main business base of our bank, have seen an ongoing severe situation in which the employment environment and consumer spending remain sluggish.

### The Fourth Master Plan

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Amidst this kind of business environment, Kagoshima Bank has entered the second year of its Fourth Business Strategy Plan (abbr. The Fourth Master Plan).

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”. In this fiscal year, we are steadily implementing “enhancement of business foundations”, “improvement of managerial efficiency” and “enhancement of human resources development”, towards the “rapid progress in the third year”.

For “enhancement of business foundations” we are further reinforcing activities for greater earnings of our customers through the “Corporate Client Operating Profit Improvement Activities” on which we have worked to date, and we are also actively working in the growing fields of “medical service, agriculture and the environment”.

For “improvement of managerial efficiency” we are working for more efficient deployment of personnel and review store functions to meet market characteristics, including improved service and convenience for customers.

For “enhancement of human resources development” we are training strong personnel to deal with long-term prospects so as to continue improving the quality of our service.

## “Looking to tomorrow”

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On October 2009, Kagoshima Bank celebrated 130 years since its establishment of our predecessor as the 147th National Bank. While being based on the traditions and achievements of our bank to date, we are looking to the future and are hoping to continue being a “bank that is loved” by everyone in the region for the high quality of service we offer.

### **“I am your Kagoshima Bank.”** – Help offered with a smile creates a smile.

On the basis of our bank's slogan, which expresses our ideal appearance, all of us here at Kagoshima Bank genuinely feel that it is “worthwhile” to work for regional economic growth and the satisfaction of our customers. This is the type of bank we are aiming to become.

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

# The Fourth Business Strategy Plan

## (The Fourth Master Plan)

### ► 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 (¥55.3 billion)
Core business profit	¥17.0 billion or greater (¥16.3 billion)
Net income	¥9.0 billion or greater (¥8.9 billion)

$$*Tier 1 ROE = \frac{\text{Net Income}}{\text{Shareholders' Equity (Tier 1)}}$$

#### Management Index Target

OHR	Under 70.0% (70.64%)
Tier 1 ROE*	4.2% or greater (4.48%)
Capital adequacy ratio	13.5% or greater (13.85%)
Tier 1 ratio	12.5% or greater (12.58%)

( ) results as of the end of March 2010

## ► 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.

# Board of Directors and Corporate Auditors



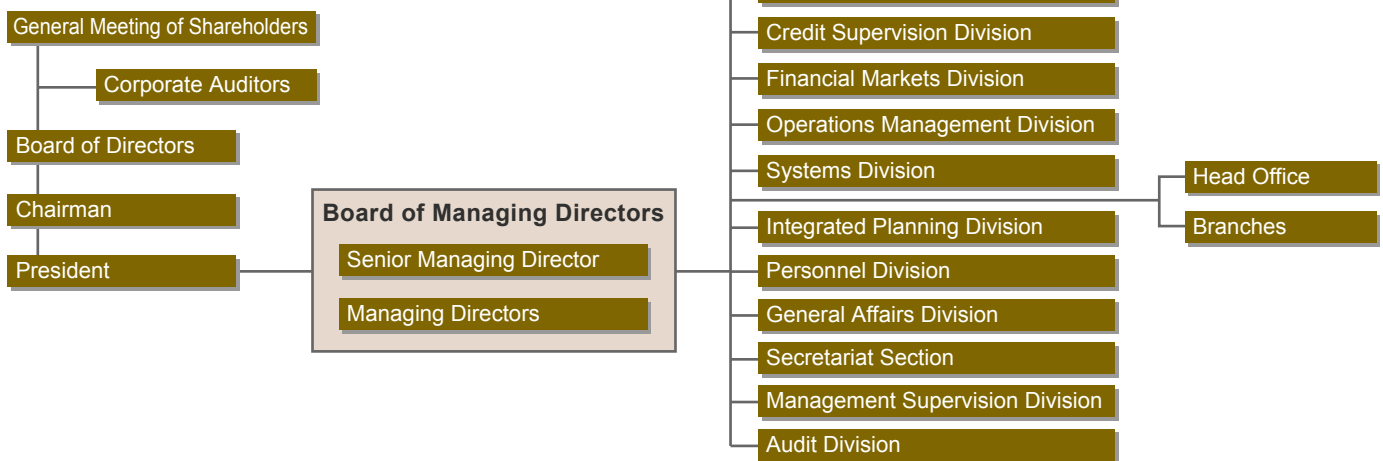
\*Photographic shoot in "Cool Biz" style (June 2010)

- **Chairman**  
Fumiharu Nagata
- **President**  
Motohiro Kamimura
- **Senior Managing Director**  
Itaru Iwakiri
- **Managing Directors**  
Sumihiro Matsuyama  
Masafumi Hidaka  
Youichi Uenohara  
Tomihiro Kikunaga

- **Directors**  
Keihiro Hira  
Toshihiro Maeda  
Shinichi Kato  
Seizaburo Higashi  
Akihisa Kooriyama  
Shinichi Ohtsubo  
Tsutomu Higuchi  
Hideto Tago

- **Standing Corporate Auditors**  
Masaharu Tanaka  
Koji Tsumagari
- **Corporate Auditors**  
Kyoichi Iwamoto  
Yutaka Tokuda  
Takejiro Sueyoshi

## Organization Chart



# Bank Data

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 254 off-branch  
automatic teller machines

CORRESPONDENT BANKS:  
345 branches of 62 banks,  
in 165 cities of 33 countries

NUMBER OF EMPLOYEES:  
2,571

NUMBER OF SHARES:  
Issued —  
210,403,655  
Authorized —  
800,000,000

NUMBER OF SHAREHOLDERS:  
6,535

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

(as of end March 2010)

## 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 2010)

# Consolidated Balance Sheets

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Assets</b>			
Cash and due from banks (Notes 3 and 17)	¥ 130,157	¥ 56,095	\$ 1,398,941
Call loans and bills purchased (Note 17)	8,374		90,000
Monetary receivables bought	8,866	9,204	95,293
Trading securities (Notes 4 and 17)	187	849	2,008
Money held in trust (Note 5)	9,896	9,800	106,360
Investment securities (Notes 4, 10 and 17)	999,439	916,565	10,742,036
Loans and bills discounted (Notes 6, 10, 16 and 17)	2,081,900	2,064,761	22,376,399
Foreign exchange (Note 7)	1,378	2,050	14,814
Lease receivables and investments in lease (Note 10)	21,179	21,705	227,639
Other assets (Note 17)	25,884	25,464	278,208
Tangible fixed assets (Note 2(f), 8 and 9)	56,149	56,045	603,479
Intangible fixed assets (Note 8)	9,748	7,175	104,775
Deferred tax assets (Note 19)	1,138	7,596	12,228
Customers' liabilities for acceptances and guarantees (Note 14)	27,024	26,568	290,454
Reserve for possible loan losses (Note 17)	(27,617)	(27,221)	(296,826)
Total assets	<u>¥ 3,353,702</u>	<u>¥ 3,176,656</u>	<u>\$ 36,045,808</u>
<b>Liabilities and Equity</b>			
<b>Liabilities:</b>			
Deposits (Notes 10, 11 and 17)	¥ 2,951,792	¥ 2,793,185	\$ 31,726,054
Negotiable certificates of deposit (Note 17)	41,197	42,477	442,786
Call money and bills sold (Notes 10 and 17)	27,912	22,770	300,000
Payables under repurchase transaction (Note 10)	5,423	4,823	58,287
Borrowed money (Notes 10 and 12)	11,152	22,700	119,857
Foreign exchange (Note 7)	61	69	651
Other liabilities (Note 17)	24,870	24,284	267,323
Accrued bonuses to directors and corporate auditors	50	50	540
Reserve for employee retirement benefits (Note 13)	686	517	7,377
Reserve for directors' and corporate auditors' retirement benefits (Note 2(l))	870	797	9,356
Reserve for reimbursement of derecognized deposits	887	939	9,531
Reserve for contingent losses	187	117	2,006
Deferred tax liabilities	2,732		29,362
Deferred tax liabilities for land revaluation (Note 2(f))	9,874	9,949	106,123
Acceptances and guarantees (Note 14)	27,024	26,568	290,454
Total liabilities	<u>3,104,717</u>	<u>2,949,245</u>	<u>33,369,707</u>
<b>Equity (Notes 15 and 21):</b>			
Common stock, no par value;			
Authorized: 800,000,000 shares			
Issued: 210,403,655 shares in 2010 and 2009	18,131	18,131	194,871
Capital surplus	11,221	11,221	120,607
Retained earnings	178,667	171,395	1,920,319
Unrealized gains on available-for-sale securities (Note 4)	19,746	6,085	212,232
Deferred losses on derivatives under hedge accounting	(453)	(432)	(4,870)
Land revaluation surplus (Note 2(f))	13,629	13,491	146,490
Less, Treasury stock, at cost, 421,681 shares in 2010 and 385,898 shares in 2009	(300)	(276)	(3,227)
Total	<u>240,641</u>	<u>219,615</u>	<u>2,586,422</u>
Minority interests	8,344	7,796	89,679
Total equity	<u>248,985</u>	<u>227,411</u>	<u>2,676,101</u>
Total liabilities and equity	<u>¥ 3,353,702</u>	<u>¥ 3,176,656</u>	<u>\$ 36,045,808</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, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Income:</b>			
Interest income and dividends:			
Interest on loans and discounts	¥ 42,647	¥ 45,092	\$ 458,368
Interest and dividends on securities	11,317	10,135	121,639
Other interest income	75	94	808
Total interest income and dividends	54,039	55,321	580,815
Fees and commissions	10,930	10,575	117,474
Other operating income	14,088	14,817	151,424
Reversal of reserve for possible loan losses		2,279	
Other income	1,900	2,099	20,423
Total income	80,957	85,091	870,136
<b>Expenses:</b>			
Interest expenses:			
Interest on deposits	4,328	6,801	46,516
Interest on borrowings and rediscounts	275	902	2,955
Interest on repurchase transaction	26	110	282
Other interest expenses	1,340	960	14,399
Total interest expenses	5,969	8,773	64,152
Fees and commissions	2,991	3,300	32,146
Other operating expenses	11,743	13,442	126,217
General and administrative expenses	41,574	38,901	446,840
Other expenses	2,957	7,853	31,789
Total expenses	65,234	72,269	701,144
<b>Income before income taxes and minority interests</b>	<b>15,723</b>	<b>12,822</b>	<b>168,992</b>
<b>Income taxes:</b>			
Current	5,167	3,352	55,536
Deferred	703	2,413	7,554
Total income taxes (Note 19)	5,870	5,765	63,090
<b>Minority interests in net income</b>	<b>553</b>	<b>337</b>	<b>5,939</b>
<b>Net income</b>	<b>¥ 9,300</b>	<b>¥ 6,720</b>	<b>\$ 99,963</b>
		Yen	U.S. Dollars
<b>Per share information:</b>			
Net income basic (Note 20)	¥ 44.28	¥ 32.00	\$ 0.48
Cash dividends applicable to the year	9.00	8.00	0.09

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, 2010 and 2009

	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, 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
Net income				9,300					9,300		9,300
Cash dividends, ¥9.0 per share				(1,890)					(1,890)		(1,890)
Purchase of treasury stock (39,531 shares)								(27)	(27)		(27)
Disposal of treasury stock (3,748 shares)								3	3		3
Reversal of land revaluation surplus				(138)			138				
Net change in the year					13,661	(21)			13,640	548	14,188
<b>BALANCE, MARCH 31, 2010</b>	<u>210,403,655</u>	<u>¥18,131</u>	<u>¥11,221</u>	<u>¥178,667</u>	<u>¥19,746</u>	<u>¥(453)</u>	<u>¥13,629</u>	<u>¥(300)</u>	<u>¥240,641</u>	<u>¥8,344</u>	<u>¥248,985</u>

	Thousands of U.S. Dollars										
<b>BALANCE, MARCH 31, 2009</b>	\$194,871	\$120,608	\$1,842,160	\$65,409	\$(4,644)	\$145,002	\$(2,967)	\$2,360,439	\$83,789	\$2,444,228	
Net income			99,963					99,963		99,963	
Cash dividends, \$0.09 per share			(20,316)					(20,316)		(20,316)	
Purchase of treasury stock (39,531 shares)							(289)	(289)		(289)	
Disposal of treasury stock (3,748 shares)			(1)				29	28		28	
Reversal of land revaluation surplus			(1,488)				1,488				
Net change in the year				146,823	(226)			146,597	5,890	152,487	
<b>BALANCE, MARCH 31, 2010</b>	<u>\$194,871</u>	<u>\$120,607</u>	<u>\$1,920,319</u>	<u>\$212,232</u>	<u>\$(4,870)</u>	<u>\$146,490</u>	<u>\$(3,227)</u>	<u>\$2,586,422</u>	<u>\$89,679</u>	<u>\$2,676,101</u>	

# Consolidated Statements of Cash Flows

THE KAGOSHIMA BANK, LTD. and Consolidated Subsidiaries  
For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 15,723	¥ 12,822	\$ 168,992
Adjustments for:			
Depreciation	4,315	3,739	46,382
Losses on impairment of fixed assets	255	87	2,738
Increase (decrease) in reserve for possible loan losses	396	(2,957)	4,251
Interest income and dividends recognized on statements of income	(54,039)	(55,321)	(580,815)
Interest expenses recognized on statements of income	5,969	8,773	64,152
Net loss on sale or maturities of investment securities	517	5,419	5,562
(Increase) in loans and bills discounted	(17,139)	(28,259)	(184,210)
Increase in deposits	158,608	41,338	1,704,724
(Decrease) in negotiable certificates of deposit	(1,280)	(3,555)	(13,757)
(Increase) in due from banks	(705)	(455)	(7,582)
(Increase) decrease in call loans and bills purchased	(8,035)	515	(86,363)
Increase (decrease) in call money and bills sold	5,142	(13,526)	55,268
Increase in payables under repurchase transaction	600	4,823	6,444
Interest income and dividends received	54,566	55,740	586,483
Interest expenses paid	(6,400)	(8,789)	(68,792)
Decrease in lease receivables and investments in lease	525	2,205	5,648
Other, net	(8,295)	6,037	(89,148)
Subtotal	150,723	28,636	1,619,977
Income taxes paid	(2,922)	(6,938)	(31,397)
Net cash provided by operating activities	147,801	21,698	1,588,580
<b>Cash flows from investing activities:</b>			
Purchases of investment securities	(307,019)	(293,718)	(3,299,856)
Proceeds from sales or maturities of investment securities	241,977	280,257	2,600,783
Net change in money held in trust	(110)	(277)	(1,183)
Purchases of tangible fixed assets	(3,172)	(5,042)	(34,092)
Proceeds from sales of tangible fixed assets	184	767	1,976
Purchases of intangible fixed assets	(4,387)	(3,748)	(47,156)
Net cash used in investing activities	(72,527)	(21,761)	(779,528)
<b>Cash flows from financing activities:</b>			
Dividends paid	(1,886)	(1,783)	(20,273)
Other, net	(30)	66	(317)
Net cash used in financing activities	(1,916)	(1,717)	(20,590)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(1)	(5)	(10)
<b>Net increase (decrease) in cash and cash equivalents</b>	73,357	(1,785)	788,452
<b>Cash and cash equivalents at beginning of year</b>	54,869	56,654	589,735
<b>Cash and cash equivalents at end of year</b>	¥ 128,226	¥ 54,869	\$ 1,378,187

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 2009 financial statements to conform to the classifications used in 2010.

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 ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. 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 eight significant subsidiaries at March 31, 2010 and 2009. 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 engaged in a wide range of financial services to customers as at March 31, 2010 and 2009, 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 (\$7 thousand) at March 31, 2010 and 2009 are stated at cost, and were included in investment securities. The Bank had no affiliates as at March 31, 2010 and 2009.

### (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

Debt securities for which the Group has the positive intent 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 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, 2010 and 2009, 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 ¥12,979 million (\$139,502 thousand) and ¥11,798 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.

In July 2008, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)". The Bank applied this partial amendment to the standard from the year ended March 31, 2010. The effect of this change was to decrease unrecognized actuarial differences by ¥545 million (\$5,862 thousand) and nil to consolidated financial statements because unrecognized actuarial differences will be charged to income from next fiscal year.

**(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 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 that deem 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 that deem to transfer ownership of the leased property to the lessee should be recognized as lease receivables, and all finance leases that deem 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.

**(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) 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 209,999 thousand shares and 209,966 thousand shares for the years ended March 31, 2010 and 2009, respectively.

Diluted net income per share is not disclosed for the years ended March 31, 2010 and 2009 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) Accounting Change**

In March 2008, the ASBJ revised ASBJ Statement No.10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the fiscal years ending on or after March 31, 2010 with early adoption permitted from beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

As a result, "Investment securities" increased by ¥37 million (\$399 thousand), "Deferred tax liabilities" increased by ¥14 million (\$161 thousand), "Unrealized gains on available-for-sale securities" increased by ¥22 million (\$238 thousand), and "Income before income taxes and minority interests" increased by ¥13 million (\$148 thousand), respectively, in comparison to previous treatments.

**(v) 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.

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 with revision of accounting standards, a 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 Presentations

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 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 fiscal year that begins on or after April 1, 2011.

Segment Information Disclosures — In March 2008, the ASBJ revised ASBJ Statement No.17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No.20 "Guidance on Accounting Standard for Segment Information Disclosures". Under this standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about

which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 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
	2010	2009	2010
Cash and due from banks	¥ 130,157	¥ 56,095	\$ 1,398,941
Less, due from banks other than The Bank of Japan	(1,931)	(1,226)	(20,754)
Cash and cash equivalents	¥ 128,226	¥ 54,869	\$ 1,378,187

### 4. Trading Securities and Investment Securities

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

At March 31, 2010 and 2009, trading securities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
National government bonds	¥ 50	¥ 751	\$ 532
Local government bonds	137	98	1,476
Total	¥ 187	¥ 849	\$ 2,008

At March 31, 2010 and 2009, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
National government bonds	¥ 427,067	¥ 285,114	\$ 4,590,143
Local government bonds	109,798	109,032	1,180,114
Corporate bonds	326,995	389,771	3,514,562
Equity securities	63,509	56,411	682,598
Other	72,070	76,237	774,619
Total	¥ 999,439	¥ 916,565	\$10,742,036

At March 31, 2010 and 2009, 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	
	2010	2009	2010	2010	2010	
	Carrying amounts	Unrealized gains	Carrying amounts	Unrealized gains	Carrying amounts	Unrealized gains
Trading account securities	¥ 187	¥ (1)	¥ 849	¥ (0)	\$ 2,008	\$ (10)

At March 31, 2010 and 2009, 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, 2010:				
Bonds:				
National government bonds	¥425,841	¥ 3,931	¥ (2,705)	¥427,067
Local government bonds	107,247	2,551		109,798
Corporate bonds	322,037	4,979	(21)	326,995
Equity securities	37,933	24,610	(1,025)	61,518
Other	69,956	621	(686)	69,891
Total	¥963,014	¥36,692	¥ (4,437)	¥995,269

	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

	Thousands of U.S. Dollars			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
At March 31, 2010:				
Bonds:				
National government bonds	\$ 4,576,975	\$ 42,246	\$ (29,078)	\$ 4,590,143
Local government bonds	1,152,694	27,420		1,180,114
Corporate bonds	3,461,278	53,512	(228)	3,514,562
Equity securities	407,712	264,507	(11,015)	661,204
Other	751,891	6,674	(7,376)	751,189
Total	\$10,350,550	\$ 394,359	\$ (47,697)	\$10,697,212

At March 31, 2010 and 2009, 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
	2010	2009	2010
Unrealized gains	¥ 32,253	¥ 10,166	\$ 346,662
Less, applicable income taxes	(12,474)	(4,048)	(134,071)
Less, minority interests portion	(33)	(33)	(359)
Net unrealized gains in shareholders' equity	¥ 19,746	¥ 6,085	\$ 212,232

During the years ended March 31, 2010 and 2009, the Group sold available-for-sale securities and recorded gains of ¥1,007 million (\$10,827 thousand) and ¥1,133 million, respectively, and losses of ¥700 million (\$7,521 thousand) and ¥2,629 million, respectively, on the accompanying consolidated statements of income.

At March 31, 2009, investment securities whose fair value cannot be reliably determined were as follows. The similar information for 2010 is disclosed in Note 17.

	Millions of Yen
	2009
Stocks of subsidiaries and affiliates	¥ 1
Available-for-sale Securities:	
Bonds and debentures	8,930
Equity Securities	1,940
Foreign Securities	0
Other	4,832
Total	¥ 15,703

Expected maturities of available-for-sale securities at March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 17.

	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

## 5. Money Held in Trust

The carrying amounts and unrealized gains of money held in trust, at March 31, 2010 and 2009, were as follows:

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

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Carrying amounts	¥ 9,896	¥ 9,800	\$ 106,360
Unrealized gains (losses) recognized in income	514	(437)	5,521

### (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, 2010 and 2009, loans and bills discounted consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Bills discounted	¥ 15,669	¥ 19,162	\$ 168,413
Loans on notes	154,266	154,775	1,658,059
Loans on deeds	1,652,857	1,621,118	17,765,013
Overdrafts	259,108	269,706	2,784,914
Total	¥ 2,081,900	¥ 2,064,761	\$ 22,376,399

At March 31, 2010 and 2009, 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 ¥34,038 million (\$365,849 thousand) and ¥32,400 million, respectively. Loans are generally placed on non-accrual status when substantial doubt is judged to exist as to the ultimate collectibility 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, 2010 and 2009, 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 ¥30 million (\$319 thousand) and ¥23 million, respectively.

At March 31, 2010 and 2009, 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 ¥26,403 million (\$283,782 thousand) and ¥25,542 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 ¥60,471 million (\$649,950 thousand) and ¥57,965 million at March 31, 2010 and 2009, respectively.

At March 31, 2010 and 2009, loans included bills discounted amounting to ¥15,672 million (\$168,440 thousand) and ¥19,167 million, respectively. The Bank is entitled, without limitation, to dispose of these bills discounted.

## 7. Foreign Exchange

At March 31, 2010 and 2009, foreign exchanges consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Assets:</b>			
Due from banks	¥ 1,302	¥ 2,022	\$ 14,003
Foreign bills of exchange purchased	3	5	28
Foreign bills of exchange receivable	73	23	783
<b>Total</b>	<b>¥ 1,378</b>	<b>¥ 2,050</b>	<b>\$ 14,814</b>
<b>Liabilities:</b>			
Foreign bills of exchange sold	¥ 4	¥ 29	\$ 46
Foreign bills of exchange payable	57	40	605
<b>Total</b>	<b>¥ 61</b>	<b>¥ 69</b>	<b>\$ 651</b>

## 8. Tangible Fixed Assets and Intangible Fixed Assets

At March 31, 2010 and 2009, the major classifications of tangible fixed assets and intangible fixed assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
<b>Tangible fixed assets</b>			
Buildings	¥ 34,471	¥ 33,039	\$ 370,497
Land	37,287	37,138	400,762
Construction in progress	78	17	833
Other	16,609	17,490	178,511
	<b>88,445</b>	<b>87,684</b>	<b>950,603</b>
Less, accumulated depreciation	(32,296)	(31,639)	(347,124)
<b>Total</b>	<b>¥ 56,149</b>	<b>¥ 56,045</b>	<b>\$ 603,479</b>
<b>Intangible fixed assets</b>			
Software	¥ 9,364	¥ 7,021	\$ 100,641
Other	384	154	4,134
<b>Total</b>	<b>¥ 9,748</b>	<b>¥ 7,175</b>	<b>\$ 104,775</b>

## 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, 2010 and 2009:

Year ended March 31, 2010

Purpose of use	Area	Items	Type	Thousands of U.S. Dollars	
				Millions of Yen	of U.S. Dollars
In use	Outside of Kagoshima	1	Land and buildings	¥ 216	\$ 2,318
Not in use	Kagoshima	7	Land and buildings	23	244
	Outside of Kagoshima	5	Land and buildings	16	176
<b>Total</b>				<b>¥ 255</b>	<b>\$ 2,738</b>

Year ended March 31, 2009

Purpose of use	Area	Items	Type	Millions of Yen
Not in use	Kagoshima	3	Land and buildings	¥ 19
	Outside of Kagoshima	3	Land and buildings	68
<b>Total</b>				<b>¥ 87</b>

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, 2010 and 2009, the assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Investment securities	¥ 183,234	¥ 201,296	\$ 1,969,409
Loans and bills discounted	2,380	2,344	25,580
Investment in lease	5,965	7,581	64,119

At March 31, 2010 and 2009, the liabilities related to the above pledged assets were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deposits	¥ 33,367	¥ 17,548	\$ 358,633
Call money		7,367	
Borrowed money	8,412	10,460	90,413
Payables under repurchase transaction	5,423	4,823	58,287

In addition, securities totaling ¥59,334 million (\$637,728 thousand) and ¥59,337 million at March 31, 2010 and 2009, respectively, were pledged as collateral for the settlement of exchange, derivatives and other transactions.

## 11. Deposits

At March 31, 2010 and 2009, deposits consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Demand deposits	¥ 1,705,952	¥ 1,581,112	\$ 18,335,684
Time deposits	1,194,948	1,164,469	12,843,376
Other	50,892	47,604	546,994
<b>Total</b>	<b>¥ 2,951,792</b>	<b>¥ 2,793,185</b>	<b>\$ 31,726,054</b>

## 12. Borrowed Money

At March 31, 2010, the annual maturities of borrowed money, which was due through March 2015 with an average interest rate of 1.32% per annum, were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2011	¥ 4,343	\$ 46,679
2012	3,181	34,190
2013	1,898	20,400
2014	914	9,824
2015	558	5,996
<b>Total</b>	<b>¥ 10,894</b>	<b>\$ 117,089</b>

### 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, 2010 and 2009:

	Millions of Yen		Thousands of
	2010	2009	U.S. Dollars
Reconciliation of benefit liability:			2010
Projected benefit obligation	¥(21,299)	¥(21,823)	\$(228,918)
Fair value of pension plan assets at year end	24,130	23,080	259,343
	<u>2,831</u>	<u>1,257</u>	<u>30,425</u>
Unrecognized actuarial differences	4,286	6,248	46,069
Unrecognized prior service cost of retroactive benefits granted by the plan amendment (gain)	55	(154)	590
Net amounts of reserve for employee retirement benefits recognized on the consolidated balance sheets	¥ 7,172	¥ 7,351	\$ 77,084
Balance Sheet Presentation			
Prepaid pension cost (Other assets)	¥ 7,858	¥ 7,868	\$ 84,461
Reserve for employee retirement	¥ (686)	¥ (517)	\$ (7,377)

	Millions of Yen		Thousands of
	2010	2009	U.S. Dollars
Components of net periodic retirement benefit expenses:			2010
Service cost	¥ 732	¥ 715	\$ 7,873
Interest cost	435	428	4,680
Expected return on pension plan assets	(257)	(1,166)	(2,773)
Amortization of prior service cost	(209)	(209)	(2,251)
Amortization of actuarial differences	1,287	309	13,836
Net periodic retirement benefit expense	¥ 1,988	¥ 77	\$ 21,365

Major assumptions used in the calculation of the above information for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	2.2%	2.0%
Expected rate of return on pension plan assets:		
Defined benefit pension plan	0.5%	6.0%
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

### 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

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 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, 2010 and 2009 was ¥605,001 million (\$6,502,593 thousand) and ¥595,427 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, 2010 and 2009 was ¥600,770 million (\$6,457,118 thousand) and ¥591,377 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. Financial Instruments and Related Disclosures

In March 2008, the ASBJ revised ASBJ Statement No.10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

### (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 works on Assets and Liabilities Management (ALM) in order to curb any unfavorable impact 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 loss on default caused by deteriorated borrower's financial condition. Moreover, fixed interest rate loans are exposed to interest rate risks.

Securities which the Group have 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 deposits from customers. These deposits are exposed to interest rate risks.

Call money are exposed to liquidity risks, which may lead the bank to face difficulties in raising necessary funds under certain circumstances.

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

## (c) Risk management for Financial Instruments

### (1) Credit risk management

As a basis of the 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 the debtor, which has some problems in their financial conditions, and guides their management in the financial aspects.

To enhance a risk management system, the Bank has established reciprocal control in its credit risk management operations by separating the Corporate Risk Management Department from the Credit & Investment Planning Department. In addition, in the aspects of 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 give 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 with the corporate credit rates.

The Credit Risk Management Department reports the management situation of a 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.

For each credit examination and lending judgments of individual transactions, the Bank establishes "Lending Policy" which determines the basic lending policies, individual lending criterion and to prevent the concentration of lending, and conducts credit examination 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 market risk management situation precisely and to take business chances by establishing an appropriate market risk management system which enables us 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 managements with retention limits, Value at Risk (VaR) limits and loss limits which are decided by the Executive Board 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 gain or loss, Basis Point Value (BPV) of 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 on financial environment and market forecasts.

### (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

grasped the Bank's financing conditions daily, weekly and monthly basis and conducts an adequate market funding as needed.

The Risk Management Department which is independent from The Financing Management Department monitors the Bank's financing conditions daily basis, and endeavors to secure available funding methods such as preparations 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 have interest rate risks in interest-related derivative transactions, exchange rate risks in currency-related derivative transactions, 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 assets and liabilities risks such as fluctuations in interest rate and foreign exchange. The basic policy is studied at The ALM Committee, and the transactions and managements 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, 2010 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 Gain/Loss
<b>Assets</b>			
Cash and due from banks	¥ 130,157	¥ 130,157	¥
Call loans and bills purchased	8,374	8,374	
Trading securities	187	187	
Available-for-sale securities	995,269	995,269	
Loans and bills discounted	2,081,900		
Reserve for possible loan losses (*1)	(25,145)		
	<u>2,056,755</u>	<u>2,081,261</u>	<u>24,506</u>
<b>Total</b>	<u>¥ 3,190,742</u>	<u>¥ 3,215,248</u>	<u>¥ 24,506</u>
<b>Liabilities</b>			
Deposits	2,951,792	2,954,796	3,004
Negotiable certificates of deposit	41,197	41,236	39
Call money and bills sold	27,912	27,912	
<b>Total</b>	<u>¥ 3,020,901</u>	<u>¥ 3,023,944</u>	<u>¥ 3,043</u>
<b>Derivative transactions (*2)</b>			
Hedge accounting is not applied	(186)	(186)	
Hedge accounting is applied	(760)	(760)	
<b>Total</b>	<u>¥ (946)</u>	<u>¥ (946)</u>	<u>¥</u>

Thousands of U.S. Dollars			
	Carrying Amount	Fair value	Unrealized Gain/Loss
<b>Assets</b>			
Cash and due from banks	\$ 1,398,941	\$ 1,398,941	\$
Call loans and bills purchased	90,000	90,000	
Trading securities	2,008	2,008	
Available-for-sale securities	10,697,212	10,697,212	
Loans and bills discounted	22,376,399		
Reserve for possible loan losses (*1)	(270,258)		
	<u>22,106,141</u>	<u>22,369,530</u>	<u>263,389</u>
<b>Total</b>	<u>\$34,294,302</u>	<u>\$34,557,691</u>	<u>\$263,389</u>
<b>Liabilities</b>			
Deposits	31,726,054	31,758,343	32,289
Negotiable certificates of deposit	442,786	443,207	421
Call money and bills sold	300,000	300,000	
<b>Total</b>	<u>\$32,468,840</u>	<u>\$32,501,550</u>	<u>\$ 32,710</u>
<b>Derivative transactions (*2)</b>			
Hedge accounting is not applied	(2,003)	(2,003)	
Hedge accounting is applied	(8,169)	(8,169)	
<b>Total</b>	<u>\$ (10,172)</u>	<u>\$ (10,172)</u>	<u>\$</u>

(\*1) Reserve for possible loan losses relevant to loans and bills discounted have been deducted.

(\*2) Derivative instruments include derivative transactions other assets and liabilities. 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 value 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 in public.  
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 totally 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 the similar type.  
For loans to debtors who are legally bankrupt, virtually bankrupt and possible bankrupt, reserve for possible loan losses 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 are provided. Therefore, the carrying amounts at the balance sheet date, net of reserve amounts, is 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 are recognized as the payment amount required at the balance sheet date (i.e., book values). 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 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 negotiable certificates of deposits.

- (3) Call money and bills sold  
Fair values of call money and bills sold are equivalent to carrying amounts because of their short maturities.

**Derivatives**

Please see Note 18 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
Unlisted stocks (*1) (*2)	¥ 1,991	\$ 21,396
Investments in investment partnerships (*3)	2,180	23,428
<b>Total</b>	<b>¥ 4,171</b>	<b>\$ 44,824</b>

- (\*1) Equity securities without readily available market price are out of the scope of the fair value disclosure because their fair values cannot be readily determined.
- (\*2) During this year, impairment losses on equity securities without readily available market price of ¥15 million (\$171 thousand) were recognized.
- (\*3) Investments in partnerships, the assets of which comprise equity securities without 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
Due from banks	¥ 90,123	¥	¥
Call loans and bills purchased	8,374		
Available-for-sale securities	133,575	290,536	182,578
National government bonds	31,210	70,417	86,391
Local government bonds	13,744	28,967	38,651
Corporate bonds	79,032	149,544	45,326
Others	9,589	41,608	12,210
Loans and bills discounted (*)	655,247	409,732	280,678
<b>Total</b>	<b>¥ 887,319</b>	<b>¥ 700,268</b>	<b>¥ 463,256</b>

	Millions of Yen		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
Due from banks	¥	¥	¥
Call loans and bills purchased			
Available-for-sale securities	70,371	200,569	56,300
National government bonds	28,298	184,899	25,851
Local government bonds	28,434		
Corporate bonds	7,275	15,369	30,449
Others	6,364	301	
Loans and bills discounted (*)	191,088	214,570	297,920
<b>Total</b>	<b>¥ 261,459</b>	<b>¥ 415,139</b>	<b>¥ 354,220</b>

	Thousands of U.S. Dollars		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
Due from banks	\$ 968,649	\$	\$
Call loans and bills purchased	90,000		
Available-for-sale securities	1,435,682	3,122,715	1,962,359
National government bonds	335,451	756,849	928,532
Local government bonds	147,727	311,344	415,428
Corporate bonds	849,439	1,607,311	487,162
Others	103,065	447,211	131,237
Loans and bills discounted (*)	7,042,642	4,403,830	3,016,743
Total	\$9,536,973	\$7,526,545	\$4,979,102

	Thousands of U.S. Dollars		
	Due from 5 to 7 years	Due from 7 to 10 years	Due after 10 years
Due from banks	\$	\$	\$
Call loans and bills purchased			
Available-for-sale securities	756,363	2,155,737	605,116
National government bonds	304,153	1,987,308	277,851
Local government bonds	305,615		
Corporate bonds	78,197	165,189	327,265
Others	68,398	3,240	
Loans and bills discounted (*)	2,053,830	2,306,207	3,202,066
Total	\$2,810,193	\$4,461,944	\$3,807,182

(\*) Of loans and bills discounted, ¥32,665 million (\$351,081 thousands) such as loans and bills discounted to bankrupt borrowers, virtually bankrupt borrowers, and borrowers with bankrupt concerns are not included.

(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
Deposits (*)	¥2,819,444	¥ 114,960	¥ 17,388
Negotiable certificates of deposit	41,197		
Call money and Bills sold	27,912		
Total	¥2,888,553	¥ 114,960	¥ 17,388

	Millions of Yen	
	Due from 5 to 7 years	Due after 7 years
Deposits (*)	¥ 0	¥
Negotiable certificates of deposit		
Call money and Bills sold		
Total	¥ 0	¥

	Thousands of U.S. Dollars		
	Due in 1 year or less	Due from 1 to 3 years	Due from 3 to 5 years
Deposits (*)	\$30,303,566	\$ 1,235,599	\$ 186,889
Negotiable certificates of deposit	442,786		
Call money and Bills sold	300,000		
Total	\$31,046,352	\$ 1,235,599	\$ 186,889

	Thousands of U.S. Dollars	
	Due from 5 to 7 years	Due after 7 years
Deposits (*)	¥ 0	¥
Negotiable certificates of deposit		
Call money and Bills sold		
Total	¥ 0	¥

(\*) Of deposits, demand deposits are included in deposits with maturity dates of one year or less.

Please see Note 12 for annual maturities of borrowed money.

**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.

As noted in Note 17, the Group applied ASBJ Statement No.10 "Accounting Standard for Financial Instruments" and ASBJ Guidance No.19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

(a) **Derivative transactions to which hedge accounting is not applied at March 31, 2010**

	Millions of Yen			Valuation gains (losses)
	Notional principal or contract amounts	Contract Amount due after one year	Fair value	
At March 31, 2010:				
Foreign exchange contracts:				
Currency swaps	¥ 34,668	¥ 34,668	¥ 52	¥ 52
Foreign exchange forward contracts				
Forward exchange contracts written	76		(1)	(1)
Forward exchange contracts purchased	56		1	1
Credit derivative contracts:				
Credit default option Selling	2,000		(7)	(7)

	Thousands of U.S. Dollars			Valuation gains (losses)
	Notional principal or contract amounts	Contract Amount due after one year	Fair value	
At March 31, 2010:				
Foreign exchange contracts:				
Currency swaps	\$372,612	\$372,612	\$ 564	\$ 564
Foreign exchange forward contracts				
Forward exchange contracts written	817		(15)	(15)
Forward exchange contracts purchased	600		15	15
Credit derivative contracts:				
Credit default option Selling	21,496		(71)	(71)

**(b) Derivative transactions to which hedge accounting is applied at March 31, 2010**

Millions of Yen			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Interest rate contracts:			
Interest rate swaps receive floating and pay fixed	<b>Loans and bills discount</b>	<b>¥27,442</b>	<b>¥27,442</b>
			<b>¥(760)</b>

Millions of Yen			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Foreign exchange Forward contracts			
	<b>Foreign currency call loan</b>	<b>¥ 8,382</b>	<b>¥ (2)</b>

Thousands of U. S. Dollars			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Interest rate contracts:			
Interest rate swaps receive floating and pay fixed	<b>Loans and bills discount</b>	<b>\$294,950</b>	<b>\$294,950</b>
			<b>\$(8,169)</b>

Thousands of U. S. Dollars			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Foreign exchange Forward contracts			
	<b>Foreign currency call loan</b>	<b>\$ 90,095</b>	<b>\$ (27)</b>

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 17 is included in that of hedged items (i.e. loans and bills discount).

Millions of Yen			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Interest rate contracts:			
Interest rate swaps receive floating and pay fixed	<b>Loans and bills discount</b>	<b>¥100,365</b>	<b>¥91,919</b>
			<b>¥</b>

Thousands of U. S. Dollars			
Hedged item	Contract Amount	Contract Amount due after one year	Fair value
At March 31, 2010:			
Interest rate contracts:			
Interest rate swaps receive floating and pay fixed	<b>Loans and bills discount</b>	<b>\$1,078,730</b>	<b>\$987,956</b>
			<b>\$</b>

The following is the fair value information for derivative transactions to which hedge accounting is not applied at March 31, 2009.

Derivative transactions which qualify for hedge accounting are excluded from the information below.

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

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

**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, 2010 and 2009 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Reserve for possible loan losses	<b>¥ 9,566</b>	<b>¥ 10,017</b>	<b>\$ 102,814</b>
Reserve for employee retirement benefits	<b>277</b>	<b>208</b>	<b>2,979</b>
Reserve for directors' and corporate auditors' retirement benefits	<b>352</b>	<b>323</b>	<b>3,786</b>
Reserve for reimbursement of derecognized deposits	<b>358</b>	<b>379</b>	<b>3,850</b>
Depreciation	<b>497</b>	<b>534</b>	<b>5,345</b>
Write-down of investment securities	<b>1,507</b>	<b>2,358</b>	<b>16,201</b>
Unrealized losses on available-for-sale securities	<b>1,793</b>	<b>5,055</b>	<b>19,272</b>
Losses on impairment of fixed assets	<b>2,728</b>	<b>2,678</b>	<b>29,319</b>
Other	<b>2,146</b>	<b>1,881</b>	<b>23,062</b>
Less, valuation allowance	<b>(4,409)</b>	<b>(4,569)</b>	<b>(47,393)</b>
Subtotal	<b>14,815</b>	<b>18,864</b>	<b>159,235</b>
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	<b>(14,267)</b>	<b>(9,102)</b>	<b>(153,343)</b>
Other	<b>(2,142)</b>	<b>(2,166)</b>	<b>(23,026)</b>
Subtotal	<b>(16,409)</b>	<b>(11,268)</b>	<b>(176,369)</b>
Net deferred tax assets (liabilities)	<b>¥ (1,594)</b>	<b>¥ 7,596</b>	<b>\$ (17,134)</b>

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, 2010 and 2009 is as follows:

	Percentage of pretax income	
	2010	2009
Japanese statutory effective tax rate	40.4 %	40.4 %
Increase (decrease) due to:		
Non-deductible expenses	0.7	1.2
Non-taxable income	(1.6)	(2.2)
Resident tax per capital levy	0.3	0.3
Increase in valuation allowance	(1.0)	5.8
Other	(1.5)	(0.6)
Actual effective income tax rate	37.3 %	44.9 %

## 20. Per Share Information

Net income and net assets per share, as presented below, 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, 2010 was 209,999 thousand shares.

## 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 25, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 840	\$ 9,028

## 22. Segment Information

A summary of information classified by lines of business of the Group for the years ended March 31, 2010 and 2009 was as follows:

	Banking	Leasing	Other	Total	Eliminations	Consolidated
Millions of Yen						
For the year ended March 31, 2010:						
Ordinary income:						
Outside customers	¥ 66,641	¥ 12,648	¥ 1,643	¥ 80,932	¥	¥ 80,932
Inter-segment	304	1,141	586	2,031	(2,031)	
	<u>66,945</u>	<u>13,789</u>	<u>2,229</u>	<u>82,963</u>	<u>(2,031)</u>	<u>80,932</u>
Ordinary expenses	52,301	13,021	1,697	67,019	(2,192)	64,827
Ordinary profit	<u>¥ 14,644</u>	<u>¥ 768</u>	<u>¥ 532</u>	<u>¥ 15,944</u>	<u>¥ 161</u>	<u>¥ 16,105</u>
Identifiable assets	¥ 3,331,079	¥ 32,969	¥ 13,712	¥ 3,377,760	¥ (24,058)	¥ 3,353,702
Depreciation	3,723	582	10	4,315		4,315
Losses on impairment of fixed assets	255			255		255
Capital expenditures	<u>7,507</u>	<u>25</u>	<u>27</u>	<u>7,559</u>		<u>7,559</u>

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, 2010:

	Thousands of U.S. Dollars					
Ordinary income:						
Outside customers	\$ 716,261	\$ 135,940	\$ 17,657	\$ 869,858	\$	\$ 869,858
Inter-segment	3,266	12,265	6,303	21,834	(21,834)	
	<u>719,527</u>	<u>148,205</u>	<u>23,960</u>	<u>891,692</u>	<u>(21,834)</u>	<u>869,858</u>
Ordinary expenses	562,132	139,956	18,240	720,328	(23,573)	696,755
Ordinary profit	<u>\$ 157,395</u>	<u>\$ 8,249</u>	<u>\$ 5,720</u>	<u>\$ 171,364</u>	<u>\$ 1,739</u>	<u>\$ 173,103</u>
Identifiable assets	\$ 35,802,652	\$ 354,349	\$ 147,387	\$ 36,304,388	\$ (258,580)	\$ 36,045,808
Depreciation	40,011	6,255	116	46,382		46,382
Losses on impairment of fixed assets	2,738			2,738		2,738
Capital expenditures	<u>80,688</u>	<u>264</u>	<u>294</u>	<u>81,246</u>		<u>81,246</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.

## 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, 2010 and 2009, 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, 2010 and 2009, 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 LLC*

June 25, 2010