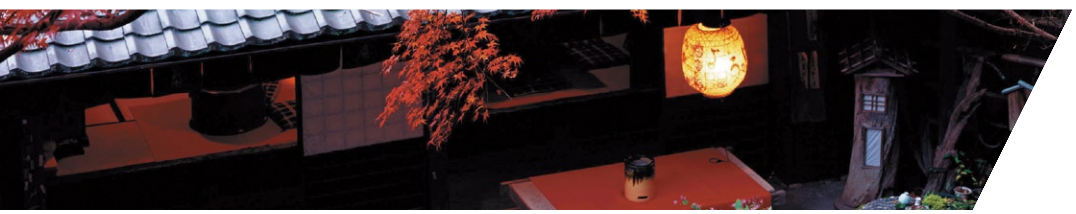


Bank of Kyoto

# Annual Report 2011

For the year ended March 31, 2011

The Bank of Kyoto, Ltd.

# Profile

Since its establishment on October 1, 1941, The Bank of Kyoto, Ltd. (hereinafter, "the Bank") and its consolidated subsidiaries have achieved steady growth as one of Kyoto Prefecture's core financial institutions. The Bank's fundamental mission is to contribute to the greater prosperity of the local community and the development of local industries. As Kyoto Prefecture's largest retail bank, the Bank of Kyoto vigorously carries out marketing activities aimed at providing customers with high-quality financial services. The Bank will work to fulfill its social mission of being the bank most trusted by customers as well as the bank with the strongest presence in the region.

**Kyoto Bank's role in the "Kinki Region"**

The city of Kyoto, which is the Bank's principal business base, has a history of over twelve-hundred years. At the same time, the city is located in an area of land stretching to the northern part of the city of Osaka that has been dubbed the "Keihan Valley" in imitation of California's Silicon Valley, as it boasts a large collection of thriving high-tech enterprises and venture companies. The Bank of Kyoto is playing a crucial role in providing financial support to these companies.

Non-Consolidated Basis

Total Assets: **¥7,274.5 billion** (6th among regional banks)

Total Deposits: **¥6,512.5 billion** (6th among regional banks)

Loans and Bills Discounted: **¥3,942.0 billion** (11th among regional banks)

Unrealized Gains on Securities: **¥220.4 billion** (1st among regional banks)

Capital Ratio: **13.22%** (domestic standards)

Ref. **15.25%** (BIS standards)

Credit Rating: **A+** (R&I) **A** (S&P)

## Contents



**Attention regarding forward-looking statements**

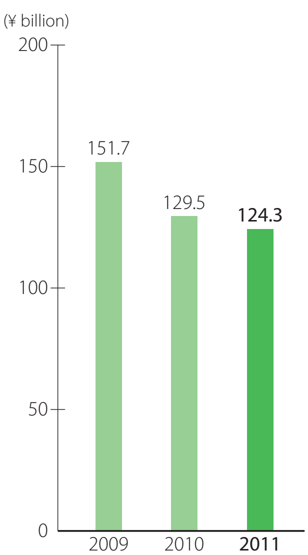
Readers are advised that this report contains forward-looking statements, which are not statements of historical fact but constitute estimates or projections based on facts known to the Company's management as of the time of writing. Actual results may therefore differ substantially from such statements.

# Consolidated Financial Highlights

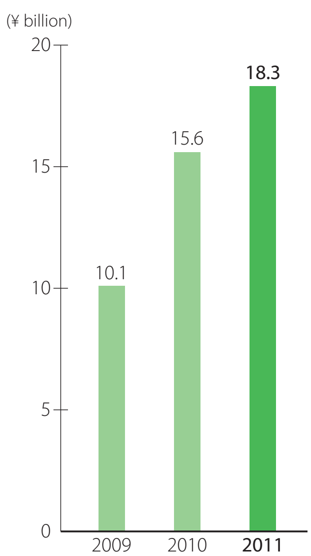
| | Millions of Yen 2011 | Millions of Yen 2010 | Millions of Yen 2009 | Thousands of U.S. Dollars 2011 |
|---|---|---|---|---|
| **For The Year** | | | | |
| Total Income | ¥ 124,353 | ¥ 129,588 | ¥ 151,724 | $ 1,495,530 |
| Total Expenses | 89,810 | 103,022 | 137,383 | 1,080,105 |
| Income before Income Taxes and Minority Interests | 34,542 | 26,565 | 14,341 | 415,425 |
| Net Income | 18,379 | 15,668 | 10,148 | 221,035 |
| **At Year-end** | | | | |
| Total Assets | ¥7,285,838 | ¥7,115,290 | ¥6,684,532 | $87,622,828 |
| Deposits (including NCDs) | 6,498,687 | 6,299,610 | 6,008,300 | 78,156,195 |
| Loans and Bills Discounted | 3,935,192 | 3,834,750 | 3,619,829 | 47,326,424 |
| Securities | 2,766,484 | 2,716,645 | 2,297,877 | 33,271,010 |
| Minority Interests | 8,078 | 7,030 | 6,322 | 97,159 |
| Common Stock | 42,103 | 42,103 | 37,825 | 506,358 |
| Total Equity | 447,806 | 485,706 | 365,160 | 5,385,527 |
| Capital Ratio | | | | |
| Domestic Standards | 13.55% | 12.33% | 12.03% | |
| BIS Standards | 15.55% | 15.19% | 13.37% | |

Notes: 1. Japanese yen figures are expressed with amounts of under one million omitted. Accordingly breakdown figures may not add up to sums.
2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥83.15 to US$1.00 on March 31, 2011, the final business day of the term.

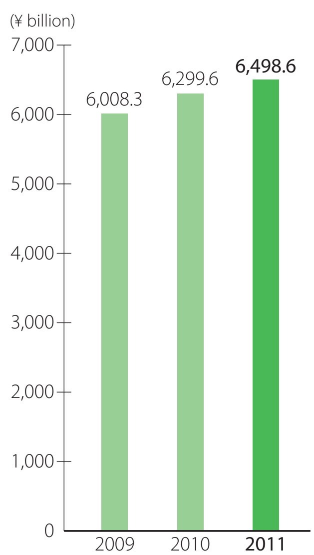
**Total Income**



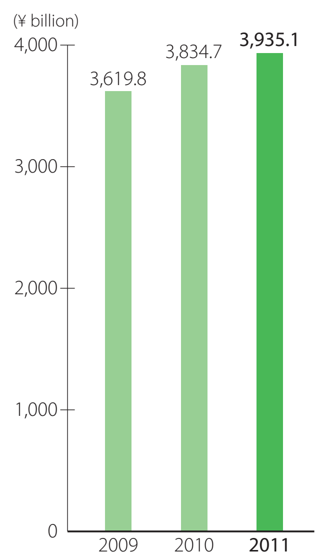

**Net Income**




**Deposits (including NCDs)**




**Loans and Bills Discounted**



# Message from the President

## On completion of the fiscal year ended March 31, 2011

Fiscal 2010, the fiscal year ended March 31, 2011, was the final year of our third medium-term management plan, "SHI·N·KA," covering the three-year period from fiscal 2008 to fiscal 2010. Guided by this plan, the Bank has worked diligently to improve its performance and enhance management efficiency. Buoyed by these endeavors, the Bank was successful in steadily expanding its operations. As a result, the balance of deposits as well as loans and bills discounted stood at ¥6,512.5 billion and ¥3,942.0 billion, respectively, as of March 31, 2011. From a profit perspective, the Bank reported record high gross operating profit and net profit, securing high levels of overall earnings.

## Changes in the Bank's operating environment

The Great East Japan Earthquake that devastated the nation on March 11, 2011 changed the face of the domestic economy. In the aftermath of the disaster, incidents at nuclear power generation stations triggered growing issues and concerns regarding the supply of energy. There are clear indications of production adjustments by the corporate sector and expanding signs of such new issues as the shift of production overseas.

At the same time, major structural changes in Japan brought about by the nation's falling birthrate and rapidly aging society resulting in a declining population have led to an inevitable prolonged contraction in the domestic financial market. Taking these factors into consideration, the finance industry is expected to experience increasingly intense competition.

## Launching a new medium-term management plan

Against this backdrop, the Bank of Kyoto launched the "Power Up — Breakthrough and Dynamic Performance — Plan," the Bank's fourth medium-term management plan succeeding the recently completed "SHI·N·KA" in April 2011.

Guided by our management vision to be "A Comprehensive Regional Bank — A Convenient Bank," first formulated in April 2005, the Bank has actively expanded its network of branches in the Kinki region (Kyoto, Shiga, Osaka, Nara and Hyogo prefectures) to secure business growth by bringing more convenience to its customers and expanding operating scale.

Hideo Takasaki

President
The Bank of Kyoto, Ltd.

Effective from April 2011, the Bank of Kyoto has incorporated a new management vision. In our efforts to consistently move forward, we will endeavor to nurture the competitive edge necessary to secure a leading position across all of our operations and regions while at the same time maintaining our standing as a comprehensive and convenient regional bank. To this end, we will take up the challenge of developing the "strength and power" necessary to succeed amid intense competition.

In order to meet this challenge, we will establish and incorporate into our action guidelines a "3S" virtuous cycle designed to enhance satisfaction at three core levels. In specific terms, we will bolster customer satisfaction (CS) by instilling a greater sense of confidence and satisfaction, enhance stockholder satisfaction (SS) by ensuring the consistent return of profits built on sustainable growth and nurture employee satisfaction (ES) by delivering a workplace environment that allows each individual to fulfill his or her aspirations and engage in meaningful work.

## A growing bank with dynamic employees who seek challenges

In putting its action guidelines into practice and as a part of efforts aimed at enhancing competitive prowess, the Bank of Kyoto has drawn up seven basic strategies supported by four platforms. As the basis of its operations, these four platforms underpin a financial institution that (1) pursues a community-focused financing model (facilitating smooth access to finance); (2) maintains a strict adherence toward management control; (3) places considerable weight on cost control, and; (4) strives to contribute to society while protecting the environment. Building on each of these platforms, the Bank will promote the aforementioned seven basic strategies encompassing marketing, sales channels, efforts to improve the quality of its loans and bills discounted, human resource development, Asia, IT and investment securities.

Looking ahead, the Bank of Kyoto will work diligently to become a bank that is capable of securing significant breakthroughs with the aim of nurturing the competitive edge necessary to secure a leading position across all of its operations and regions while at the same time maintaining its standing as a comprehensive and convenient regional bank by drawing on its platforms to carry out each of its established strategies.

Meanwhile, in order to deliver the high-quality financial services essential to building a virtuous cycle, the Bank of Kyoto recognizes that developing human resources is of paramount importance. With this in mind, we continue to upgrade and expand the organization as well as practical courses and materials of "Kyoto Banking College," an in-house educational program inaugurated in April 2010 that provides new recruits through to management with specialist knowledge and skills. Looking ahead, we will maintain our focus on developing employees, who distinguished by their vigorous approach toward boldly accepting new challenges provide the source of dynamic performance growth.

## Heralding our 70th anniversary

The Bank of Kyoto celebrates its 70th anniversary on October 1, 2011. I would like to take this opportunity to extend my sincere gratitude to all stakeholders for their ongoing support as we herald this milestone.

The fourth medium-term management plan marks our initial step toward ensuring a major leap forward over the next decade commencing our 70th anniversary. By securing significant breakthroughs and developing employees who provide the source of dynamic performance growth, we will fulfill the expectations of all stakeholders as a financial institution that lies at the heart of each region. Moving forward, we will endeavor to further facilitate smooth access to finance while engaging in sound business practices.

## For the ongoing development of the local community

The Great East Japan Earthquake was arguably Japan's worst postwar national crisis. At the same time, the Kansai region continues to field significant expectations regarding support for the reconstruction of devastated areas. As a comprehensive regional bank with its roots in Kansai, it is at this time that we must return to the guiding principles of our inauguration. Etched indelibly in the hearts and minds of each and every employee, we must do our utmost for the local community and through this support help in the ongoing development of the regional economy.

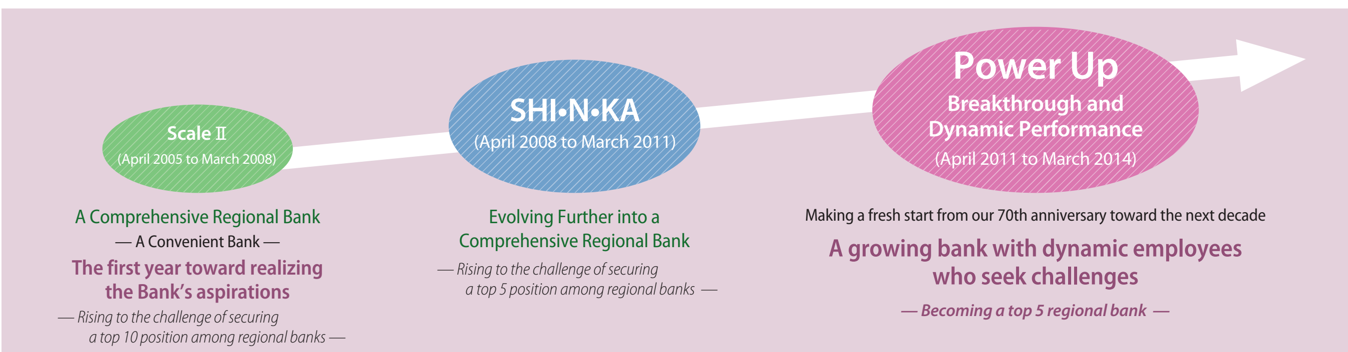
As we work toward achieving our established goals, we humbly ask for the continued support and understanding of all stakeholders.

# Power Up — Breakthrough and Dynamic Performance —
## The 4th Medium-Term Management Plan

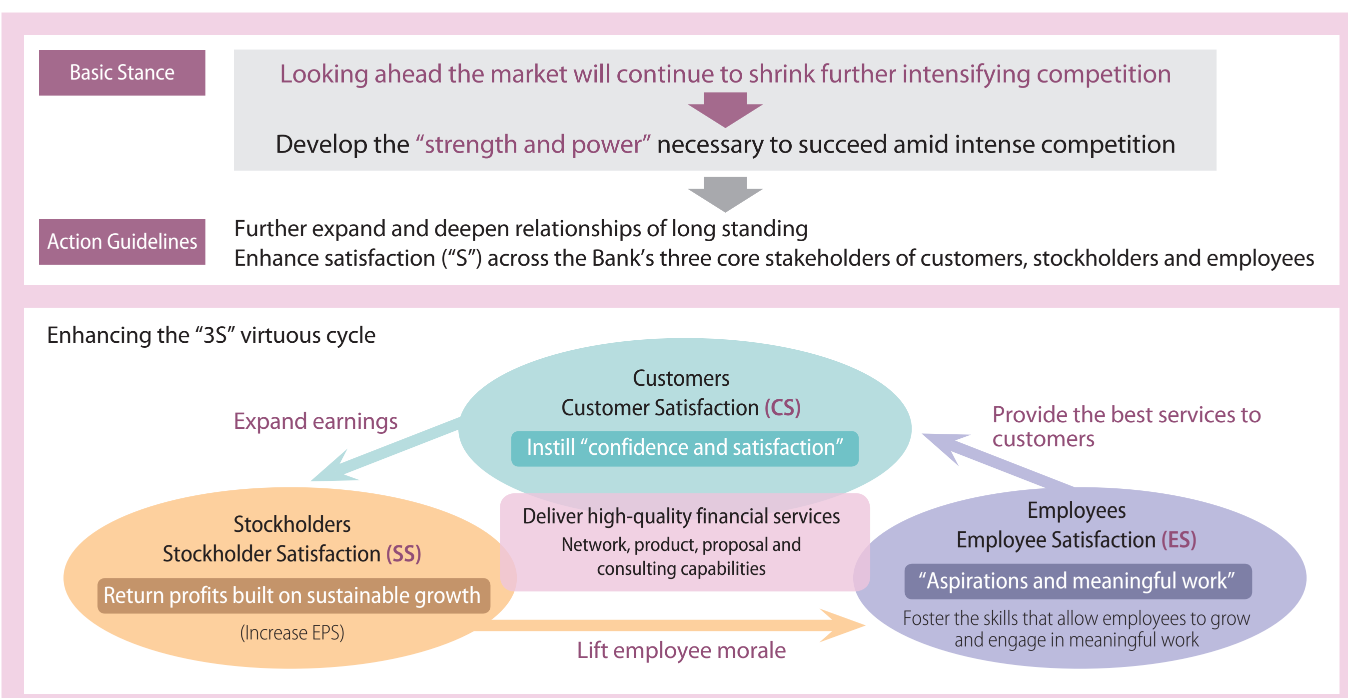
In April 2011, the Bank of Kyoto launched its new three-year Medium-Term Management Plan "Power Up — Breakthrough and Dynamic Performance."

Guided by this plan, the Bank will work to better instill in its customers a greater sense of confidence and satisfaction through high-quality financial services, ensure the consistent return of profits to stockholders built on sustainable growth and deliver a workplace environment that allows each employee to fulfill his or her aspirations and engage in meaningful work. By enhancing the satisfaction across the three stakeholder groups of customers, stockholders and employees, the Bank will "power up" its competitive prowess. This in turn will help the Bank secure significant breakthroughs while fostering employees who provide the source of dynamic performance growth, and ultimately to bring to fruition its management vision of becoming a comprehensive and convenient regional bank that boasts the competitive edge necessary to secure a leading position across all of its operations and regions.

1. Positioning of the fourth medium-term management plan




2. Basic stance toward the fourth medium-term management plan and action guidelines



3. Framework of the fourth medium-term management plan

| Plan name | **Power Up** — Breakthrough and Dynamic Performance — |
|---|---|

| | |
|---|---|
| Management vision | Become a top 5 comprehensive and convenient regional bank that boasts the competitive edge necessary to secure a leading position across all of its operations and regions |
| Numerical targets (by the final year of the plan) | ● Balance of deposits / NCDs ¥7,200.0 billion<br>● Balance of loans ¥4,500.0 billion<br>● Gross operating profit ¥101.0 billion<br>● Net profit ¥23.0 billion<br>● OHR Within 58% |

| | |
|---|---|
| Basic policy | Enhance corporate value by providing high-quality financial services |

| | |
|---|---|
| Action guidelines | Further expand and deepen relationships of long standing; Enhance satisfaction (“S”) across the Bank’s three core stakeholders of customers, stockholders and employees |

| Seven basic strategies | Enhance competitive advantage through the implementation of seven basic strategies |
|---|---|
| Marketing strategy | ● Reorganize the Bank’s head office marketing structure with a particular focus on results and development<br>● Bolster strength and power by establishing branches that strategically emphasize sales and marketing<br>● Expand comprehensive transactions |
| Sales channel strategy | ● Build a robust network across Kinki region (Kyoto, Shiga, Osaka, Nara and Hyogo prefectures)<br>● Enhance customer convenience utilizing ATMs and the Internet |
| Loans and bills discounted quality improvement strategy | ● Strengthen efforts aimed at maintaining and improving the quality of loan assets including business support activities<br>● Reduce the balance of impaired loans and trust costs |
| Human resource development strategy | ● Enhance proposal and consulting capabilities<br>● Develop human resources who are capable of supporting a dynamic top-class regional bank |
| Asia strategy | ● Upgrade and expand overseas bases<br>● Develop human resources who are capable of engaging in international operations<br>● Bolster support for companies entering the Asia market drawing on in-house collaboration<br>● Expand transactions |
| IT strategy | ● Enhance the productivity of marketing activities<br>● Increase business processing efficiency through next-generation branch terminals and reduce the management and operating burden<br>● Work toward paperless operations |
| Investment securities strategy | ● Maximize earnings by building a portfolio that optimally balances earnings and risk through effective investment securities management |

| Four platforms | Four platforms that underpin the seven basic strategies |
|---|---|
| Community-focused financial model (facilitating smooth access to finance) | ● Reenergize regional activity and facilitate smooth access to finance by promoting a community-focused financial model and actively facilitating smooth access to finance |
| Management control | ● Adopt the highest quality risk management stance among regional banks to ensure stringent credit screening and assessment |
| Cost control | ● Maximize and expand the efficient allocation of costs and earnings by practicing cost control commensurate with return |
| Social contribution and environmental protection | ● Fulfill the Bank’s corporate social responsibility by contributing to society and protecting the environment |

## Self-Assessment of Assets and Write-Offs and Allowances

### Borrower Classifications

The Bank recognizes that maintaining a sound asset portfolio is its most crucial management objective. Accordingly, we carry out a semiannual self-assessment of assets to accurately monitor the state of our asset quality, and take an active stance toward the disposal of non-performing loans.

To facilitate these efforts, we have finished compiling a set of regulations covering self-assessment of assets, write-offs, and allowances based on the Financial Services Agency's Financial Inspections Manual, and we are disposing of all currently anticipated non-performing loans.

Specifically, we classify borrowers using the following six categories based on a judgment of their ability to repay their loans derived from their financial circumstances, financing, profitability, and other factors: borrowers in good standing, borrowers requiring vigilance, borrowers requiring management, borrowers in danger of bankruptcy, borrowers in de facto bankruptcy, and borrowers in legal bankruptcy. These categories are known as borrower categories.

## Disclosure of Asset Portfolio

### Disclosure of Asset Assessment Based on the Financial Reconstruction Law

The Financial Reconstruction Law requires disclosure of self-assessed loan assets and similar assets to be classified into four categories: unrecoverable or valueless, risk, special attention, and normal (not subject mandatory disclosure).

At the end of fiscal 2010, the Bank's total disclosed assets, excluding normal assets, amounted to ¥157.2 billion (US$1,891 million) as we achieved further progress toward enhancing the soundness of our loan portfolio. The average reserve ratio for these assets, excluding the portion covered by collateral and guarantees, was 57.0%. When adding the portion secured by collateral and guarantees to the reserves, the coverage ratio was 87.6%, which we consider to be a sufficient level.

#### The Financial Reconstruction Law Standard (Non-Consolidated)

(Billions of Yen)

| | 2011/3 | Change from Mar. 31, 2010 | 2010/3 |
|---|---|---|---|
| Unrecoverable or Valueless | ¥ 21.9 | ¥ (0.9) | ¥ 22.8 |
| Risk | 126.7 | (2.2) | 128.9 |
| Special Attention | 8.5 | 1.3 | 7.2 |
| Subtotal (A) | 157.2 | (1.8) | 159.0 |
| Non-Classified | 3,828.9 | 93.0 | 3,735.9 |
| Total | ¥3,986.1 | ¥91.2 | ¥3,894.9 |

1. Loans or corresponding obligations of debtors that are bankrupt under such conditions as bankruptcy procedures, corporate reorganization, or civil rehabilitation.
2. Loans of debtors not yet in bankruptcy but which are experiencing worsening financial conditions and business results and for which principal and interest is highly unlikely to be repaid under the terms of the loan agreement.
3. Within the self-assessment classification of "debtors requiring caution," loans that are delinquent for three months or more or loans for which lending conditions have been restructured.

#### Coverage in Accordance with the Financial Reconstruction Law Standard (Non-Consolidated)

(Billions of Yen)

| | 2011/3 | Change from Mar. 31, 2010 | 2010/3 |
|---|---|---|---|
| Allowance for Possible Loan Losses | ¥ 25.7 | ¥(1.6) | ¥ 27.3 |
| Amounts Recoverable Due to Guarantees, Collateral and Others | 111.9 | 1.2 | 110.7 |
| Total (B) | ¥137.6 | ¥(0.4) | ¥138.0 |
| Coverage Ratio (B)/(A) | 87.6% | 0.8% | 86.8% |

## Risk Management Loans under the Banking Law

The Banking Law in Japan mandates that banks disclose their risk management loans both on a consolidated and non-consolidated basis. These loans are classified into four categories: loans in legal bankruptcy, nonaccrual loans, accruing loans contractually past due three months or more, and restructured loans. At the end of fiscal 2010, the Bank's balance of risk management loans amounted to ¥156.7 billion (US$1,885 million) on a non-consolidated basis and ¥159.0 billion (US$1,912 million) on a consolidated basis. It should be noted, however, that not all of the disclosed loans will incur losses, since these figures include loans that are recoverable by disposing of collateral or redeeming guarantees.

### Risk Management Loans (Consolidated)

(Billions of Yen)

| | 2011/3 | Change from Mar. 31, 2010 | 2010/3 |
|---|---|---|---|
| Loans in Legal Bankruptcy | ¥ 10.1 | ¥ (4.7) | ¥ 14.8 |
| Nonaccrual Loans | 140.2 | 1.2 | 139.0 |
| Accruing Loans | | | |
| Three Months or More | 0.0 | 0.0 | 0.0 |
| Restructured Loans | 8.5 | 1.3 | 7.2 |
| Total | ¥ 159.0 | ¥ (2.0) | ¥ 161.0 |
| Total Loans Outstanding (term-end balance) | ¥3,935.1 | ¥100.4 | ¥3,834.7 |

Refer to page 29, note 6 regarding the above categories.

# Capital Ratio

The Bank's capital ratio on a non-consolidated basis was 13.22% based on domestic standards and 15.25% based on BIS standards. The capital ratio on a consolidated basis was 13.55% based on domestic standards and 15.55% based on BIS standards.

The Bank's capital ratio significantly exceeds the minimum levels prescribed by domestic standards (4%) and BIS standards (8%). We will continue to increase the soundness of our operations by working to raise our capital ratio.

### Capital Ratio (Consolidated)

(Millions of Yen)

| | 2011/3 (Domestic) | 2010/3 (Domestic) | 2011/3 (BIS) |
|---|---|---|---|
| Total Capital Ratio | 13.55% | 12.33% | 15.55% |
| Tier I Capital | ¥ 314,808 | ¥ 299,019 | ¥ 314,808 |
| Tier II Capital | 108,357 | 98,547 | 207,359 |
| 45% of Unrealized Gains on Securities | | | 99,002 |
| General Allowance for Possible Loan Losses | 18,545 | 18,723 | 18,545 |
| 45% of Land Revaluation Surplus | 340 | 361 | 340 |
| Qualifying Subordinated Debt | 89,471 | 79,462 | 89,471 |
| Deducted Items | 202 | 204 | 534 |
| Total Capital | ¥ 422,963 | ¥ 397,362 | ¥ 521,634 |
| Risk Adjusted Assets | ¥3,119,378 | ¥3,221,492 | ¥3,353,133 |

# Corporate Governance

## Corporate Governance

The Bank of Kyoto is working ensure that its corporate governance structure is founded on sound, transparent management practices by monitoring directors' execution of business through surveillance by the Board of Directors and auditors and through the use of an auditing system.

The Bank has built a structure for quick management decision making, under which decision-making authority is delegated in an appropriate manner, with the Board of Directors acting as the highest-ranking decision-making body. Moreover, the Bank is strengthening its auditing functions through internal audits based on risk analysis and through external auditing of its financial statements and comprehensive risk management system.

In order to ensure that operations are carried out in a sound and appropriate manner, the Bank has adopted a series of Management (Governance) Guidelines with the goal of functioning as a financial intermediary, complying with laws and other legal requirements, aggressively protecting customer interests, and precisely managing various types of risk through appropriate management (Governance).

The Management (Governance) Guidelines serve to unify our postures with regard to finance facilitation administration, compliance, management of customer interest protection, and integrated risk management.

### Board of Directors

The Board of Directors has decision-making responsibility for basic policies and important matters related to the execution of Bank business. Members of the Board of Directors also engage in reciprocal surveillance and monitoring.

### Executive Committee

The Executive Committee is a structure designed to facilitate streamlined decision-making by representative directors and managing directors, who have been delegated decision-making authority by the Board of Directors, on important matters related to daily Bank operations.

### Board of Corporate Auditors

The Board of Corporate Auditors consists of four auditors, including two external auditors. Appropriate auditing is implemented in accordance with auditing policies and plans approved by the Board of Corporate Auditors.

## Election of Corporate Officers and Terms of Office

Directors and auditors are elected at the General Meeting of Stockholders after being approved as candidates by resolution of the Board of Directors or approved by the Board of Corporate Auditors, respectively.

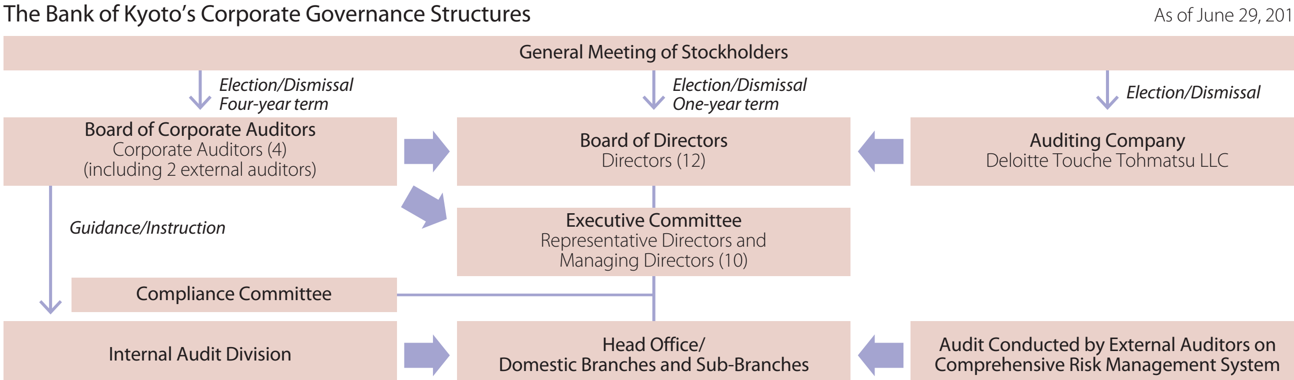
To further invigorate the Board of Directors and to flexibly build an optimal management structure capable of responding effectively to changes in the business environment, the term of office for directors is one year.

The Bank has adopted a corporate auditor system in which at least half of the corporate auditors are external corporate auditors who have no potential conflicts of interests with general shareholders. Two external corporate auditors have been designated as independent directors in filings with the Tokyo Stock Exchanges and Osaka Securities Exchange.

Corporate auditors attend meetings of the Board of Directors; standing auditors also attend meetings of the Executive Committee. Corporate auditors attend these meetings to monitor decision-making processes and the execution of Bank business. Internal Bank rules have clearly provided that the corporate auditors/Board of Corporate Auditors establish and maintain an audit environment that ensures objectivity and independence in management audits. Accordingly the current structure supports a strict audit control function.

The Bank of Kyoto's Corporate Governance Structures

As of June 29, 2011



## Adoption of Employee Stock Options (ESO) System

As part of an overall management reform initiative, the Bank has revised its compensation package for directors. The directors' retirement compensation payment system has been terminated, and an ESO (employee stock options) system for directors has been introduced to reward directors more concretely for their contribution to improving business performance and raising the enterprise value of the Bank. We believe this system will make the Bank's management more strongly focused on shareholder value.

## Finance Facilitation Program

Historically, the Bank has facilitated lending and management improvement/business restructuring services based on a complete understanding of the facts and characteristics of the client. To serve an even more active role in finance facilitation, we have established a policy and standards for finance facilitation management. This program is backed by the full support of the Bank and its employees, who conscientiously promote the availability of the program.

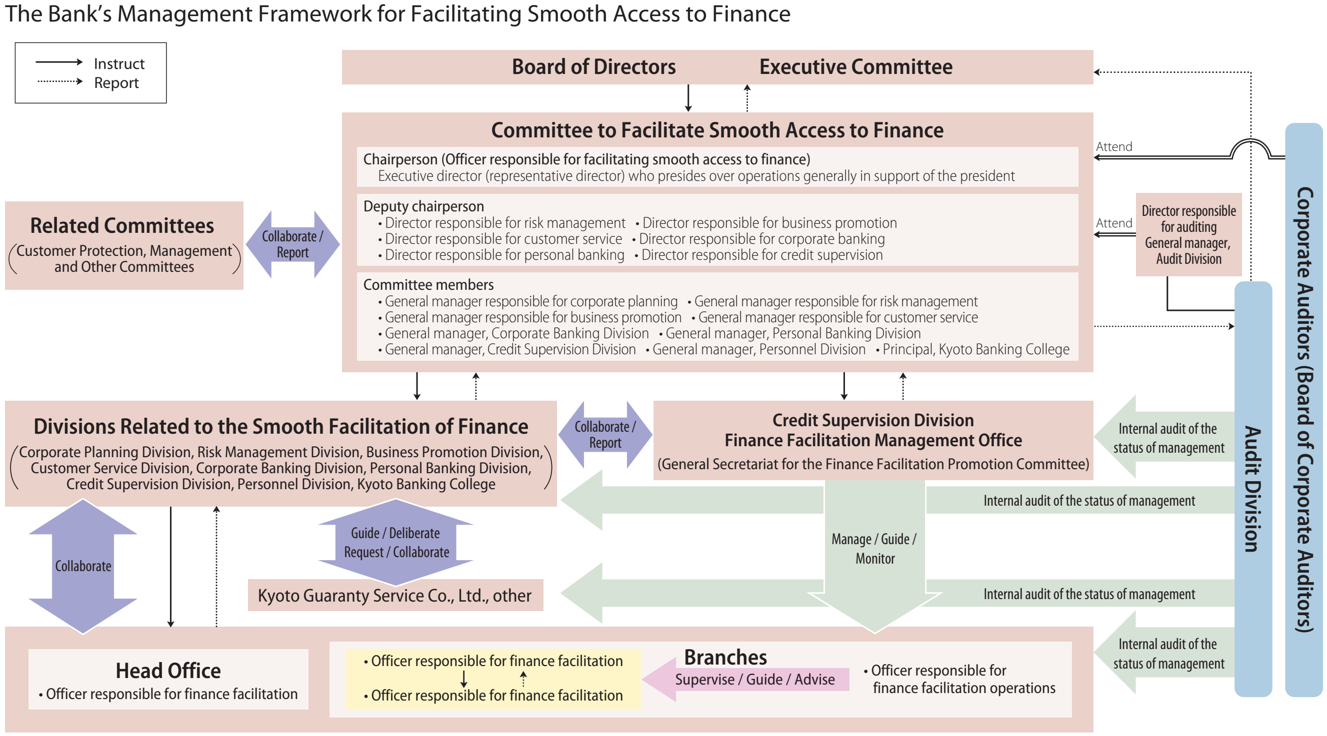
More specifically, we have established a Finance Facilitation Promotion Committee, which assists the Bank president and is chaired by an executive director of the Bank who has overall responsibility for the finance facilitation program. The Finance Facilitation Management Office (established in the Credit Supervision Division) acts as the administrative organ for the program, providing central management over the status of finance facilitations. This framework incorporates cross-organizational implementation of policies based on reports received from branches and other finance facilitation offices.

Each branch is responsible for responding directly to customer questions and/or applications regarding term changes. Branch personnel endeavor to provide responses appropriate to the facts at hand, with the Finance Facilitation Officer assigned to each branch assessing progress and providing prompt responses.

To make the finance facilitation administration structure function more effectively, we set up a finance facilitation administration program each fiscal year, implementing various policies in compliance with the program.

As a regional banking institution, we will continue to engage in appropriate and active financial intermediary functions, providing financing and cash-management consulting services for small and medium-sized companies, as well as loan repayment plan modifications for home loan clients. We offer a variety of other consulting services, responding to our clients in a prompt, fair, and professional manner.

The Bank's Management Framework for Facilitating Smooth Access to Finance



# Risk Management Structures

While ongoing liberalization and globalization of Japan's financial markets coupled with advances in information technology and other changes have led to increased business opportunities for financial companies, these developments are also increasing the complexity and diversity of risk. Responding to this environment, the Bank has designated risk management as a crucial management issue for maintaining the stability and soundness of its operations.

## Comprehensive Risk Management

At the Bank of Kyoto, in order to accurately identify the amount of risk involved in the conduct of operations, and to ensure the stability and soundness of its management base, we have established a set of Comprehensive Risk Management Guidelines, and we maintain a self-managed risk management posture that compares aggregate risk to the Bank's capital. We are working to strengthen and enhance risk management by expanding the integrated management of the Risk Management Division to include the supervisory divisions in our head office that take responsibility for each risk type and provide cross-sectional management.

At the same time, we quantify and allocate capital to principal risks (credit risk, market risk, and operational risk). The amount of allocated capital is treated as a limit for management purposes in accordance with the semiannual review of risk management policy. Calculated risk levels are reported to management at the monthly Asset Liability Management (ALM) meeting.

To monitor the Bank's overall risk management, we have introduced an external auditing system, under which checks are conducted to ensure the effectiveness of our risk management system. In this way, the Bank is working to further improve the quality of risk management.

## Capital Management

In order to ensure that the Bank maintains sufficient capital commensurate with all possible risks inherent in its operating activities, the Bank of Kyoto has formulated internal rules relating to the management of capital. At the same time, the Bank employs a variety of measures in its capital management endeavors including steps to verify that calculated risk levels fall within allocated capital ranges, conducting comprehensive stress tests and applying such benchmarks as capital adequacy ratios.

The Bank's capital allocation policy, which is determined by the Executive Committee after deliberation at the ALM meeting (chaired by an executive of the managing director level or above responsible for oversight of bank operations and who acts as assistant to the President), is subject to semiannual review. Specifically, Tier I capital, a primary component of regulatory capital used to calculate a bank's capital ratio, serves as the source of capital for allocation to principal risks. The amount of capital allocated is determined on the basis of forecast risk levels, which take into account past risk levels as well as the overall budget and operational policy.

Turning to stress tests, the Bank conducts comprehensive stress tests projecting the simultaneous appearance of major risks.

## Credit Risk Management

Credit risk refers to risk stemming from an inability to recover principal and interest on loans in the event that borrowers experience a deterioration in business conditions, or to the risk of losses due to a reduction in the value of securities. In particular, the risk of loss due to fluctuations in foreign exchange rates or political and economic conditions in borrowers' countries is known as country risk.

Having crafted a management posture by compiling a series of Credit Risk Management Guidelines, the Bank is working to strengthen its credit risk management regime by establishing the Credit Risk Management Committee (chaired by an executive of the managing director level or above responsible for oversight of risk) in order to develop and maintain a comprehensive stance toward credit risk.

In addition to planning and managing credit risk through means such as internal ratings, a self-assessment system, write-offs of non-performing loans, and provisions for possible loan losses, the Risk Management Division's Credit Planning Office is responsible for quantitatively analyzing and assessing credit risk. Additionally, because the concentration of credit in particular business partners or industries can lead to significant losses in the event of environmental changes, the Office analyzes the condition of the Bank's portfolio from a variety of perspectives and manages it to avoid any excessive concentration of credit. Credit risk levels and credit concentration conditions are reported to the monthly Credit Risk Management Committee meeting.

To maintain and improve the soundness of its assets, the Bank subjects them to a self-assessment regime that includes Group companies in order to adequately write off non-performing loans and make provisions for possible loan losses. We also established an Asset Audit Office as a specialized section within the Internal Audit Division to examine the validity of write-offs and allowances based on asset self-assessments. These matters also undergo auditing by a certified public accounting firm. In managing credit for specific borrowers, we have established a Credit Supervision Division independent of marketing sections, and we are pursuing more stringent credit screening guidelines.

Credit ratings are determined by a credit assessment officer based on information including the applicant's financial condition, technical capabilities, and future viability. Credit ratings are assessed according to strict standards, after which the loan officer makes a final determination based on the intended usage of the funds, resources available for loan repayment, and the ability of the borrower to repay the loan.

We are also placing a special emphasis on improving the ability of our personnel to assess credit risk, providing lending services training to employees according to their level of experience.

Moreover, we have established a Management Support Office within the Credit Supervision Division and are working to keep Bank assets sound by helping customers radically transform slumping businesses via a variety of measures designed to support improvements in management. Other initiatives include strengthening risk management by formulating solution plans based on self-assessment results as policies for dealing with borrowers and taking measures in response to changing business conditions through continuous monitoring.

## Market Risk Management

Market risk refers to interest risk, where the profit margin between fundraising and fund management shrinks due to fluctuations in market interest rates, and price fluctuation risk, where declines in market prices cause losses.

While fluctuations in market prices carry with them the risk of the Bank sustaining losses, they also offer profit opportunities. For this reason, it is important to maintain a management posture that not only minimizes risk but also realizes stable earnings.

Our stance on market risk has been set out in the Bank's Market Risk Guidelines, and we are taking steps to strengthen market risk management. The Securities & International Division, which is responsible for overseeing market risk management, sets the limits on acceptable risk levels, as well as position ranges and loss limits, taking into account the Bank's economic capital and net operating profit to achieve a balance between capital and profitability and effectively control market risk for stocks and other securities. For risk amount calculation regarding the Bank's securities position, the Bank regularly monitors the market value of securities and employs the value-at-risk (VaR) method and other methods to assess the amount of risk involved, and then submits a report on risk valuations at the ALM Meeting.

For stocks, the Bank calculates positions and profit and loss on a daily basis, and reports these to management in line with the risk management policy on stocks. A semiannual self-assessment provides an accurate understanding of the stocks and similar securities held by the Bank and Group companies, the results of which are subject to auditing by the Internal Audit Division and a certified public auditing company.

In addition, the Bank established the ALM Office within the Risk Management Office in the Risk Management Division to bring uniformity to the management of market risk (including for deposits and loans) with credit and other risks, and to adequately control risk within the scope of the Bank's capital to secure stable earnings. To this end, the ALM Office manages and analyzes risk by utilizing techniques such as VaR (Value at Risk) and fluctuations in the present value of assets and liabilities (interest risk level based on the outlier standard). The Bank also employs tools such as back testing and stress testing to verify the suitability and effectiveness of its metrics and management methods.

Moreover, the Bank conducts semiannual reviews of risk management policy in areas such as credit interest and liquidity by holding ALM meetings. We also work to strategically address risk management at monthly ALM meetings by reporting on calculated risk levels, examining the appropriate balance of assets and liabilities, and considering measures such as risk hedges as needed.

## Liquidity Risk Management

Liquidity risk refers to the risk of losses caused by a need to resort to fundraising at costs well in excess of normal due to obstructions to financing caused by a mismatch in time between fund management and fundraising or by unexpected fund outflows or other factors, as well as to the risk of losses stemming from an inability to conduct market transactions due to factors such as market confusion or to the need to resort to transactions at prices that are significantly less favorable than usual.

The Bank maintains an appropriate funding position through careful projection and verification of fundraising and fund management balances. Utilizing a system that continuously monitors the amount of funds available in the market, the Bank is always prepared for the occurrence of liquidity risk.

## Operational Risk Management

Operational risk refers to the risk of losses caused by inappropriate processes in financial institution operations, activities on the part of executives or employees, Bank systems, or external factors. The Bank categorizes operational risk into the following five components for management purposes: (1) clerical risk, (2) information security risk, (3) legal risk, (4) human risk, and (5) tangible asset risk.

The Bank's stance on operational risk management has been set out in the Operational Risk Guidelines, and the divisions with oversight for each component risk take responsibility for managing those risks from a specialist perspective. The Risk Management Division is responsible for the overall management of operational risk.

The Bank considers operational risk management to be one of its most important management challenges. The Bank has established an Operational Risk Meeting, which is chaired by an executive of the managing director level or above responsible for oversight of banking operations and who acts as assistant to the President. The meeting provides a central venue for assessing and analyzing problem areas related to operational risk and discussing policy in an organization-based manner.

## Clerical Risk Management

Clerical risk refers to the risk of losses due to mistakes made in the conduct of clerical duties or as a result of inappropriate actions. Aware that gaining the trust of customers begins with accurate clerical processes, the Bank has established and continues to abide by regulations governing clerical procedures. Moreover, the Bank is working to build a clerical system that minimizes the likelihood of human error or inappropriate actions by centralizing clerical processes and utilizing computers to augment its checking functions.

In addition, to reduce clerical risk, the head office divisions conduct audits, and each branch has an inspection process as part of its internal control system. Other measures include on-site guidance through visits to branches, group training courses, and the use of an e-learning system. These are among the steps being taken to prevent clerical mistakes before they happen and improve the quality of clerical work (by enhancing both speed and accuracy).

## Information Security Risk Management

Information security risk refers to the risk of losses due to an infringement of the safety (confidentiality, integrity, or availability) of information resources (information and information systems). The Bank classifies information security risks as either information risks or system risks.

• *Information security: The process of ensuring that unique organizational information and information systems are (1) protected properly (confidentiality), (2) maintained in an authentic state (integrity), and (3) available for effective use when needed (availability).*

The Bank stores a large volume of information, including customer information. We are also building a range of information systems to serve as mechanisms for acquiring and storing information and making effective use of these massive volumes of stored information. Protecting and managing these information resources in an appropriate manner is part of the Bank's social responsibility, and we take this responsibility extremely seriously from the standpoint of protecting our customers' interests and improving the convenience of our products and services.

As use of the Bank's LAN and the prevalence of Internet connectivity increase, the environment and means for processing information are expanding and growing more diverse, making it critical for us to strengthen our management structures in the face of information security threats such as unauthorized disclosure, alteration, and destruction.

To deal with these circumstances, the Bank has established an Information Security Policy to serve as the basic policy concerning safety measures designed to protect information resources as well as a set of Information Security detailing more specific safety measures. We are also working to build robust management structures, for example by appointing information security management officers at our head office and sales branches, and to implement thorough management of information related to customers.

We have also established a set of Guidelines on the Handling of Personal Information to govern the handling personal information in accordance with the Private Information Protection Law, and we are working to further strengthen structures for protecting personal information in an appropriate manner, for example by establishing a Privacy Policy.

## Information Risk Management

Information risk refers to the risk of losses caused by the loss, alteration, inappropriate use, or unauthorized disclosure of information.

In order to appropriately manage the massive amount of information it stores, including customer information, the Bank is working to thoroughly implement information protection, for example by classifying information that should be protected according to its importance and determining management methods for important information according to that level of importance. In addition to encrypting data that is used and stored on the Bank LAN, we also enforce strict management of access privileges. Moreover, we are actively implementing a variety of measures designed to ensure the safe management of information risk, including by transitioning to electronic accounting ledgers as part of the adoption of a paperless workflow and introducing a Central Document Storage System for reliably storing and disposing of documents such as accounting vouchers and ledgers using IC tags.

## System Risk Management

System risk refers to the risk of losses caused by information system defects such as computer system downtime and malfunctions, as well as losses caused by inappropriate use of information systems. Computer systems have become indispensable in banking operations, which not only are growing more diverse and sophisticated, but also are encompassing large increases in transaction volumes. Accordingly, safety measures to avoid system risks are crucial in providing customers with high-quality services. The Bank has transitioned its core computer system to an extremely advanced system at the NTT Data Banking Center for Regional Banks. This center has established solid safety measures that include the adoption of a reciprocal backup system using two facilities in eastern and western Japan. The Bank takes all possible measures against system risks by codifying detailed responses in case of system failure and rules for preventing computer crimes and malfunctions in the form of internal guidelines and other provisions.

## Legal Risk Management

Legal risk refers to the risk of losses caused by violations of the law, including losses arising from breaches of obligations to customers due to negligence or from inappropriate business or market practices (including fines, penalties for breach of contract, and damages imposed as a result of action taken following an audit or through the terms of a settlement or other agreement).

The Bank considers compliance to be one of its most important management issues, and it strives to prevent the manifestation of legal risk through measures such as establishing structures and guidelines based on basic policies and compliance programs determined by the Board of Directors and by educating employees. In the event of any manifestation of legal risk, entities such as the Compliance Committee stand ready to manage and discuss the situation so that they can take steps to minimize the effect on Bank operations.

## Human Risk Management

Human risk refers to the risk of losses due to human resource management problems, an inappropriate work environment, discriminatory conduct, or other similar issues.

The Bank has established a set of Human Risk Management Guidelines in an effort to ensure that human risk is managed in an appropriate manner. We are working to maintain a healthy and comfortable work environment.

## Tangible Asset Risk Management

Tangible asset risk refers to the risk of losses resulting from phenomena outside the Bank's control, including natural disasters, the breakdown of social infrastructure, and terrorism, or from damage to tangible assets sustained in the course of Bank operations.

In addition to establishing an Emergency Measures Manual and Contingency Plan outlining procedures for responding to various accidents or disasters, the Bank is working to avoid and reduce tangible asset risk through regular inspection and training regimes.

## Reputation Risk Management

Reputation risk refers to the risk of losses caused by a deterioration of the Bank's reputation among customers or the market.

The Bank is working to control and minimize reputation risk by establishing a set of Reputation Risk Management Guidelines specifying measures for reducing reputation risk, preventing its manifestation, and responding to the danger of its manifestation.

## Contingency Planning

The Bank has established a series of Emergency Task Force Guidelines for dealing with unforeseeable events including crimes, natural disasters such as fires or earthquakes, system malfunctions, financial crises, information security risks, and market and other risks. In the event of such an emergency, the Bank would set up an Emergency Task Force to provide unified leadership and instruction on a temporary basis. We have developed a Contingency Plan detailing specific procedures, and we are working to strengthen our response capability through regular training and reviews. We have set out in our Crisis Management Guidelines for Disasters the official procedures regarding rapid disaster recovery and a Business Continuity Plan (BCP) for implementing the minimum processes necessary to run our business in the event of a large-scale natural disaster, disease outbreak, etc. Our basic policy on business continuity, which includes the Bank's intentions to offer support in ensuring the livelihoods of local residents and to help local business enterprises resume business operations, has been set out in the Business Continuity Policy.

We have also drafted detailed manuals/guidelines taking into account the possibility of a large-scale earthquake and the outbreak of a new and highly contagious strain of influenza. In this way we are working to strengthen our crisis management system.

# Contributing to the Community: Empathizing and Coexisting with Our Local

## Our Approach to Social Contribution

At the Bank of Kyoto, the concept of doing our part for the local community has been one of our guiding corporate principles ever since our establishment. We have made it our business to be involved in various aspects of community work, including the development of industry and environmental issues.

Customer needs are diversifying in tandem with changing financial and social conditions. At the Bank, we are aware that the original purpose of regional financial institutions is to contribute to the development of the regional economy and society through our main line of business, which is, of course, banking. Working together with local communities, we strive for ongoing development for all. Further, to earn the trust and understanding of local communities, our policy is to publicly disclose the details of our activities.

### Our Communities

The Bank's business is deeply rooted in the community in five prefectures: Kyoto, where our headquarters is located, as well as the neighboring Shiga, Osaka, Nara, and Hyogo Prefectures.

* Bank statistics given in this section, including deposit and loan figures, are shown as totals for our Kyoto, Shiga, Osaka, Nara and Hyogo Prefecture locations.

## Our Policy on Promoting Community-Based Finance

Through the reliable provision of funding to small and medium-sized corporations, even at times of low market liquidity, we help to facilitate dynamism in the regional community. We believe that this is the true purpose of community-based finance.

In this context, the Bank of Kyoto formulated its fourth "Power Up — Breakthrough and Dynamic Performance — Medium-Term Management Plan," covering the three year period from fiscal 2011 to fiscal 2013. Built on four platforms that support seven community-based finance strategies, this Plan outlines the Bank's basic policy of supporting small and medium-sized corporations engaged in stable management while promoting growth and development. By aggressively harnessing the consulting function, we intend to reenergize regional economies.

In addition, three important aspects of our efforts to promote community-based finance are 1) taking full advantage of the Bank's inherent consulting function for the benefit of its corporate customers, 2) actively participating in measures aimed at revitalizing regional communities, and 3) adopting an aggressive stance toward developing human resources and providing information. Through these and other means, we are working to deliver optimal solutions to small and medium-sized as well as other customers while supporting management and business improvement endeavors.

Further information on the Bank's community-based finance activities can be found on our website.

### Financing for Regional Customers

The balance of loans to local community members increased by ¥57.5 billion year-on-year to stand at ¥3,551.9 billion, or 90.1% of our total loans as of the end of March 31, 2011.

### Loans Outstanding to Small and Medium-Sized Companies (includes individuals)

Loans to small and medium-sized companies were up by ¥34.4 billion compared with the previous term-end, amounting to ¥2,875.3 billion. The sum of ¥2,829.5 billion, or 98.4% of loans made to small and medium-sized corporations, was made to SMEs in the region.

### Loans Outstanding Made to Local Public Organizations

As of the end of March 2011, loans outstanding made to local public organizations totaled ¥318.3 billion. The Bank has been designated an accredited financial institution by Kyoto Prefectures as well as the area's 23 regional cities, towns, and villages, and another way we are contributing to community development is by working with local public organizations, including trade in local bonds, and survey research commissioned to the Kyoto Economic Research Institute, one of our Group companies.

## Harnessing the Consulting Function for the Benefit of Corporate Customer

### Supporting Start-Ups and Other New Businesses

The Venture Business Support Group of our Corporate Banking Division assists with start-ups and other new businesses through a variety of venture funds.

In addition, through "Kyogin Venture Business Support Program," we provide highly advanced and specialized problem-solving methods.

### Supporting Growth

The Corporate Banking Division's officers in charge of proposal-based marketing and information strategy effectively leverage information acquired via its broad business network to make possible aggressive proposal-based marketing.

### Business Restructuring/Management Improvement Support

In addition to individually tailored management consultations and assistance on management improvement strategy formulation, the Bank of Kyoto's Credit Supervision Division (Management Support Office) also collaborates with consulting companies and other external institutions to help client corporations improve their management and promote business revitalization.

# Communities

### Assisting in Business Succession Planning

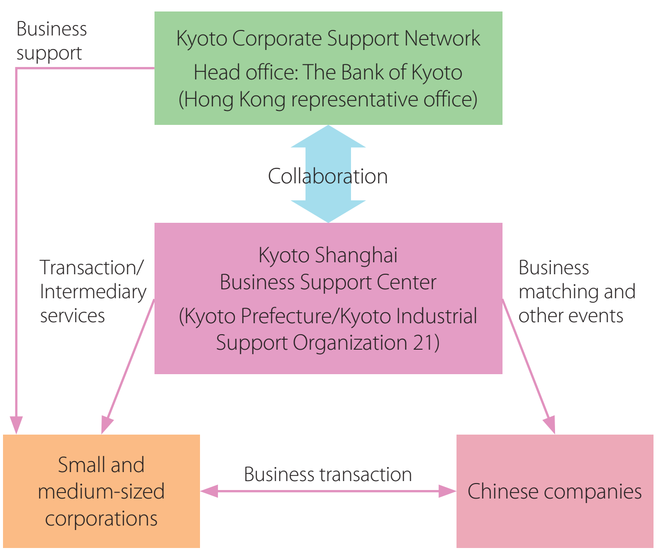
Marshalling the benefits of its broad network, the Bank of Kyoto provides its customers with wide-ranging proposals encompassing M&A as well as business succession planning amid the current dearth of qualified successors.

## Support for Trade and International Business

### Supporting Business in China

Serving in a head office capacity, the Bank of Kyoto participates in the Kyoto Corporate Support Network, gathering of business operators in Kyoto to support the China business endeavors of small and medium-sized corporations.

Collaborating with the Kyoto Shanghai Business Support Center established by the Kyoto Industrial Support Organization 21, steps are taken to introduce other companies and specialists in accordance with the attributes of each customer's project. Through these and other means, the Bank strives to support the China business aspirations of small and medium-sized corporations.




### Support through the Kyogin Asia Desk

The Kyogin Asia Desk, located at our head office, offers a system capable of answering to the needs of customers doing business in East Asia, particularly in China, through collaboration with our Hong Kong and Shanghai representative offices as well as external organizations. We provide consultations for business customers, and hold business matching events as well as seminars on doing business in the region as part of our comprehensive system for meeting all our customers' needs.

### *Other Topics*

#### Branch Managers' Course (with Study Tour to Asia)

Many of our clients are expected to expand their business into China, a country that has attracted much attention as a production base and consumer market. Against this backdrop, department and branch managers at the Bank are seeking to gain an understanding of the situation in China. As a regional financial institution, the Bank is offering a Branch Managers' Course (with study tour to Asia) at its Kyoto Banking College that combines overseas observation and study with the goal of supporting our clients and helping them become more internationally-minded.

#### Shanghai Business Exchange 2011

In January 2011, as part of a five-regional bank initiative, the Bank co-sponsored the Shanghai Business Exchange 2011 in Shanghai, China. The event brought together Japanese-affiliated corporations operating in the local economy.

A total of 178 companies (including Bank clients) participated in the event, prompting lively exchange between Japanese companies.


## Actively Participating in Regional Rehabilitation

### Upgrading and Expanding Regional Rehabilitation Support Networks

The Bank works closely with local entities to promote economic growth. In Kyoto, the main organizations are the Kyoto Rehabilitation Network Council (including the Small and Medium-Sized Business Rehabilitation Support Council), credit guarantee corporations, local financial institutions, and regional medical rehabilitation committees (subsidiary organization to the Council). In Shiga Prefecture, the main organization is the Shiga Prefecture Rehabilitation Support Liaison Council.

### Initiatives to Revitalize the Tourism Industry

The Tourism Promotion Office within the Corporate Banking Division actively works to infuse the local community with dynamism by revitalizing tourism and industries involved in "made-in-Kyoto" products.

We offer loans especially designed for the tourism business through our "Nigiwai" special loans.

## Fostering and Utilizing Human Resources Distinguished by Their High Levels of Specialist Financing Methodology Expertise and Know-How

### Enhancing the Ability to Clearly Identify Business Value

The Specialized Marketing Section within the Corporate Banking Division employs the services of specialists with extensive knowledge of specific industries, who provide a range of solutions to satisfy customer needs, taking into consideration each customer's growth potential.

We also utilize the Industry-Specific Specialized Research Training Group while conducting industry-specific skills training seminars with the aim of training staff to be specialists in particular industries. Under this new system, head office departments and sales branches work together to conduct the kind of research into specific industries that is required for specialist decision-making in the provision of loans.

## Environmental Protection Measures

Environmental issues such as global warming and pollution are now the focus of a great deal of public attention, and companies are being required to place a high management priority on measures to help preserve the environment, as part of their corporate social responsibility.

As a regional bank based in the city where the Kyoto Protocol was signed, we at the Bank of Kyoto feel particular responsibility to help implement the provisions of the Protocol. We have drawn up a Stage 1 Environmental Plan, a medium-term plan incorporating our environmental policies. All the Bank's staff are working together to achieve environmental goals, particularly to contribute to reducing emissions of greenhouse gases.

## The Socially Responsible Investment Stock Price Index

FTSE Group confirms that the Bank of Kyoto has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index company FTSE Group — a company jointly owned by the Financial Times and the London Stock Exchange — FTSE4Good is an equity index series that is designed to facilitate investment in companies that meet globally recognized corporate responsibility standards.

## Principal Bank Activities

### Branch Planning and Design that Takes into Consideration the Environment

When opening or relocating branches, the Bank of Kyoto places considerable emphasis on environmental concerns. Among a host of initiatives, this entails rooftop gardening, the installation of solar panels and LED lighting and the use of locally produced timber for interior work as well as furniture and fittings.

## Environmental Policy

### Basic Philosophy

With our headquarters in Kyoto, which boasts more than 1200 years of history, and operating widely in the Kinki region, a place of magnificent natural settings and rich history and culture, the Bank of Kyoto strives to achieve sustainable development together with the community in which we operate.

We make it as our social mission to pass on rich natural surroundings and these tremendous historic and cultural assets to future generations. In light of this philosophy, we consider the environment an important social issue, and all of our employees take an active stance to environmental conservation.

### Action Plan

(1) Observe laws, regulations, agreements, etc. on the environment.

(2) Accurately assess the impact of our corporate activity on the environment, set goals and objectives in this regard and work toward them, and strive to continuously improve environmental conservation activities by conducting regular reviews.

(3) Promote energy and resources conservation, as well as recycling, with a view to reducing environmental stress.

(4) By offering environmentally-friendly financial products and services, assist clients with environmental conservation, and contribute to improving the local community environment.

(5) Deepen awareness of all employees, including executives, on environmental issues, and address environmental conservation initiatives in the region.

(6) Inform all employees and executives of our environmental policy and environmental initiatives, and also disclose this information to the public.

## Introducing Low-Emission Vehicles

In addition to the use of natural-gas powered vehicles for the transportation of documents and materials, the Bank is taking steps to progressively introduce electric vehicles to its fleet of head office business-use automobiles and motor cycles.

# Initiatives Aimed at Contributing to Customers and Local Communities

## Protecting Our Magnificent Natural Environment and Cityscape

### Tree Planting Festival ("Kyogin Forest Project")

Given today's social circumstances including global warming and natural disaster issues, forest planting and forest conservation are now popular topics. In this connection, we at the Bank of Kyoto planted 4,000 trees of 51 varieties, including oak trees, in the gardens of our Arashiyama Training Hall with the help of local people including elementary school children in 2007. The event is intended as a model for disaster prevention and environmental conservation for the whole of Kyoto Prefecture.

We are currently carrying out regular weeding to ensure that the saplings' growth is unimpeded.

### Participation in Kyoto Model Forest Association Activities

The Bank is an active participant in the work of the Kyoto Model Forest Association, which was established to promote countermeasures against global warming, protection against forest fires, and improvement of the landscape of the Kyoto area. To this end, Bank staff participate actively in forest-thinning and branch trimming activities.

The Bank makes donations to the Forest Planting Fund in proportion to the amount of paper used by the Bank and the value of eco-friendly loans made.

# Addressing Environmental Concerns through Special Loan Products

## Kyogin Eco Loan and Kyogin Eco Private Placement Bond

We offer special low interest rates on loans and special-rate fees on the issuance of bonds through private placement to corporate customers who have acquired ISO14001 environmental management systems certification, KES (Kyoto Environmental management System standards) certification, or certification under the Kyoto Timber Certification System (informally known as the "Wood Mileage $CO_2$ Certification System").

**Other Topic**

### Installation of a Wind-Power Generator

A portion of the electric power consumed by the Minakuchi Branch, opened in March 2011, is generated by solar panels and a wind-power generator.

## Kyogin Mortgage Loans and Kyogin Eco Special Interest Rate Plans

We offer special low-interest rates on loans for environmentally friendly new home construction projects and purchases.

These special plans are for homes that qualify under the Kyoto Timber Certification System, homes with solar energy systems, and homes qualified under the Home Eco Point System.

## The Eco-Car Safe Driving Offer

The popularization of low-pollution vehicles or "eco-cars" is an important part of anti global-warming strategies. In a related development, with a view to preventing traffic accidents, emphasis on safe driving technique is rising. The Bank of Kyoto offers low interest rates for first-time car loans, for clients purchasing eco-cars, and for those with excellent driving records.

# Employee Initiatives

## The "Little Bit of Kindness" Project

Operated by the Kyoto Prefecture Administrative Office, this project runs the annual "Kamogawa River Clean Campaign" with the participation of bank staff and their families. The cleanup enjoys a good turnout.

## Environment Day Implemented

To help raise environmental consciousness among the Bank's staff, with effect from April 2009 we have implemented one day each month as "Environment Day." This day is dedicated to raising awareness of environmental issues among our staff, and as a symbol of our commitment to the environment, all lights are turned off at 7:00 p.m. to help reduce carbon dioxide emissions through energy conservation.

# Financial Review

## Financial and Economic Environment

During the fiscal year under review, signs began to emerge that the decline in capital investment had bottomed out and the Japanese economy had reached a period of overall modest recovery. This mild upturn was largely led by export activity mainly to developing countries and personal consumption on the back of measures implemented by the government to stimulate the economy.

In the latter half of the fiscal year ended March 31, 2011, the pace of recovery temporarily stalled due to such factors as the slump in exports, reflecting ongoing appreciation in the value of the yen, and a drop-off in the benefits to accrue from the government's pump-priming measures including the termination of and contraction in eco-car subsidies as well as eco-point incentive programs relating to electric home appliances. As corrective measures completed a full cycle, the economy again broke free from depressed conditions entering the New Year on a renewed moderate growth trajectory.

Just as the financial and economic environments again exhibited a positive upswing, the Great East Japan Earthquake that struck the nation on March 11, 2011 placed considerable downward pressure particularly on manufacturing activities. Taking these conditions into consideration the fiscal year under review ended in unprecedented confusion and a growing sense of anxiety with respect to the future.

## Business Progress and Results

In deposit operations, we enjoyed steady growth mainly in individuals' deposits. The value of total deposits grew by ¥107.7 billion during the term to ¥5,873.0 billion (US$70,631 million) at the fiscal year-end. Negotiable certificates of deposit increased by ¥91.3 billion to ¥625.6 billion owing to an upswing in public-sector and financial company CDs. As a result, the total balance of deposits and NCDs rose by ¥199.0 billion during the term to ¥6,498.6 billion (US$78,156 million) at the end of the fiscal year under review.

In loan operations, loans to individuals held firm, centered on mortgage loans, while corporate loans also maintained a steady upward trends in spite of an overall decline in demand, thanks to the Bank's aggressive efforts to compensate for the credit crunch affecting most banks. Loans for public-sector projects also increased. As a result, total loans and bills discounted rose by ¥100.4 billion during the term to a balance of ¥3,935.1 billion (US$47,326 million) at the fiscal year-end.

Regarding the Bank's securities holdings, we exercised prudent monitoring of the market in making our investments. As a result, the value of securities increased by ¥49.8 billion to a balance of ¥2,766.4 billion (US$33,271 million) at the end of the fiscal year. Of this amount, we were forced to incur a decline of ¥91.8 billion in the valuation difference (unrealized gain) attributable to mark-to-market accounting. This reflected such factors as the sharp drop in stock market prices. Notwithstanding these conditions, the balance at the end of fiscal year under review was ¥220.5 billion. In addition, the balance of trading securities was ¥0.2 billion at the fiscal year-end.

Accounting for each of the aforementioned, total assets and total equity stood at ¥7,285.8 billion (US$87,622 million) and ¥447.8 billion (US$5,385 million), respectively, at the end of the fiscal year under review.

The earnings environment remained extremely difficult during the reporting term. Against this backdrop, the Bank worked diligently to ensure the efficient management and procurement of assets while promoting increased efficiency and rationalization of operations as a whole. Consolidated ordinary income experienced a year-on-year decline of ¥5.235 billion to ¥124.328 billion due to the decrease in investment revenues, mainly in marketable securities interest and dividends. Consolidated ordinary expenses contracted ¥13.652 billion compared with the previous fiscal year to ¥89.175 billion. This was largely attributable to the decline in funds procurement expenses reflecting the drop in high-yielding funds procured. As a result, consolidated ordinary profit for the fiscal year under review amounted to ¥35.153 billion, up ¥8.416 billion year on year. For the fiscal year under review, consolidated net income climbed ¥2.710 billion compared with the previous fiscal year to ¥18.379 billion (US$221 million).

Earnings per share came to ¥48.63 (US$0.58), while net assets per share totaled ¥1,163.07 (US$13.98). The Bank's consolidated capital adequacy ratio for the fiscal year ended March 31, 2011 stood at 13.55%, an improvement of 1.22 percentage points year on year.

Turning to a review of business performance by segment, in banking operations, which constitute the core operations of the Kyoto Bank Group, ordinary income decreased by ¥5,016 million compared with the previous fiscal year to ¥116,150 million (US$1,396 million). Segment profit, on the other hand, increased by ¥7,539 million year on year to ¥33,118 million (US$398 million). In the other segment, ordinary income totaled ¥11,257 million (US$135 million), down ¥204 million compared with the previous fiscal year. Other segment profit increased ¥879 million year on year to ¥2,044 million (US$24 million).

## Cash Flows

Cash and cash equivalents as of the reporting term-end stood at ¥276,221 million (US$3,321 million), an increase of ¥54,650 million compared with the previous term-end.

## Cash Flows from Operating Activities

Net cash provided by operating activities for the previous fiscal year amounted to ¥12,992 million. Major cash inflows were increases in deposits and NCDs. Principal cash outflows were the increase in loans and net decrease in call money. In the fiscal year under review, net cash provided by operating activities surged ¥195,562 million compared with the previous fiscal year to ¥208,554 million (US$2,508 million). Primary cash inflows comprised the increase in deposits and NCDs as well as the decline in such short-term investment funds as call loans.

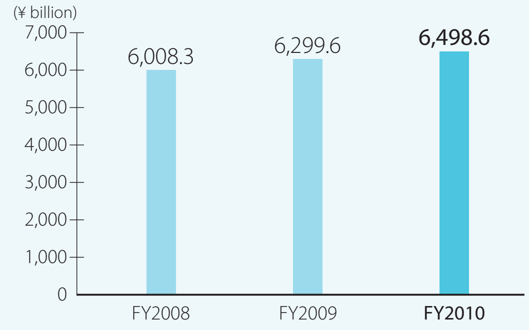
## Cash Flows from Investing Activities

Net cash used in investing activities for the previous fiscal year was ¥273,291 million, largely as a result of the purchase of securities. For the reporting period, net cash used in investing activities came to ¥166,104 million (US$1,997 million), a decrease of ¥107,186 million compared with the previous fiscal year. Major movements included the principal cash inflow of proceeds from sales of securities and the principal cash outflow of purchases of securities.

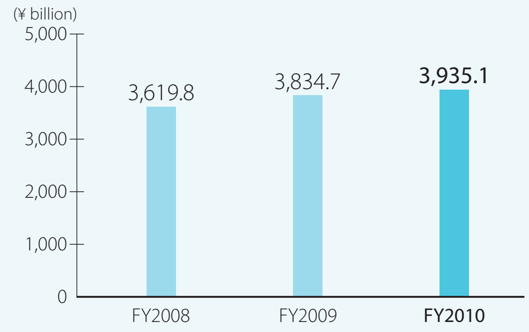
## Cash Flows from Financing Activities

During the prior consolidated fiscal year, net cash used in financing activities amounted to ¥10,801 million mainly reflecting the repayments of subordinated bonds and dividend payments. For the fiscal year under review, net cash provided by financing activities totaled ¥12,215 million (US$146 million), a turnaround of ¥23,016 million, owing mainly to proceeds from borrowing of subordinated loans.

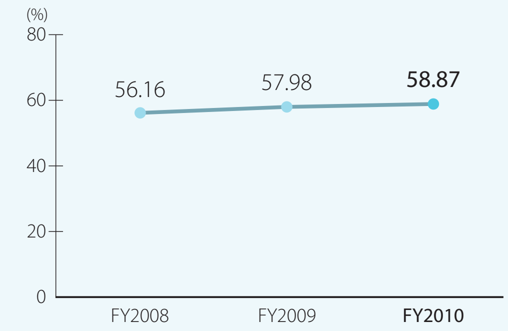
### Deposits (including NCDs)



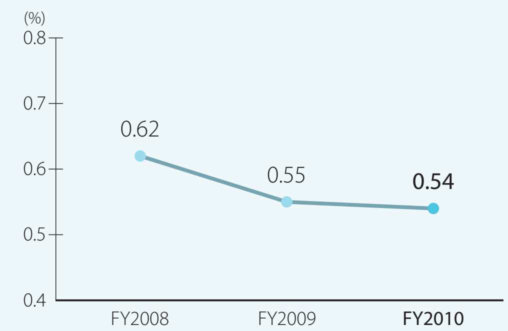

### Loans and Bills Discounted




### Overhead Ratio (Non-Consolidated)




### Return on Assets (Non-Consolidated)



# Consolidated Balance Sheets

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries    March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Assets:** | | | |
| Cash and due from Bank of Japan (note 27) | ¥ 276,221 | ¥ 221,570 | $ 3,321,964 |
| Due from other banks (note 27) | 1,201 | 1,131 | 14,454 |
| Call loans and bills bought (note 27) | 202,666 | 236,768 | 2,437,354 |
| Receivables under resale agreements (note 9) | 2,099 | 5,074 | 25,253 |
| Monetary claims bought | 9,953 | 11,055 | 119,708 |
| Trading securities | 298 | 282 | 3,588 |
| Money held in trust (note 4) | 1,965 | 1,959 | 23,639 |
| Securities (notes 3, 9, 16 and 27) | 2,766,484 | 2,716,645 | 33,271,010 |
| Loans and bills discounted (notes 6, 10 and 27) | 3,935,192 | 3,834,750 | 47,326,424 |
| Foreign exchanges (note 7) | 2,576 | 3,508 | 30,991 |
| Lease receivables and investment assets (notes 2.*p* and 23) | 8,058 | 9,415 | 96,915 |
| Other assets (note 9) | 33,121 | 32,211 | 398,329 |
| Tangible fixed assets (note 8) | 76,067 | 72,338 | 914,827 |
| Buildings | 26,506 | 25,890 | 318,781 |
| Land (note 11) | 41,050 | 38,615 | 493,696 |
| Construction in progress | 1,107 | 344 | 13,313 |
| Other tangible fixed assets | 7,403 | 7,488 | 89,036 |
| Intangible fixed assets | 2,437 | 2,574 | 29,312 |
| Software | 2,152 | 2,287 | 25,890 |
| Other intangible fixed assets | 284 | 287 | 3,421 |
| Deferred tax assets (note 26) | 3,165 | 3,128 | 38,063 |
| Customers' liabilities for acceptances and guarantees (note 16) | 11,942 | 12,288 | 143,624 |
| Allowance for possible loan losses | (47,614) | (49,412) | (572,634) |
| Total assets | ¥7,285,838 | ¥7,115,290 | $87,622,828 |
| **Liabilities and Equity** | | | |
| **Liabilities:** | | | |
| Deposits (notes 9, 12 and 27) | ¥6,498,687 | ¥6,299,610 | $78,156,195 |
| Call money | 13,387 | 23,897 | 161,004 |
| Payables under repurchase agreements (note 9) | 2,099 | 5,074 | 25,253 |
| Payables under securities lending transactions (note 9) | 37,481 | 21,461 | 450,770 |
| Borrowed money (notes 9 and 13) | 79,505 | 42,540 | 956,174 |
| Foreign exchanges (note 7) | 213 | 185 | 2,566 |
| Bonds (note 14) | 15,000 | 15,000 | 180,396 |
| Convertible bonds (note 15) | 29,953 | 29,953 | 360,228 |
| Other liabilities | 68,184 | 63,924 | 820,022 |
| Liability for employees' retirement benefits (note 24) | 22,984 | 23,152 | 276,417 |
| Liability for reimbursement of deposit losses (note 2. *k*) | 221 | 233 | 2,657 |
| Liability for contingent losses (note 2. *l*) | 997 | 943 | 11,990 |
| Deferred tax liabilities (note 26) | 57,065 | 90,993 | 686,298 |
| Deferred tax liabilities for land revaluation (note 11) | 307 | 326 | 3,700 |
| Acceptances and guarantees (note 16) | 11,942 | 12,288 | 143,624 |
| Total liabilities | 6,838,031 | 6,629,584 | 82,237,301 |
| **Equity** (notes 17, 18 and 31): | | | |
| Common stock, authorized, 1,000,000,000 shares; issued, 379,203,441 shares in 2011 and 2010 | 42,103 | 42,103 | 506,358 |
| Capital surplus | 30,301 | 30,301 | 364,422 |
| Stock acquisition rights | 227 | 151 | 2,731 |
| Retained earnings | 237,267 | 222,640 | 2,853,485 |
| Treasury stock — at cost, 1,325,943 shares in 2011 and 1,315,875 shares in 2010 | (1,225) | (1,222) | (14,742) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on available-for-sale securities (note 5) | 131,540 | 185,193 | 1,581,970 |
| Deferred losses on derivatives under hedge accounting | (935) | (969) | (11,252) |
| Land revaluation surplus (note 11) | 448 | 476 | 5,393 |
| Total | 439,727 | 478,675 | 5,288,367 |
| **Minority Interests** | 8,078 | 7,030 | 97,159 |
| Total equity | 447,806 | 485,706 | 5,385,527 |
| Total liabilities and equity | ¥7,285,838 | ¥7,115,290 | $87,622,828 |

See notes to consolidated financial statements.

# Consolidated Statements of Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries    Years Ended March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Income:** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 62,849 | ¥ 65,768 | $ 755,851 |
| Interest and dividends on securities | 29,616 | 32,438 | 356,177 |
| Other interest income | 1,308 | 1,401 | 15,741 |
| Fees and commissions | 16,108 | 15,941 | 193,729 |
| Other operating income (note 19) | 12,402 | 11,934 | 149,162 |
| Other income (note 20) | 2,067 | 2,103 | 24,867 |
| Total income | 124,353 | 129,588 | 1,495,530 |
| **Expenses:** | | | |
| Interest expense: | | | |
| Interest on deposits | 9,454 | 14,395 | 113,709 |
| Interest on borrowings and rediscounts | 1,021 | 1,025 | 12,288 |
| Other interest expense | 1,247 | 1,558 | 15,002 |
| Fees and commissions | 5,900 | 6,912 | 70,959 |
| Other operating expenses (note 21) | 5,121 | 5,583 | 61,590 |
| General and administrative expenses | 57,425 | 55,756 | 690,629 |
| Provision for allowance for possible loan losses | 5,191 | 13,527 | 62,435 |
| Other expenses (note 22) | 4,447 | 4,263 | 53,489 |
| Total expenses | 89,810 | 103,022 | 1,080,105 |
| **Income Before Income Taxes and Minority Interests** | 34,542 | 26,565 | 415,425 |
| **Income Taxes** (note 26): | | | |
| Current | 10,951 | 12,206 | 131,702 |
| Deferred | 4,116 | (1,916) | 49,503 |
| Net income before minority interests | 19,475 | | 234,219 |
| Minority interests | 1,096 | 607 | 13,183 |
| **Net Income** | ¥ 18,379 | ¥ 15,668 | $ 221,035 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Per Share Information** (notes 2.*r* and 30): | | | |
| Basic net income | ¥48.63 | ¥42.13 | $0.58 |
| Diluted net income | 45.46 | 38.77 | 0.54 |
| Cash dividends applicable to the year | 10.00 | 10.00 | 0.12 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries    Year Ended March 31, 2011

| | Millions of Yen | Thousands of U.S. Dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| **Net Income Before Minority Interests** | ¥ 19,475 | $ 234,219 |
| **Other Comprehensive Income** | (53,661) | (645,358) |
| Unrealized losses on available-for-sale securities | (53,695) | (645,769) |
| Deferred gains on derivatives under hedge accounting | 34 | 411 |
| **Comprehensive Income** | ¥(34,186) | $(411,139) |
| **Total Comprehensive Income Attributable to:** | | |
| Owners of the parent | ¥(35,239) | $(423,809) |
| Minority interests | 1,053 | 12,670 |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2011 and 2010

| | Thousands | Millions of Yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Accumulated other comprehensive income | | | | | |
| | Outstanding number of shares of common stock | Common stock | Capital surplus | Stock acquisition rights | Retained earnings | Treasury stock | Unrealized gains on available-for-sale securities | Deferred losses on derivatives under hedge accounting | Land revaluation surplus | Total | Minority interests | Total equity |
| Balance at April 1, 2009 | 364,415 | ¥37,825 | ¥26,035 | ¥ 63 | ¥210,989 | ¥(1,165) | ¥ 85,970 | ¥(1,051) | ¥170 | ¥358,838 | ¥6,322 | ¥365,160 |
| Net income | | | | | 15,668 | | | | | 15,668 | | 15,668 |
| Cash dividends, ¥10.00 Per share | | | | | (3,711) | | | | | (3,711) | | (3,711) |
| Purchases of treasury stock | (68) | | | | | (58) | | | | (58) | | (58) |
| Disposals of land revaluation surplus | | | | | (306) | | | | | (306) | | (306) |
| Conversion of convertible bonds | 13,539 | 4,278 | 4,266 | | | | | | | 8,544 | | 8,544 |
| Exercise of stock options | | | | | | 1 | | | | 1 | | 1 |
| Net change in the year | | | | 87 | | | 99,223 | 81 | 306 | 99,698 | 708 | 100,406 |
| Balance at March 31, 2010 | 377,887 | ¥42,103 | ¥30,301 | ¥151 | ¥222,640 | ¥(1,222) | ¥185,193 | ¥ (969) | ¥476 | ¥478,675 | ¥7,030 | ¥485,706 |
| Net income | | | | | 18,379 | | | | | 18,379 | | 18,379 |
| Cash dividends, ¥10.00 per share | | | | | (3,778) | | | | | (3,778) | | (3,778) |
| Purchases of treasury stock | (10) | | | | | (25) | | | | (25) | | (25) |
| Disposals of treasury stock | | | (0) | | (1) | 21 | | | | 20 | | 20 |
| Disposals of land revaluation surplus | | | | | 27 | | | | | 27 | | 27 |
| Net change in the year | | | | 75 | | | (53,653) | 34 | (27) | (53,570) | 1,048 | (52,522) |
| Balance at March 31, 2011 | 377,877 | ¥42,103 | ¥30,301 | ¥227 | ¥237,267 | ¥(1,225) | ¥131,540 | ¥ (935) | ¥448 | ¥439,727 | ¥8,078 | ¥447,806 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated other comprehensive income | | | | | |
| | Common stock | Capital surplus | Stock acquisition rights | Retained earnings | Treasury stock | Unrealized gains on available-for-sale securities | Deferred losses on derivatives under hedge accounting | Land revaluation surplus | Total | Minority interests | Total equity |
| Balance at March 31, 2010 | $506,358 | $364,423 | $1,819 | $2,677,577 | $(14,697) | $2,227,226 | $(11,663) | $5,726 | $5,756,770 | $84,554 | $5,841,325 |
| Net income | | | | 221,035 | | | | | 221,035 | | 221,035 |
| Cash dividends, $0.12 per share | | | | (45,447) | | | | | (45,447) | | (45,447) |
| Purchases of treasury stock | | | | | (306) | | | | (306) | | (306) |
| Disposals of treasury stock | | (0) | | (12) | 261 | | | | 248 | | 248 |
| Disposals of land revaluation surplus | | | | 332 | | | | | 332 | | 332 |
| Net change in the year | | | 912 | | | (645,256) | 411 | (332) | (644,265) | 12,604 | (631,661) |
| Balance at March 31, 2011 | $506,358 | $364,422 | $2,731 | $2,853,485 | $(14,742) | $1,581,970 | $(11,252) | $5,393 | $5,288,367 | $97,159 | $5,385,527 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries    Years Ended March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Operating Activities:** | | | |
| Income before income taxes and minority interests | ¥ 34,542 | ¥ 26,565 | $ 415,425 |
| Depreciation | 5,027 | 4,978 | 60,461 |
| Losses on impairment of long-lived assets | | 12 | |
| (Decrease) increase in allowance for possible loan losses | (1,797) | 7,845 | (21,620) |
| Decrease in allowance for possible investment losses | | (2) | |
| (Decrease) increase in liability for employees' retirement benefits | (168) | 2,690 | (2,020) |
| (Decrease) increase in liability for reimbursement of deposit losses | (12) | 27 | (144) |
| Increase in liability for contingent losses | 54 | 273 | 649 |
| Interest income | (93,774) | (99,608) | (1,127,770) |
| Interest expense | 11,724 | 16,979 | 141,001 |
| Gains on securities | (5,356) | (4,298) | (64,420) |
| Gains on money held in trust | (6) | (2) | (82) |
| Foreign exchange losses | 17,796 | 13,288 | 214,033 |
| Losses on sales of fixed assets | 369 | 114 | 4,446 |
| Net increase in trading securities | (15) | (59) | (187) |
| Net increase in loans | (100,441) | (214,920) | (1,207,954) |
| Net increase in deposits | 107,752 | 237,417 | 1,295,883 |
| Net increase in negotiable certificates of deposit | 91,324 | 53,892 | 1,098,309 |
| Net increase (decrease) in borrowed money (excluding subordinated loans) | 20,965 | (19,745) | 252,144 |
| Net increase in due from banks (excluding due from Bank of Japan) | (70) | (573) | (851) |
| Net decrease (increase) in call loans and bills bought | 38,177 | (86,525) | 459,145 |
| Net decrease in call money | (13,484) | (21,802) | (162,171) |
| Net increase in payables under securities lending transactions | 16,019 | 11,169 | 192,659 |
| Net decrease (increase) in foreign exchanges (assets) | 931 | (1,011) | 11,204 |
| Net increase in foreign exchanges (liabilities) | 27 | 45 | 331 |
| Net decrease in lease receivables and investment assets | 1,356 | 1,542 | 16,314 |
| Interest and dividends received (cash basis) | 99,629 | 102,627 | 1,198,189 |
| Interest paid (cash basis) | (13,283) | (17,928) | (159,756) |
| Other, net | 4,536 | 8,171 | 54,554 |
| Subtotal | 221,825 | 21,166 | 2,667,772 |
| Income taxes — paid | (13,270) | (8,173) | (159,594) |
| Net cash provided by operating activities | 208,554 | 12,992 | 2,508,177 |
| **Investing Activities:** | | | |
| Purchases of securities | (1,675,788) | (1,569,695) | (20,153,796) |
| Proceeds from sales of securities | 974,541 | 639,319 | 11,720,283 |
| Proceeds from redemption of securities | 543,927 | 663,233 | 6,541,518 |
| Decrease in money held in trust | 0 | 3 | 10 |
| Purchases of tangible fixed assets | (8,324) | (5,898) | (100,110) |
| Proceeds from sales of tangible fixed assets | 442 | 136 | 5,317 |
| Purchases of intangible fixed assets | (903) | (389) | (10,871) |
| Net cash used in investing activities | (166,104) | (273,291) | (1,997,647) |
| **Financing Activities:** | | | |
| Proceeds from borrowing of subordinated loans | 16,000 | 3,000 | 192,423 |
| Repayments of subordinated loans | | (5,000) | |
| Proceeds from issuance of subordinated bonds | | 15,000 | |
| Payments for redemption of bonds and convertible bonds | | (20,084) | |
| Dividends paid by the Bank | (3,778) | (3,711) | (45,447) |
| Dividends paid by subsidiaries to minority shareholders | (5) | (5) | (65) |
| Net cash used in (provided by) financing activities | 12,215 | (10,801) | 146,910 |
| **Foreign Currency Translation Adjustments on Cash and Cash Equivalents** | (15) | (5) | (187) |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | 54,650 | (271,105) | 657,252 |
| **Cash and Cash Equivalents at Beginning of Year** | 221,570 | 492,676 | 2,664,711 |
| **Cash and Cash Equivalents at End of Year** | ¥ 276,221 | ¥ 221,570 | $ 3,321,964 |
| **Noncash Financing Activities:** | | | |
| Convertible bonds converted into common stock | | ¥ 4,278 | |
| Convertible bonds converted into capital surplus | | 4,266 | |

See notes to consolidated financial statements.

## 1. Basis of Presenting Consolidated Financial Statements

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

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 29. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. All yen figures for 2011 and 2010 have been rounded down to millions of yen.

The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83.15 to $1, the approximate rate of exchange at March 31, 2011. 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. Consolidation* — The consolidated financial statements include the accounts of the Bank and its significant 7 subsidiaries (together, the "Group") in 2011 and 2010. Consolidation of the remaining 4 unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements. Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in unconsolidated subsidiaries and associated companies are accounted for on the cost basis. The effect on the consolidated financial statements of not applying the equity method is immaterial.

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

*b. Cash Equivalents* — For purposes of the consolidated statements of cash flows, the Group considers deposits with the Bank of Japan which are included in "Cash and due from Bank of Japan" in the consolidated balance sheets, to be cash equivalents.

*c. Trading Securities* — Trading securities, which are held for the purpose of primarily earning capital gains in the short term, are reported at fair value and the related unrealized gains and losses are included in the consolidated statements of income.

*d. Securities* — Securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Securities whose fair value cannot be reliably determined are stated at cost determined by the moving-average method. For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income. Money held in trust classified as trading is reported at fair value and the related unrealized gains and losses are included in the consolidated statements of income.

*e. Derivatives and Hedging Activities* — Derivatives are classified and accounted for as follows: (a) all derivatives (other than those used for hedging purposes) are recognized as either assets or liabilities and measured at fair value at the end of the fiscal year and the related gains or losses are recognized in the accompanying consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, the gains or losses on the derivatives are deferred until maturity of the hedged transactions.

To manage interest rate risk associated with financial assets and liabilities, the Bank applies hedge accounting by matching specific items to be hedged with specific hedging instruments or applying deferral hedge accounting (or cash flow hedge) based on the rules of the Japanese Institute of Certified Public Accountants (the "JICPA") Industry Audit Committee Report No. 24.

The Bank applies deferral hedge accounting based on the rules of the JICPA Industry Audit Committee Report No. 25, "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry," to manage its exposures to fluctuations in foreign exchange rates associated with assets and liabilities denominated in foreign currencies.

*f. Tangible Fixed Assets* — Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation of tangible fixed assets of the Bank is computed using the declining-balance method while the straight-line method is applied to buildings acquired by the Bank after April 1, 1998 at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 8 to 50 years for buildings and from 5 to 50 years for other tangible fixed assets. Depreciation of tangible fixed assets of the Bank's consolidated subsidiaries is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets.

g. *Long-lived Assets* — The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. Impairment losses 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 losses 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.

Accumulated impairment losses are directly deducted from the respective tangible fixed assets.

h. *Intangible Fixed Assets* — Depreciation of intangible fixed assets is computed using the straight-line method. Software costs for internal use are capitalized and amortized by the straight-line method over the estimated useful life of five years.

i. *Allowance for Possible Loan Losses* — The amount of the allowance for possible loan losses is determined based on management's judgment and assessment of future losses based on the Bank's self-assessment system. This system reflects past experience of credit losses, possible future credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

The quality of all loans is assessed by branches and the Credit Supervision Division with a subsequent audit by the Asset Review and Inspection Division in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used in the self-assessment of asset quality. The five categories for self-assessment purposes are "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

For claims to debtors classified as legal bankruptcy or virtual bankruptcy, an allowance is provided at the amount of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees.

For claims to debtors classified as possible bankruptcy, who are currently neither legally nor virtually bankrupt but are likely to become bankrupt, an allowance is provided at the amounts deemed necessary based on an overall solvency assessment performed after deduction of the amounts collectible through the disposal of collateral or execution of guarantees. The discounted cash flow method ("DCF method") is applied to claims whose estimated uncollectible amounts exceeded the pre-established threshold and future cash flows could reasonably be estimated. Under the DCF method, an allowance is provided for the difference between the present value of expected future cash flows discounted at the contracted interest rates and the carrying value of the claims.

For other claims, an allowance is provided based on historical loan loss experience.

Subsidiaries provide an allowance for general claims based on their historical loan loss experience and for specific claims at the amounts individually estimated to be uncollectible.

j. *Liability for Employees' Retirement Benefits* — The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. The Bank provides for the liability for employees' retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Subsidiaries provide for the liability for employees' severance payments based on amounts which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

k. *Liability for Reimbursement of Deposit Losses* — A liability for reimbursement of deposits which were derecognized as liabilities is provided for estimated losses on future claims of withdrawal from depositors of inactive accounts.

l. *Liability for Contingent Losses* — A reserve for contingent losses is provided for possible losses from contingent events related to the enforcement of the "responsibility-sharing system" on October 1, 2007. The reserve is calculated by estimation of future burden charges and other payments to the Credit Guarantee Corporation.

m. *Asset Retirement Obligations* — In March 2008, the Accounting Standards Board of Japan (the "ASBJ") published the 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 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 was effective for fiscal years beginning on or after April 1, 2010.

The Group applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥6 million ($78 thousand) and income before income taxes and minority interests by ¥130 million ($1,568 thousand).

n. *Foreign Currency Transactions* — Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

o. *Stock Options* — In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as stock acquisition rights as a separate component of equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value. The Bank has applied this accounting standard for stock options to those options granted on and after May 1, 2006.

p. *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.

Lessee

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Group applied the revised accounting standard effective April 1, 2008. In addition, the Group accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

Lessor

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

With regard to finance lease transactions entered into prior to April 1, 2008 that were not deemed to transfer ownership of the property to the lessee, leased investment assets are recognized at the book values of those leased assets at the transaction date.

The Group applied the revised accounting standard effective April 1, 2008.

All other leases are accounted for as operating leases.

q. *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.

r. *Per Share Information* — Basic net income per share is computed by dividing net income available to common stockholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

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

s. *New Accounting Pronouncements*

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

(1) Changes in Accounting Policies

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

(2) Changes in Presentation

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

(3) Changes in Accounting Estimates
A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior Period Errors
When an error in prior period financial statements is discovered, those statements are restated.

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

## 3. Securities

Securities at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Japanese government bonds | ¥1,098,652 | ¥1,003,901 | $13,212,894 |
| Japanese local government bonds | 174,955 | 107,325 | 2,104,091 |
| Japanese corporate bonds | 759,855 | 727,336 | 9,138,368 |
| Japanese corporate stocks | 408,075 | 494,728 | 4,907,698 |
| Other securities | 324,946 | 383,354 | 3,907,957 |
| Total | ¥2,766,484 | ¥2,716,645 | $33,271,010 |

Securities include investments in unconsolidated subsidiaries of ¥647 million ($7,782 thousand) and ¥920 million at March 31, 2011 and 2010, respectively.

Held-to-maturity debt securities as of March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | 2010 | | | | |
| | Carrying amount | Fair value | Net unrealized gains (losses) | Unrealized gains | Unrealized losses | Carrying amount | Fair value | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese government bonds | ¥3,613 | ¥3,623 | ¥10 | ¥14 | ¥4 | ¥3,316 | ¥3,341 | ¥25 | ¥28 | ¥3 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Carrying amount | Fair value | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese government bonds | $43,459 | $43,580 | $120 | $180 | $59 |

The cost and aggregate fair value of available-for-sale securities as March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | | 2010 | | | | |
| | Cost | Carrying amount | Net unrealized gains (losses) | Unrealized gains | Unrealized losses | Cost | Carrying amount | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese corporate stocks | ¥ 180,433 | ¥ 403,961 | ¥223,528 | ¥230,496 | ¥ 6,968 | ¥ 178,495 | ¥ 490,595 | ¥312,099 | ¥314,909 | ¥ 2,809 |
| Japanese government bonds | 1,096,709 | 1,095,038 | (1,670) | 3,376 | 5,047 | 1,004,415 | 1,000,584 | (3,831) | 2,699 | 6,530 |
| Japanese local government bonds | 173,956 | 174,955 | 998 | 1,273 | 275 | 106,102 | 107,325 | 1,223 | 1,299 | 76 |
| Japanese corporate bonds | 755,741 | 759,855 | 4,114 | 5,953 | 1,839 | 720,730 | 727,336 | 6,605 | 8,119 | 1,514 |
| Japanese bonds – total | 2,026,406 | 2,029,849 | 3,442 | 10,604 | 7,162 | 1,831,249 | 1,835,246 | 3,997 | 12,118 | 8,121 |
| Foreign bonds | 271,672 | 271,760 | 88 | 1,876 | 1,787 | 325,057 | 325,682 | 624 | 2,682 | 2,057 |
| Other | 58,010 | 51,537 | (6,472) | 614 | 7,087 | 59,989 | 55,673 | (4,315) | 755 | 5,071 |
| Other – total | 329,682 | 323,298 | (6,383) | 2,490 | 8,874 | 385,046 | 381,355 | (3,691) | 3,437 | 7,128 |
| Total | ¥2,536,522 | ¥2,757,109 | ¥220,586 | ¥243,592 | ¥23,005 | ¥2,394,791 | ¥2,707,197 | ¥312,406 | ¥330,465 | ¥18,059 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Cost | Carrying amount | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese corporate stocks | $ 2,169,973 | $ 4,858,231 | $2,688,257 | $2,772,060 | $ 83,802 |
| Japanese government bonds | 13,189,525 | 13,169,435 | (20,090) | 40,613 | 60,703 |
| Japanese local government bonds | 2,092,085 | 2,104,091 | 12,005 | 15,320 | 3,314 |
| Japanese corporate bonds | 9,088,887 | 9,138,368 | 49,480 | 71,602 | 22,122 |
| Japanese bonds – total | 24,370,498 | 24,411,894 | 41,395 | 127,536 | 86,140 |
| Foreign bonds | 3,267,256 | 3,268,321 | 1,065 | 22,562 | 21,497 |
| Other | 697,655 | 619,816 | (77,839) | 7,394 | 85,233 |
| Other – total | 3,964,911 | 3,888,137 | (76,774) | 29,957 | 106,731 |
| Total | $30,505,384 | $33,158,263 | $2,652,879 | $2,929,554 | $276,675 |

Bonds classified as held-to-maturity were not sold during the fiscal years ended March 31, 2011 and 2010.
Available-for-sale securities sold during the fiscal year:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Sales amount | Gains on sales | Losses on sales | Sales amount | Gains on sales | Losses on sales |
| Available-for-sale securities | ¥977,435 | ¥6,429 | ¥764 | ¥636,700 | ¥5,906 | ¥860 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2011 | | |
| | Sales amount | Gains on sales | Losses on sales |
| Available-for-sale securities | $11,755,084 | $77,326 | $9,191 |

The classification of securities was not changed in the years ended March 31, 2011 and 2010.

Individual securities, except for trading securities, are written down when a decline in fair value below the cost of such securities is "deemed to be other than temporary." The amount written down is accounted for as losses on devaluation. The total losses on devaluation of available-for-sale securities (other than securities whose fair value cannot be reliably determined) amounted to ¥271 million ($3,260 thousand) and ¥713 million, respectively, for the years ended March 31, 2011 and 2010.

To determine whether an other-than-temporary impairment has occurred, the Bank applies the following rules by the credit risk category for the security issuer based on the Bank's self-assessment guidelines.

(a) For securities issued by obligors classified as "legal bankruptcy," "virtual bankruptcy," and "possible bankruptcy": the fair value is lower than the amortized/acquisition cost.

(b) For securities issued by obligors classified as "caution": the fair value is 30% or more lower than the amortized/acquisition cost.

(c) For securities issued by obligors classified as "normal": the fair value is 50% or more lower than the amortized/acquisition cost, or fair value is more than 30% but less than 50% lower than amortized/acquisition cost and stayed below a certain level.

"Legal bankruptcy" refers to debtors who have already gone bankrupt from a legal and/or formal perspective. "Virtual bankruptcy" refers to debtors who have not yet gone legally or formerly bankrupt but who are substantially bankrupt because they are in serious financial difficulties and are not deemed to be capable of restructuring. "Possible bankruptcy" refers to debtors who are not yet bankrupt but are in financial difficulties and are very likely to go bankrupt in the future. "Caution" refers to debtors who require close attention because there are problems with their borrowings. "Normal" refers to issuers other than those classified as "legal bankruptcy," "virtual bankruptcy," "possible bankruptcy" and "caution" mentioned above.

(Additional information)
Formerly, individual securities were written down when a decline in fair value below cost was "deemed to be other than temporary." Where the market value had declined by equal to or more than 50% from their acquisition cost, such decline in fair value was "deemed to be other than temporary." If the market value had declined by equal to or more than 30% and less than 50% from their acquisition costs, and the average market price of the past 12 months had declined by equal to or more than 30%, such decline in fair value was "deemed to be other than temporary." Credit risk and other factors were also taken into account in determining whether the decline in fair value of those securities was "deemed to be other than temporary." However, in order to determine other-than temporary impairment based on more reasonable judgment taking into account the credit risk category for the security issuers, effective April 1, 2010, the Bank changed its criteria for recognizing losses on devaluation. The effect of this change was to decrease losses on devaluation by ¥3,544 million ($42,631 thousand) for the year ended March 31, 2011, consisting of a decrease in losses from equity securities of ¥3,552 million ($42,724 thousand) and an increase in losses on bonds of ¥7 million ($93 thousand).

## 4. Money Held in Trust

(1) Money held in trust classified as trading:

| | Millions of Yen | |
|---|---|---|
| | 2011 | |
| | Carrying amount | Gains (losses) included in profit/loss during this fiscal year |
| Money held in trust classified as trading | ¥1,965 | |

| | Millions of Yen | |
|---|---|---|
| | 2010 | |
| | Carrying amount | Gains (losses) included in profit/loss during this fiscal year |
| Money held in trust classified as trading | ¥1,959 | |

| | Thousands of U.S. Dollars | |
|---|---|---|
| | 2011 | |
| | Carrying amount | Gains (losses) included in profit/loss during this fiscal year |
| Money held in trust classified as trading | $23,639 | |

(2) No money held in trust was classified as held-to-maturity at March 31, 2011 and 2010.

(3) No money held in trust was classified as available-for-sale (money held in trust that is classified neither as trading nor as held-to-maturity) at March 31, 2011 and 2010.

## 5. Net Unrealized Gains/Losses on Available-for-sale Securities

Available-for-sale securities were valued at market and net unrealized gains/losses on valuation were as follows:

| | Carrying amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2011 | 2010 | 2011 |
| Net unrealized gains on available-for-sale securities | ¥220,586 | ¥312,406 | $2,652,879 |
| Deferred tax liabilities | (88,996) | (127,120) | (1,070,317) |
| Net unrealized gains on valuation (before adjustment) | 131,590 | 185,285 | 1,582,561 |
| Minority interests | (49) | (91) | (591) |
| Net unrealized gains on valuation | ¥131,540 | ¥185,193 | $1,581,970 |

## 6. Loans and Bills Discounted

Loans and bills discounted at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Bills discounted | ¥ 33,621 | ¥ 32,446 | $ 404,347 |
| Loans on bills | 131,628 | 141,188 | 1,583,027 |
| Loans on deeds | 3,251,723 | 3,137,679 | 39,106,715 |
| Overdrafts | 518,218 | 523,436 | 6,232,334 |
| Total | ¥3,935,192 | ¥3,834,750 | $47,326,424 |

Loans in legal bankruptcy totaled ¥10,192 million ($122,583 thousand) and ¥14,826 million as of March 31, 2011 and 2010, respectively. Nonaccrual loans totaled ¥140,245 million ($1,686,653 thousand) and ¥139,020 million as of March 31, 2011 and 2010, respectively. Loans in legal bankruptcy are loans in which interest accrual is discontinued (excluding the portion recognized as bad debt), based on management's judgment as to the collectability of principal or interest resulting from the delay in payments of interest or principal for a considerable period of time and other factors. Nonaccrual loans are loans in which interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payments to the debtors in financial difficulty to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥35 million ($432 thousand) and ¥15 million as of March 31, 2011 and 2010, respectively. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded.

Restructured loans totaled ¥8,527 million ($102,550 thousand) and ¥7,204 million as of March 31, 2011 and 2010, respectively. Such restructured loans are loans on which the Bank grants concessions (e.g., reductions of the stated interest rate, deferrals of interest payments, extensions of maturity dates, waivers of the face amount, or other measures) to the debtors to assist them to recovering from financial difficulties and eventually being able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing loans contractually past due three months or more are excluded.

## 7. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets: | | | |
| Due from foreign correspondents | ¥1,911 | ¥2,062 | $22,985 |
| Foreign bills of exchange purchased | 369 | 1,009 | 4,440 |
| Foreign bills of exchange receivable | 296 | 436 | 3,565 |
| Total | ¥2,576 | ¥3,508 | $30,991 |
| Liabilities: | | | |
| Foreign bills of exchange sold | ¥ 213 | ¥ 185 | $ 2,566 |
| Total | ¥ 213 | ¥ 185 | $ 2,566 |

## 8. Tangible Fixed Assets

Accumulated depreciation on tangible fixed assets at March 31, 2011 and 2010 amounted to ¥67,696 million ($814,154 thousand) and ¥66,909 million, respectively.

## 9. Assets Pledged

Assets pledged as collateral and related liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Securities | ¥63,278 | ¥26,383 | $761,021 |
| Receivables under resale agreements | 2,099 | 5,074 | 25,253 |

Collateralized liabilities:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deposits | ¥15,946 | ¥27,896 | $191,785 |
| Payables under securities lending transactions | 37,481 | 21,461 | 450,770 |
| Payables under repurchase agreements | 2,099 | 5,074 | 25,253 |
| Borrowed money | 21,100 | | 253,758 |

In addition, securities totaling ¥318,974 million ($3,863,132 thousand) and ¥323,811 million at March 31, 2011 and 2010, respectively, were pledged as collateral for settlement of exchange and derivative transactions.

Other assets include surety deposits of ¥1,623 million ($19,521 thousand) and ¥1,565 million at March 31, 2011 and 2010, respectively.

## 10. Commitment Line

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing up to prescribed amounts as long as there is no violation of any condition established in the contracts. At March 31, 2011 and 2010, the amounted to ¥1,141,588 million ($13,729,272 thousand) and ¥1,146,670 million, respectively, of which ¥1,100,206 million ($13,231,583 thousand) and ¥1,104,108 million, respectively, were those whose original contract maturity were within one year or unconditionally cancelable at any time. Since many of these commitments are expected to expire without being drawn upon, the total amount of unutilized commitments does not necessarily represent actual future cash flow requirements. Many of these commitments have clauses that the Group can reject the application from customers or reduce the contract amounts in case economic conditions change, there is a deterioration in the customer's creditworthiness or other events occur.

In addition, the Group requests customers to pledge collateral, such as buildings, land and securities, at the execution of the contracts, and takes necessary measures, such as understanding customers' financial positions, revising contracts when the need arises and securing claims, after the execution of the contracts.

## 11. Land Revaluation

Under the "Law of Land Revaluation," promulgated on March 31, 1998 (final revised on May 30, 2003), 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, 2002.

The resulting land revaluation surplus represented unrealized appreciation of land and was stated, net of income taxes, as a component of equity. There was no effect on the consolidated 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, 2011, the carrying amount of the land after the above one-time revaluation was less than the fair value by ¥3,205 million ($38,554 thousand).

### Method of Revaluation

The fair value was determined by applying appropriate adjustments for land shape and analysis on the appraisal specified in Article 2-4 of the Enforcement Ordinance of the Law of Land Revaluation effective March 31, 1998.

## 12. Deposits

Deposits at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Current deposits | **¥ 259,105** | ¥ 252,082 | **$ 3,116,125** |
| Ordinary deposits | **2,513,932** | 2,401,063 | **30,233,699** |
| Savings deposits | **86,761** | 88,557 | **1,043,429** |
| Deposits at notice | **21,186** | 26,264 | **254,799** |
| Time deposits | **2,603,530** | 2,565,452 | **31,311,249** |
| Other deposits | **388,530** | 431,873 | **4,672,648** |
| Subtotal | **5,873,046** | 5,765,294 | **70,631,953** |
| Negotiable certificates of deposit | **625,640** | 534,316 | **7,524,242** |
| Total | **¥6,498,687** | ¥6,299,610 | **$78,156,195** |

## 13. Borrowed Money

Borrowed money at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Subordinated loans | **¥56,500** | ¥40,500 | **$679,494** |
| Borrowing from banks and other | **23,005** | 2,040 | **276,679** |
| Total | **¥79,505** | ¥42,540 | **$956,174** |

At March 31, 2011 and 2010, the weighted average interest rates applicable to borrowed money were 1.31% and 1.88%, respectively.

Annual maturities of borrowed money at March 31, 2011 were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2012 | ¥22,100 | $265,784 |
| 2013 | 822 | 9,891 |
| 2014 | 47 | 570 |
| 2015 | 36 | 432 |
| 2016 | | |
| 2017 and thereafter | 56,500 | 679,494 |
| Total | ¥79,505 | $956,174 |

## 14. Bonds

Callable unsecured subordinated straight bonds at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Straight bonds | **¥15,000** | ¥15,000 | **$180,396** |

## 15. Convertible Bonds

Unsecured subordinated convertible bonds at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2011** | 2010 | **2011** |
| Callable unsecured subordinated convertible bonds, due March 2014, non interest (*1) | **¥29,953** | ¥29,953 | **$360,228** |

(*1) At March 31, 2011, the callable unsecured subordinated convertible bonds were convertible into 26,159,825 shares of common stock of the Bank at a conversion price of ¥1,145.0, subject to adjustments under certain circumstances.

## 16. Acceptances and Guarantees

All contingent liabilities arising from acceptances and guarantees are reflected in "Acceptances and guarantees." As a contra account, "Customers' liabilities for acceptances and guarantees" is shown as an asset representing the Bank's right of indemnity from the applicants.

Among corporate bonds included in securities, guarantee liabilities on privately offered corporate bonds (Article 2-3 of the Financial Instruments and Exchange Act) amounted to ¥28,178 million ($338,887 thousand) as of March 31, 2011.

## 17. Equity

Japanese Banks are subject to the Companies Act of Japan (the "Companies Act") and the Banking Law. The significant provisions in the Companies Act and the Banking Law 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 yea-end dividend upon resolution at the stockholders meeting. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Bank, however, shall not pay such dividends by resolution of the Board of Directors, since it has not prescribed so in its articles of incorporation. On the other hand, semiannual interim dividends may 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 of the aggregate amount of the legal reserve and additional paid-in capital equals 100% of capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common 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 stockholders.

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 stockholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 18. Stock Options

Stock-based compensation expenses were ¥96 million ($1,159 thousand) and ¥88 million for the years ended March 31, 2011 and 2010, respectively.

The stock options outstanding as of March 31, 2011 are as follows:

| Stock option | Persons granted | Number of options granted | Date of grant | Exercise price | Exercise period |
|---|---|---|---|---|---|
| 2008 Stock option | 12 directors and 6 executive officers of the Bank | 87,100 shares | July 29, 2008 | ¥ 1 ($0.01) | From July 30, 2008 To July 29, 2038 |
| 2009 Stock option | 12 directors and 5 executive officers of the Bank | 111,900 shares | July 29, 2009 | ¥ 1 ($0.01) | From July 30, 2009 To July 29, 2039 |
| 2010 Stock Option | 12 directors and 7 executive officers of the Bank | 143,700 shares | July 29, 2010 | ¥ 1 ($0.01) | From July 30, 2010 To July 29, 2040 |

Stock option activity is as follows:

| | 2008 Stock option | 2009 Stock option | 2010 Stock option |
|---|---|---|---|
| For the year ended March31, 2010 | | | |
| Non-vested | | | |
| March 31, 2009 — Outstanding | 87,100 | | |
| Granted | | 111,900 | |
| Canceled | | | |
| Vested | (87,100) | | |
| March 31, 2010 — Outstanding | | 111,900 | |
| Vested | | | |
| March 31, 2009 — Outstanding | | | |
| Vested | 87,100 | | |
| Exercised | (1,500) | | |
| Canceled | | | |
| March 31, 2010 — Outstanding | 85,600 | | |
| For the year ended March31, 2011 | | | |
| Non-vested | | | |
| March 31, 2010 — Outstanding | 85,600 | 111,900 | |
| Granted | | | 143,700 |
| Canceled | | | |
| Vested | (85,600) | (111,900) | |
| March 31, 2011 — Outstanding | | | 143,700 |
| Vested | | | |
| March 31, 2011 — Outstanding | | | |
| Vested | 85,600 | 111,900 | |
| Exercised | (10,200) | (13,200) | |
| Canceled | | | |
| March 31, 2011 — Outstanding | 75,400 | 98,700 | |
| Exercise price | ¥ 1 ($0.01) | ¥ 1 ($0.01) | ¥ 1 ($0.01) |
| Average stock price at exercise | ¥727 ($ 8) | ¥727 ($ 8) | |
| Fair value price at grant date | ¥978 ($ 11) | ¥805 ($ 9) | ¥686 ($ 8) |

The fair value of stock options granted in 2011 was measured on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Volatility of stock price: | 31.8% |
| Estimated remaining outstanding period: | Five years and 3 months |
| Estimated dividend: | ¥10 per share |
| Risk free interest rate: | 0.39% |

## 19. Other Operating Income

Other operating income for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Gains on foreign exchange transactions – net | ¥ 1,189 | ¥ 996 | $ 14,300 |
| Gains on trading securities | 13 | 26 | 161 |
| Gains on sales of bonds | 6,151 | 5,560 | 73,983 |
| Other | 5,048 | 5,352 | 60,717 |
| Total | ¥12,402 | ¥11,934 | $149,162 |

## 20. Other Income

Other income for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Gains on sales of stocks and other securities | ¥ 277 | ¥ 346 | $ 3,342 |
| Gains on sales of tangible fixed assets | 1 | 5 | 17 |
| Recovery of claims previously charged-off | 22 | 18 | 276 |
| Other | 1,765 | 1,733 | 21,231 |
| Total | ¥2,067 | ¥2,103 | $24,867 |

## 21. Other Operating Expenses

Other operating expenses for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Losses on sales of bonds | ¥ 747 | ¥ 740 | $ 8,988 |
| Other | 4,373 | 4,842 | 52,601 |
| Total | ¥5,121 | ¥5,583 | $61,590 |

## 22. Other Expenses

Other expenses for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Charge-off claims | ¥ 392 | ¥ 271 | $ 4,716 |
| Losses on sales of stocks and other securities | 16 | 119 | 202 |
| Losses on devaluation of stocks and other securities | 152 | 364 | 1,831 |
| Losses on sales of tangible fixed assets | 511 | 181 | 6,154 |
| Losses on impairment of long-lived assets | | 12 | |
| Other | 3,374 | 3,313 | 40,585 |
| Total | ¥4,447 | ¥4,263 | $53,489 |

## 23. Leases

### Lessee

The Group leases certain equipment.

Lease payments under finance leases for the years ended March 31, 2011 and 2010 amounted to ¥1 million ($13 thousand) and ¥1 million, respectively.

***Pro forma information of leased property whose lease inception was before March 31, 2008***

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee and whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Group applied ASBJ Statement No. 13 effective April 1, 2008 and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Equipment: | | | |
| Acquisition cost | ¥5 | ¥6 | $64 |
| Accumulated depreciation | 3 | 3 | 47 |
| Net leased property | ¥1 | ¥2 | $17 |

Obligations under finance leases as of March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥0 | ¥1 | $11 |
| Due after one year | 0 | 1 | 7 |
| Total | ¥1 | ¥2 | $19 |

The imputed interest expense portion, which is computed using the interest method, is excluded from the above obligations under finance leases.

Depreciation expense and interest expense under finance leases:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Depreciation expense | ¥1 | ¥1 | $12 |

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancellable operating leases at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥ 77 | ¥ 83 | $ 929 |
| Due after one year | 518 | 608 | 6,235 |
| Total | ¥595 | ¥692 | $7,165 |

### Lessor

A consolidated subsidiary leases other assets.

The net leased investment assets are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Gross leased investment assets | ¥9,112 | ¥10,680 | $109,588 |
| Unearned interest income | (1,170) | (1,408) | (14,080) |
| Leased investment assets | ¥7,941 | ¥ 9,271 | $ 95,508 |

Maturities of lease receivables and investment assets for finance leases that are deemed to transfer ownership of the leased property to the lessee are as follows:

| | Lease receivables | | Leased investment assets | |
|---|---|---|---|---|
| | Millions of Yen | Thousands of U.S. Dollars | Millions of Yen | Thousands of U.S. Dollars |
| Year Ending March 31 | 2011 | 2011 | 2011 | 2011 |
| 2012 | ¥ 44 | $ 539 | ¥3,076 | $ 37,003 |
| 2013 | 44 | 539 | 2,543 | 30,594 |
| 2014 | 25 | 303 | 1,783 | 21,450 |
| 2015 | 4 | 53 | 1,002 | 12,062 |
| 2016 | 2 | 28 | 466 | 5,611 |
| 2017 and thereafter | | | 238 | 2,867 |
| Total | ¥121 | $1,464 | ¥9,112 | $109,588 |

The minimum future rentals to be received under noncancellable operating leases at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Due within one year | ¥50 | ¥257 | $607 |
| Due after one year | 18 | 62 | 219 |
| Total | ¥68 | ¥319 | $827 |

## 24. Employees' Retirement Benefits

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Certain consolidated subsidiaries have unfunded lump-sum severance payment plans.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Projected benefit obligation | ¥(43,461) | ¥(42,269) | $(522,693) |
| Fair value of plan assets | 16,625 | 15,089 | 199,944 |
| Unfunded projected benefit obligation | (26,836) | (27,179) | (322,749) |
| Unrecognized actuarial net loss | 3,852 | 4,027 | 46,332 |
| Liability for employees' retirement benefits | ¥(22,984) | ¥(23,152) | $(276,417) |

The components of net periodic benefit costs were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Service cost | ¥1,546 | ¥1,724 | $18,595 |
| Interest cost | 632 | 463 | 7,609 |
| Expected return on plan assets | (226) | (137) | (2,722) |
| Recognized actuarial net loss | 1,678 | 2,275 | 20,189 |
| Net periodic retirements benefit costs | ¥3,631 | ¥4,326 | $43,671 |

Assumptions used for the years ended March 31, 2011 and 2010 were as follows:

| | 2011 | 2010 |
|---|---|---|
| Discount rate | 1.5% | 1.5% |
| Expected rate of return on plan assets | 1.5% | 1.5% |
| Recognition period of actuarial gain or loss | 10 years | 10 years |

## 25. Asset Retirement Obligations

The changes in asset retirement obligations for the year ended March 31, 2011 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2011 | 2011 |
| Balance at beginning of year | ¥198 | $2,387 |
| Additional provisions associated with the acquisition of property, plant and equipment | 12 | 146 |
| Reconciliation associated with passage of time | 4 | 48 |
| Balance at end of year | ¥214 | $2,583 |

## 26. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.6% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deferred tax assets: | | | |
| Allowance for possible loan losses | ¥15,287 | ¥ 15,702 | $ 183,859 |
| Liability for employees' retirement benefits | 9,352 | 9,419 | 112,471 |
| Devaluation of stocks and other securities | 7,070 | 7,942 | 85,033 |
| Depreciation | 695 | 768 | 8,367 |
| Other | 7,452 | 7,504 | 89,629 |
| Less valuation allowance | (4,691) | (2,045) | (56,419) |
| Total | ¥35,167 | ¥ 39,292 | $ 422,942 |
| Deferred tax liabilities: | | | |
| Net unrealized gains on available-for-sale securities | ¥89,026 | ¥127,149 | $1,070,669 |
| Other | 42 | 7 | 507 |
| Total | ¥89,068 | ¥127,157 | $1,071,177 |
| Net deferred tax assets | ¥ 3,165 | ¥ 3,128 | $ 38,063 |
| Net deferred tax liabilities | 57,065 | 90,993 | 686,298 |

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2011 is as follows:

| | 2011 |
|---|---|
| Normal effective statutory tax rate | 40.6% |
| Expenses not deductible for income tax purposes | 0.4 |
| Income not taxable for income tax purposes | (5.2) |
| Per capita inhabitant tax | 0.2 |
| Other – net | 7.6 |
| Actual effective tax rate | 43.6% |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2010 is not disclosed as permitted under Japanese accounting standards since the difference between them is not more than 5% of the normal effective statutory tax rate.

## 27. 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 were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(1) Basic policy for financial instruments
The main business of the Group is banking operations, which consists of deposit-taking and lending services, trading of securities, securities investment, domestic exchange services, foreign exchange services, etc. Additionally, the Group provides other financial services, such as credit guarantee services, leasing and credit card services.

The Group's fundamental mission is to contribute to the greater prosperity of the local community and the development of local industries. The Group maintains and improves the soundness of its management, providing small and medium-sized companies with various financial services such as deposits and loans, etc. and investing securities.

(2) Nature and extent of risks arising from financial instruments
Financial assets held by the Group are mainly comprised of loans to local businesses and individual customers. Loans are subject to credit risk stemming from inability to recover principal and interest on loans due to events such as the deterioration in the financial condition of the borrower.

Securities held by the Group primarily consist of bonds and stocks, which are subject to various risks, such as the credit risk of issuer, interest rate fluctuation risk, and market price fluctuation risk.

The Group raises funds by deposits which have relatively shorter maturities than those of investments in loans and securities. Therefore, the Group is exposed to liquidity risks such as the risk of losses caused by the necessity to execute transactions at extremely high funding costs when unexpected outflows of funds occur, and by the inability to execute market transactions or by the necessity to execute transactions at extremely unfavorable prices as result of market turbulence.

The Bank enters into derivative financial instruments, such as interest rate swaps, interest rate caps, currency swaps, currency options and foreign exchange forward contracts. The Bank also enters into interest futures, bond futures, bond options and other derivatives. There is no derivative balance at March 31, 2011. Subsidiaries do not enter into any derivative transactions. Derivatives are subject to market risk, which is the possibility that a loss may result from fluctuations in market conditions, and credit risk, which is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract.

Since most of the Bank's derivative transactions are conducted to hedge underlying business exposures, market gain or loss on the derivative instruments is expected to be offset by an opposite movement in the value of hedged assets or liabilities.

The Bank enters into derivatives principally as a means of managing its interest rate and foreign exchange rate exposures on certain assets. The Bank also uses derivatives within established trading limits as part of its short term trading activities. In addition, the Bank uses derivatives actively to meet its customers' needs for new financial instruments.

Derivatives are classified and accounted for as follows:

① For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

② The hedge items are the interest rate swaps and currency swaps. The hedged instruments are fixed rate loans, time deposits and currency denominated available-for-sale securities.

③ The Bank assesses the effectiveness of the interest rate swaps and currency swaps.

(3) Risk management for financial instruments

① Credit risk management

Having established a management posture by compiling a series of Credit Risk Management Guidelines, the Bank is working to strengthen its credit risk management. In addition to planning and managing credit risk through means such as credit ratings, a self-assessment system, write-offs of nonperforming loans, and provisions for possible loan losses, the Risk Management Division's Credit Planning Office (the "Office") is responsible for quantitatively analyzing and assessing credit risk. Because the concentration of credit in particular business partners or industries can lead to significant losses in the event of environmental changes, the Office analyzes the Bank's portfolio from a variety of perspectives to avoid any excessive concentration of credit. Quantitative analyses of credit risk and credit concentration conditions are reported at the monthly asset and liability management ("ALM") meeting.

To maintain and improve the soundness of its assets, the Group subjects its assets to a self-assessment system in order to adequately write off non-performing loans and make provisions for possible loan losses. The Bank also established an Asset Audit Office as a specialized section within the Internal Audit Division to examine the validity of write-offs and allowances based on asset self-assessments. Asset self-assessments are also audited by the independent auditor. In managing credit for specific borrowers, the Bank has established a Credit Supervision Division independent from business divisions, and the Bank is implementing strict credit screening. Obligor's ratings are determined based on information including the applicant's financial condition, technical capabilities, and future viability by the Credit

Supervision Division. Comprehensive judgments of repayment ability are provided considering the purpose of the loan and borrowers' repayment resources, when customers apply for borrowing. The Bank is also working to strengthen its credit screening capabilities by providing training for staff engaged in loan operations at all levels of the Bank.

Moreover, the Bank has established a Management Support Office within the Credit Supervision Division and is working to keep the Bank's assets sound by helping customers radically transform slumping businesses via a variety of measures designed to support improvements in management. Other initiatives include strengthening risk management by formulating plans based on self-assessment results and taking measures in response to changes in business conditions through continuous monitoring.

② Market risk management

The Bank's stance on market risk has been set out in the Market Risk Guidelines and the Bank is taking steps to strengthen market risk management. The Securities & International Division, which is responsible for conducting market risk management, sets the limits on acceptable risk levels, as well as position ranges and loss limits, taking into account the Bank's economic capital and net operating profit to achieve a balance between capital and profitability and effectively control market risk for stocks and other securities. Regarding quantitative analysis of the risk associated with the Bank's investment in securities, the Bank regularly monitors the market value of securities and employs the value-at-risk (VaR) method and other methods to assess the amount of risk involved, and submits a report on risk valuations at the ALM meeting.

For stock, the Bank measures its positions and profit and loss on a daily basis and reports these to management in line with the risk management policy on stock. A semiannual self-assessment provides an accurate understanding of the investments in stock and similar securities held by the Group, the results of which are subject to audit by the Internal Audit Division and the independent auditor. In addition, the Bank established the ALM Group within the Risk Management Office in the Risk Management Division to unify the management of market risk (including risk for deposits and loans), credit risk and other risks, and to adequately control risks within the scope of the Bank's capital to secure stable earnings. To this end, the ALM Group manages and assesses risks by utilizing techniques such as the VaR method and analysis of fluctuations in the present value of assets and liabilities (interest risk level based on the outlier standard). The Bank also employs tools such as back testing and stress testing to verify the suitability and effectiveness of its metrics and management methods.

Moreover, the Bank conducts semiannual reviews of risk management policy in areas such as credit, interest and liquidity by holding ALM meetings. The Bank also works to strategically address risk management at monthly ALM meetings by reporting on calculated risk levels, examining the appropriate balance of assets and liabilities, and considering measures such as risk hedges as needed.

(Quantitative information on market risk)

• Financial instruments other than those for trading purposes

The instruments which are affected by the typical risks, parameter interest rate risk, market price fluctuation risk and foreign currency risk are "Loans and bills discounted," "Securities," "Deposits (other than negotiable certificates of deposit)," "Negotiable certificates of deposit," "Cash and due from Bank of Japan," "Due from other banks," "Call loans," "Call money," and interest rate swaps and currency swaps of "Derivatives." The Bank measures VaR and conducts a quantitative analysis of market risk in order to manage market risks for the financial assets and financial liabilities mentioned above. The Bank adopts the Monte Carlo simulation method (at 1 month holding period and 99% confidence interval) in order to measure VaR for interest rate risk and foreign currency risk. In order to measure VaR for market price fluctuation risk associated with securities held for strategic equity, the Monte Carlo simulation method (at 6 months holding period, 99% confidence interval and 1 year observation period) is adopted, and for stocks other than those held for strategic equity, the covariance method (at 1 month holding period, 99% confidence interval and 1 year observation period) is adopted.

The market risk exposure (the estimated amount of loss) of the Bank as of March 31, 2011 was ¥10.5 billion ($126 million).

VaR by risk type at March 31, 2011 was as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2011 | 2011 |
| Interest rate fluctuation risk | ¥ 5.0 | $ 60 |
| Market price fluctuation risk (*) | 5.3 | 63 |
| Foreign currency fluctuation risk | 0.2 | 2 |
| Total | ¥10.5 | $126 |

(*) The risk exposure related to securities held for strategic equity is measured considering unrealized gains and losses.

The Bank performs backtesting which reconciles VaR measured by the model with the actual gains and losses in order to verify the reliability of the risk measurement model. VaR represents the market risks arising with a certain probability using a statistical methodology based on historical market volatilities. It may not be able to capture the risks arising under drastic market movements beyond normal imagination.

③ Liquidity risk management

The Bank maintains an appropriate funding position through careful projections and verification of fundraising and fund management balances. The Bank manages its liquidity risk by utilizing a system that continuously monitors the amount of funds available in the market.

(4) Supplementary explanation on fair value of financial instruments

The fair value of financial instruments includes market prices as well as reasonably calculated prices in cases where there are no market prices available. Since the calculations of the latter prices are implemented under certain conditions and assumptions, the result of calculations could differ if calculations are made under different conditions and assumptions.

(5) Fair value of financial instruments

Accounts that have immaterial amounts on the consolidated balance sheet are not included in the following table. Instruments, such as non-listed stocks, whose fair value cannot be reliably determined are not included in the following table (see (b)).

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2011 | Carrying amount | Fair value | Unrealized gains/losses |
| Cash and due from Bank of Japan | ¥ 276,221 | ¥ 276,221 | |
| Due from other banks | 1,201 | 1,201 | |
| Call loans and bills bought | 202,666 | 202,666 | |
| Securities: | | | |
| Held-to-maturity bonds | 3,613 | 3,623 | ¥ 10 |
| Available-for-sale securities | 2,757,109 | 2,757,109 | |
| Loans and bills discounted | 3,935,192 | | |
| Allowance for possible loan losses (*1) | (45,188) | | |
| | 3,890,003 | 3,926,281 | 36,278 |
| Total | ¥7,130,815 | ¥7,167,104 | ¥36,288 |
| Deposits (other than negotiable certificates of deposit) | ¥5,873,046 | ¥5,877,711 | ¥ 4,664 |
| Negotiable certificates of deposit | 625,640 | 625,691 | 50 |
| Borrowed money | 79,505 | 80,693 | 1,188 |
| Total | ¥6,578,193 | ¥6,584,096 | ¥ 5,903 |
| Derivatives (*2): | | | |
| Hedge accounting not applied | ¥ 762 | ¥ 762 | |
| Hedge accounting applied | 891 | 891 | |
| Total | ¥ 1,654 | ¥ 1,654 | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2011 | Carrying amount | Fair value | Unrealized gains/losses |
| Cash and due from Bank of Japan | $ 3,321,964 | $ 3,321,964 | |
| Due from other banks | 14,454 | 14,454 | |
| Call loans and bills bought | 2,437,354 | 2,437,354 | |
| Securities: | | | |
| Held-to-maturity bonds | 43,459 | 43,580 | $ 120 |
| Available-for-sale securities | 33,158,263 | 33,158,263 | |
| Loans and bills discounted | 47,326,424 | | |
| Allowance for possible loan losses (*1) | (543,462) | | |
| | 46,782,961 | 47,219,262 | 436,301 |
| Total | $85,758,459 | $86,194,881 | $436,421 |
| Deposits (other than negotiable certificates of deposit) | $70,631,953 | $70,688,046 | $ 56,093 |
| Negotiable certificates of deposit | 7,524,242 | 7,524,855 | 612 |
| Borrowed money | 956,174 | 970,462 | 14,287 |
| Total | $79,112,370 | $79,183,364 | $ 70,994 |
| Derivatives (*2): | | | |
| Hedge accounting not applied | $ 9,167 | $ 9,167 | |
| Hedge accounting applied | 10,727 | 10,727 | |
| Total | $ 19,894 | $ 19,894 | |

(*1) General and specific allowance for possible loan losses corresponding to "Loans and bills discounted" are deducted.

(*2) Derivative transactions recorded in "Other assets" and "Other liabilities" are included and shown in total. Assets or liabilities are presented on a net basis.

*(a) Valuation method of financial instruments*

Assets

*Cash and due from banks*

For deposits without maturity, the carrying amount is presented as the fair value as the fair value approximates such carrying amount. For deposits with maturity, the carrying amount is presented as the fair value, as the fair value approximates such carrying amount because of their short maturities (within one year).

*Call loans and bills bought*

The carrying amount is presented as the fair value, as the fair value approximates such carrying amount because of their short maturities (within one year).

*Securities*

The fair value of stocks is determined based on the prices quoted by the exchange and the fair value of bonds is determined based on the prices quoted by the exchange or the financial institutions from which they are purchased. The fair value of investment trusts is determined based on the publicly available price.

The fair value of private placement bonds is calculated by discounting the total amount of principal and interest at the interest rates considered to be applicable to similar bonds by categories according to internal ratings and terms of the bonds. Information on securities by classification is included in Note 3.

*Loans and bills discounted*

For floating rate loans, the carrying amount is presented as the fair value as the fair value approximates such carrying amount, unless the creditworthiness of the borrower has changed significantly since the loan origination.

The fair value of fixed rate loans is calculated by discounting the total amount of principal and interest at the interest rates considered to be applicable to similar loans by categories according to the types, internal ratings and terms of the loans.

As for loans in legal bankruptcy, virtual bankruptcy and possible bankruptcy, credit loss is estimated based on factors such as the present value of expected future cash flow or the expected amount to be collected from collateral and guarantees. Since the fair value of these items approximates the carrying amount, net of the currently expected credit loss amount, such carrying amount is presented as the fair value.

For those without a fixed maturity due to loan characteristics such as limiting loans to within the value of collateral, the carrying amount is deemed to be the fair value since the fair value is expected to approximate the carrying amount based on the estimated loan periods, interest rates and other conditions.

Liabilities

*Deposits and negotiable certificates of deposit*

Fair value of deposits on demand is deemed as payment amount if demanded on the consolidated balance sheet date (i.e., carrying amount).

Time deposits are grouped by certain maturity lengths. The fair value of such deposits is the present value of expected future cash flow discounted. The discount rate used is the interest rate that would be applied to newly accepted deposits.

*Borrowed money*

For floating rate borrowed money, the carrying amount is presented as the fair value as the fair value approximates such carrying amount, unless the creditworthiness of the borrower has changed significantly since the borrowed money origination. The fair value of fixed rate borrowed money is determined by discounting the total amount of principal and interest with the interest rate considered to be applicable to a similar borrowing. For fair value of borrowed money which have a short contract term (within one year), the carrying amount is presented as the fair value approximates such carrying amount.

*Derivatives*

Information on the fair value of derivatives is included in Note 29.

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

The following instruments are not included in "Securities: Available-for-sales securities" in the above table showing the fair value of financial instruments.

| | Carrying amount | |
|---|---|---|
| | Millions of Yen | Thousands of U.S. Dollars |
| March 31, 2011 | 2011 | 2011 |
| Non-listed stocks (*1) (*2) | ¥4,113 | $49,467 |
| Investments in venture funds (*3) | 1,648 | 19,819 |
| Total | ¥5,761 | $69,286 |

(*1) Non-listed stocks do not have a quoted market price in an active market and their fair values cannot be reliably determined, so they are not subject to fair value disclosure.

(*2) With respect to non-listed stocks, losses on devaluation of ¥37 million ($454 thousand) were recorded for the year ended March 31, 2011.

(*3) Fair value of investments in venture funds cannot be reliably determined, so they are not subject to fair value disclosure.

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

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | 1 year or less | 1 to 3 years | 3 to 5 years | 5 to 7 years | 7 to 10 years | Over 10 years |
| Due from banks | ¥ 205,728 | | | | | |
| Call loans and bills bought | 202,666 | | | | | |
| Securities: | | | | | | |
| Held-to-maturity bonds | 900 | ¥ 1,000 | ¥ 1,700 | | | |
| Available-for-sale securities | 269,146 | 660,148 | 455,772 | ¥290,713 | ¥460,615 | ¥158,465 |
| Loans and bills discounted (*) | 1,108,656 | 715,807 | 524,707 | 287,544 | 318,134 | 806,059 |
| Total | ¥1,787,097 | ¥1,376,956 | ¥982,180 | ¥578,257 | ¥778,749 | ¥964,524 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | 1 year or less | 1 to 3 years | 3 to 5 years | 5 to 7 years | 7 to 10 years | Over 10 years |
| Due from banks | $ 2,474,184 | | | | | |
| Call loans and bills bought | 2,437,354 | | | | | |
| Securities: | | | | | | |
| Held-to-maturity bonds | 10,823 | $ 12,026 | $ 20,444 | | | |
| Available-for-sale securities | 3,236,879 | 7,939,247 | 5,481,329 | $3,496,253 | $5,539,567 | $ 1,905,772 |
| Loans and bills discounted (*) | 13,333,211 | 8,608,634 | 6,310,378 | 3,458,140 | 3,826,028 | 9,694,038 |
| Total | $21,492,453 | $16,559,908 | $11,812,152 | $6,954,393 | $9,365,595 | $11,599,811 |

(*) Loans and bills discounted of ¥150,438 million ($1,809,236 thousand) whose collection amount is not determinable, such as loans in legal bankruptcy, loans in virtual bankruptcy and loans in possible bankruptcy, are not included in the table. Loans and bills discounted of ¥23,843 million ($286,756 thousand) that do not have fixed maturities are not included as well.

*(d) Maturity analysis for interest bearing liabilities*

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | 1 year or less | 1 to 3 years | 3 to 5 years | 5 to 7 Years | 7 to 10 Years | Over 10 Years |
| Deposits (other than negotiable certificates of deposit) | ¥5,446,737 | ¥389,448 | ¥36,861 | | | |
| Negotiable certificates of deposit | 625,540 | 100 | | | | |
| Borrowed money | 22,100 | 869 | 36 | ¥21,500 | ¥3,000 | ¥32,000 |
| Total | ¥6,094,377 | ¥390,418 | ¥36,897 | ¥21,500 | ¥3,000 | ¥32,000 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | 1 year or less | 1 to 3 years | 3 to 5 years | 5 to 7 Years | 7 to 10 Years | Over 10 Years |
| Deposits (other than negotiable certificates of deposit) | $65,504,957 | $4,683,684 | $443,311 | | | |
| Negotiable certificates of deposit | 7,523,040 | 1,202 | | | | |
| Borrowed money | 265,784 | 10,461 | 432 | $258,568 | $36,079 | $384,846 |
| Total | $73,293,782 | $4,695,348 | $443,744 | $258,568 | $36,079 | $384,846 |

Deposits on demand (current deposits, ordinary deposits and deposits at notice) are included in "1 year or less."

## 28. Derivatives

The contractual value of swap agreements and the contract amounts of forward exchange contracts, option agreements and other derivatives do not necessarily measure the Bank's exposure to credit or market risk.

*Derivative transactions to which hedge accounting is not applied*

(1) Interest-rate-related transactions

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2010 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Interest rate swaps: | | | | | | | | |
| Receive fixed and pay floating | ¥41,939 | ¥36,455 | ¥691 | ¥691 | ¥40,729 | ¥37,852 | ¥771 | ¥771 |
| Receive floating and pay fixed | 41,939 | 36,455 | (345) | (345) | 40,729 | 37,852 | (409) | (409) |
| Other: | | | | | | | | |
| Sold | ¥ 1,584 | ¥ 1,226 | (2) | 66 | ¥ 2,794 | ¥ 1,624 | (3) | 109 |
| Bought | 1,584 | 1,226 | 2 | (39) | 2,794 | 1,624 | 3 | (64) |
| Total | | | ¥346 | ¥373 | | | ¥362 | ¥406 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Interest rate swaps: | | | | |
| Receive fixed and pay floating | $504,385 | $438,435 | $8,313 | $8,313 |
| Receive floating and pay fixed | 504,385 | 438,435 | (4,150) | (4,150) |
| Other: | | | | |
| Sold | $ 19,060 | $ 14,755 | (24) | 796 |
| Bought | 19,060 | 14,755 | 24 | (472) |
| Total | | | $4,163 | $4,487 |

Notes: 1. The above transactions were measured at fair value at the end of the fiscal year and the related gains or losses were recognized in the accompanying consolidated statement of income.
2. The fair values of the above derivatives are principally based on discounted values of future cash flows or option pricing models.

(2) Currency-related transactions

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | | | | 2010 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Forward exchange contracts: | | | | | | | | |
| Sold | ¥40,563 | ¥11,392 | ¥2,526 | ¥2,526 | ¥37,677 | ¥16,586 | ¥2,359 | ¥2,359 |
| Bought | 35,513 | 10,856 | (2,111) | (2,111) | 32,398 | 15,829 | (1,493) | (1,493) |
| Currency options: | | | | | | | | |
| Sold | ¥33,853 | ¥21,363 | (3,773) | (543) | ¥44,311 | ¥30,499 | (3,665) | (160) |
| Bought | 33,853 | 21,363 | 3,775 | 1,182 | 44,311 | 30,499 | 3,666 | 596 |
| Total | | | ¥ 416 | ¥1,053 | | | ¥ 867 | ¥1,622 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Forward exchange contracts: | | | | |
| Sold | $487,837 | $137,015 | $30,381 | $30,381 |
| Bought | 427,101 | 130,564 | (25,392) | (25,392) |
| Currency options: | | | | |
| Sold | $407,136 | $256,923 | (45,385) | (6,537) |
| Bought | 407,136 | 256,923 | 45,400 | 14,221 |
| Total | | | $ 5,003 | $12,672 |

Notes: 1. The above transactions were measured at the fair value at the end of the fiscal years and the related gains or losses were recognized in the accompanying consolidated statements of income.
2. The fair values of the above derivatives are principally based on discounted values of future cash flows.

*Derivative transactions to which hedge accounting is applied*

(1) Interest-rate-related transactions

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Contractual amount | Contractual value due after one year | Fair value | Contractual amount | Contractual value due after one year | Fair value |
| Interest rate swaps: | | | | | | |
| Receive floating and pay fixed | ¥72,635 | ¥72,635 | ¥(1,518) | ¥53,703 | ¥53,703 | ¥ (1,486) |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2011 | | |
| | Contractual amount | Contractual value due after one year | Fair value |
| Interest rate swaps: | | | |
| Receive floating and pay fixed | $873,551 | $873,551 | $(18,256) |

Notes: 1. The Bank applies hedge accounting by matching specific items to be hedged with specific hedging instruments or applying deferral hedge accounting (or cash flow hedge) based on the rules of the JICPA Industry Audit Committee Report No. 24.

2. The fair values of the above derivatives are principally based on quoted market prices, such as those from the Tokyo Financial Exchange Inc., or discounted values of future cash flows.

3. The hedged items for interest rate swaps are fixed rate loans and time deposits.

(2) Currency-related transactions

| | Millions of Yen | | | Millions of Yen | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Contractual amount | Contractual value due after one year | Fair value | Contractual amount | Contractual value due after one year | Fair value |
| Currency swaps | ¥40,314 | ¥7,684 | ¥2,410 | ¥50,267 | ¥17,703 | ¥4,115 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2011 | | |
| | Contractual amount | Contractual value due after one year | Fair value |
| Currency swaps | $484,837 | $92,418 | $28,984 |

Notes: 1. The Bank applies deferral hedge accounting principally based on the rules of the JICPA Industry Audit Committee Report No. 25.

2. The fair values of the above derivatives are principally based on discounted values of future cash flows.

3. The hedged items for currency swaps are currency denominated available-for-sale securities.

## 29. Other Comprehensive Income

*For the year ended March 31, 2010*

Other comprehensive income for the year ended March 31, 2010 consists of the following:

| | Millions of Yen |
|---|---|
| | 2010 |
| Other comprehensive income: | |
| Unrealized gains (losses) on available-for-sale securities | ¥99,329 |
| Deferred gains (losses) on derivatives under hedge accounting | 81 |
| Total other comprehensive income | ¥99,411 |

Total comprehensive income for the year ended March 31, 2010 consists of the following:

| | Millions of Yen |
|---|---|
| | 2010 |
| Total comprehensive income attributable to: | |
| Owners of the parent | ¥114,973 |
| Minority interests | 713 |
| Total comprehensive income | ¥115,687 |

## 30. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 is as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| | Net income | Weighted-average shares | EPS | EPS |
| **For the year ended March 31, 2011** | | | | |
| Basic EPS – Net income available to common stockholders | **¥18,379** | **377,893** | **¥48.63** | **$0.58** |
| Effect of dilutive securities – Convertible bonds and stock acquisition rights | **5** | **26,436** | | |
| Diluted EPS – Net income for computation | **¥18,384** | **404,330** | **¥45.46** | **$0.54** |
| For the year ended March 31, 2010 | | | | |
| Basic EPS – Net income available to common stockholders | ¥15,668 | 371,864 | ¥42.13 | |
| Effect of dilutive securities – Convertible bonds and stock acquisition rights | 7 | 32,441 | | |
| Diluted EPS – Net income for computation | ¥15,676 | 404,306 | ¥38.77 | |

## 31. Subsequent Events

*Appropriations of retained earnings*

The following appropriations of retained earnings at March 31, 2011 were approved at the Bank's general meeting of stockholders held on June 29, 2011:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥5.00 ($0.06) per share | **¥1,889** | **$22,722** |

## 32. Segment Information

*For the years ended March 31, 2011 and 2010*

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 the 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.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

1. Description of reportable segments

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

The Group provides financial services, but engages mainly in the banking business. Since the business other than the banking business which the Group engages in is immaterial, banking is the only reportable segment for the Group.

The banking business consists of deposit-taking lending services, trading of securities, securities investment, domestic exchange services, foreign exchange services, etc.

2. Methods of measurement of operating income, profit (loss), assets, liabilities and other items for each reportable segment

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

The profit of the reportable segment is based on "net operating income." "Net operating income" does not include certain other income and expenses, income taxes, and minority interests.

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

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Reportable segment | | | | |
| | Banking | Other (Note 2) | Total | Reconciliations | Consolidated |
| Operating income (Note 1): | | | | | |
| Outside customers | ¥ 115,710 | ¥ 8,618 | ¥ 124,328 | | ¥ 124,328 |
| Intersegment | 439 | 2,638 | 3,078 | ¥ (3,078) | |
| Total | 116,150 | 11,257 | 127,407 | (3,078) | 124,328 |
| Segment profit (Note 3) | 33,118 | 2,044 | 35,162 | (8) | 35,153 |
| Segment assets (Note 4) | 7,274,549 | 34,565 | 7,309,115 | (23,276) | 7,285,838 |
| Segment liabilities (Note 5) | 6,836,823 | 24,301 | 6,861,124 | (23,093) | 6,838,031 |
| Other: | | | | | |
| Depreciation | 4,889 | 128 | 5,027 | | 5,027 |
| Interest income (Note 3) | 93,527 | 419 | 93,947 | (173) | 93,774 |
| Interest expense (Note 3) | 11,703 | 189 | 11,892 | (168) | 11,724 |
| Income taxes (Note 3) | 14,214 | 854 | 15,069 | (1) | 15,067 |
| Increase in tangible and intangible fixed assets | 9,184 | 43 | 9,228 | | 9,228 |

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2010 | | | | |
| | Reportable segment | | | | |
| | Banking | Other (Note 2) | Total | Reconciliations | Consolidated |
| Operating income (Note 1): | | | | | |
| Outside customers | ¥ 120,678 | ¥ 8,885 | ¥ 129,564 | | ¥ 129,564 |
| Intersegment | 488 | 2,575 | 3,063 | ¥ (3,063) | |
| Total | 121,166 | 11,461 | 132,628 | (3,063) | 129,564 |
| Segment profit (Note 3) | 25,578 | 1,164 | 26,743 | (5) | 26,737 |
| Segment assets (Note 4) | 7,104,140 | 35,015 | 7,139,155 | (23,865) | 7,115,290 |
| Segment liabilities (Note 5) | 6,627,365 | 25,903 | 6,653,268 | (23,683) | 6,629,584 |
| Other: | | | | | |
| Depreciation | 4,853 | 125 | 4,978 | | 4,978 |
| Interest income (Note 3) | 99,339 | 504 | 99,844 | (236) | 99,608 |
| Interest expense (Note 3) | 16,966 | 245 | 17,211 | (232) | 16,979 |
| Income taxes (Note 3) | 9,802 | 487 | 10,290 | (0) | 10,289 |
| Increase in tangible and intangible fixed assets | 6,262 | 25 | 6,288 | | 6,288 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Reportable segment | | | | |
| | Banking | Other (Note 2) | Total | Reconciliations | Consolidated |
| Operating income (Note 1): | | | | | |
| Outside customers | $ 1,391,591 | $103,645 | $ 1,495,237 | | $ 1,495,237 |
| Intersegment | 5,285 | 31,736 | 37,022 | $ (37,022) | |
| Total | 1,396,876 | 135,382 | 1,532,259 | (37,022) | 1,495,237 |
| Segment profit (Note 3) | 398,299 | 24,584 | 422,884 | (107) | 422,776 |
| Segment assets (Note 4) | 87,487,071 | 415,696 | 87,902,768 | (279,939) | 87,622,828 |
| Segment liabilities (Note 5) | 82,222,774 | 292,256 | 82,515,031 | (277,729) | 82,237,301 |
| Other: | | | | | |
| Depreciation | 58,921 | 1,539 | 60,461 | | 60,461 |
| Interest income (Note 3) | 1,124,809 | 5,042 | 1,129,851 | (2,080) | 1,127,770 |
| Interest expense (Note 3) | 140,753 | 2,273 | 143,026 | (2,025) | 141,001 |
| Income taxes (Note 3) | 170,952 | 10,275 | 181,227 | (21) | 181,206 |
| Increase in tangible and intangible fixed assets | 110,460 | 521 | 110,981 | | 110,981 |

Notes: 1. "Operating income" is presented as a substitute for sales in industries. "Operating income" does not include certain other income.
2. "Other" includes business segments excluded from reportable segments and includes credit guarantee business, leasing business, credit card business and other.
3. "Reconciliations" are eliminations of intersegment transactions.
4. "Reconciliations" are eliminations of intersegment assets.
5. "Reconciliations" are eliminations of intersegment liabilities.

**Related Information**

1. Information about services

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Lending services | Securities investment | Other | Total |
| Operating income from outside customers | ¥63,222 | ¥36,045 | ¥25,060 | ¥124,328 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Lending services | Securities investment | Other | Total |
| Operating income from outside customers | $760,344 | $433,503 | $301,388 | $1,495,237 |

2. Information about geographical areas

(1) Operating income

Operating income from domestic customers exceeded 90% of total operating income on the consolidated statements of operation for the fiscal years ended March 31, 2011 and 2010, therefore geographical operating income information is not presented.

(2) Tangible fixed assets

The balance of domestic tangible fixed assets exceeded 90% of total balance of tangible fixed assets on the consolidated balance sheets as of March 31, 2011 and 2010, therefore geographical tangible fixed assets information is not presented.

3. Information about major customers

Operating income to a specific customer did not reach 10% of total operating income on the consolidated statements of operation for the fiscal years ended March 31, 2011 and 2010, therefore major customer information is not presented.

*For the year ended March 31, 2010*

(1) Business segment information

Information about industry segments of the Group as of and for the year ended March 31, 2010 is as follows:

a. Operating income

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Banking | Other | Total | Eliminations/Corporate | Consolidated |
| Operating income: | | | | | |
| Outside customers | ¥120,678 | ¥ 8,885 | ¥129,564 | | ¥129,564 |
| Intersegment income | 488 | 2,575 | 3,063 | ¥(3,063) | |
| Total | 121,166 | 11,461 | 132,628 | (3,063) | 129,564 |
| Operating expenses | 95,587 | 10,297 | 105,885 | (3,057) | 102,827 |
| Net operating income | ¥ 25,578 | ¥ 1,164 | ¥ 26,743 | ¥ (5) | ¥ 26,737 |

b. Total assets, depreciation and capital expenditures

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | Banking | Other | Total | Eliminations/Corporate | Consolidated |
| Total assets | ¥7,104,140 | ¥35,015 | ¥7,139,156 | ¥(23,865) | ¥7,115,290 |
| Depreciation | 4,853 | 125 | 4,978 | | 4,978 |
| Losses on impairment of long-lived assets | 12 | | 12 | | 12 |
| Capital expenditures | 6,379 | 45 | 6,425 | | 6,425 |

Notes: 1. "Other" includes business in leasing and other banking related activities such as credit guarantee, venture capital and other.
2. "Net operating income" does not include certain other income and expenses, income taxes, and minority interests.

(2) Segment information by geographic area

The Group has neither an overseas branch nor the foreign subsidiary. Accordingly, segment information by geographic area is not presented herein for the year ended March 31, 2010.

(3) Operating income from international operations

Operating income arising from international operations for the year ended March 31, 2010 was as follows:

| | Millions of Yen |
|---|---|
| Operating income from international operations (A) | ¥ 7,751 |
| Consolidated operating income (B) | 129,564 |
| (A) / (B) | 6.0% |

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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of The Bank of Kyoto, Ltd.:

We have audited the accompanying consolidated balance sheets of The Bank of Kyoto, Ltd. (the "Bank") and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of 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 Bank'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 Bank of Kyoto, Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, 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 29, 2011

Member of
**Deloitte Touche Tohmatsu Limited**

# Non-Consolidated Balance Sheets (Unaudited)

The Bank of Kyoto, Ltd. As of March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Assets:** | | | |
| Cash and due from banks | ¥ 277,343 | ¥ 222,614 | $ 3,335,464 |
| Call loans and bills bought | 202,666 | 236,768 | 2,437,354 |
| Receivables under resale agreements | 2,099 | 5,074 | 25,253 |
| Monetary claims bought | 5,246 | 6,371 | 63,093 |
| Trading securities | 298 | 282 | 3,588 |
| Money held in trust | 1,965 | 1,959 | 23,639 |
| Securities | 2,761,760 | 2,712,081 | 33,214,203 |
| Loans and bills discounted | 3,942,082 | 3,843,439 | 47,409,288 |
| Foreign exchanges | 2,576 | 3,508 | 30,991 |
| Other assets | 29,414 | 27,916 | 353,758 |
| Tangible fixed assets | 75,601 | 71,871 | 909,220 |
| Buildings | 26,429 | 25,806 | 317,847 |
| Land | 40,705 | 38,269 | 489,538 |
| Construction in progress | 1,101 | 339 | 13,251 |
| Other tangible fixed assets | 7,365 | 7,456 | 88,583 |
| Intangible fixed assets | 2,329 | 2,443 | 28,016 |
| Software | 2,051 | 2,162 | 24,673 |
| Other intangible fixed assets | 277 | 280 | 3,342 |
| Customers' liabilities for acceptances and guarantees | 11,942 | 12,288 | 143,624 |
| Allowance for possible loan losses | (40,778) | (42,478) | (490,425) |
| Total assets | ¥7,274,549 | ¥7,104,140 | $87,487,071 |
| **Liabilities and Equity** | | | |
| **Liabilities:** | | | |
| Deposits | ¥6,512,523 | ¥6,311,756 | $78,322,590 |
| Call money | 13,387 | 23,897 | 161,004 |
| Payables under repurchase agreements | 2,099 | 5,074 | 25,253 |
| Payables under securities lending transactions | 37,481 | 21,461 | 450,770 |
| Borrowed money | 77,905 | 40,940 | 936,932 |
| Foreign exchanges | 213 | 185 | 2,566 |
| Bonds | 15,000 | 15,000 | 180,396 |
| Convertible bonds | 29,953 | 29,953 | 360,228 |
| Other liabilities | 54,829 | 51,256 | 659,408 |
| Liability for employees' retirement benefits | 22,901 | 23,063 | 275,428 |
| Liability for reimbursement of deposit losses | 221 | 233 | 2,657 |
| Liability for contingent losses | 997 | 943 | 11,990 |
| Deferred tax liabilities | 57,059 | 90,985 | 686,222 |
| Deferred tax liabilities for land revaluation | 307 | 326 | 3,700 |
| Acceptances and guarantees | 11,942 | 12,288 | 143,624 |
| Total liabilities | 6,836,823 | 6,627,365 | 82,222,774 |
| **Equity:** | | | |
| Common stock | 42,103 | 42,103 | 506,358 |
| Capital surplus | 30,301 | 30,301 | 364,422 |
| Stock acquisition rights | 227 | 151 | 2,731 |
| Retained earnings | 235,270 | 220,749 | 2,829,473 |
| Treasury stock — at cost | (1,225) | (1,222) | (14,742) |
| Net unrealized gains on available-for-sale securities | 131,535 | 185,184 | 1,581,911 |
| Deferred losses on derivatives under hedge accounting | (935) | (969) | (11,252) |
| Land revaluation surplus | 448 | 476 | 5,393 |
| Total equity | 437,726 | 476,775 | 5,264,296 |
| Total liabilities and equity | ¥7,274,549 | ¥7,104,140 | $87,487,071 |

Notes: 1. Japanese yen figures are expressed with amounts under one million omitted. Accordingly, breakdown figures may not add up to sums.

2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥83.15 to US$1.00 on March 31, 2011, the final business day of the term.

# Non-Consolidated Statements of Income (Unaudited)

The Bank of Kyoto, Ltd.  Years Ended March 31, 2011 and 2010

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Income** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 62,648 | ¥ 65,542 | $ 753,437 |
| Interest and dividends on securities | 29,573 | 32,398 | 355,665 |
| Other interest income | 1,306 | 1,397 | 15,707 |
| Fees and commissions | 12,891 | 12,795 | 155,042 |
| Other operating income | 7,652 | 6,907 | 92,031 |
| Other income | 2,080 | 2,130 | 25,026 |
| Total income | 116,153 | 121,172 | 1,396,910 |
| **Expenses** | | | |
| Interest expenses: | | | |
| Interest on deposits | 9,468 | 14,423 | 113,871 |
| Interest on borrowings and rediscounts | 996 | 999 | 11,989 |
| Other interest expenses | 1,238 | 1,544 | 14,892 |
| Fees and commissions | 6,613 | 7,596 | 79,538 |
| Other operating expenses | 904 | 1,114 | 10,872 |
| General and administrative expenses | 55,849 | 54,144 | 671,673 |
| Other expenses | 8,594 | 15,959 | 103,358 |
| Total expenses | 83,665 | 95,782 | 1,006,196 |
| Income before income taxes | 32,487 | 25,390 | 390,714 |
| Income taxes: | | | |
| Current | 10,093 | 11,550 | 121,389 |
| Deferred | 4,121 | (1,748) | 49,563 |
| Net income | ¥ 18,273 | ¥ 15,588 | $ 219,761 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| **Per Share Information:** | | | |
| Basic net income | ¥48.35 | ¥41.91 | $0.581 |
| Diluted net income | 45.20 | 38.57 | 0.543 |
| Cash dividends applicable to the year | 10.00 | 10.00 | 0.120 |

Notes: 1. Japanese yen figures are expressed with amounts under one million omitted. Accordingly, breakdown figures may not add up to sums.
2. U.S. dollar amounts represent translation of Japanese yen at the rate of ¥83.15 to US$1.00 on March 31, 2011, the final business day of the term.

# Corporate Profile

## The Bank's Organization (As of July 1, 2011)

- General Meeting of Stockholders
  - Board of Corporate Auditors
    Corporate Auditors
- Board of Directors
- Executive Committee
  Chairman
  President
  - Senior Managing Director
  - Managing Directors

- Corporate Planning Division
- Risk Management Division
- Corporate Communications Division
- Business Promotion Division
  - Hanshin Business Headquarters
  - Shiga Business Headquarters
- Customer Service Division
- Corporate Banking Division
- Personal Banking Division
- Public Institutions Division
- Credit Supervision Division
- Treasury & Investment Division
- Securities & International Division
  - Hong Kong Representative Office
  - Shanghai Representative Office
- General Secretariat
- Personnel Division
- Kyoto Banking College
- General Affairs Division
- Business Administration Division
  - Business Operations Center
- Systems Division
- Internal Audit Division
- Tokyo Liaison Office

- Head Office Business Department, Domestic Branches and Sub-branches (159 Offices)

## Board of Directors and Corporate Auditors (As of June 29, 2011)

**Chairman**
Yasuo Kashihara

**President**
Hideo Takasaki

**Senior Managing Director**
Masahiro Morise

**Managing Directors**
Issei Daido
Hisayoshi Nakamura
Yoshio Nishi
Katsuyuki Toyobe
Masayuki Kobayashi
Junji Inoguchi
Nobuhiro Doi

**Directors**
Takayuki Matsumura
Sadao Miyamura

**Standing Corporate Auditor**
Kazuo Saito

**Corporate Auditors**
Haruo Tanaka
Kaneyoshi Jinde (external)
Shinichi Nakama (external)

**Managing Executive Officers**
Hiroshi Okuno
Yojiro Nagayasu
Yuji Kitayama

**Executive Officers**
Hideya Naka
Yasufumi Kurita
Ko Nishizawa
Tadahiko Nishiyama
Shinichi Takenaka

# Corporate Data (As of March 31, 2011)

**Date of Establishment**
October 1, 1941

**Number of Employees**
3,218

**Number of Authorized Shares**
1,000,000,000

**Number of Issued Shares**
379,203,441

**Capital (Paid-in)**
42,103 million

R&I* Rating *Rating and Investment Information, Inc.
A+
S&P* Rating *Standard & Poor's.
A

**Major Stockholders (Number of shares in thousands and percentage)**

| | | |
|---|---|---|
| Japan Trustee Services Bank, Ltd. (trust account) | 17,034 | (4.49%) |
| Nippon Life Insurance Company | 16,589 | (4.37%) |
| NORTHERN TRUST Co. (AVFC) SUB A/C AMERICAN CLIENTS | 14,131 | (3.72%) |
| The Tokio Marine & Nichido Fire Insurance Co., Ltd. | 14,098 | (3.71%) |
| Gunze Ltd. | 10,458 | (2.75%) |
| Meiji Yasuda Life Insurance Company | 10,001 | (2.63%) |
| Sompo Japan Insurance Inc. | 8,912 | (2.35%) |
| The Master Trust Bank of Japan, Ltd. (trust account) | 8,692 | (2.29%) |
| Kyocera Corporation | 7,980 | (2.10%) |
| Mizuho Corporate Bank, Ltd. | 7,500 | (1.97%) |

**International Service Network**


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**Consolidated Subsidiaries**

| Name | Establishment | Capital | Line of business |
|---|---|---|---|
| Karasuma Shoji Co., Ltd. | October 1958 | ¥ 10 million | Managing real estate services for the Bank of Kyoto |
| Kyogin Business Service Co., Ltd. | July 1983 | 10 | Centralized processing of clerical operations for the Bank |
| Kyoto Guaranty Service Co., Ltd. | October 1979 | 30 | Credit guarantee services |
| Kyogin Lease & Capital Co., Ltd. | June 1985 | 100 | Leasing and investment services |
| Kyoto Credit Service Co., Ltd. | November 1982 | 50 | Credit card services |
| Kyogin Card Service Co., Ltd. | September 1989 | 50 | Credit card services |
| Kyoto Research Institute, Inc. | April 1987 | 30 | Research and business consulting services |

Bank of Kyoto

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