Bank of Kyoto

Annual Report 2012

For the year ended March 31, 2012

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.

The Bank celebrated its 70th anniversary on October 1, 2011. We would like to take this opportunity to extend our sincere gratitude to all stakeholders for their ongoing support and for making this possible.

Head Office

Non-Consolidated Basis

Total Assets: ¥7,347.0 billion (8th among regional banks)	Total Deposits: ¥6,667.7 billion (7th among regional banks)
Loans and Bills Discounted: ¥4,065.8 billion (11th among regional banks)	Unrealized Gains on Securities: ¥155.6 billion (1st among regional banks)
Capital Ratio: 12.89% (domestic standards) Ref. 14.26% (BIS standards)	Credit Rating: A+ (R&I) A (S&P)

Contents

Attention regarding forward-looking statements

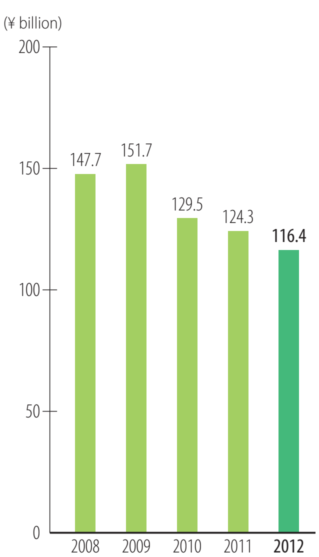
Readers are advised that this report contains forward-looking statements, which are not statements of historical fact but constitute estimates or projections based on facts known to the Company's management as of the time of writing. Actual results may therefore differ substantially from such statements.

Consolidated Financial Highlights

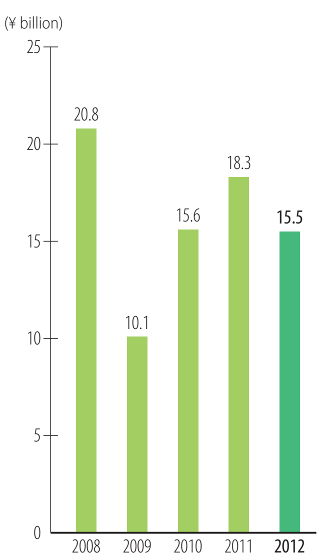
	Millions of Yen			Thousands of U.S. Dollars
	2012	2011	2010	2012
For The Year				
Total Income	¥ 116,428	¥ 124,353	¥ 129,588	$ 1,416,573
Total Expenses	88,577	89,810	103,022	1,077,710
Income before Income Taxes and Minority Interests	27,851	34,542	26,565	338,862
Net Income	15,560	18,379	15,668	189,319
At Year-end				
Total Assets	¥7,359,323	¥7,285,838	¥7,115,290	$89,540,372
Deposits (including NCDs)	6,652,921	6,498,687	6,299,610	80,945,629
Loans and Bills Discounted	4,059,891	3,935,192	3,834,750	49,396,417
Securities	2,871,415	2,766,484	2,716,645	34,936,308
Minority Interests	9,303	8,078	7,030	113,193
Common Stock	42,103	42,103	42,103	512,273
Total Equity	428,960	447,806	485,706	5,219,131
Capital Ratio				
Domestic Standards	13.25%	13.55%	12.33%	
BIS Standards	14.61%	15.55%	15.19%	

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 ¥82.19 to US$1.00 on March 31, 2012, the final business day of the term.

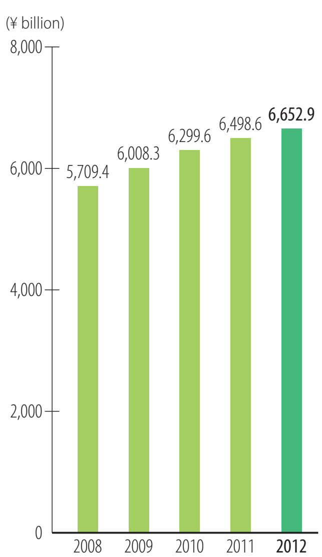
Total Income



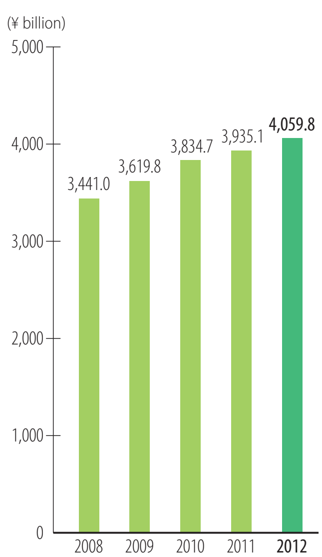
Net Income



Deposits (including NCDs)



Loans and Bills Discounted



Message from the President

Financial results in the fiscal year ended March 31, 2012

Fiscal 2011, the fiscal year ended March 31, 2012, was a difficult year with the domestic economy generally stagnant due to the recession immediately after the Great East Japan Earthquake and the continuing appreciation of the yen triggered by the European debt crisis. Faced with these circumstances, the Bank continued to work diligently to expand its business operations. As a result, the balance of deposits and negotiable certificates of deposit and the balance of loans and bills discounted stood at ¥6,667.7 billion and ¥4,065.8 billion, respectively, as of March 31, 2012. Particularly noteworthy was the fact that the balance of loans and bills discounted topped ¥4 trillion for the first time.

From a profit perspective, the Bank reported ordinary profit of ¥25.5 billion and net income of ¥15.4 billion, securing high levels of overall earnings.

Further expand and deepen relationships of long standing

Efforts to increase convenience even further

The Bank is working to increase convenience by expanding its branch network. In fiscal 2011 we opened a total of five branches, the Nagoya Branch (Aichi Prefecture), the Shogoin Branch (Kyoto Prefecture), the Settsu Branch and the Dainichi Branch (Osaka Prefecture) and the Oji Branch (Nara Prefecture) and in fiscal 2012 we have opened the Ikeda Branch (Osaka Prefecture), the Fukuchiyama Ekinan Branch (Kyoto Prefecture) and Amagasaki-kita Branch (Hyogo Prefecture). Furthermore, in October 2011 we established "Saturday and Sunday Personal Plazas" in three branches (the Shimogamo Branch, the Nagaoka Branch, and the Okubo Branch), which offer some banking services on Saturdays and Sundays as well, including opening new ordinary deposit accounts and making deposits into time deposit accounts, and handling the payment of some public utilities charges. The profile of the plazas has increased gradually since they were opened and the number of customers coming to the branches has increased. The plaza is particularly popular with customers for whom coming to the bank on weekdays is difficult.

Meanwhile, we are also working to increase the convenience of the ATM network. For example, we are promoting business alliances with other companies. Now our customers have the convenience of being able to use Aeon Bank ATMs and ATMs in convenience stores, including Lawson, FamilyMart, MINISTOP and others.

Through these initiatives, we are aiming to continue being the bank that is most available and easiest to use for our customers.

Application of "community-based finance"

In today's rapidly changing operating environment one of the roles most required of financial institutions is to offer outstanding consulting functions to their clients. This means we must provide precise support tailored to the needs of our clients.

In order to fulfill this role, the Bank, following on from the second half of fiscal 2011, will continue promoting the "community-based finance promotion campaign" at all its branches in fiscal 2012.

Led by the Community-based Finance Promotion Office within the Corporate Banking Division, the head office and the branches collaborate closely to propose precise solutions tailored to the needs of our customers. For example, we use business matching and other methods to help them expand their operations and implement business successions that utilize M&As and other approaches.

Furthermore, the entire bank led by our Credit Supervision Division (Management Support Office) is working on the management improvement and business restructuring of our clients, and the Finance Facilitation Management Office is managing the promotion of these operations. The branches are conducting the All-Branches One-Person-One-Company Management Support Campaign, and they are cooperating with the head office and external institutions to support the initiatives of our clients aimed at improving their management, including the formulation of management improvement plans.

The growth and development of companies is essential for the revitalization of the local community. The Bank will continue its initiatives to meet the needs of such clients in order to strongly fulfill its mission as a financial institution.

Strengthening support for international businesses

As the yen has continued to remain at high levels in recent times, our clients are showing a stronger interest in developing their businesses overseas.

The Bank has been actively providing support for international businesses for some time. For example, we have been supporting the entry of our clients into the Chinese market through the Kyoto Corporate Support Network Council with the Shanghai Representative Office as the head office. Moreover, in July 2012 we opened our third office in China, the Dalian Representative Office, and we are further strengthening our support structures for our clients in China.

Moreover, in Southeast Asia we formed a business alliance with KASIKORNBANK in Thailand and in April 2012 we became the first regional bank from the Kinki region to form a business alliance with Bank Negara Indonesia, the leading bank in Indonesia.

Thanks to these initiatives we are now able to offer consultations on a wide range of matters related to international businesses in Asia. Going forward, we intend to take all possible measures in order to ensure that support for international business becomes a strength of the Bank.

Providing financial services tailored to the life events of individual customers

It is important to build life-long business relationships in order to precisely respond to the financial needs that arise due to the life events of our customers.

Currently we are developing the "whole-individual service" which offers all types of consultations to our customers.

We are aiming to be the most trusted bank in our region by offering empathetic consultations on every issue from finance for purchasing a home and finance for children's education to the management of financial assets and how to handle inheritance issues.

Contributing to the growth and development of local community

We intend to contribute to the growth and development of the local community by steadily and carefully implementing each of these measures and providing high-quality financial services.

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

H. Takasaki

Hideo Takasaki

President
The Bank of Kyoto, Ltd.

The Industry of Kyoto Prefecture

In Kyoto many cutting-edge, high-tech industries exist side by side with traditional industries and the tourism industry built upon the city's 1,200 years of history and culture. The manufacturing industries of Kyoto Prefecture are supported by a high level of technical capability that is unique to Kyoto, and they have captured high shares of the national market in a diverse array of fields and product categories.
Furthermore, Kyoto is known as the town of students (it has the highest number per 100,000 people in all Japan), with a high concentration of universities and academic research institutions, so it has an ideal environment for developing venture businesses and new industries.

Top-Ranked Product Categories of Kyoto Prefecture by Value of Shipments

Sector	Product category	Value of shipments	National rank
High-tech and research tools	Pollution measuring instruments	18.5 billion yen (67%)	1st
	Optical analyzers	9.8 billion yen (25%)	3rd
	Other analyzers	36.1 billion yen (42%)	1st
	Physical and chemical instruments	12.2 billion yen (19%)	2nd
	Medical x-ray equipment	28.2 billion yen (15%)	2nd
	Semiconductors and IC measuring instruments	7.9 billion yen (11%)	3rd
	Photomasks*	12.1 billion yen (9%)	3rd
Platemaking and printing	Platemaking machinery	14.7 billion yen (79%)	1st
	Printed matter other than paper	147.5 billion yen (20%)	1st
Traditional handicrafts	Off-the-rack traditional Japanese clothing and obi	4.7 billion yen (29%)	1st
	Crape textiles	2.4 billion yen (65%)	1st
Food and beverages	Refined sake	63.9 billion yen (14%)	2nd
	Traditional Japanese sweet cakes	33.1 billion yen (7%)	1st

* Glass dry plates that are original plates for transcribing the circuit patterns of electronic components
(Source) Ministry of Economy, Trade and Industry, Census of Manufactures 2009, the figures in the brackets are the national market share

Taxable Corporate Income by Prefecture

Rank	Prefecture	Taxable income (millions of yen)	Number of corporations	
				Rank
1	Tokyo	14,673,170	547,841	1
2	Osaka	3,277,866	223,543	2
3	Aichi	1,939,397	156,481	4
4	Kanagawa	979,250	174,819	3
5	Hyogo	770,551	96,391	8
6	**Kyoto**	**738,413**	**55,446**	**12**
7	Fukuoka	687,204	90,383	9
8	Saitama	615,264	127,961	5
9	Hokkaido	581,862	113,905	6
10	Chiba	572,087	101,676	7

(Source) National Tax Agency (FY2009)

Number of corporations: 12th
Taxable income: 6th

Number of College/University Students per 100,000 People

Rank	Prefecture	Number of students
1st	Kyoto	6,341
2nd	Tokyo	5,711
3rd	Osaka	2,733

(Source) Ministry of Internal Affairs and Communications, Statistics Bureau, 2010

Kyoto is a city of culture which attracts international tourists to its many temples, shrines, and other sightseeing spots.

Number of Tourists and Tourist Spending

Due to steady recovery from the economic recession and the new strain of influenza, the second-highest level after the all-time record in 2008

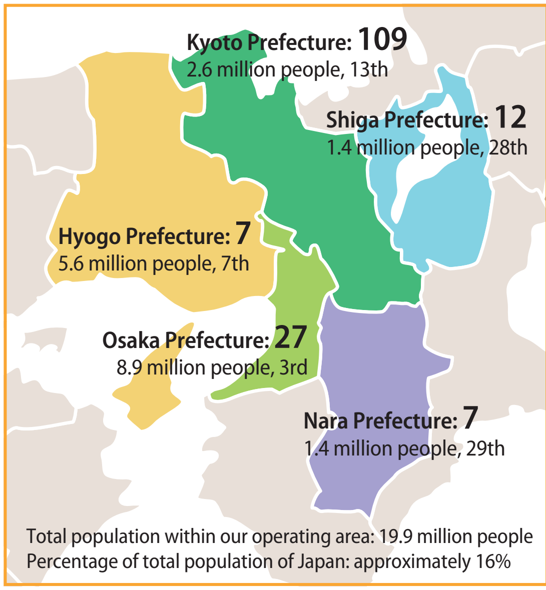
(Source) Kyoto Prefecture

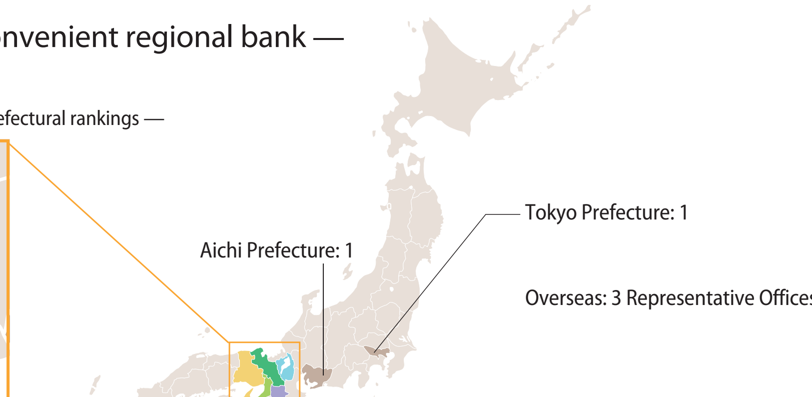
Operating Area and Population within the Area

— Aiming to be a comprehensive and convenient regional bank —

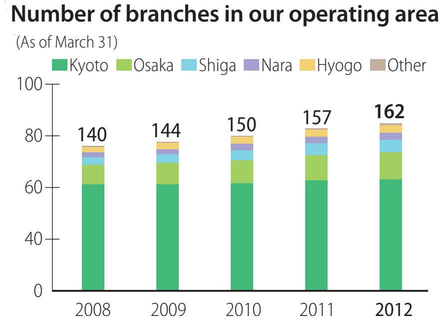
Kyoto Banks Network (As of July 31, 2012)

— The populations within areas in our operating area and their prefectural rankings —





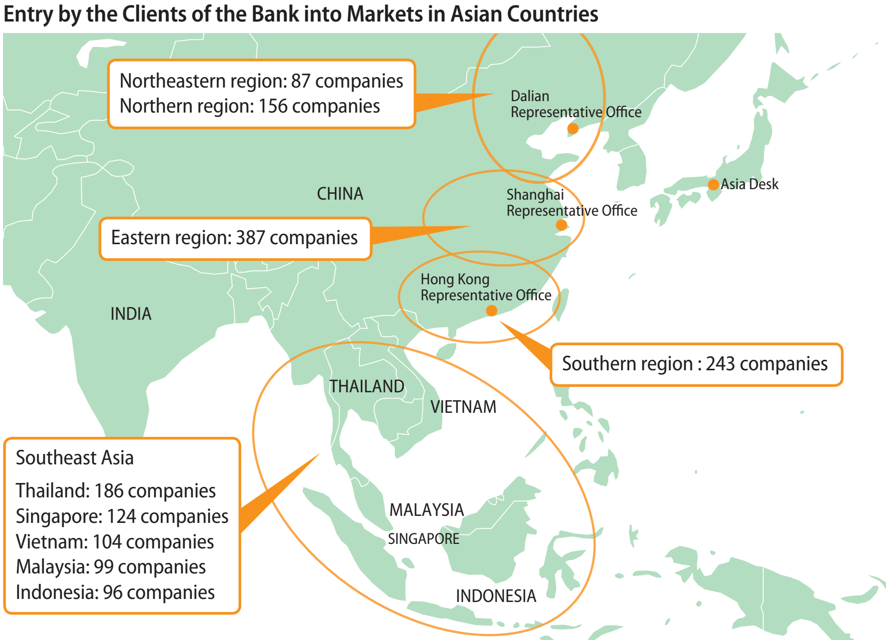
Number of branches in our operating area



Overseas Support Structures

— Our clients are increasingly entering markets in Asian countries so we are strengthening our overseas support capabilities —

Entry by the Clients of the Bank into Markets in Asian Countries



Study by the Bank of Kyoto, figures as of September 2011

Shanghai Representative Office

Hong Kong Representative Office

Overseas Partner Banks

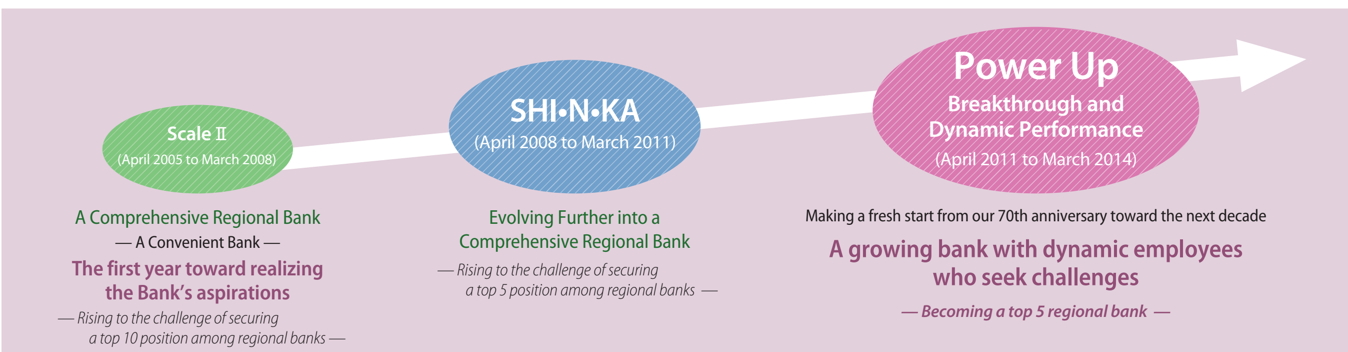
- Industrial and Commercial Bank of China Limited (China)
- Bank of China (China)
- Kasikornbank (Thailand)
- Bank Negara Indonesia (Indonesia)

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

We have been promoting our 4th Medium-Term Management Plan "Power Up — Breakthrough and Dynamic Performance" since April 2011.

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

Basic Stance

Looking ahead the market will continue to shrink further intensifying competition

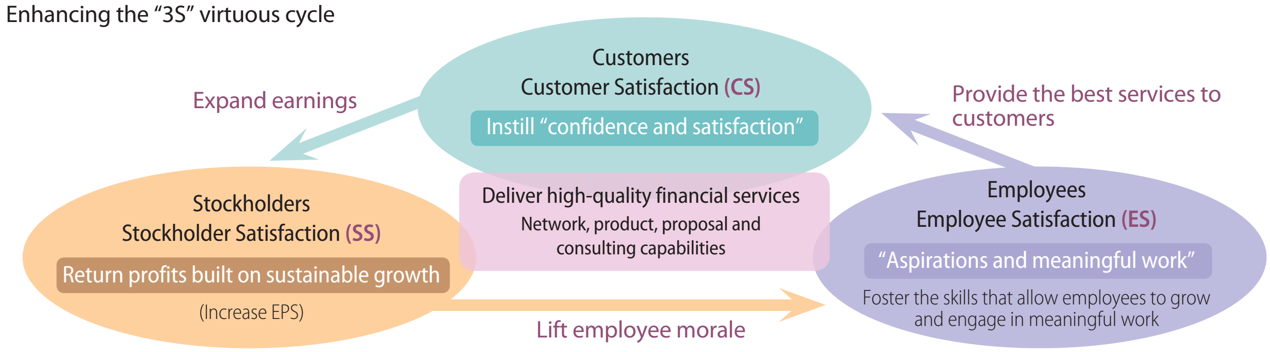
Develop the "strength and power" necessary to succeed amid intense competition

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

Enhancing the "3S" virtuous cycle



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 ● Balance of loans ¥4,500.0 billion ● Gross operating profit ¥101.0 billion ● Net profit ¥23.0 billion ● 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 ● Bolster strength and power by establishing branches that strategically emphasize sales and marketing ● Expand comprehensive transactions
Sales channel strategy	● Build a robust network across Kinki region (Kyoto, Shiga, Osaka, Nara and Hyogo prefectures) ● 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 ● Reduce the balance of impaired loans and trust costs
Human resource development strategy	● Enhance proposal and consulting capabilities ● Develop human resources who are capable of supporting a dynamic top-class regional bank
Asia strategy	● Upgrade and expand overseas bases ● Develop human resources who are capable of engaging in international operations ● Bolster support for companies entering the Asia market drawing on in-house collaboration ● Expand transactions
IT strategy	● Enhance the productivity of marketing activities ● Increase business processing efficiency through next-generation branch terminals and reduce the management and operating burden ● 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

Financial Review

Financial and Economic Environment

At the start of the fiscal year under review, immediately after the Great East Japan Earthquake, the Japanese economy was facing unprecedented chaos and a heavy slump, but it began a moderate and gradual recovery and efforts continued to be made to overcome the problems caused by the earthquake as consumer confidence improved due to the restoration of supply chains and the receding of the post-disaster mood of restraint. Nonetheless, beginning in the summer there was a marked drop in exports against a background of extremely high appreciation of the yen triggered by the European debt crisis and concerns of a slowdown in overseas economies, including the emerging economies as well, and there was also the negative impact of the flooding in Thailand. Due to these and other factors the situation has become extremely tough, with strikingly depressed conditions and a strong sense of stagnation.

From the beginning of the New Year to the end of the period under review, bright signs that the economy was breaking free from the depressed conditions began to appear as the European debt problems subsided in the short term, some movement toward correcting the over-appreciated yen began to be seen, and demand stimulated by reconstruction after the disaster became a major factor. On the other hand, the rapid rise in crude oil prices and the electricity supply problems present a risk of an economic slump so the fiscal year under review ended with a lingering sense of uncertainty about the future outlook.

Business Progress and Results

In deposit operations, individual's deposits increased steadily but the public-sector and financial company deposits and other deposits decreased, so the value of total deposits fell by ¥13.0 billion during the term to ¥5,860.0 billion ($71,298 million) at the fiscal year-end. On the other hand, negotiable certificates of deposit increased by ¥167.2 billion to ¥792.9 billion ($9,647 million) owing to an upswing in financial company deposits. As a result, the total balance of deposits and NCDs rose by ¥154.2 billion during the term to ¥6,652.9 billion ($80,945 million) at the end of the fiscal year under review.

Next, 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. As a result, total loans and bills discounted rose by ¥124.6 billion during the term to a balance of ¥4,059.8 billion ($49,396 million) at the fiscal year-end, topping ¥4 trillion for the first time.

Moreover, regarding the Bank's securities holdings, we exercised prudent monitoring of the market and made our investments efficiently. As a result, the value of securities increased by ¥104.9 billion to a balance of ¥2,871.4 billion ($34,936 million) at the end of the fiscal year. Of this amount, we were forced to incur a decline of ¥64.8 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 ¥155.7 billion. In addition, the balance of trading securities was ¥5.2 billion at the fiscal year-end.

Accounting for each of the aforementioned, total assets and total equity stood at ¥7,359.3 billion ($89,540 million) and ¥428.9 billion ($5,219 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, but consolidated ordinary income experienced a year-on-year drop of ¥7.9 billion to ¥116.3 billion ($1,415 million) due to the decrease in investment revenues, mainly in marketable securities interest and dividends. Consolidated ordinary expenses contracted ¥1.0 billion compared with the previous fiscal year to ¥88.1 billion ($1,072 million). This was largely attributable to the decline in funds procurement expenses and the decline in the provision for the allowance for possible loan losses. As a result, consolidated ordinary profit for the fiscal year under review amounted to ¥28.2 billion ($343 million), down ¥6.9 billion year on year. For the fiscal year under review, consolidated net income declined ¥2.8 billion compared with the previous fiscal year to ¥15.5 billion ($189 million).

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 ¥7.6 billion compared with the previous fiscal year to ¥108.5 billion ($1,320 million). Segment profit also decreased by ¥7.5 billion year on year to ¥25.5 billion ($311 million). In the other segment, ordinary income totaled ¥10.8 billion ($132 million), down ¥0.3 billion compared with the previous fiscal year. Other segment profit increased by ¥0.6 billion year on year to ¥2.6 billion ($32 million).

Cash Flows

Cash and cash equivalents stood at ¥237.5 billion ($2,890 million), a decrease of ¥38.6 billion compared with the previous term-end.

Cash Flows from Operating Activities

Net cash provided by operating activities for the fiscal year under review amounted to ¥174.2 billion ($2,119 million), down ¥34.3 billion from the previous fiscal year. This was mainly due to a decline in deposits and an increase in loans and bills discounted.

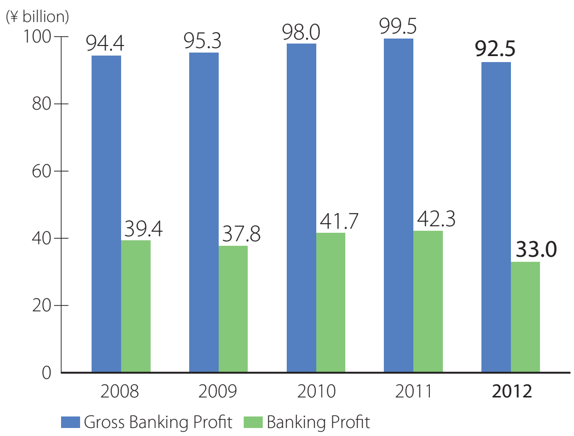
Cash Flows from Investing Activities

Net cash used in investing activities for the fiscal year under review amounted to ¥187.2 billion ($2,277 million), up ¥21.1 billion from the previous fiscal year. This was mainly due to the principal cash outflow of purchases of securities.

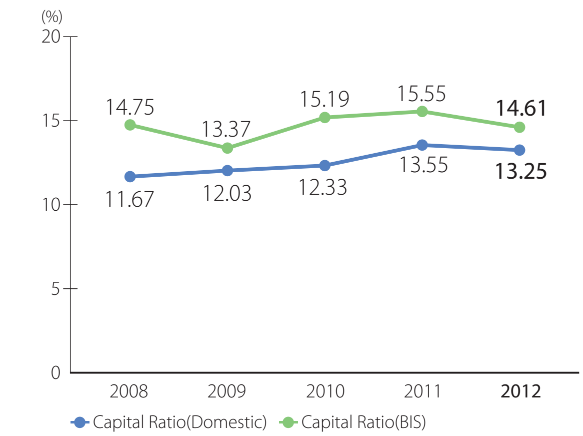
Cash Flows from Financing Activities

Net cash used in financing activities for the fiscal year under review amounted to ¥25.6 billion ($312 million), up ¥37.8 billion from the previous fiscal year. This was mainly due to repayments of subordinated loans.

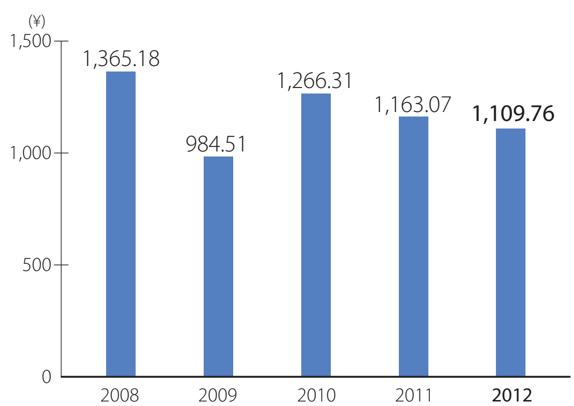
Gross Banking Profit/Banking Profit



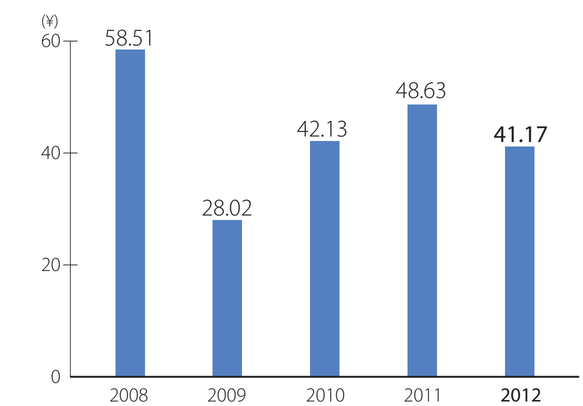
Capital Ratio (Domestic)/Capital Ratio (BIS)



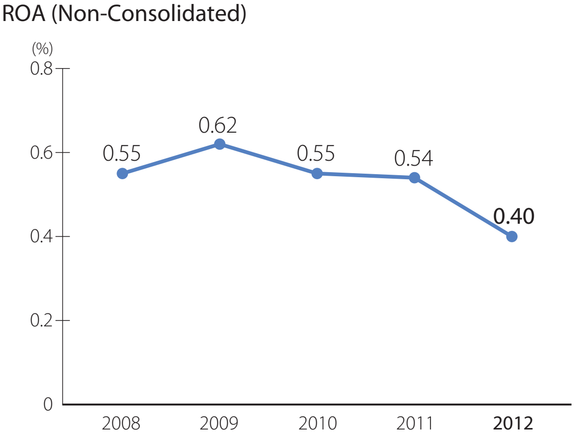
Net Asset Per Share



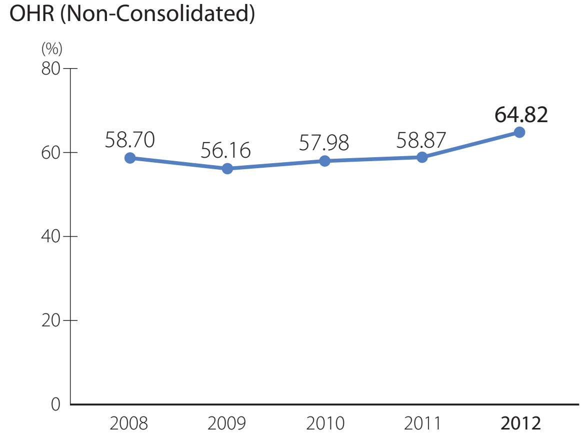
Net Income Per Share



ROA (Non-Consolidated)



OHR (Non-Consolidated)



Building Strong Financial Structures

Capital Ratio

The Bank's capital ratio on a non-consolidated basis was 12.89% based on domestic standards and 14.26% based on BIS standards. The capital ratio on a consolidated basis was 13.25% based on domestic standards and 14.61% 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)

	2012/3 (Domestic)	2011/3 (Domestic)	2012/3 (BIS)
Total Capital Ratio	13.25%	13.55%	14.61%
Tier I Capital	¥ 327,444	¥ 314,808	¥ 327,444
Tier II Capital	81,657	108,357	145,668
45% of Unrealized Gains on Securities			63,782
General Allowance for Possible Loan Losses	19,283	18,545	19,511
45% of Land Revaluation Surplus	393	340	393
Qualifying Subordinated Debt	61,981	89,471	61,981
Deducted Items	—	202	—
Total Capital	¥ 409,102	¥ 422,963	¥ 473,112
Risk Adjusted Assets	¥3,085,341	¥3,119,378	¥3,237,356

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 2011, the Bank's total disclosed assets, excluding normal assets, amounted to ¥144.4 billion (US$1,757 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 55.4%. When adding the portion secured by collateral and guarantees to the reserves, the coverage ratio was 86.4%, which we consider to be a sufficient level.

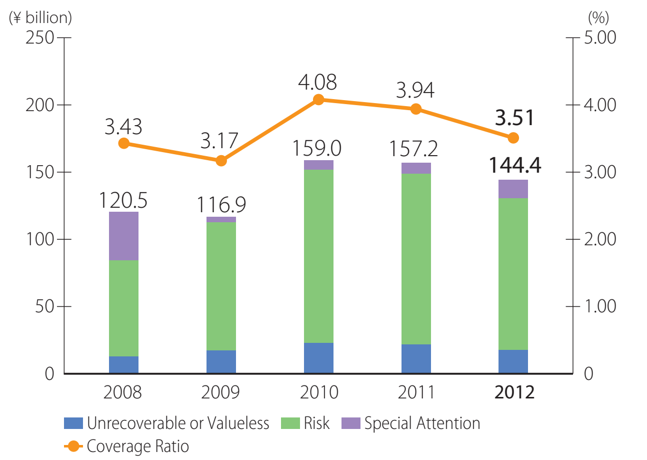
The Financial Reconstruction Law Standard (Non-Consolidated)

(Billions of Yen)

	2012/3	Change from Mar. 31, 2011	2011/3
Unrecoverable or Valueless	¥ 17.8	¥ (4.1)	¥ 21.9
Risk	112.6	(14.1)	126.7
Special Attention	13.8	5.3	8.5
Subtotal (A)	144.4	(12.8)	157.2
Non-Classified	3,962.8	133.9	3,828.9
Total	¥4,107.2	¥121.1	¥3,986.1

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.

The Financial Reconstruction Law Standard (Non-Consolidated)



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

(Billions of Yen)

	2012/3	Change from Mar. 31, 2011	2011/3
Allowance for Possible Loan Losses	¥ 24.3	¥ (1.4)	¥ 25.7
Amounts Recoverable Due to Guarantees, Collateral and Others	100.4	(11.5)	111.9
Total (B)	¥124.7	¥(12.9)	¥137.6
Coverage Ratio (B)/(A)	86.4%	(1.2%)	87.6%

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 2011, the Bank's balance of risk management loans amounted to ¥143.8 billion (US$1,750 million) on a non-consolidated basis and ¥145.8 billion (US$1,774 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)

	2012/3	Change from Mar. 31, 2011	2011/3
Loans in Legal Bankruptcy	¥ 10.0	¥ (0.1)	¥ 10.1
Nonaccrual Loans	121.9	(18.3)	140.2
Accruing Loans			
Three Months or More	0.0	0.0	0.0
Restructured Loans	13.8	5.3	8.5
Total	¥ 145.8	¥(13.2)	¥ 159.0
Total Loans Outstanding (term-end balance)	¥4,059.8		¥3,935.1

Refer to page 33, note 6 regarding the above categories.

Community-based Finance Promotion
Measures to Strengthen Relationships with Corporate Customers

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.

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 efforts, we are helping small and medium-sized enterprises solve their business problems and revitalizing the local economy.

Implementation Mechanisms

We have consolidated our support functions for the management and sales of our clients into the Community-based Finance Promotion Office within the Corporate Banking Division in order to develop mechanisms that enable the branches and the departments in the head office to work together to actively take full advantage of our consulting function for the benefit of our clients.

Providing Optimal Solutions Tailored to Life Stages

Supporting Start-Ups and Other New Businesses

The Venture Business Support Group of the Community-based Finance Promotion Office within 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 Community-based Finance Promotion Office within our Corporate Banking Division effectively leverages 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.

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.

Upgrading and Expanding Regional Rehabilitation Support Networks

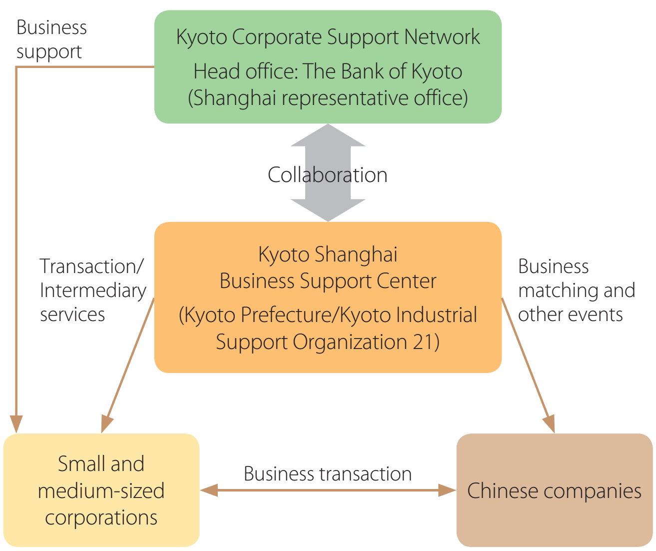
The Bank works closely with local entities to promote economic growth. In Kyoto, the main organizations are the Kyoto Rehabilitation Network Council (including the Small and Medium-Sized Business Rehabilitation Support Council), credit guarantee corporations, local financial institutions, and regional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

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.

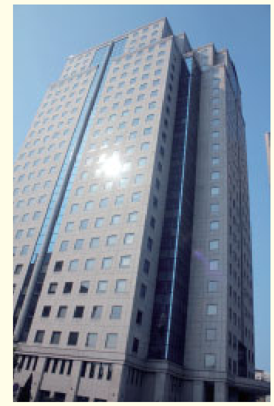


Support through the Kyogin Asia Desk

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, Shanghai and Dalian 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

Opening of the Dalian Representative Office



The needs of our customers in international businesses are becoming increasingly diverse. In this context, we opened our third office in China, the Dalian Representative Office, in July 2012 in order to strengthen the support we offer our clients who have entered the market in northeastern or northern China.

Initiatives to Revitalize the Tourism Industry

The Tourism Promotion Office within the Corporate Banking Division actively works to infuse the local economy 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, in order to financially support the revitalization of the tourism business, which drives the local economy.

Other Topics

We have commenced handling the China UnionPay card in our ATMs

We are the first regional financial institution to begin handling cash withdrawals and balance inquiries with the China UnionPay card at some ATMs.

As an internationally-famous tourist city, Kyoto has recently seen a dramatic increase in travelers and international students from China. We are aiming to contribute to the revitalization of the tourism industry and other local economic activities by enabling them to withdraw Japanese yen with the China UnionPay cards that they use daily.

欢迎使用银联卡

Contributing to the Society

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.

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.

Stage 1 Environmental Plan Medium-term Plan (FY2008 – FY2012)

Bank of Kyoto

Reduce the Bank's CO_2 emissions 15% or more by fiscal 2012 compared with fiscal 2007 (10,687t ⇒ 9,084t)

Customers and Local Communities

Participation in Kyoto Model Forest Association, etc.
Offer environmentally-friendly financial products and services

Employees

Working to achieve an eco-lifestyle for the families of all Bank employees

Inclusion in Responsible Investment Indices

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 wholly owned by 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.

FTSE4Good

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").

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.

Other Topics

Growing the Kyogin Forest

As one of the projects to commemorate the 70th anniversary of the founding of the Bank, we are cooperating with Kyoto University and Kyoto Sangyo University to develop the Kyogin Forest in the Motoyama national forest in Kita-ku, Kyoto City and work on forest conservation activities.

Furthermore, we have concluded the "Agreement on the Use and Conservation of Forests" with Kyoto Prefecture and the Kyoto Model Forest Association, and industry (the Bank), government (the Kyoto Model Forest Association, Kyoto Prefecture, and KINKI-CHUGOKU Regional Forest Office), and academia (Kyoto Sangyo University, Field Science Education and Research Center and Kyoto University) are collaborating on initiatives to pass down beautiful and healthy forests to future generations.

Concert Performance of Beethoven's Symphony No. 9 Commemorating the 70th Anniversary of the Founding of The Bank of Kyoto

In May 2012 the Bank of Kyoto held a performance of Beethoven's Symphony No. 9 in the Kyoto Concert Hall to commemorate the 70th anniversary of the founding of the bank. Mr. Naoto Otomo conducted the performance, the Kyoto Symphony Orchestra played the orchestral music, and the soloists led by Mr. Ken Nishikiori sang the vocal parts with the members of the choir who were selected through open auditions.

We also donated all of the admission fees from the day to the Kyoto Culture and Arts Promotion Project.

Social Contributions through Investment Trusts

From August to December 2011 the Bank of Kyoto implemented the Campaign to Support Recovery from the Great East Japan Earthquake under which we donated 0.5% of the purchase amount of the eligible investment trusts to child victims of the disaster.

Thanks to the wonderful support from many people, we were able to donate ¥2,040,775 to the East Japan Earthquake and Tsunami Disaster Emergency Relief Fund of the Japan Committee for UNICEF.

Initiatives for Employees

Support for women

— Comprehensive support package, the Kirara Program —

Since April 2011 we have been implementing a comprehensive support package called the Kirara Program to further expand opportunities for women in the Bank.

Through its previous initiatives the Bank has received the following awards.

Fiscal 2008

- Certification under the Act on Advancement of Measures to Support Raising Next-Generation Children
- The "Kyoto Prefecture Child-Raising Support Award" from Kyoto Prefecture
- The "Minister of Health, Labour and Welfare Award for Outstanding Business Establishments in the Employment of Persons with Disabilities" from the Ministry of Health, Labour and Welfare
- "Kyoto Mayor's Award under the Kyoto Gender Equality Promotion Declaration Company Registration System" from Kyoto City

Fiscal 2009

- "Minister of Health, Labour and Welfare Outstanding Prize in the Equality Promoting Company Category of the Fiscal 2009 Awards for Companies Promoting Equality and Work-Life Balance" from the Ministry of Health, Labour and Welfare

Fiscal 2010

- The "Kyoto Prefecture Award for Tackling Health Issues in the Workplace" from Kyoto Prefecture

Fiscal 2011

- "City of Nagoya Certification and Award System for Companies that Promote the Involvement of Women" Grand Prix
- "City of Nagoya Certification and Award System for Companies that Support Child-Raising" Outstanding Prize

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.

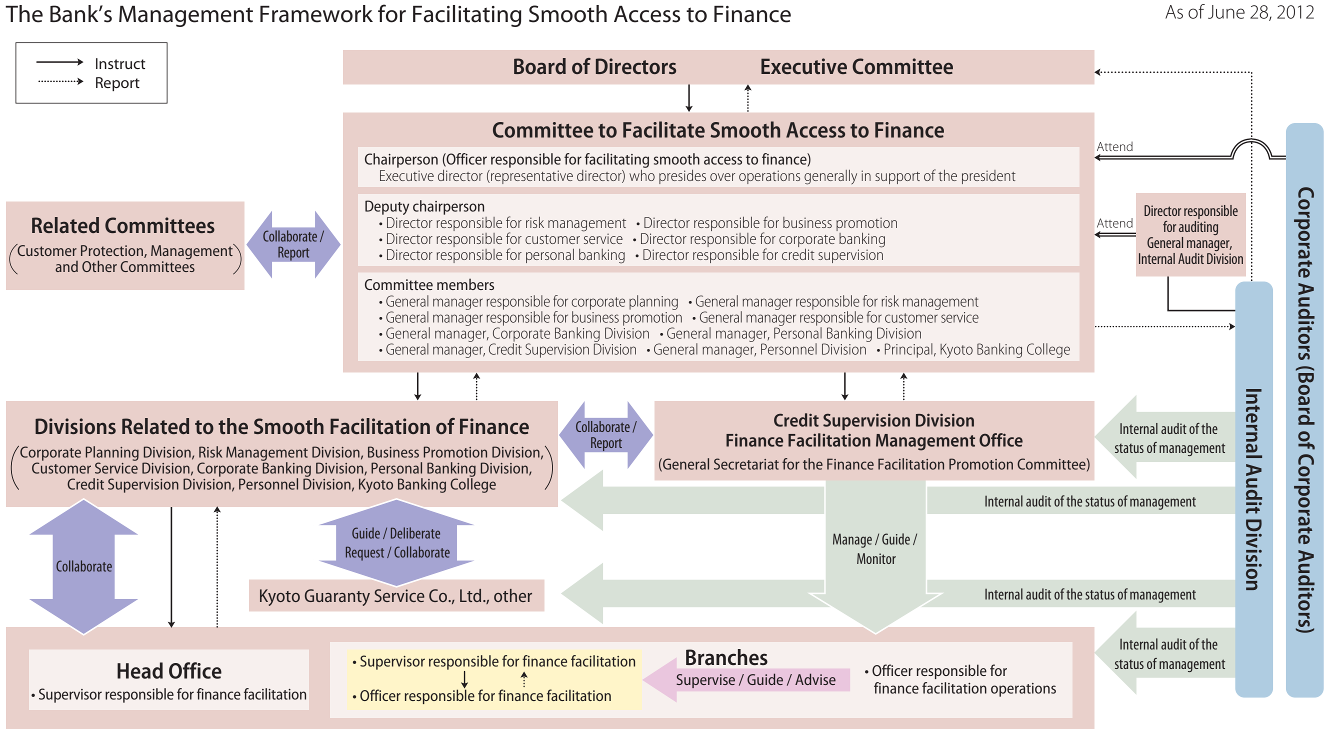
Each branch is responsible for responding directly to customer questions and/or applications regarding term changes. Branch personnel endeavor to provide responses appropriate to the facts at hand, with the Finance Facilitation Officer assigned to each branch assessing progress and providing prompt responses.

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

As of June 28, 2012



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.

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.

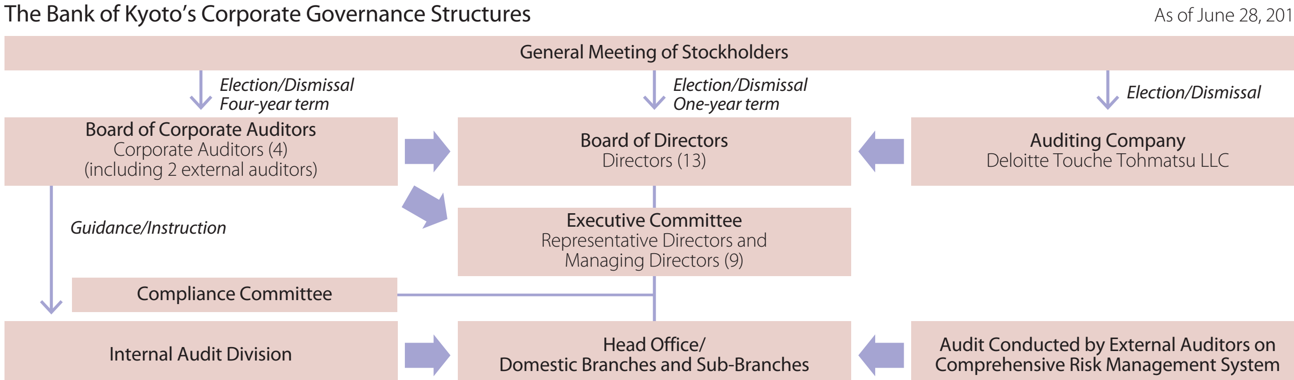
The Bank has adopted a corporate auditor system in which at least half of the corporate auditors are external corporate auditors who have no potential conflicts of interests with general Stockholders. Corporate auditors attend meetings of the Board of Directors; standing auditors also attend meetings 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.

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.

The Bank of Kyoto's Corporate Governance Structures

As of June 28, 2012



Stance on Internal Control Systems

1. Structures to ensure that the execution of business by the directors and employees conforms to laws and the articles of incorporation of Kyoto Bank

(1) The Bank considers compliance to be one of its most important management issues, and all of the employees and executives work hard to thoroughly implement it. For this purpose we have established the company ethical guidelines, code of conduct, and other compliance standards.

(2) Our compliance promotion structures include the Compliance Committee, Compliance Control Division, and other bodies in the head office. We have also appointed Compliance Officers in each branch with responsibility for implementing thorough guidance, training, inspections, and reporting. Furthermore, we have set up a whistle-blowing system for when dishonest acts are discovered.

(3) Every fiscal year we create compliance programs to promote compliance systematically, and regularly report the state of progress to the Board of Directors.

(4) We have established a Compliance Manual and various regulations as specific guides for achieving compliance.

(5) We have established structures to block relationships between the Bank and anti-social forces and prevent harm caused by said forces.

(6) The Internal Audit Division audits the status of compliance of each branch and reports to the Board of Directors.

2. Structures related to the storage and management of information about the execution of business by the directors

The Board of Directors stipulates matters related to information storage and management methods in the Information Security Policy, and develops storage and management structures for information and documents.

3. Guidelines and other structures related to management of the risk of losses

(1) The Comprehensive Risk Management Guidelines stipulate internal management structures enabling precise monitoring of all risks entailed in the Bank's operations, including the following major risks, and for responding appropriately to environmental changes.
(i) Market risk, (ii) liquidity risk, (iii) credit risk, (iv) operational risks (clerical risk, information security risks (information risk and system risk), legal risk, human risk and tangible asset risk), and (v) reputation risk.

(2) The Bank has established a series of Emergency Task Force Guidelines for dealing with unforeseeable events including disasters such as fires or earthquakes, and we have developed a Contingency Plan detailing specific procedures.

4. Structures to ensure that the directors execute the business efficiently

(1) We employ a structure under which the Board of Directors formulates medium-term management plans (for a period of two to three years) stipulating goals for the entire bank that are shared by employees and executives. Then the Board of Directors stipulates the operational policy for a period of one fiscal year (revised every six months) and the half-yearly overall budget based on the plans, and each director executes the operations under his or her jurisdiction.

(2) To assess the state of progress in these areas, every six months the Board of Directors determines the outcomes of the plans and the remaining issues to overcome. Moreover we ensure that the directors supervise each other and the execution of the operations by managing the budget and financial statements quarterly.

(3) When executing specific operations, we comply with the authority of each job stipulated in the internal guidelines, and ensure appropriate and quick business execution.

5. Structures to ensure the appropriateness of financial reporting

The Bank's basic policy regarding internal control related to financial reporting is stipulated in our Financial Reporting Internal Control Guidelines, which ensure the appropriateness of the financial reporting of the Bank and the Group companies.

6. Structures to ensure the appropriateness of operations in the corporate group comprised of the Bank and its subsidiaries

(1) Regarding the management of the Bank's Group companies, the Corporate Planning Division manages basic matters, the Personnel Division is responsible for personnel matters, and each individual management division handles daily operations. This division of responsibilities is stipulated in detail in the internal guidelines.

(2) With respect to the execution of the operations of the Group companies, the heads of the individual management divisions serve as the directors for each company. They attend the Board of Directors, ascertain the status of operations through the operations reports, and provide guidance. In addition, once every six months they report to the Board of Directors of the Bank regarding asset assessments and financial results.

(3) The Internal Audit Division of the Bank implements the internal auditing of the Bank and the Group companies; furthermore, the auditors of the Bank concurrently serve as the auditors of the Group companies. In this way we have built structures that ensure the appropriateness of operations by implementing the auditing of the Bank and the Group companies uniformly across the group.

7. In the case that the auditors request the appointment of employees to assist them with their business, structures related to said employees

Under the internal guidelines the auditors may give instructions and orders to the Internal Audit Division to appoint division employees, and then may utilize the new members of that division as staff for their auditing operations.

8. Matters related to the independence from the directors of the employees assisting the business of the auditors

Regarding execution of the operations the auditors instruct or order the Internal Audit Division to carry out, job authority guidelines clearly stipulate that the members of the Internal Audit Division, as the staff for the auditors, "must conduct themselves in accordance with the instructions and orders of the auditors." This means that this auditing structure is independent from the directions or orders of the directors.

9. Structures for reporting by the directors and employees to the auditors and other structures related to reporting to the auditors

The auditors may be asked to attend the Executive Committee, the Asset Liability Management (ALM) meeting, the Compliance Committee, meetings of the Emergency Task Force or other important meetings, and report on matters that could cause significant harm to the Bank, important matters related to the execution of operations, important matters related to the status of internal auditing and risk management, serious violations of laws or the articles of incorporation, reports through the whistle-blowing system, and other important matters related to management in those meetings. If the auditors request a report about operations and property, the directors and employees shall comply with that request.

10. Other structures to ensure effective auditing by the auditors

The executives of the managing director level or above, including the president, must hold regular meetings with the Board of Corporate Auditors, to state their views regarding the management policies of the Bank and issues which should be addressed, and exchange views about development of a suitable environment for auditing by the auditors and the important issues related to auditing.

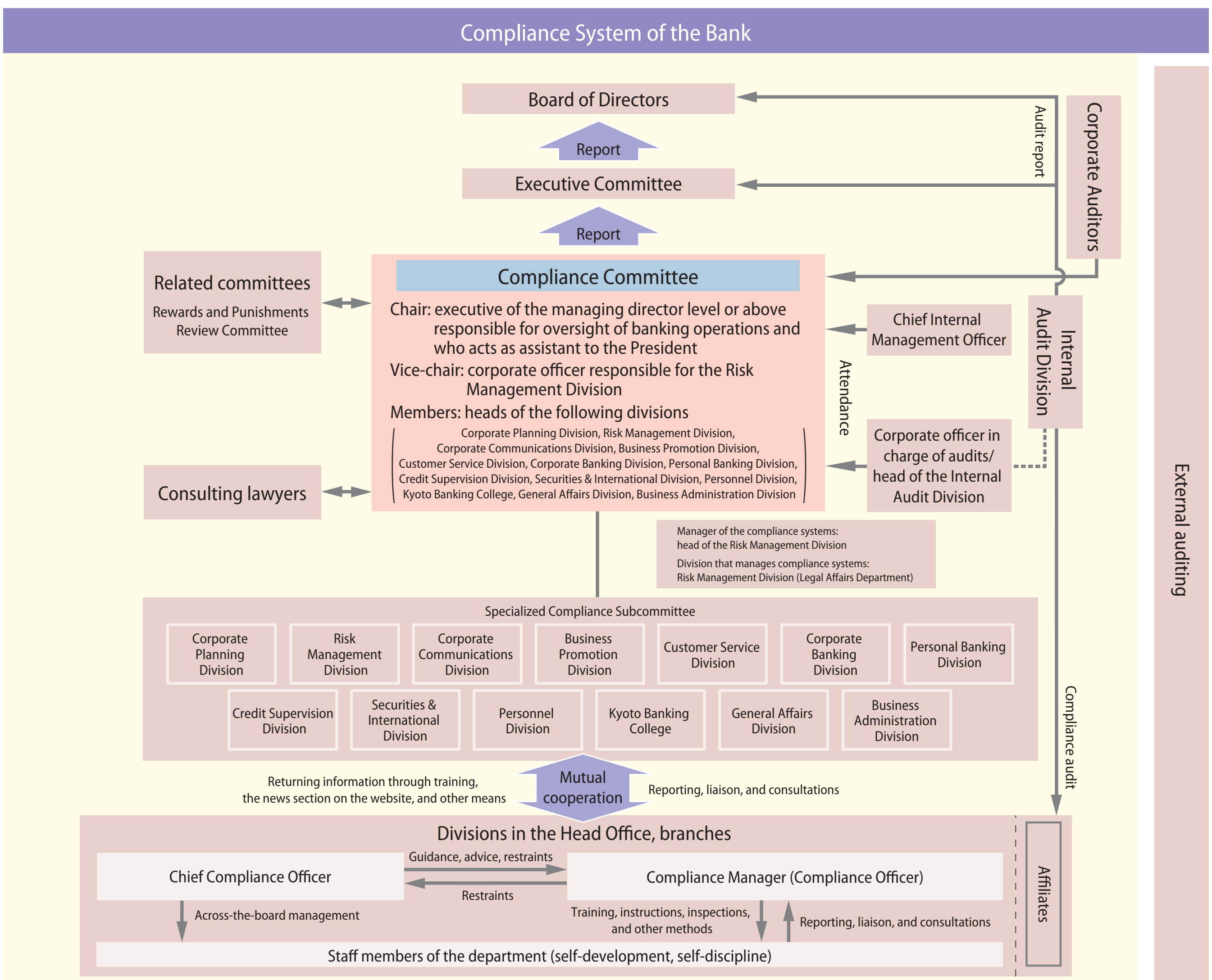
Compliance Structures

Given the public nature of banks, compliance will always be the cornerstone of management.

The Bank considers compliance to be one of its most important management issues and has been working to rigorously enhance its compliance structures to ensure that the actions of management and non-management employees alike will earn the trust and support of observers. This will enable us to build solid bonds of trust with the local community, and to maintain our reputation as a reliable bank that provides excellent customer satisfaction over the long term. For these purposes, we have worked hard to strengthen our compliance systems. For example, the Compliance Committee (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) centrally manages and responds to compliance-related problems.

In order to ensure compliance, the Board of Directors establishes compliance programs every fiscal year, and enforces a variety of policies in accordance with these programs.

The Bank has also developed structures under the jurisdiction of the Customer Service Division and has established and published its Basic Stance on Anti-Social Forces in order to ensure that we block all relationships between the Bank and anti-social forces.



As of June 28, 2012

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. In addition, we conduct comprehensive stress tests projecting the simultaneous appearance of major risks based on comprehensive risk scenarios.

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 market risk for stocks and other securities, we use the method of setting and managing acceptable risk amount based on the Bank's capital and appraisal gains on stocks and other securities. Moreover, we are conducting adequate risk management. This includes calculating the daily positions and profits and losses and reporting them to the management, and measuring the amount of risk involved in stocks and other securities and reporting it to the management. 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), and in addition we conduct stress tests supposing a variety of different stress scenarios, and utilize them in risk checks. The Bank also employs tools such as back 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.

We also regularly conduct liquidity stress tests, and carry out verifications of the impact of unexpected cash outflows on financing.

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.

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.

Consolidated Balance Sheet

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
Assets:			
Cash and due from Bank of Japan (note 26)	¥ 237,547	¥ 276,221	$ 2,890,219
Due from other banks (note 26)	891	1,201	10,841
Call loans and bills bought (note 26)	84,466	202,666	1,027,699
Receivables under resale agreements (note 9)	2,098	2,099	25,538
Monetary claims bought	10,051	9,953	122,299
Trading securities	5,284	298	64,301
Money held in trust (note 4)	1,937	1,965	23,568
Securities (notes 3, 9, 16 and 26)	2,871,415	2,766,484	34,936,308
Loans and bills discounted (notes 6, 10 and 26)	4,059,891	3,935,192	49,396,417
Foreign exchanges (note 7)	3,621	2,576	44,066
Lease receivables and investment assets (notes 2.*o* and 23)	7,385	8,058	89,853
Other assets (note 9)	21,456	33,121	261,058
Tangible fixed assets (note 8)	78,741	76,067	958,042
Buildings	27,052	26,506	329,150
Land (note 11)	43,374	41,050	527,729
Construction in progress	1,392	1,107	16,942
Other tangible fixed assets	6,922	7,403	84,220
Intangible fixed assets	2,338	2,437	28,452
Software	2,055	2,152	25,004
Other intangible fixed assets	283	284	3,448
Deferred tax assets (note 25)	2,792	3,165	33,977
Customers' liabilities for acceptances and guarantees (note 16)	13,626	11,942	165,790
Allowance for possible loan losses	(44,223)	(47,614)	(538,060)
Total assets	¥7,359,323	¥7,285,838	$89,540,372
Liabilities and Equity			
Liabilities:			
Deposits (notes 9, 12 and 26)	¥6,652,921	¥6,498,687	$80,945,629
Call money	13,269	13,387	161,452
Payables under repurchase agreements (note 9)	2,098	2,099	25,538
Payables under securities lending transactions (note 9)	30,266	37,481	368,254
Borrowed money (notes 9 and 13)	76,690	79,505	933,083
Foreign exchanges (note 7)	166	213	2,019
Bonds (note 14)	15,000	15,000	182,503
Convertible bonds (note 15)	29,953	29,953	364,436
Other liabilities	43,458	68,184	528,751
Liability for employees' retirement benefits (note 24)	23,860	22,984	290,313
Liability for reimbursement of deposit losses (note 2. *k*)	283	221	3,443
Liability for contingent losses (note 2. *l*)	998	997	12,142
Deferred tax liabilities (note 25)	27,458	57,065	334,090
Deferred tax liabilities for land revaluation (note 11)	311	307	3,790
Acceptances and guarantees (note 16)	13,626	11,942	165,790
Total liabilities	6,930,362	6,838,031	84,321,240
Equity (notes 17, 18 and 30):			
Common stock, authorized, 1,000,000 thousands shares; issued, 379,203 thousands shares in 2012 and 2011	42,103	42,103	512,273
Capital surplus	30,301	30,301	368,678
Stock acquisition rights	326	227	3,970
Retained earnings	248,600	237,267	3,024,704
Treasury stock — at cost, 1,347 thousands shares in 2012 and 1,325 thousands shares in 2011	(1,240)	(1,225)	(15,091)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities (note 5)	100,666	131,540	1,224,808
Deferred losses on derivatives under hedge accounting	(1,664)	(935)	(20,249)
Land revaluation surplus (note 11)	562	448	6,844
Total	419,657	439,727	5,105,937
Minority Interests	9,303	8,078	113,193
Total equity	428,960	447,806	5,219,131
Total liabilities and equity	¥7,359,323	¥7,285,838	$89,540,372

See notes to consolidated financial statements.

Consolidated Statement of Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
Income:			
Interest income:			
Interest on loans and discounts	¥ 59,878	¥ 62,849	$ 728,532
Interest and dividends on securities	25,573	29,616	311,150
Other interest income	1,165	1,308	14,179
Fees and commissions	16,368	16,108	199,158
Other operating income (note 19)	10,560	12,402	128,490
Other income (note 20)	2,881	2,067	35,061
Total income	116,428	124,353	1,416,573
Expenses:			
Interest expense:			
Interest on deposits	6,914	9,454	84,124
Interest on borrowings and rediscounts	1,065	1,021	12,964
Other interest expense	1,417	1,247	17,247
Fees and commissions	5,988	5,900	72,867
Other operating expenses (note 21)	5,657	5,121	68,838
General and administrative expenses	58,496	57,425	711,726
Provision for allowance for possible loan losses	1,346	5,191	16,377
Other expenses (note 22)	7,690	4,447	93,563
Total expenses	88,577	89,810	1,077,710
Income Before Income Taxes and Minority Interests	27,851	34,542	338,862
Income Taxes (note 25):			
Current	6,020	10,951	73,248
Deferred	5,047	4,116	61,413
Net income before minority interests	16,783	19,475	204,200
Minority interests	1,223	1,096	14,880
Net Income	¥ 15,560	¥ 18,379	$ 189,319

	Yen		U.S. Dollars
	2012	2011	2012
Per Share Information (notes 2.*q* and 29):			
Basic net income	¥41.17	¥48.63	$0.50
Diluted net income	38.48	45.46	0.46
Cash dividends applicable to the year	11.00	10.00	0.13

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
Net Income Before Minority Interests	¥ 16,783	¥ 19,475	$ 204,200
Other Comprehensive Income (note 28)	(31,551)	(53,661)	(383,883)
Unrealized gains on available-for-sale securities	(30,866)	(53,695)	(375,555)
Deferred losses on derivatives under hedge accounting	(728)	34	(8,865)
Land revaluation surplus	44		537
Comprehensive Income	¥(14,768)	¥(34,186)	$(179,683)
Total Comprehensive Income Attributable to:			
Owners of the parent	¥(15,998)	¥(35,239)	$(194,648)
Minority interests	1,229	1,053	14,965

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2012

	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 (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Land revaluation surplus	Total	Minority interests	Total equity
Balance at April 1, 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
Net income					15,560					15,560		15,560
Cash dividends, ¥11.00 per share					(4,156)					(4,156)		(4,156)
Purchases of treasury stock	(21)					(16)				(16)		(16)
Disposals of treasury stock					(0)	2				1		1
Disposals of land revaluation surplus					(69)					(69)		(69)
Net change in the year				99			(30,873)	(728)	114	(31,389)	1,224	(30,164)
Balance at March 31, 2012	377,856	¥42,103	¥30,301	¥326	¥248,600	¥(1,240)	¥100,666	¥(1,664)	¥562	¥419,657	¥9,303	¥428,960

	Thousands of U.S. Dollars (Note 1)										
						Accumulated other comprehensive income					
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Unrealized gains (losses) on available-for-sale securities	Deferred gains (losses) on derivatives under hedge accounting	Land revaluation surplus	Total	Minority interests	Total equity
Balance at March 31, 2011	$512,273	$368,678	$2,763	$2,886,815	$(14,914)	$1,600,447	$(11,383)	$5,456	$5,350,136	$ 98,294	$5,448,431
Net income				189,319					189,319		189,319
Cash dividends, $0.13 per share				(50,572)					(50,572)		(50,572)
Purchases of treasury stock					(204)				(204)		(204)
Disposals of treasury stock				(6)	26				20		20
Disposals of land revaluation surplus				(850)					(850)		(850)
Net change in the year			1,206			(375,639)	(8,865)	1,387	(381,911)	14,898	(367,012)
Balance at March 31, 2012	$512,273	$368,678	$3,970	$3,024,704	$(15,091)	$1,224,808	$(20,249)	$6,844	$5,105,937	$113,193	$5,219,131

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries   Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
Operating Activities:			
Income before income taxes and minority interests	¥ 27,851	¥ 34,542	$ 338,862
Depreciation	5,122	5,027	62,323
Losses on impairment of long-lived assets	47		574
Decrease in allowance for possible loan losses	(3,391)	(1,797)	(41,262)
Increase (decrease) in liability for employees' retirement benefits	876	(168)	10,667
Increase (decrease) in liability for reimbursement of deposit losses	62	(12)	754
Increase in liability for contingent losses	1	54	12
Interest income	(86,616)	(93,774)	(1,053,862)
Interest expense	9,397	11,724	114,336
Losses (gains) on securities	67	(5,356)	820
Losses (gains) on money held in trust	28	(6)	344
Foreign exchange losses	6,143	17,796	74,749
Losses on sales of fixed assets	237	369	2,886
Net increase in trading securities	(4,986)	(15)	(60,671)
Net increase in loans	(124,699)	(100,441)	(1,517,207)
Net (decrease) increase in deposits	(13,032)	107,725	(158,568)
Net increase in negotiable certificates of deposit	167,266	91,324	2,035,118
Net increase in borrowed money (excluding subordinated loans)	18,684	20,965	227,329
Net decrease (increase) in due from banks (excluding due from Bank of Japan)	310	(70)	3,782
Net decrease in call loans and bills bought	118,102	38,177	1,436,942
Net decrease in call money	(118)	(13,484)	(1,442)
Net (decrease) increase in payables under securities lending transactions	(7,214)	16,019	(87,780)
Net (increase) decrease in foreign exchanges (assets)	(1,044)	931	(12,713)
Net (decrease) increase in foreign exchanges (liabilities)	(47)	27	(576)
Net decrease in lease receivables and investment assets	673	1,356	8,194
Interest and dividends received (cash basis)	91,663	99,629	1,115,268
Interest paid (cash basis)	(10,848)	(13,283)	(131,994)
Other, net	(10,080)	4,536	(122,654)
Subtotal	184,453	221,825	2,244,232
Income taxes — paid	(10,242)	(13,270)	(124,613)
Net cash provided by operating activities	174,211	208,554	2,119,618
Investing Activities:			
Purchases of securities	(2,861,196)	(1,675,788)	(34,811,974)
Proceeds from sales of securities	2,318,592	974,541	28,210,152
Proceeds from redemption of securities	363,229	543,927	4,419,391
Decrease in money held in trust		0	
Purchases of tangible fixed assets	(7,067)	(8,324)	(85,995)
Proceeds from sales of tangible fixed assets	110	442	1,341
Purchases of intangible fixed assets	(889)	(903)	(10,824)
Net cash used in investing activities	(187,221)	(166,104)	(2,277,908)
Financing Activities:			
Proceeds from borrowing of subordinated loans		16,000	
Repayments of subordinated loans	(21,500)		(261,589)
Dividends paid by the Bank	(4,156)	(3,778)	(50,572)
Dividends paid by subsidiaries to minority shareholders	(5)	(5)	(66)
Net cash used in (provided by) financing activities	(25,662)	12,215	(312,228)
Foreign Currency Translation Adjustments on Cash and Cash Equivalents	(2)	(15)	(28)
Net (Decrease) Increase in Cash and Cash Equivalents	(38,674)	54,650	(470,545)
Cash and Cash Equivalents at Beginning of Year	276,221	221,570	3,360,765
Cash and Cash Equivalents at End of Year	¥ 237,547	¥ 276,221	$ 2,890,219

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2012

1. Basis of Presentation of 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.

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. All yen figures for 2012 and 2011 have been rounded down to millions of yen.

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

2. Summary of Significant Accounting Policies

a. *Consolidation* — The consolidated financial statements as of March 31, 2012 include the accounts of the Bank and its significant 7 subsidiaries (together, the "Group"). Consolidation of the remaining 3 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 also 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 such 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 exceed a 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.

From the year ended March 31, 2012, the "DCF method" was applied to the following claims to debtors who had restructured loans. It is claims whose estimated uncollectible amounts exceeded the pre-established threshold and future cash flows could reasonably be estimated. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥3,086 million ($37,554 thousand).

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 liability 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 liability is calculated by estimation of future burden charges and other payments to the Credit Guarantee Corporation.

m. *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.

n. *Stock Options* — In December 2005, the Accounting Standards Board of Japan (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 a stock acquisition right 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.

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

Lessee

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were 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 be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised 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 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 be recognized as lease receivables, and all finance leases that are not deemed to transfer ownership of the leased property to the lessee 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.

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

q. *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 statement of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

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

(1) Changes in Accounting Policies

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

(2) Changes in Presentations

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

(3) Changes in Accounting Estimates

A change in 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.

s. *New Accounting Pronouncements*

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

Major changes are as follows:

(a) Treatment in the balance sheet

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

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

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

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

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

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

3. Securities

Securities at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Japanese government bonds	¥1,204,791	¥1,098,652	$14,658,615
Japanese local government bonds	278,035	174,955	3,382,836
Japanese corporate bonds	817,118	759,855	9,941,824
Japanese corporate stocks	324,194	408,075	3,944,456
Other securities	247,274	324,946	3,008,576
Total	¥2,871,415	¥2,766,484	$34,936,308

Securities include investments in unconsolidated subsidiaries of ¥554 million ($6,744 thousand) and ¥647 million at March 31, 2012 and 2011, respectively.

Held-to-maturity debt securities as of March 31, 2012 and 2011 were as follows:

	Millions of Yen									
	2012					2011				
	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	¥4,009	¥4,025	¥16	¥16	¥0	¥3,613	¥3,623	¥10	¥14	¥4

	Thousands of U.S. Dollars				
	2012				
	Carrying amount	Fair value	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Japanese government bonds	$48,784	$48,983	$198	$199	$0

The cost and aggregate fair value of available-for-sale securities as of March 31, 2012 and 2011 were as follows:

	Millions of Yen									
	2012					2011				
	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	¥ 176,073	¥ 320,144	¥144,070	¥149,322	¥ 5,251	¥ 180,433	¥ 403,961	¥223,528	¥230,496	¥ 6,968
Japanese government bonds	1,193,119	1,200,782	7,662	8,576	913	1,096,709	1,095,038	(1,670)	3,376	5,047
Japanese local government bonds	274,487	278,035	3,547	3,548	0	173,956	174,955	998	1,273	275
Japanese corporate bonds	812,095	817,118	5,023	6,091	1,068	755,741	759,855	4,114	5,953	1,839
Japanese bonds – total	2,279,702	2,295,935	16,233	18,215	1,982	2,026,406	2,029,849	3,442	10,604	7,162
Foreign bonds	194,716	196,255	1,539	2,411	871	271,672	271,760	88	1,876	1,787
Other	55,708	49,630	(6,078)	563	6,641	58,010	51,537	(6,472)	614	7,087
Other – total	250,425	245,886	(4,538)	2,975	7,513	329,682	323,298	(6,383)	2,490	8,874
Total	¥2,706,201	¥2,861,967	¥155,765	¥170,513	¥14,747	¥2,536,522	¥2,757,109	¥220,586	¥243,592	¥23,005

	Thousands of U.S. Dollars				
	2012				
	Cost	Carrying amount	Net unrealized gains (losses)	Unrealized gains	Unrealized losses
Japanese corporate stocks	$ 2,142,280	$ 3,895,178	$1,752,898	$1,816,798	$ 63,900
Japanese government bonds	14,516,606	14,609,830	93,224	104,343	11,118
Japanese local government bonds	3,339,669	3,382,836	43,166	43,174	7
Japanese corporate bonds	9,880,706	9,941,824	61,117	74,113	12,995
Japanese bonds – total	27,736,981	27,934,491	197,509	221,631	24,121
Foreign bonds	2,369,096	2,387,832	18,735	29,343	10,607
Other	677,806	603,855	(73,951)	6,855	80,807
Other – total	3,046,903	2,991,687	(55,216)	36,198	91,414
Total	$32,926,165	$34,821,356	$1,895,191	$2,074,628	$179,436

Bonds classified as held-to-maturity were not sold during the fiscal years ended March 31, 2012 and 2011.
Available-for-sale securities sold during the fiscal year:

	Millions of Yen					
	2012			2011		
	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Available-for-sale securities	¥2,313,234	¥5,765	¥1,938	¥977,435	¥6,429	¥764

	Thousands of U.S. Dollars		
	2012		
	Sales amount	Gains on sales	Losses on sales
Available-for-sale securities	$28,144,967	$70,148	$23,583

The classification of securities was not changed in the years ended March 31, 2012 and 2011.

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 ¥3,631 million ($44,185 thousand) and ¥271 million, respectively, for the years ended March 31, 2012 and 2011.

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 issuers who have already gone bankrupt from a legal and/or formal perspective. "Virtual bankruptcy" refers to issuers 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 issuers 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.

4. Money Held in Trust

(1) Money held in trust classified as trading:

	Millions of Yen				Thousands of U.S. Dollars	
	2012		2011		2012	
	Carrying amount	Gains (losses) included in profit/loss during this fiscal year	Carrying amount	Gains (losses) included in profit/loss during this fiscal year	Carrying amount	Gains (losses) included in profit/loss during this fiscal year
Money held in trust classified as trading	¥1,937		¥1,965		$23,568	

(2) No money held in trust was classified as held-to-maturity at March 31, 2012 and 2011.

(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, 2012 and 2011.

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
	2012	2011	2012
Net unrealized gains on available-for-sale securities	¥155,765	¥220,586	$1,895,191
Deferred tax liabilities	(55,042)	(88,996)	(669,700)
Net unrealized gains on valuation (before adjustment)	100,723	131,590	1,225,491
Minority interests	(56)	(49)	(683)
Net unrealized gains on valuation	¥100,666	¥131,540	$1,224,808

6. Loans and Bills Discounted

Loans and bills discounted at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Bills discounted	¥ 34,856	¥ 33,621	$ 424,097
Loans on bills	124,407	131,628	1,513,652
Loans on deeds	3,411,874	3,251,723	41,512,037
Overdrafts	488,753	518,218	5,946,629
Total	¥4,059,891	¥3,935,192	$49,396,417

Loans in legal bankruptcy totaled ¥10,056 million ($122,361 thousand) and ¥10,192 million as of March 31, 2012 and 2011, respectively. Nonaccrual loans totaled ¥121,931 million ($1,483,533 thousand) and ¥140,245 million as of March 31, 2012 and 2011, 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 ¥5 million ($60 thousand) and ¥35 million as of March 31, 2012 and 2011, respectively. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded.

Restructured loans totaled ¥13,874 million ($168,809 thousand) and ¥8,527 million as of March 31, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Assets:			
Due from foreign correspondents	¥2,248	¥1,911	$27,357
Foreign bills of exchange purchased	943	369	11,482
Foreign bills of exchange receivable	429	296	5,226
Total	¥3,621	¥2,576	$44,066
Liabilities:			
Foreign bills of exchange sold	¥ 166	¥ 213	$ 2,019
Total	¥ 166	¥ 213	$ 2,019

8. Tangible Fixed Assets

Accumulated depreciation on tangible fixed assets at March 31, 2012 and 2011 amounted to ¥69,851 million ($849,874 thousand) and ¥67,696 million, respectively.

9. Assets Pledged

Assets pledged as collateral and related liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Securities	¥75,470	¥63,278	$918,250
Receivables under resale agreements	2,098	2,099	25,538

Collateralized liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deposits	¥11,259	¥15,946	$136,999
Payables under securities lending transactions	30,266	37,481	368,254
Payables under repurchase agreements	2,098	2,099	25,538
Borrowed money	40,091	21,100	487,795

In addition, securities totaling ¥366,081 million ($4,454,086 thousand) and ¥318,974 million at March 31, 2012 and 2011, respectively, were pledged as collateral for the settlement of exchange and derivative transactions.

Other assets include surety deposits of ¥1,578 million ($19,201 thousand) and ¥1,623 million at March 31, 2012 and 2011, 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, 2012 and 2011, the amounted to ¥1,203,211 million ($14,639,392 thousand) and ¥1,141,588 million, respectively, of which ¥1,168,215 million ($14,213,596 thousand) and ¥1,100,206 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. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities.

At March 31, 2012 and 2011, the carrying amount of the land after the above one-time revaluation was less than the fair value by ¥3,273 million ($39,832 thousand) and by ¥3,205 million, respectively.

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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Current deposits	¥ 262,098	¥ 259,105	$ 3,188,931
Ordinary deposits	2,698,113	2,513,932	32,827,755
Savings deposits	86,015	86,761	1,046,550
Deposits at notice	18,799	21,186	228,735
Time deposits	2,560,440	2,603,530	31,152,696
Other deposits	234,546	388,530	2,853,715
Subtotal	5,860,014	5,873,046	71,298,383
Negotiable certificates of deposit	792,907	625,640	9,647,246
Total	¥6,652,921	¥6,498,687	$80,945,629

13. Borrowed Money

Borrowed money at March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Subordinated loans	¥35,000	¥56,500	$425,842
Borrowing from banks and other	41,690	23,005	507,240
Total	¥76,690	¥79,505	$933,083

At March 31, 2012 and 2011, the weighted average interest rates applicable to borrowed money were 0.94% and 1.31%, respectively.

Annual maturities of borrowed money at March 31, 2012 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2013	¥41,523	$505,212
2014	48	591
2015	47	574
2016	20	243
2017	50	619
2018 and thereafter	35,000	425,842
Total	¥76,690	$933,083

14. Bonds

Callable unsecured subordinated straight bonds at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Straight bonds	¥15,000	¥15,000	$182,503

15. Convertible Bonds

Unsecured subordinated convertible bonds at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Callable unsecured subordinated convertible bonds, due March 2014, non interest (*1)	¥29,953	¥29,953	$364,436

(*1) At March 31, 2012, 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 ¥22,953 million ($279,268 thousand) as of March 31, 2012.

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

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Banking Law requires that an amount equal to 20% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total 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 capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the 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 ¥100 million ($1,226 thousand) and ¥96 million for the years ended March 31, 2012 and 2011, respectively.

The stock options outstanding as of March 31, 2012 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
2011 Stock Option	12 directors and 8 executive officers of the Bank	149,800 shares	August 1, 2011	¥ 1 ($0.01)	From August 2, 2011 To August 1, 2041

Stock option activity is as follows:

	2008 Stock option	2009 Stock option	2010 Stock option	2011 Stock option
Year ended March31, 2011				
Non-vested				
April 1, 2010 — Outstanding		111,900		
Granted			143,700	
Canceled				
Vested		(111,900)		
March 31, 2011 — Outstanding			143,700	
Vested				
April 1, 2010 — Outstanding	85,600			
Vested		111,900		
Exercised	(10,200)	(13,200)		
Canceled				
March 31, 2011 — Outstanding	75,400	98,700		
Year ended March31, 2012				
Non-vested				
March 31, 2011 — Outstanding			143,700	
Granted				149,800
Canceled				
Vested			(143,700)	
March 31, 2012 — Outstanding				149,800
Vested				
March 31, 2011 — Outstanding	75,400	98,700		
Vested			143,700	
Exercised			(2,400)	
Canceled				
March 31, 2012 — Outstanding	75,400	98,700	141,300	
Exercise price	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)	¥ 1 ($0.01)
Average stock price at exercise			¥739 ($ 8)	
Fair value price at grant date	¥978 ($ 11)	¥805 ($ 9)	¥686 ($ 8)	¥678 ($ 8)

The fair value of stock options granted in 2012 was measured on the date of grant using the Black-Scholes option pricing model with the following assumptions:

Volatility of stock price:	31.6%
Estimated remaining outstanding period:	Four years and 2 months
Estimated dividend:	¥10 per share
Risk free interest rate:	0.31%

19. Other Operating Income

Other operating income for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Gains on foreign exchange transactions – net	¥ 938	¥ 1,189	$ 11,417
Gains on trading securities	14	13	178
Gains on sales of bonds	5,281	6,151	64,262
Other	4,325	5,048	52,631
Total	¥10,560	¥12,402	$128,490

20. Other Income

Other income for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Gains on sales of stocks and other securities	¥ 485	¥ 277	$ 5,909
Gains on sales of tangible fixed assets	51	1	626
Other	2,344	1,788	28,526
Total	¥2,881	¥2,067	$35,061

21. Other Operating Expenses

Other operating expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Losses on sales of bonds	¥1,482	¥ 747	$18,039
Other	4,175	4,373	50,799
Total	¥5,657	¥5,121	$68,838

22. Other Expenses

Other expenses for the years ended March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Charge-off claims	¥ 184	¥ 392	$ 2,241
Losses on sales of stocks and other securities	457	16	5,571
Losses on devaluation of stocks and other securities	3,689	152	44,894
Losses on sales of tangible fixed assets	403	511	4,905
Losses on impairment of long-lived assets	47		574
Other	2,907	3,374	35,377
Total	¥7,690	¥4,447	$93,563

23. Leases

Lessee

The Group leases certain equipment.

Lease payments under finance leases for the years ended March 31, 2012 and 2011 amounted to ¥0 million ($9 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
	2012	2011	2012
Equipment:			
Acquisition cost	¥4	¥5	$51
Accumulated depreciation	4	3	49
Net leased property	¥0	¥1	$ 1

Obligations under finance leases as of March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥0	¥0	$1
Due after one year	0	0	0
Total	¥0	¥1	$1

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
	2012	2011	2012
Depreciation expense	¥0	¥1	$9

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, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 92	¥ 77	$ 1,126
Due after one year	1,139	518	13,861
Total	¥1,231	¥595	$14,987

Lessor

A consolidated subsidiary leases other assets.

The net leased investment assets are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Gross leased investment assets	¥7,943	¥9,112	$96,652
Unearned interest income	(952)	(1,170)	(11,585)
Leased investment assets	¥6,991	¥7,941	$85,067

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	2012	2012	2012	2012
2013	¥118	$1,447	¥2,792	$33,982
2014	99	1,208	2,288	27,843
2015	78	955	1,468	17,867
2016	76	929	835	10,159
2017	36	449	360	4,389
2018 and thereafter	0	10	198	2,410
Total	¥411	$5,002	¥7,943	$96,652

The minimum future rentals to be received under noncancellable operating leases at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥35	¥50	$436
Due after one year	9	18	116
Total	¥45	¥68	$553

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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Projected benefit obligation	¥(44,053)	¥(43,461)	$(535,995)
Fair value of plan assets	17,560	16,625	213,661
Unfunded projected benefit obligation	(26,492)	(26,836)	(322,333)
Unrecognized actuarial net loss	2,631	3,852	32,020
Liability for employees' retirement benefits	¥(23,860)	¥(22,984)	$(290,313)

The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Service cost	¥1,631	¥1,546	$19,844
Interest cost	650	632	7,916
Expected return on plan assets	(249)	(226)	(3,034)
Recognized actuarial net loss	1,630	1,678	19,833
Net periodic retirements benefit costs	¥3,662	¥3,631	$44,561

Assumptions used for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
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. 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, 2012 and 2011.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Deferred tax assets:			
Allowance for possible loan losses	¥12,367	¥15,287	$150,474
Liability for employees' retirement benefits	8,701	9,352	105,875
Devaluation of stocks and other securities	4,398	7,070	53,510
Depreciation	577	695	7,027
Other	6,750	7,452	82,137
Less valuation allowance	(2,337)	(4,691)	(28,437)
Total	¥30,458	¥35,167	$370,587
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥55,071	¥89,026	$670,056
Other	53	42	644
Total	¥55,124	¥89,068	$670,701
Net deferred tax assets	¥ 2,792	¥ 3,165	$ 33,977
Net deferred tax liabilities	27,458	57,065	334,090

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 years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Normal effective statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	0.4	0.4
Income not taxable for income tax purposes	(4.5)	(5.2)
Per capita inhabitant tax	0.3	0.2
Increase (decrease) in valuation allowance for deferred tax assets	(7.2)	7.6
Effect of tax rate reduction	10.0	
Other – net	0.1	0.0
Actual effective tax rate	39.7%	43.6%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.6% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterwards. Due to the effect of this change, deferred tax liabilities decreased by ¥5,082 million ($61,834 thousand), net unrealized gains on available-for-sale securities increased by ¥7,795 million ($94,848 thousand), income taxes-deferred increased ¥2,800 million ($34,076 thousand), deferred tax liabilities for land revaluation decreased by ¥44 million ($537 thousand), and land revaluation surplus increased by ¥44 million ($537 thousand).

26. 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, however there is no derivative balance at March 31, 2012. 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 the 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 stocks, 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 stocks. A semiannual self-assessment provides an accurate understanding of the investments in stocks 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 Office 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 Office 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, 2012 and 2011 was ¥12.4 billion ($150 million) and ¥10.5 billion.

VaR by risk type at March 31, 2012 and 2011 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Interest rate fluctuation risk	¥ 8.1	¥ 5.0	$ 98
Market price fluctuation risk (*)	4.1	5.3	49
Foreign currency fluctuation risk	0.2	0.2	2
Total	¥12.4	¥10.5	$150

(*) 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, 2012	Carrying amount	Fair value	Unrealized gains/losses
Cash and due from Bank of Japan	¥ 237,547	¥ 237,547	
Due from other banks	891	891	
Call loans and bills bought	84,466	84,466	
Securities:			
Held-to-maturity bonds	4,009	4,025	¥ 16
Available-for-sale securities	2,861,967	2,861,967	
Loans and bills discounted	4,059,891		
Allowance for possible loan losses (*1)	(41,984)		
	4,017,906	4,057,075	39,169
Total	¥7,206,788	¥7,245,973	¥39,185
Deposits (other than negotiable certificates of deposit)	¥5,860,014	¥5,863,650	¥ 3,636
Negotiable certificates of deposit	792,907	792,920	12
Borrowed money	76,690	78,334	1,643
Total	¥6,729,611	¥6,734,904	¥ 5,293
Derivatives (*2):			
Hedge accounting not applied	¥ 498	¥ 498	
Hedge accounting applied	(3,559)	(3,559)	
Total	¥ (3,061)	¥ (3,061)	

	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, 2012	Carrying amount	Fair value	Unrealized gains/losses
Cash and due from Bank of Japan	$ 2,890,219	$ 2,890,219	
Due from other banks	10,841	10,841	
Call loans and bills bought	1,027,699	1,027,699	
Securities:			
Held-to-maturity bonds	48,784	48,983	$ 198
Available-for-sale securities	34,821,356	34,821,356	
Loans and bills discounted	49,396,417		
Allowance for possible loan losses (*1)	(510,823)		
	48,885,593	49,362,160	476,566
Total	$87,684,494	$88,161,260	$476,765
Deposits (other than negotiable certificates of deposit)	$71,298,383	$71,342,628	$ 44,245
Negotiable certificates of deposit	9,647,246	9,647,402	156
Borrowed money	933,083	953,084	20,001
Total	$81,878,713	$81,943,115	$ 64,402
Derivatives (*2):			
Hedge accounting not applied	$ 6,066	$ 6,066	
Hedge accounting applied	(43,312)	(43,312)	
Total	$ (37,246)	$ (37,246)	

(*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 27.

(b) Carrying amount of 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
	2012	2011	2012
Non-listed stocks (*1) (*2)	¥4,050	¥4,113	$49,277
Investments in venture funds (*3)	1,388	1,648	16,888
Total	¥5,438	¥5,761	$66,166

(*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 ¥60 million ($738 thousand) and ¥37 million were recorded for the years ended March 31, 2012 and 2011, respectively.

(*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, 2012	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	¥ 167,461					
Calls loans and bills bought	84,466					
Securities:						
Held-to-maturity bonds	1,000	¥ 1,400	¥ 1,600			
Available-for-sale securities	361,517	584,196	436,881	¥405,529	¥587,824	¥ 82,753
Loans and bills discounted (*)	1,089,197	763,100	594,481	301,919	342,308	814,424
Total	¥1,703,643	¥1,348,696	¥1,032,962	¥707,449	¥930,133	¥897,177

	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					
Calls 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

March 31, 2012	Thousands of U.S. Dollars 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	$ 2,037,491					
Calls loans and bills bought	1,027,699					
Securities:						
Held-to-maturity bonds	12,166	$ 17,033	$ 19,467			
Available-for-sale securities	4,398,560	7,107,878	5,315,503	$4,934,053	$ 7,152,024	$ 1,006,852
Loans and bills discounted (*)	13,252,188	9,284,589	7,233,010	3,673,430	4,164,845	9,909,046
Total	$20,728,105	$16,409,501	$12,567,981	$8,607,484	$11,316,870	$10,915,899

(*) At March 31, 2012 and 2011, Loans and bills discounted of ¥131,988 million ($1,605,894 thousand) and ¥150,438 million, respectively, 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. At March 31, 2012 and 2011, Loans and bills discounted of ¥22,471 million ($273,410 thousand) and ¥23,843 million, respectively, that do not have fixed maturities are not included as well.

(d) Maturity analysis for interest bearing liabilities

March 31, 2012	Millions of Yen 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)	¥5,445,221	¥375,562	¥39,230			
Negotiable certificates of deposit	792,907					
Borrowed money	41,523	95	70		¥6,000	¥29,000
Total	¥6,279,652	¥375,657	¥39,301		¥6,000	¥29,000

March 31, 2011	Millions of Yen 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

March 31, 2012	Thousands of U.S. Dollars 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)	$66,251,632	$4,569,437	$477,313			
Negotiable certificates of deposit	9,647,246					
Borrowed money	505,212	1,165	862		$73,001	$352,840
Total	$76,404,090	$4,570,603	$478,176		$73,001	$352,840

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

27. 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							
	2012				2011			
	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	¥45,500	¥41,219	¥688	¥688	¥41,939	¥36,455	¥691	¥691
Receive floating and pay fixed	45,500	41,219	(332)	(332)	41,939	36,455	(345)	(345)
Other:								
Sold	¥ 1,209	¥ 559	(0)	47	¥ 1,584	¥ 1,226	(2)	66
Bought	1,209	559	0	(26)	1,584	1,226	2	(39)
Total			¥355	¥376			¥346	¥373

	Thousands of U.S. Dollars			
	2012			
	Contractual value	Contractual value due after one year	Fair value	Unrealized gains (losses)
Interest rate swaps:				
Receive fixed and pay floating	$553,603	$501,510	$8,374	$8,374
Receive floating and pay fixed	553,603	501,510	(4,043)	(4,043)
Other:				
Sold	$ 14,712	$ 6,803	(7)	581
Bought	14,712	6,803	7	(326)
Total			$4,331	$4,586

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							
	2012				2011			
	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	¥29,098	¥ 7,964	¥ 941	¥941	¥40,563	¥11,392	¥2,526	¥2,526
Bought	24,544	7,526	(798)	(798)	35,513	10,856	(2,111)	(2,111)
Currency options:								
Sold	¥24,344	¥14,990	(2,280)	91	¥33,853	¥21,363	(3,773)	(543)
Bought	24,344	14,990	2,280	356	33,853	21,363	3,775	1,182
Total			¥ 142	¥590			¥ 416	¥1,053

	Thousands of U.S. Dollars			
	2012			
	Contractual value	Contractual value due after one year	Fair value	Unrealized gains (losses)
Forward exchange contracts:				
Sold	$354,038	$ 96,897	$ 11,451	$11,451
Bought	298,632	91,574	(9,716)	(9,716)
Currency options:				
Sold	$296,203	$182,384	(27,751)	1,107
Bought	296,203	182,384	27,751	4,337
Total			$ 1,735	$ 7,180

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						Thousands of U.S. Dollars		
	2012			2011			2012		
	Contractual amount	Contractual value due after one year	Fair value	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	¥81,759	¥61,759	¥(2,498)	¥72,635	¥72,635	¥(1,518)	$994,759	$751,421	$(30,398)

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						Thousands of U.S. Dollars		
	2012			2011			2012		
	Contractual amount	Contractual value due after one year	Fair value	Contractual amount	Contractual value due after one year	Fair value	Contractual amount	Contractual value due after one year	Fair value
Currency swaps	¥35,354	¥4,109	¥(1,061)	¥40,314	¥7,684	¥2,410	$430,155	$50,000	$(12,914)

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.

28. Other Comprehensive Income

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

	Millions of Yen	Thousands of U.S. Dollars
	2012	2012
Unrealized gains on available-for-sale securities:		
Losses arising during the year	¥(64,827)	$(788,752)
Reclassification adjustments to profit or loss	6	77
Amount before income tax effect	(64,821)	(788,674)
Income tax effect	(33,954)	(413,118)
Total	¥(30,866)	$(375,555)
Deferred losses on derivatives under hedge accounting:		
Losses arising during the year	¥ (2,071)	$ (25,208)
Reclassification adjustments to profit or loss	1,063	12,938
Amount before income tax effect	(1,008)	(12,269)
Income tax effect	(279)	(3,403)
Total	¥ (728)	$ (8,865)
Land revaluation surplus:		
Reclassification adjustments to profit or loss		
Amount before income tax effect		
Income tax effect	¥ 44	$ 537
Total	¥ 44	$ 537
Total other comprehensive income	¥(31,551)	$(383,883)

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

29. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2012 and 2011 were 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, 2012				
Basic EPS – Net income available to common stockholders	¥15,560	377,866	¥41.17	$0.50
Effect of dilutive securities – Convertible bonds and stock acquisition rights	5	26,588		
Diluted EPS – Net income for computation	¥15,565	404,454	¥38.48	$0.46
For the year ended March 31, 2011				
Basic EPS – Net income available to common stockholders	¥18,379	377,893	¥48.63	
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	

30. Subsequent Events

Appropriations of retained earnings

The following appropriations of retained earnings at March 31, 2012 were approved at the Bank's general meeting of stockholders held on June 28, 2012:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.00 ($0.06) per share	¥1,889	$22,986

31. Segment Information

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

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				
	2012				
	Reportable segment				
	Banking	Other (Note 2)	Total	Reconciliations	Consolidated
Operating income (Note 1):					
Outside customers	¥ 108,118	¥ 8,258	¥ 116,376		¥ 116,376
Intersegment	391	2,630	3,021	¥ (3,021)	
Total	108,510	10,888	119,398	(3,021)	116,376
Segment profit (Note 3)	25,599	2,662	28,261	(11)	28,249
Segment assets (Note 4)	7,347,093	35,170	7,382,263	(22,940)	7,359,323
Segment liabilities (Note 5)	6,929,575	23,529	6,953,105	(22,742)	6,930,362
Other:					
Depreciation	4,984	137	5,122		5,122
Interest income (Note 3)	86,402	331	86,733	(116)	86,616
Interest expense (Note 3)	9,372	137	9,509	(112)	9,397
Income taxes (Note 3)	9,728	1,342	11,070	(2)	11,067
Increase in tangible and intangible fixed assets	7,504	453	7,957		7,957

	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

	Thousands of U.S. Dollars				
	2012				
	Reportable segment				
	Banking	Other (Note 2)	Total	Reconciliations	Consolidated
Operating income (Note 1):					
Outside customers	$ 1,315,469	$100,477	$ 1,415,946		$ 1,415,946
Intersegment	4,768	31,999	36,768	$ (36,768)	
Total	1,320,238	132,476	1,452,714	(36,768)	1,415,946
Segment profit (Note 3)	311,463	32,391	343,855	(140)	343,715
Segment assets (Note 4)	89,391,570	427,914	89,819,484	(279,111)	89,540,372
Segment liabilities (Note 5)	84,311,666	286,285	84,597,951	(276,710)	84,321,240
Other:					
Depreciation	60,647	1,675	62,323		62,323
Interest income (Note 3)	1,051,248	4,034	1,055,282	(1,420)	1,053,862
Interest expense (Note 3)	114,029	1,671	115,700	(1,364)	114,336
Income taxes (Note 3)	118,369	16,329	134,698	(36)	134,662
Increase in tangible and intangible fixed assets	91,300	5,518	96,819		96,819

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			
	2012			
	Lending services	Securities investment	Other	Total
Operating income from outside customers	¥60,164	¥31,340	¥24,871	¥116,376

	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			
	2012			
	Lending services	Securities investment	Other	Total
Operating income from outside customers	$732,018	$381,321	$302,606	$1,415,946

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, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, therefore major customer information is not presented.

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 29, 2012

Member of
Deloitte Touche Tohmatsu Limited

Non-Consolidated Balance Sheet (Unaudited)

The Bank of Kyoto, Ltd. As of March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Assets:			
Cash and due from banks	¥ 238,261	¥ 277,343	$ 2,898,906
Call loans	84,466	202,666	1,027,699
Receivables under resale agreements	2,098	2,099	25,538
Monetary claims bought	5,141	5,246	62,550
Trading securities	5,284	298	64,301
Money held in trust	1,937	1,965	23,568
Securities	2,866,325	2,761,760	34,874,387
Loans and bills discounted	4,065,883	3,942,082	49,469,318
Foreign exchanges	3,621	2,576	44,066
Other assets	18,074	29,414	219,908
Tangible fixed assets	78,037	75,601	949,479
Buildings	26,975	26,429	328,207
Land	43,087	40,705	524,236
Construction in progress	1,100	1,101	13,384
Other tangible fixed assets	6,875	7,365	83,651
Intangible fixed assets	2,162	2,329	26,311
Software	1,885	2,051	22,938
Other intangible fixed assets	277	277	3,372
Customers' liabilities for acceptances and guarantees	13,626	11,942	165,790
Allowance for possible loan losses	(37,828)	(40,778)	(460,255)
Total assets	¥7,347,093	¥7,274,549	$89,391,570
Liabilities and Equity			
Liabilities:			
Deposits	¥6,667,707	¥6,512,523	$81,125,533
Call money	13,269	13,387	161,452
Payables under repurchase agreements	2,098	2,099	25,538
Payables under securities lending transactions	30,266	37,481	368,254
Borrowed money	75,290	77,905	916,049
Foreign exchanges	166	213	2,019
Bonds	15,000	15,000	182,503
Convertible bonds	29,953	29,953	364,436
Other liabilities	29,380	54,829	357,467
Liability for employees' retirement benefits	23,781	22,901	289,351
Liability for reimbursement of deposit losses	283	221	3,443
Liability for contingent losses	998	997	12,142
Deferred tax liabilities	27,442	57,059	333,892
Deferred tax liabilities for land revaluation	311	307	3,790
Acceptances and guarantees	13,626	11,942	165,790
Total liabilities	6,929,575	6,836,823	84,311,666
Equity:			
Common stock	42,103	42,103	512,273
Capital surplus	30,301	30,301	368,678
Stock acquisition rights	326	227	3,970
Retained earnings	246,466	235,270	2,998,738
Treasury stock — at cost	(1,240)	(1,225)	(15,091)
Accumulated other comprehensive income:			
Net unrealized gains on available-for-sale securities	100,661	131,535	1,224,740
Deferred losses on derivatives under hedge accounting	(1,664)	(935)	(20,249)
Land revaluation surplus	562	448	6,844
Total equity	417,517	437,726	5,079,904
Total liabilities and equity	¥7,347,093	¥7,274,549	$89,391,570

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 ¥82.19 to US$1.00 on March 31, 2012, the final business day of the term.

Non-Consolidated Statement of Income (Unaudited)

The Bank of Kyoto, Ltd. Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Income			
Interest income:			
Interest on loans and discounts	¥ 59,711	¥ 62,648	$ 726,505
Interest and dividends on securities	25,527	29,573	310,595
Other interest income	1,162	1,306	14,147
Fees and commissions	13,032	12,891	158,564
Other operating income	6,234	7,652	75,859
Other income	2,841	2,080	34,566
Total income	108,510	116,153	1,320,238
Expenses			
Interest expenses:			
Interest on deposits	6,919	9,468	84,192
Interest on borrowings and rediscounts	1,041	996	12,674
Other interest expenses	1,410	1,238	17,162
Fees and commissions	6,654	6,613	80,961
Other operating expenses	1,802	904	21,930
General and administrative expenses	56,941	55,849	692,805
Other expenses	8,588	8,594	104,496
Total expenses	83,358	83,665	1,014,222
Income before income taxes	25,151	32,487	306,015
Income taxes:			
Current	5,071	10,093	61,710
Deferred	4,656	4,121	56,659
Net income	¥ 15,422	¥ 18,273	$ 187,646

	Yen		U.S. Dollars
	2012	2011	2012
Per Share Information:			
Basic net income	¥40.81	¥48.35	$0.496
Diluted net income	38.14	45.20	0.464
Cash dividends applicable to the year	11.00	10.00	0.133

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 ¥82.19 to US$1.00 on March 31, 2012, the final business day of the term.

Corporate Profile

The Bank's Organization (As of July 31, 2012)

- 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
  - Area Business Headquarters
- Customer Service Division
- Corporate Banking Division
- Personal Banking Division
- Public Institutions Division
- Credit Supervision Division
- Head Office Business Department, Domestic Branches and Sub-branches (164 Offices)
- Treasury & Investment Division
- Securities & International Division
  - Hong Kong Representative Office
  - Shanghai Representative Office
  - Dalian 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

Board of Directors and Corporate Auditors (As of June 28, 2012)

Chairman
Yasuo Kashihara

President
Hideo Takasaki

Senior Managing Director
Issei Daido

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

Directors
Takayuki Matsumura
Masahiko Naka
Hiroshi Hitomi
Masaya Anami

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
Ko Nishizawa
Tadahiko Nishiyama
Shinichi Takenaka
Satoru Kitagawa
Hirokazu Tagano
Hiroyuki Yamamoto

Corporate Data (As of March 31, 2012)

Date of Establishment
October 1, 1941

Number of Employees
3,286

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)

NORTHERN TRUST Co. (AVFC) SUB A/C AMERICAN CLIENTS	17,518	(4.61%)
Nippon Life Insurance Company	16,589	(4.37%)
Japan Trustee Services Bank, Ltd. (trust account)	15,462	(4.07%)
The Tokio Marine & Nichido Fire Insurance Co., Ltd.	14,098	(3.71%)
Meiji Yasuda Life Insurance Company	11,501	(3.03%)
The Master Trust Bank of Japan, Ltd. (trust account)	8,770	(2.31%)
Sompo Japan Insurance Inc.	8,012	(2.11%)
Kyocera Corporation	7,980	(2.10%)
Mizuho Corporate Bank, Ltd.	7,500	(1.97%)
Sumitomo Life Insurance Company	6,590	(1.73%)

International Service Network

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* As of July 31, 2012

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

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