Bank of Kyoto

# Annual Report 2013

For the year ended March 31, 2013

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.


## Contents



Non-Consolidated Basis

**Total Assets:**
¥7,615.8 billion
(7th among regional banks)

**Total Deposits:**
¥6,848.7 billion
(7th among regional banks)

**Loans and Bills Discounted:**
¥4,126.4 billion
(11th among regional banks)

**Unrealized Gains on Securities:**
¥191.7 billion
(2nd among regional banks)

**Capital Ratio:**
12.81%
(domestic standards)

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

**Attention regarding forward-looking statements**

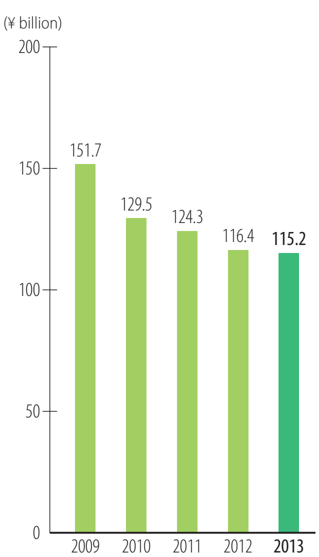
Readers are advised that this report contains forward-looking statements, which are not statements of historical fact but constitute estimates or projections based on facts known to the Company's management as of the time of writing. Actual results may therefore differ substantially from such statements.

# Consolidated Financial Highlights

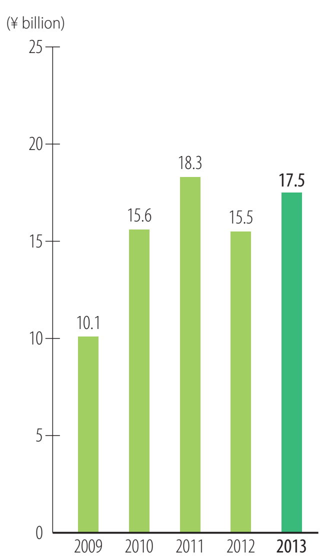
| | Millions of Yen | | | Thousands of U.S. Dollars |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2013 |
| **For The Year** | | | | |
| Total Income | ¥ 115,297 | ¥ 116,428 | ¥ 124,353 | $ 1,225,916 |
| Total Expenses | 84,592 | 88,577 | 89,810 | 899,446 |
| Income before Income Taxes and Minority Interests | 30,704 | 27,851 | 34,542 | 326,469 |
| Net Income | 17,574 | 15,560 | 18,379 | 186,866 |
| **At Year-end** | | | | |
| Total Assets | ¥7,626,868 | ¥7,359,323 | ¥7,285,838 | $81,093,765 |
| Deposits (including NCDs) | 6,833,266 | 6,652,921 | 6,498,687 | 72,655,679 |
| Loans and Bills Discounted | 4,120,333 | 4,059,891 | 3,935,192 | 43,810,036 |
| Securities | 3,034,289 | 2,871,415 | 2,766,484 | 32,262,509 |
| Minority Interests | 5,560 | 9,303 | 8,078 | 59,121 |
| Common Stock | 42,103 | 42,103 | 42,103 | 447,673 |
| Total Equity | 463,074 | 428,960 | 447,806 | 4,923,710 |
| Capital Ratio (Domestic Standards) | 13.26% | 13.25% | 13.55% | |

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 ¥94.05 to US$1.00 on March 31, 2013, the final business day of the term.
3. To calculate credit risk assets, the Bank employs the Fundamental Internal Ratings-Based Approach for the fiscal year ended March 2013 and standardized approach for the fiscal years ended March 31, 2012 and March 31, 2011.

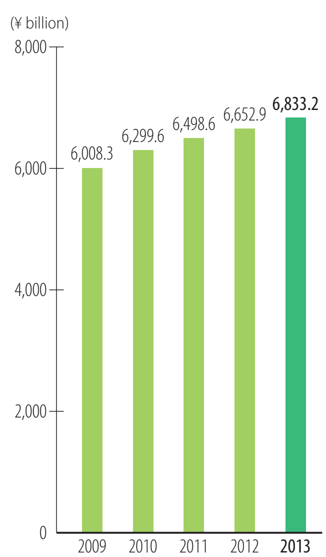
**Total Income**



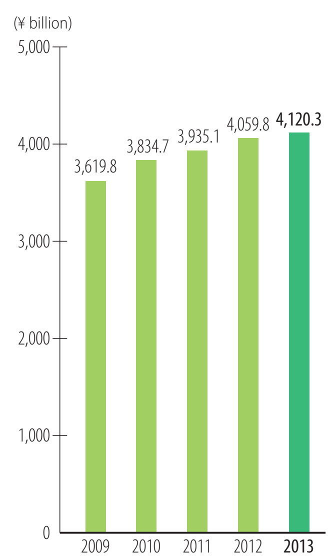

**Net Income**




**Deposits (including NCDs)**




**Loans and Bills Discounted**



# Message from the President

## Growth and development as a wide-area regional bank

Aiming to be a growth leader in its area, the Bank of Kyoto is aggressively opening branches in a campaign to expand its business domain to include prefectures beyond Kyoto Prefecture. Since opening our first manned branch at Kusatsu in Shiga Prefecture in December 2000, we have opened branches in five neighboring prefectures (Kyoto, Osaka, Shiga, Nara and Hyogo) as well as in Nagoya.

Looking back to the time when financial institutions were collapsing one after another and major upheaval was sweeping financial institutions across the country, pushing the sector into restructuring, the issue of reinforcing the financial system became a priority. At the same time, there were rising calls for a more stable supply of funding and more convenient financial services.

Against that backdrop, the Bank of Kyoto has embarked on a growth and development drive as a "wide-area regional bank," resetting its business course through a string of new branch openings while keeping an attentive eye on the customer demand side.

In the year ended March 2013, the year-end balance of negotiable certificates of deposit totaled ¥6,848.7 billion, while loans and bills discounted came to ¥4,126.4 billion. We believe this indicates a significant measure of customer support.

## Internal reforms to match the changes in our business environment

As times change, the business environment facing the Bank of Kyoto as a financial institution has also evolved significantly.

One example is the tendency among many financial institutions in Japan to embark on new branch-opening in big cities, where demand for funding is stronger, given that demand for lending in our conventional markets is shifting toward diminishing equilibrium. For our Bank too, competition in Osaka and the broader Hanshin Area has become tougher.

At the same time, as the proportion of seniors in the population increases, there has been an increase in demand from individual customers for inheritance-related services and from business customers for financial services related to business succession. These changes mean that banks are no longer expected to merely provide conventional solutions such as investment trusts and insurance products. It has also become important for us to develop products that can accurately respond to the wide-ranging needs of the senior market, and to position ourselves to provide more support to businesses.

In sales channel strategy, development of new roles and services that utilize IT devices, particularly in retail services, is needed, as the provision of financial services enters a new stage characterized by the spread of tablet devices, in terms of both number of buyers and range of applications.

To identify correctly and respond quickly to these changes in our operating environment, we believe the key to further growth and development will be stepping up operations and moving to the next stage as a wide-area regional bank, by developing our ability to adapt to market demand and position our organization for internal reform.

## Measures for further growth

To prepare us to move to the next stage, the following policies are crucial.

### Creation of a new branch network

In the Hanshin Area, where competition is intensifying, we overhauled the roles of established branches, business headquarters and Head Office functions to strengthen our marketing capabilities in May 2013. We established a new Osaka Business Department, by consolidating the Osaka Branch and Osaka Central Branch, and incorporated into it the Hanshin Business Headquarters, our Osaka Mortgage Loan Center, our New Development Bloc No. 3 and operations of the Osaka Foreign Exchange Center. By integrating the Osaka Business Department and headquarters business teams with Head Office, we have positioned ourselves to more effectively provide a wide range of financial services for corporate and individual customer transactions. Based on this revamp, we have further stepped up our marketing activities within the Hanshin Area.

In addition, we opened five new branches in fiscal 2012: Fukuchiyama Ekinan (Kyoto), Nagaokakyo Ekimae (Kyoto), Ikeda (Osaka), Sakai Kitahanada (Osaka), and Amagasaki Kita (Hyogo). In fiscal 2013, we also opened the Utajimabashi Branch (Osaka), as we continue to expand our branch network to improve customer convenience.

### Overhaul of Head Office organizations

In the past, our Head Office business divisions built up expertise in individual and corporate customer markets depending on their individual characteristics. In April 2013, with the aim of strengthening our ability to generate new value through combinations of expertise in each market and through branch support activities, we reorganized each organization within the Group based on new core roles. We overhauled the Business Promotion Division, Corporate Banking Division, Personal Banking Division, and established a new Business Promotion Division (for coordination of business promotion), a Business Support Division (for marketing support activities including creation of specialist positions), a Business Development Division, (for development of new products and services) and integrated these offices into a Business Headquarters.

At the same time, to strengthen our compliance framework, the most important issue for our business, we overhauled the Risk Management Division and Customer Service Division and established a new Risk Management Division and a Compliance Management Division. In the Compliance Management Division, we further strengthened mechanisms for compliance guidance and management for all of our employees from executives downwards, and took measures to strengthen financial crime preventive measures and to reassure our customers regarding financial services.

### Strengthening training of employees

The Bank continues to hire new personnel as it gears itself for growth as a wide-area regional bank. We regard the early deployment of trained young banking staff as a priority issue, and are pursuing various ongoing initiatives such as establishment of the “Kyoto Banking College” to provide in-house training programs, an overhaul of training systems and the establishment of a dedicated on-the-job training provider, the Regional Support Department, enabling acquisition and improvement of practical marketing skills. At our new training center currently being constructed, we are developing know-how imparted during on-the-job training, and, through introduction of new training methods using advanced facilities and techniques, we are further improving Bank employees’ capabilities and skills, empowering them to provide high-quality financial services.

## Measures for revitalization of the regional economy

As the regional economy undergoes structural change, such as population decline and offshoring by local companies, the response of regional financial institutions has become a significant issue. Expectations of regional banks are growing.

Inspired by our commitment to “Serving the Prosperity of the Community,” we at the Bank of Kyoto are taking measures to deal with these issues in partnership with our Group companies. We are making available our financial services to the enterprises that play key roles in the regional economy, enabling them to grow and found new businesses by providing high-quality, highly convenient, stable financial services as part of the social infrastructure.

I would like to thank all our investors and stakeholders for their continued support.

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 | 15,765,595 | 547,559 | 1 |
| 2 | Osaka | 3,584,112 | 223,073 | 2 |
| 3 | Aichi | 2,103,397 | 156,132 | 4 |
| 4 | Kanagawa | 1,059,138 | 174,688 | 3 |
| 5 | Hyogo | 816,413 | 96,226 | 8 |
| 6 | Fukuoka | 743,693 | 90,314 | 9 |
| 7 | Kyoto | 735,738 | 55,268 | 12 |
| 8 | Saitama | 663,849 | 127,724 | 5 |
| 9 | Hokkaido | 604,816 | 101,614 | 7 |
| 10 | Chiba | 556,854 | 113,825 | 6 |

(Source) National Tax Agency (FY2009 – FY2011 Average)

Number of corporations: 12th
Taxable income: 7th

### Number of College/University Students per 100,000 People

| Rank | Prefecture | Number of students |
|---|---|---|
| 1st | Kyoto | 5,290 |
| 2nd | Tokyo | 4,870 |
| 3rd | Shiga | 2,400 |

(Source) Ministry of Internal Affairs and Communications, Statistics Bureau, 2011

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

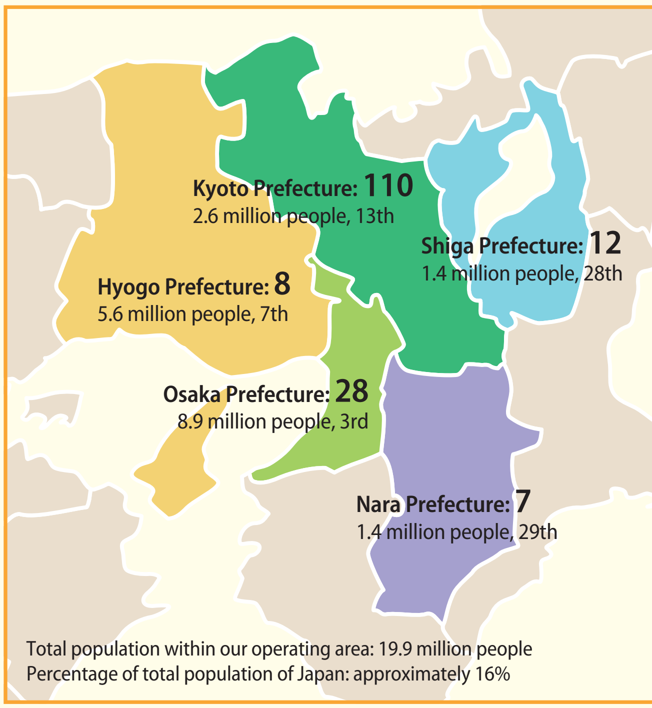

(Source) Kyoto Prefecture

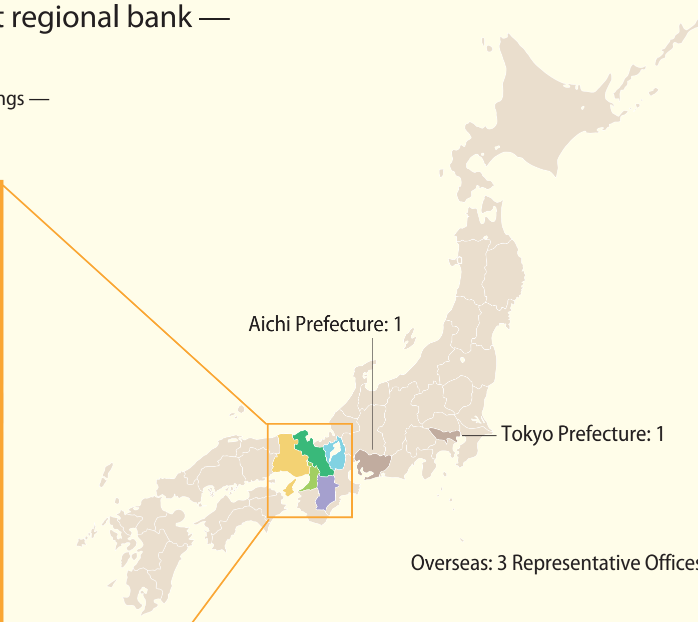
# Operating Area and Population within the Area

— Aiming to be a comprehensive and convenient regional bank —

**Kyoto Banks Network** (As of July 31, 2013)

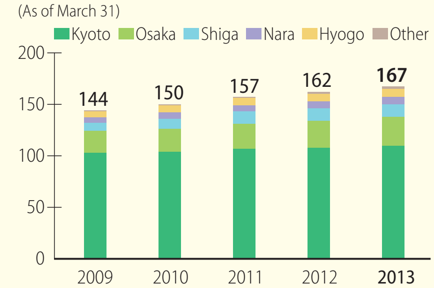
— The populations within areas in our operating area and their prefectural rankings —




**Number of branches in our operating area**

(As of March 31)




*Topics*

## Establishment of the Osaka Business Department as a core marketing base for the Hanshin Area
## The Osaka Business Department recently moved to the first floor of this building

In May 2013, the Osaka Business Department was created on the basis of conversion of the Osaka Branch and Osaka Central Branch in Osaka, both of which occupied upper floors of office buildings. Some Head Office functions have been incorporated into the Osaka Business Department. We aim to respond accurately and swiftly to customer needs based on this core marketing base for the Hanshin Area.

Based on the Osaka Business Department, we plan to raise our profile in the Hanshin Area and become more deeply involved in the regional economy.

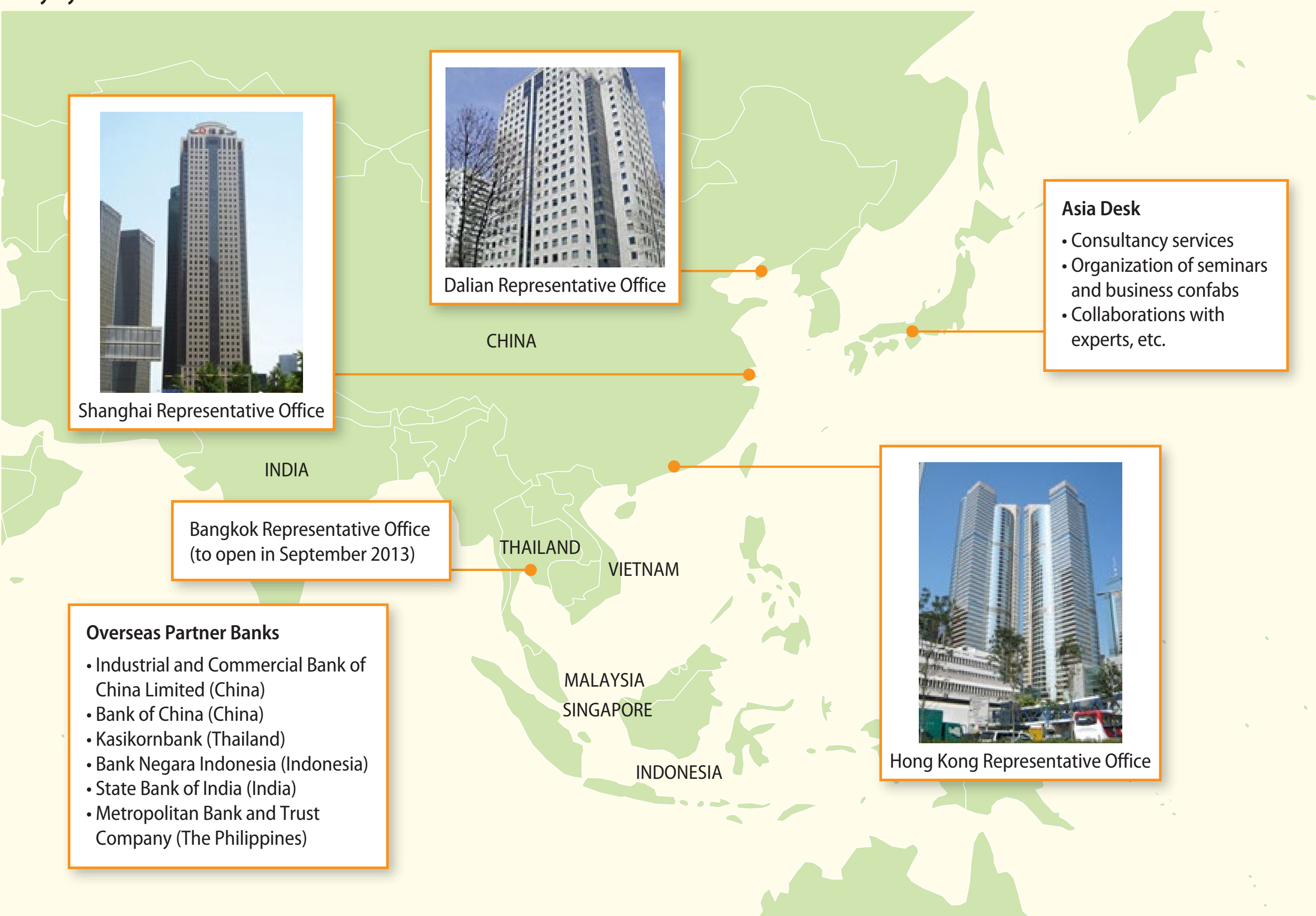
**Head Office functions incorporated into the Osaka Business Department**

- Hanshin Business Headquarters
- New Development Bloc No. 3
- Osaka Foreign Exchange Center
- Osaka Mortgage Loan Center

# Support for Overseas Operations

We have established representative offices in the three China locations of Hong Kong, Shanghai and Dalian, and through them support companies operating businesses in China. Likewise, in other areas of growing business interest such as Thailand and India, we are creating stronger support frameworks through alliances with local banks and through exchange of information through various seminars.

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




## Alliances with overseas banks

### February 2013: Alliance with State Bank of India

Through our partnership with the State Bank of India, the largest commercial state bank in that country, we are supporting our corporate customers venturing into this market.

### July 2013: Partnership with Metropolitan Bank and Trust Company (The Philippines)

## Seminars hosted

**February 2013, Thailand**

### Seminar: "Investment Opportunities in Thailand"

We provided the most up-to-date information on business conditions in Thailand, through investment strategy and investment incentive policy talks, and business experience talks in Thailand, etc.

## Business confabs hosted

**March 2013, China**

### Fourth Shanghai Business Exchange 2013 meeting

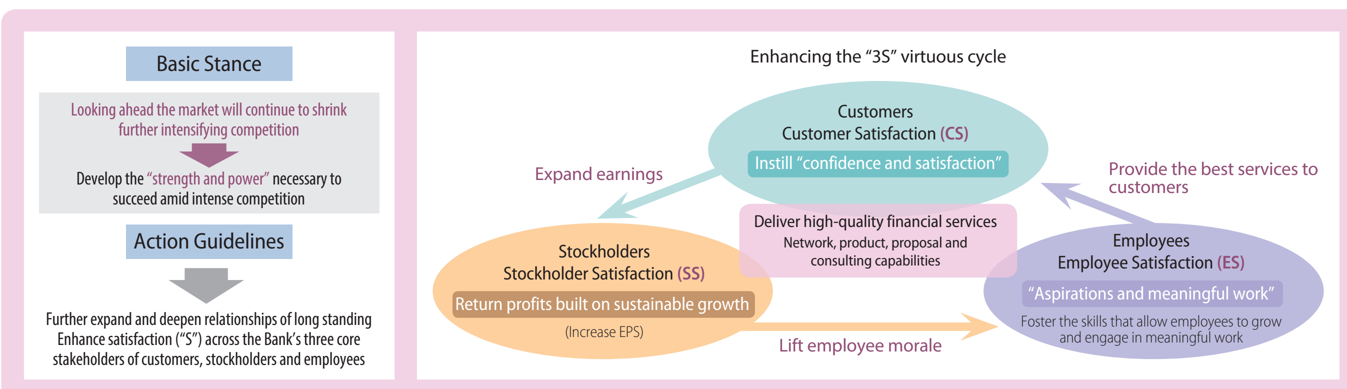
Location: Shanghai
Sponsors: Five Japanese regional banks
For customers who are planning offshoring to China or considering expansion of existing businesses in China, we provided opportunities for information and business exchange on economic trends.

# Power Up — Breakthrough and Dynamic Performance —

## The 4th Medium-Term Management Plan

### 1. Positioning of the fourth medium-term management plan


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




### 3. Framework of the fourth medium-term management plan

| | |
|---|---|
| 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 |
| 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 |

**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%

**Seven basic strategies** — Enhance competitive advantage through the implementation of seven basic strategies

| | | | | | | |
|---|---|---|---|---|---|---|
| Marketing strategy | Sales channel strategy | Loans and bills discounted quality improvement strategy | Human resource development strategy | Asia strategy | IT strategy | Investment securities strategy |

**Four platforms** — Four platforms that underpin the seven basic strategies

| | | | |
|---|---|---|---|
| Community-focused financial model (facilitating smooth access to finance) | Management control | Cost control | Social contribution and environmental protection |

# Financial Review

## Financial and Economic Environment

During the fiscal year under review, the Japanese economy began to display signs of moderate recovery momentum, with personal spending finding its feet again against a backdrop of recovery demand following the Great East Japan Earthquake and on government stimulus policies. However, there was also a growing sense of treading water after the summer, as worries about European sovereign debt crisis and the slow pace of global growth combined with increased political tensions with China, and a striking fall in exports and production. But following the change in administration at the end of last year, and the raft of anti-deflation and other policies dubbed “Abenomics” launched by the new government, the financial market is seeing a new trend: a weakening yen and rising stock prices, amid improved corporate and consumer sentiment. This and other factors are underpinning an economic bottoming out, despite fears of external demand underperforming and cost pressure due to rising import prices for merchandise. All in all, the fiscal period under review ended with a rising sense of expectation.

## Business Progress and Results

In deposit-taking operations, deposits held by individuals and corporations rose steadily, resulting in a ¥221.0 billion increase during the year to ¥6,081 billion. However, negotiable certificates of deposit declined by ¥40.7 billion during the year to end the term at ¥752.1 billion. As a result, the total of deposits and negotiable certificates of deposit increased by ¥180.3 billion to end the term at ¥6,833.2 billion.

Turning next to loans and bills discounted, the Bank saw a steady upward trend in loans to individuals, chiefly mortgage loans, while lending to corporations was also robust. As a result, loans and bills discounted increased by ¥60.4 billion over the year to end the term at ¥4,120.3 billion.

Securities holdings at the Bank also increased during the year by ¥162.8 billion, as a result of effective portfolio management while closely monitoring market trends and the investment environment. Securities ended the year at ¥3,034.2 billion. Mark-to-market accounting yielded appraisal gains (unrealized) of ¥36.0 billion during the term, so that securities ended the term at ¥191.8 billion.

In addition, total assets ended the term at ¥7,626.8 billion, while total equity stood at ¥463.0 billion.

Turning to earnings, despite our best efforts to ensure more efficient asset management and procurement and streamline and rationalize management across the board in a persistently difficult earnings environment, consolidated ordinary income fell ¥4.2 billion to ¥112.0 billion, due to a decrease in interest income centered on marketable securities interest and dividends. Consolidated ordinary expenses declined ¥4.1 billion to ¥84.0 billion due to a decrease in funds procurement expenses and general expenses. As a result of the foregoing, ordinary profit decreased ¥0.1 billion year-on-year to ¥28.0 billion, and net income increased ¥2.0 billion to ¥17.5 billion, due to recognition of bargain purchase gain in the amount of ¥2.9 billion following additional acquisition of common shares of consolidated subsidiaries.

## Cash Flows

During the year under their view, the balance of cash and cash equivalents decreased ¥3.3 billion year-on-year to ¥234.2 billion.

## Cash Flows from Operating Activities

Net cash provided by operating activities during the fiscal year under review decreased ¥63.1 billion year-on-year to ¥111.0 billion. The major factors here were a decrease in negotiable certificates of deposit and an increase in call loans.

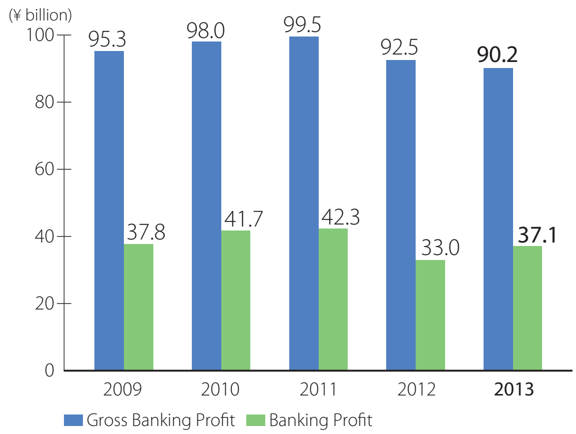
## Cash Flows from Investing Activities

Net cash used in investing activities during the fiscal year under review decreased ¥76.6 billion year-on-year to ¥110.6 billion, due chiefly to a decrease in expenses from acquisition of securities. This was mainly due to a decrease in purchases of securities.

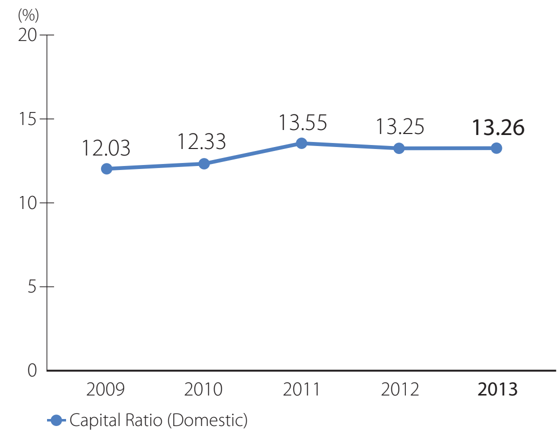
## Cash Flows from Financing Activities

Net cash used in financing activities in the fiscal year under review decreased by ¥21.8 billion to ¥3.7 billion. This was due chiefly to a reduction in expenses for repayment of subordinated loans.

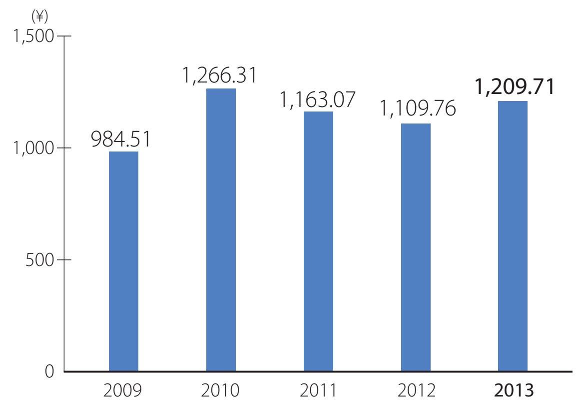
### Gross Banking Profit/Banking Profit



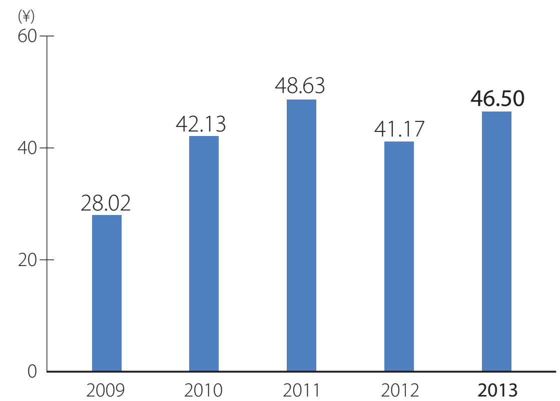

### Capital Ratio (Domestic)



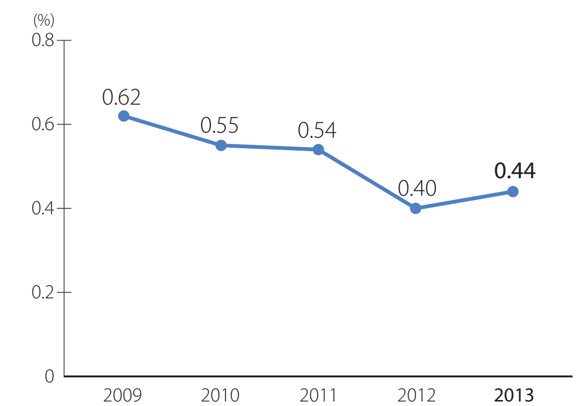

### Net Asset Per Share



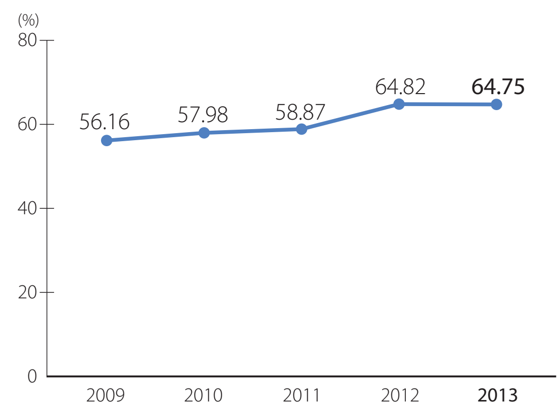

### Net Income Per Share




### ROA (Non-Consolidated)




### OHR (Non-Consolidated)



# Building Strong Financial Structures

## Capital Ratio

The Bank's capital ratio on a non-consolidated basis was 12.81% based on domestic standards and 13.26% on a consolidated basis.

In both cases, the Bank's capital ratio significantly exceeds the 4% minimum domestic standard.

We will continue to increase the soundness of our operations by working to raise our capital ratio

### Capital Ratio (Consolidated)

(Millions of Yen)

| | 2013/3 (Domestic) | 2012/3 (Domestic) |
|---|---|---|
| Total Capital Ratio | 13.26% | 13.25% |
| Tier I Capital | ¥ 328,397 | ¥ 327,444 |
| Tier II Capital | 56,235 | 81,657 |
| General Allowance for Possible Loan Losses | 114 | 19,283 |
| 45% of Land Revaluation Surplus | 130 | 393 |
| Qualifying Subordinated Debt | 55,990 | 61,981 |
| Deducted Items | 9,752 | — |
| Total Capital | ¥ 374,880 | ¥ 409,102 |
| Risk Adjusted Assets | ¥2,826,330 | ¥3,085,341 |

(Note)
To calculate credit risk assets, the Bank employs the Fundamental Internal Ratings-Based Approach for the fiscal year ended March 2013 and standardized approach for the fiscal year ended March 31, 2012.

## 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.

At the end of fiscal 2012, the Bank's total disclosed assets, excluding normal assets, amounted to ¥140.4 billion (US$1,493 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 61.3%. When adding the portion secured by collateral and guarantees to the reserves, the coverage ratio was 88.4%, which we consider to be a sufficient level.

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

(Billions of Yen)

| | 2013/3 | Change from Mar. 31, 2012 | 2012/3 |
|---|---|---|---|
| Unrecoverable or Valueless | ¥ 17.4 | ¥ (0.4) | ¥ 17.8 |
| Risk | 117.8 | 5.2 | 112.6 |
| Special Attention | 5.1 | (8.7) | 13.8 |
| Subtotal (A) | 140.4 | (4.0) | 144.4 |
| Non-Classified | 4,025.4 | 62.6 | 3,962.8 |
| Total | ¥4,165.9 | ¥58.7 | ¥4,107.2 |

(Notes)

1. From the end of March 2009, we have been calculating substandard assets by standards that reflect the Measure for facilitation of financing for SMEs through eased lending terms (Financial Services Agency) implemented as part of an official drive for facilitation of finance for SMEs.
2. The loan assets concerned include, in addition to loans and bills discounted, loan securities, customers' liabilities for acceptances and guarantees, foreign exchange, private placement bonds with bank guarantees, suspense payments equivalent to loans and accrued interest. Substandard assets comprise only loans and bills discounted.

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


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

(Billions of Yen)

| | 2013/3 | Change from Mar. 31, 2012 | 2012/3 |
|---|---|---|---|
| Allowance for Possible Loan Losses | ¥ 25.7 | ¥ 1.4 | ¥ 24.3 |
| Amounts Recoverable Due to Guarantees, Collateral and Others | 98.4 | (0.2) | 100.4 |
| Total (B) | ¥124.1 | ¥(0.6) | ¥124.7 |
| Coverage Ratio (B)/(A) | 88.4% | 2.0% | 86.4% |

## 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 2012, the Bank's balance of risk management loans amounted to ¥140.0 billion (US$1,488 million) on a non-consolidated basis and ¥141.9 billion (US$1,509 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)

| | 2013/3 | Change from Mar. 31, 2012 | 2012/3 |
|---|---|---|---|
| Loans in Legal Bankruptcy | ¥ 10.3 | ¥ 0.3 | ¥ 10.0 |
| Nonaccrual Loans | 126.4 | 4.5 | 121.9 |
| Accruing Loans | | | |
| Three Months or More | 0.1 | 0.1 | 0.0 |
| Restructured Loans | 4.9 | (8.9) | 13.8 |
| Total | ¥ 141.9 | ¥ (3.9) | ¥ 145.8 |
| Total Loans Outstanding (term-end balance) | ¥4,120.3 | ¥60.5 | ¥4,059.8 |

Refer to page 33, note 7 regarding the above categories.

# Community-based Finance Promotion
# Contributing to the Sustainable Development of the Regional Community

## 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 Business Support 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 Growth Stages of Customer Companies

**Supporting Start-Ups and Other New Businesses**

The Venture Business Support Group of the Community-based Finance Promotion Office within our Business Support 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 Business Support Division effectively leverages information acquired via its broad business network to make possible aggressive proposal-based marketing, such as support for business matching and overseas operations.

**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 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.

*Topics*

### Relationship banking commendations

The Bank of Kyoto has won awards for its relationship banking initiatives. In March 2013, it was commended by the Kinki Finance Bureau of the Ministry of Finance for its relationship banking initiatives for trouble-shooting support through the Bank's "Kyogin Venture Business Support Program" and other organizations.

Looking ahead, we will continue to contribute to the revitalization of the regional economy through our support for stable management and growth at SMEs.

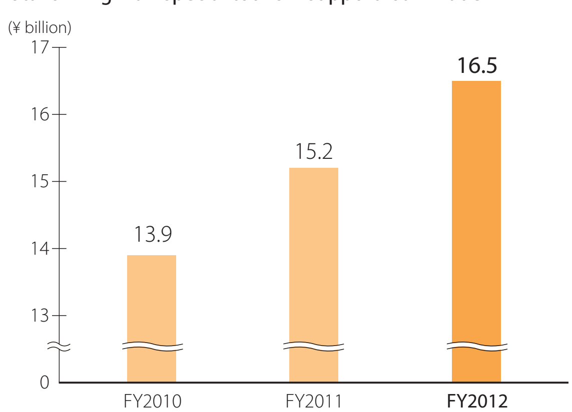
## Active Participation in Multifaceted Regeneration in Our Area

Located as we are in one of the leading tourist cities of Japan, we have established a Tourism Support Office within the Business Support Division. This office helps revitalize the regional economy through tourism and city brand promotion. It also supports local growth industries such as agricultural regeneration.

### Loans Tailored to the Tourism Industry

To provide financial support for the revitalization of the tourism industry, a driver of the regional economy, we now offer the exclusive "Nigiwai" special tourism support loan, for our customers involved with the tourism industry.

Total of "Nigiwai" special tourism support loan made




### Stepping up Support for Growth Industries

To support growth industries that will contribute to regional regeneration, we have launched initiatives in the fields of agriculture, healthcare and welfare, as described below.

#### Initiatives in agriculture

- Involvement in the Tango Shoku no Oukoku (World of Food in Tango) concept

The Bank is involved in the Tango Shoku no Oukoku concept, which aims to spur new product development and marketing promotion using foods sourced from the Tango area of Kyoto Prefecture. At the Regional Bank Food Selection 2012 event, we sponsored the Tango Shoku no Oukoku booth, and supported major business confabs on Tango Shoku no Oukoku sponsored by Kyoto Tango Wide-Area Promotion Bureau.

- Support for the "Sixth Industry" regeneration seminar

We helped organize and hosted the "Sixth Industry" regeneration management training seminar for professionals and corporations in the agricultural, forestry and fisheries sectors who are involved in the official "Sixth Industry" initiative (for primary, secondary and tertiary sector cross-cooperation, hence 1×2×3=6), organized by Nomura Agri Planning & Advisory Co., Ltd. with the aim of promoting sharing of information relating to agriculture and agribusiness and fostering business partnerships.

#### Initiatives in healthcare and welfare

- Establishment of healthcare and welfare teams in the Sector-Specific Business Department

We are committed to supporting foundation of hospitals through deployment of officials who combine specialist knowledge with an ability to spot winning project ideas.

- The Healthcare Management Seminar

The Bank arranged a Healthcare Management Seminar concerning healthcare institution management and strategy, to help foster a future medical management corps.

- Loan products for doctors and other healthcare professionals

We began offering loans in alliance with medical insurance associations and similar organizations in Kyoto, Shiga, Hyogo, Osaka and Nara prefectures, in addition to our Iryoku Manten loan for doctors, dentists and other medical professionals starting businesses in our area.

# Contributing to the Society

## Environmental Protection Measures

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 – FY2013)

**Bank of Kyoto**
Reduce the Bank's $CO_2$ emissions 17% or more by fiscal 2013 compared with fiscal 2007 (10,687t ⇒ 8,870t)

**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

In March 2008, 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.

## Handing Down the Forest Heritage

Forest covers approximately 3/4 of the area of Kyoto Prefecture. To enable us to pass on this beautiful environment to coming generations, the Bank is proactively engaged in forestry preservation activities.

### Growing the Kyogin Forest

In June 2012, the Bank established the Kyogin *Fureai* Forest in a joint project with Kyoto Sangyo University and Kyoto University, in the Motoyama National Forest area in the Kita-ku area of Kyoto, where manpower is needed for teaching about conservation.

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.

## Support for Fund Procurement

For customers actively engaged in environmental protection we offer a range of fund procurement incentives, such as discounted interest rates for applicants who meet certain conditions.

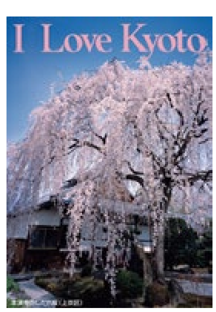
| | |
|---|---|
| Corporate and individual business owners | • Kyogin Eco Loan and Kyogin Eco Private Placement Bond |
| Individual customers | • Kyogin Mortgage Loan and Kyogin Eco Special Interest Rate Plan<br>• Eco-Car Safe Driving Offer personal automotive loan |

# Coexistence with the Regional Community

We help the regional community not just through our business activities, but also through a range of useful outside activities in various spheres.

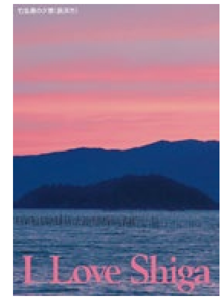
## "I Love Kyoto" Campaign

The "I Love Kyoto" campaign was launched in 1982, with the aim of raising awareness of the city as a place that commands everybody's affections. In the 31 years since then, a total of 397 kinds of poster, in 620,000 paper copies, have been compiled.




## "I Love Shiga" Campaign

The "I Love Shiga" campaign was launched in Shiga Prefecture in the spring of 2013. Through posters, it aims to make more people aware of the prefecture's rich natural landscape, and its historical and cultural legacies, and place them on record as images.




## Regional Contributions through Support of Local Sports Teams

To contribute to the revitalization of the region through sports promotion in partnership with local fans, we support Kyoto Sanga FC, the local soccer team, and the Kyoto Hannaryz basketball team.


## Partnership with Kyoto University in Industrial and Academic Fields (International Exchange and Endowed Chair)

The Bank and Kyoto University agreed in April 2010 to make available Bank employee dormitories for overseas students under an international exchange program to help overseas students improve their career skills and give Bank employees experience of internationalization under a joint initiative to promote international exchange through industry-academia partnership.

In fiscal 2011, we endowed a chair at Kyoto University in support of research and personnel training for contributions to the development of the regional economy.

## Creating a More Dynamic Workplace for Employees

The Bank is taking measures to create more comfortable workplaces where employees work with enthusiasm, and every individual employee is able to develop his or her own capabilities.

### 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. It comprises three primary policies: (1) hiring more women, (2) developing their skills, and (3) establishing a committee for the advancement of women. Through these three measures, we are committed to helping all staff with enthusiasm and ability in all domains realize their potential.

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

Fiscal 2008
- Certification under the official "1st General Business Owner Action Plan"
- 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

Fiscal 2013
- Certification under the official "2nd General Business Owner Action Plan"

# 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.

To ensure the soundness and propriety of operations, based on sound business management (governance), we have established a set of Business Management (Governance) Regulations, to better position us to offer financial intermediary services, comply with laws and regulations, rigorously protect customer privacy, and duly manage all kinds of risk.

The Business Management (Governance) Regulations bring together our stances on finance facilitation, legal compliance, customer protection management 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. The two external auditors are registered with the Tokyo Stock Exchange as independent Board members.

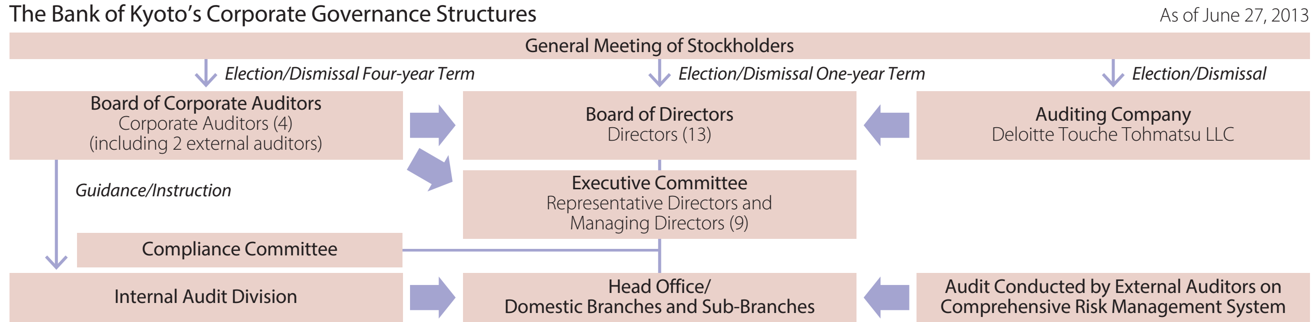
Corporate auditors attend meetings of the Board of Directors; standing auditors also attend meetings of the Executive Committee. Corporate auditors attend these meetings to monitor decision-making processes and the execution of bank business. Internal bank rules have clearly provided that the corporate 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 27, 2013



# Stance on Internal Control Systems

To ensure sound and appropriate operations, the Bank has established the following basic policy for internal control systems, which was stipulated as a framework for basic internal control policies by the Board of Directors.

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
2. Structures related to the storage and management of information about the execution of business by the directors
3. Guidelines and other structures related to management of the risk of losses
4. Structures to ensure that the directors execute the business efficiently
5. Structures to ensure the appropriateness of financial reporting
6. Structures to ensure the appropriateness of operations in the corporate group comprised of the Bank and its subsidiaries
7. In the case that the auditors request the appointment of employees to assist them with their business, structures related to said employees
8. Matters related to the independence from the directors of the employees assisting the business of the auditors
9. Structures for reporting by the directors and employees to the auditors and other structures related to reporting to the auditors
10. Other structures to ensure effective auditing by the auditors

# 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.

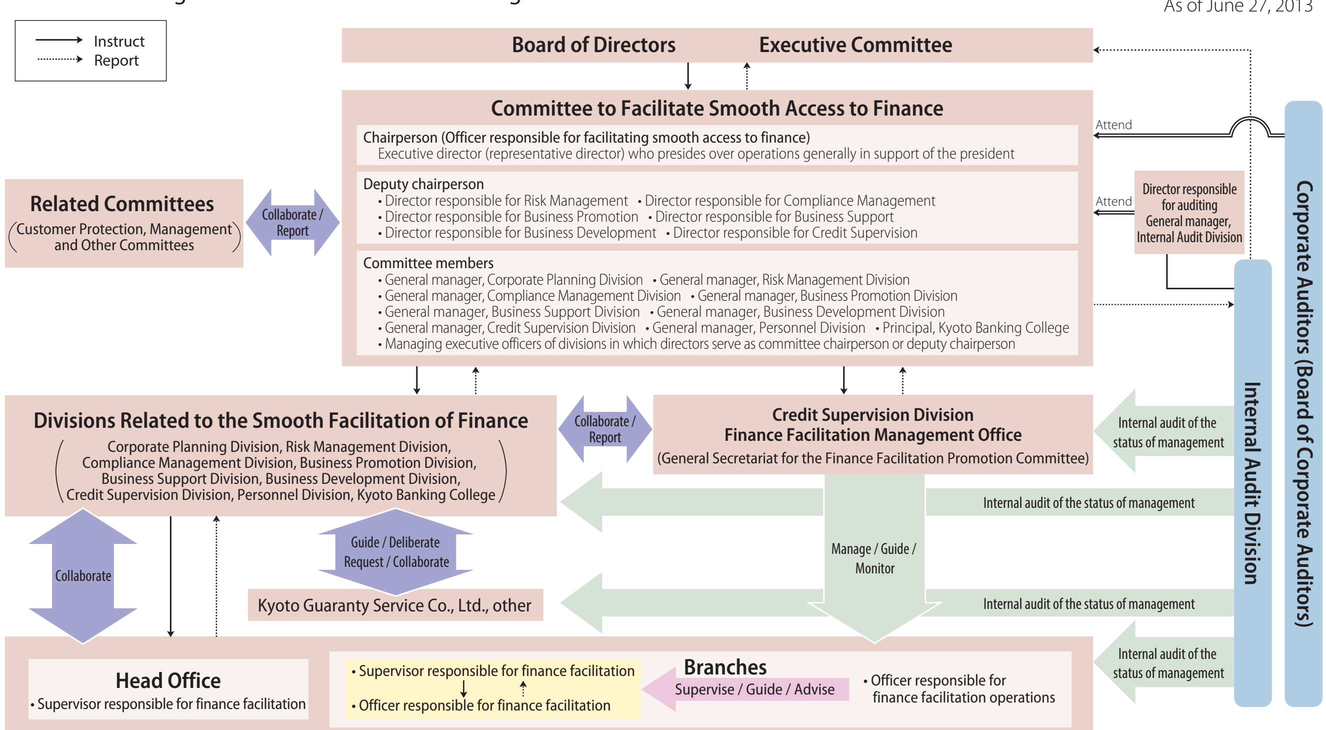
Each branch is responsible for responding directly to customer questions and/or applications regarding new loans and term changes. Branch personnel endeavor to provide responses appropriate to the facts at hand, with the Finance Facilitation Officer assigned to each branch assessing progress and providing 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 companies and personal business owners, as well as loan repayment plan modifications for home loan clients, following the expiration of SME Financing Facilitation Act as of March 31, 2013. 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 27, 2013



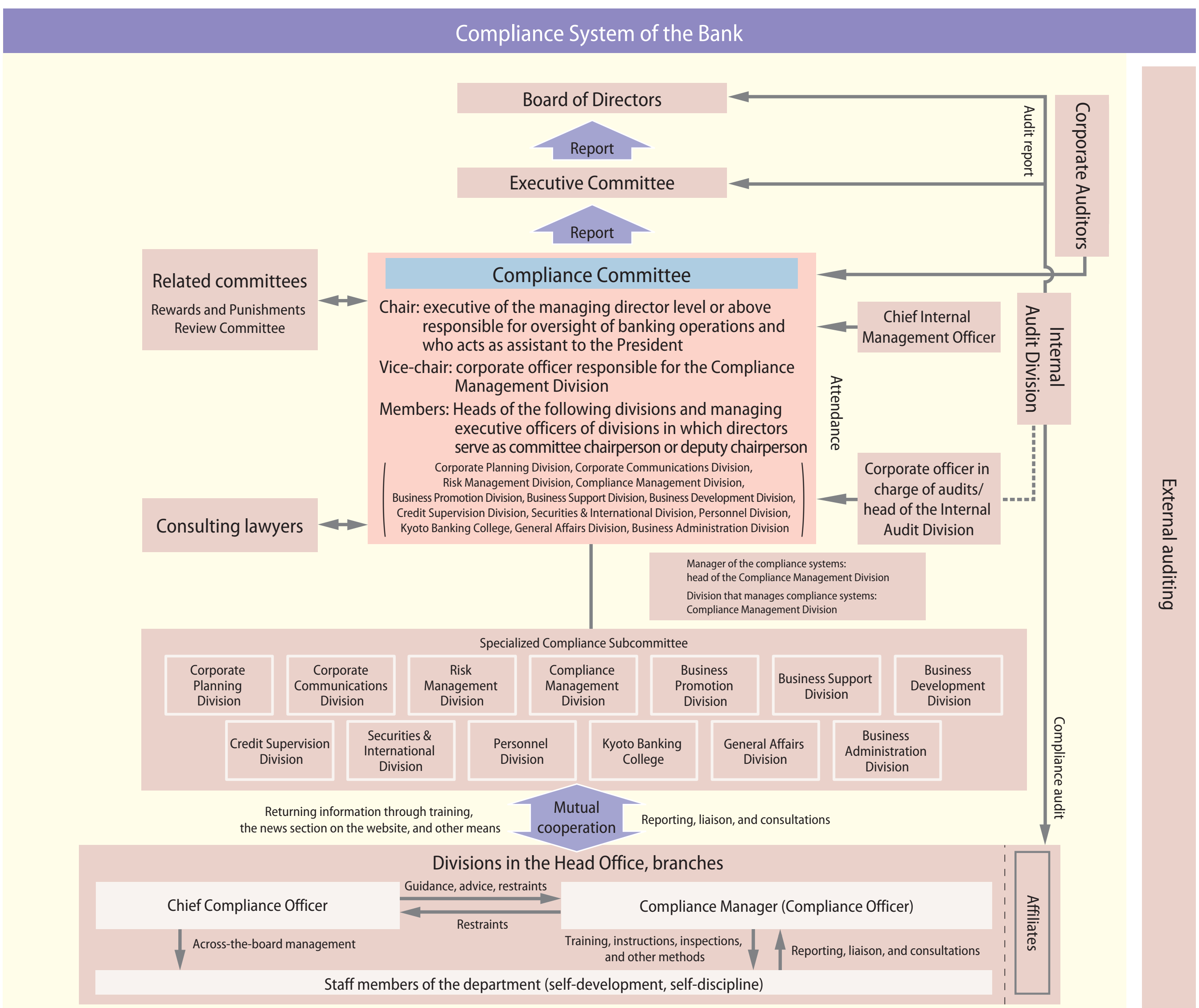
# Compliance Structures

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 Compliance Management 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 27, 2013

# 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 after deductions, 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.

In September 2012, we changed our method of calculation of our capital ratio, to further strengthen our management and to introduce more advanced credit risk management techniques. We now calculate credit risk assets using the Fundamental Internal Ratings-Based (IRB) Approach. Use of this technique positions us to pre-emptively control risks, as it factors potential change in credit risk into the capital ratio.

Likewise, by ensuring and maintaining rigorous internal management using the IRB approach, we are able to uphold and develop the soundness of the Bank, and strengthen our internal controls and risk management stance.

## 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, 2013

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Assets:** | | | |
| Cash and due from Bank of Japan (note 27) | ¥ 234,225 | ¥ 237,547 | $ 2,490,436 |
| Due from other banks (note 27) | 1,364 | 891 | 14,511 |
| Call loans and bills bought (note 27) | 130,970 | 84,466 | 1,392,560 |
| Receivables under resale agreements (note 10) | 1,899 | 2,098 | 20,193 |
| Monetary claims bought | 10,276 | 10,051 | 109,269 |
| Trading securities | 1,521 | 5,284 | 16,177 |
| Money held in trust (note 5) | 1,965 | 1,937 | 20,898 |
| Securities (notes 4, 10, 17 and 27) | 3,034,289 | 2,871,415 | 32,262,509 |
| Loans and bills discounted (notes 7, 11 and 27) | 4,120,333 | 4,059,891 | 43,810,036 |
| Foreign exchanges (note 8) | 2,669 | 3,621 | 28,386 |
| Lease receivables and investment assets (notes 2.*p* and 24) | 7,765 | 7,385 | 82,565 |
| Other assets (note 10) | 24,371 | 21,456 | 259,137 |
| Tangible fixed assets (note 9) | 79,836 | 78,741 | 848,871 |
| Buildings | 27,866 | 27,052 | 296,297 |
| Land (note 12) | 43,669 | 43,374 | 464,321 |
| Construction in progress | 2,019 | 1,392 | 21,471 |
| Other tangible fixed assets | 6,280 | 6,922 | 66,781 |
| Intangible fixed assets | 1,888 | 2,338 | 20,084 |
| Software | 1,607 | 2,055 | 17,090 |
| Other intangible fixed assets | 281 | 283 | 2,994 |
| Deferred tax assets (note 26) | 2,288 | 2,792 | 24,337 |
| Customers' liabilities for acceptances and guarantees (note 17) | 14,946 | 13,626 | 158,924 |
| Allowance for possible loan losses | (43,745) | (44,223) | (465,134) |
| Total assets | ¥7,626,868 | ¥7,359,323 | $81,093,765 |
| **Liabilities and Equity** | | | |
| **Liabilities:** | | | |
| Deposits (notes 10, 13 and 27) | ¥6,833,266 | ¥6,652,921 | $72,655,679 |
| Call money | 19,343 | 13,269 | 205,673 |
| Payables under repurchase agreements (note 10) | 1,899 | 2,098 | 20,193 |
| Payables under securities lending transactions (note 10) | 38,629 | 30,266 | 410,733 |
| Borrowed money (notes 10 and 14) | 73,815 | 76,690 | 784,851 |
| Foreign exchanges (note 8) | 205 | 166 | 2,188 |
| Bonds (note 15) | 15,000 | 15,000 | 159,489 |
| Convertible bonds (note 16) | 29,953 | 29,953 | 318,479 |
| Other liabilities | 72,056 | 43,458 | 766,155 |
| Liability for employees' retirement benefits (note 25) | 24,803 | 23,860 | 263,731 |
| Liability for reimbursement of deposit losses (note 2. *l*) | 299 | 283 | 3,179 |
| Liability for contingent losses (note 2. *m*) | 1,046 | 998 | 11,125 |
| Deferred tax liabilities (note 26) | 38,424 | 27,458 | 408,551 |
| Deferred tax liabilities for land revaluation (note 12) | 103 | 311 | 1,098 |
| Acceptances and guarantees (note 17) | 14,946 | 13,626 | 158,924 |
| Total liabilities | 7,163,793 | 6,930,362 | 76,170,055 |
| **Equity** (notes 18, 19 and 31): | | | |
| Common stock, authorized, 1,000,000 thousands shares; issued, 379,203 thousands shares in 2013 and 2012 | 42,103 | 42,103 | 447,673 |
| Capital surplus | 30,301 | 30,301 | 322,187 |
| Stock acquisition rights | 370 | 326 | 3,942 |
| Retained earnings | 262,761 | 248,600 | 2,793,849 |
| Treasury stock — at cost, 1,309 thousands shares in 2013 and 1,347 thousands shares in 2012 | (1,199) | (1,240) | (12,757) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on available-for-sale securities (note 6) | 125,358 | 100,666 | 1,332,892 |
| Deferred losses on derivatives under hedge accounting | (2,368) | (1,664) | (25,182) |
| Land revaluation surplus (note 12) | 186 | 562 | 1,983 |
| Total | 457,514 | 419,657 | 4,864,588 |
| **Minority Interests** | 5,560 | 9,303 | 59,121 |
| Total equity | 463,074 | 428,960 | 4,923,710 |
| Total liabilities and equity | ¥7,626,868 | ¥7,359,323 | $81,093,765 |

See notes to consolidated financial statements.

# Consolidated Statement of Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2013

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Income:** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 56,973 | ¥ 59,878 | $ 605,779 |
| Interest and dividends on securities | 21,493 | 25,573 | 228,532 |
| Other interest income | 757 | 1,165 | 8,052 |
| Fees and commissions | 16,876 | 16,368 | 179,442 |
| Other operating income (note 20) | 13,454 | 10,560 | 143,056 |
| Bargain purchase gain (note 3) | 2,963 | | 31,512 |
| Other income (note 21) | 2,778 | 2,881 | 29,540 |
| Total income | 115,297 | 116,428 | 1,225,916 |
| **Expenses:** | | | |
| Interest expense: | | | |
| Interest on deposits | 5,428 | 6,914 | 57,715 |
| Interest on borrowings and rediscounts | 836 | 1,065 | 8,892 |
| Other interest expense | 1,451 | 1,417 | 15,433 |
| Fees and commissions | 6,101 | 5,988 | 64,874 |
| Other operating expenses (note 22) | 5,529 | 5,657 | 58,791 |
| General and administrative expenses | 57,027 | 58,496 | 606,352 |
| Provision for allowance for possible loan losses | 2,151 | 1,346 | 22,877 |
| Other expenses (note 23) | 6,067 | 7,690 | 64,508 |
| Total expenses | 84,592 | 88,577 | 899,446 |
| **Income Before Income Taxes and Minority Interests** | 30,704 | 27,851 | 326,469 |
| **Income Taxes** (note 26): | | | |
| Current | 11,041 | 6,020 | 117,396 |
| Deferred | 250 | 5,047 | 2,668 |
| Net income before minority interests | 19,412 | 16,783 | 206,404 |
| Minority interests | 1,837 | 1,223 | 19,537 |
| **Net Income** | ¥ 17,574 | ¥ 15,560 | $ 186,866 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Per Share Information** (notes 2.*r* and 30): | | | |
| Basic net income | ¥46.50 | ¥41.17 | $0.49 |
| Diluted net income | 43.45 | 38.48 | 0.46 |
| Cash dividends applicable to the year | 10.00 | 11.00 | 0.10 |

See notes to consolidated financial statements.

# Consolidated Statement of Comprehensive Income

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2013

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Net Income Before Minority Interests** | ¥19,412 | ¥ 16,783 | $206,404 |
| **Other Comprehensive Income (Loss)** (note 29) | 23,970 | (31,551) | 254,864 |
| Unrealized gain (loss) on available-for-sale securities | 24,674 | (30,866) | 262,351 |
| Deferred losses on derivatives under hedge accounting | (704) | (728) | (7,486) |
| Land revaluation surplus | | 44 | |
| **Comprehensive Income (Loss)** | ¥43,382 | ¥(14,768) | $461,268 |
| **Total Comprehensive Income (Loss) Attributable to:** | | | |
| Owners of the parent | ¥41,562 | ¥(15,998) | $441,916 |
| Minority interests | 1,820 | 1,229 | 19,352 |

See notes to consolidated financial statements.

# Consolidated Statement of Changes in Equity

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2013

| | 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, 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 |
| Net income | | | | | 17,574 | | | | | 17,574 | | 17,574 |
| Cash dividends, ¥10.00 per share | | | | | (3,778) | | | | | (3,778) | | (3,778) |
| Purchases of treasury stock | 38 | | | | | (16) | | | | (16) | | (16) |
| Disposals of treasury stock | | | | | (10) | 56 | | | | 46 | | 46 |
| Disposals of land revaluation surplus | | | | | 376 | | | | | 376 | | 376 |
| Net change in the year | | | | 44 | | | 24,691 | (704) | (376) | 23,655 | (3,742) | 19,912 |
| **Balance at March 31, 2013** | 377,894 | ¥42,103 | ¥30,301 | ¥370 | ¥262,761 | ¥(1,199) | ¥125,358 | ¥(2,368) | ¥186 | ¥457,514 | ¥5,560 | ¥463,074 |

| | 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, 2012** | $447,673 | $322,187 | $3,469 | $2,643,279 | $(13,188) | $1,070,355 | $(17,696) | $5,981 | $4,462,063 | $98,919 | $4,560,982 |
| Net income | | | | 186,866 | | | | | 186,866 | | 186,886 |
| Cash dividends, $0.10 per share | | | | (40,178) | | | | | (40,178) | | (40,178) |
| Purchases of treasury stock | | | | | (173) | | | | (173) | | (173) |
| Disposals of treasury stock | | | | (116) | 605 | | | | 489 | | 489 |
| Disposals of land revaluation surplus | | | | 3,997 | | | | | 3,997 | | 3,997 |
| Net change in the year | | | 472 | | | 262,536 | (7,486) | (3,997) | 251,524 | (39,797) | 211,726 |
| **Balance at March 31, 2013** | $447,673 | $322,187 | $3,942 | $2,793,849 | $(12,757) | $1,332,892 | $(25,182) | $1,983 | $4,864,588 | $59,121 | $4,923,710 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries Year Ended March 31, 2013

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Operating Activities:** | | | |
| Income before income taxes and minority interests | ¥ 30,704 | ¥ 27,851 | $ 326,469 |
| Depreciation | 4,572 | 5,122 | 48,622 |
| Losses on impairment of long-lived assets | 36 | 47 | 392 |
| Bargain purchase gain | (2,963) | | (31,512) |
| Decrease in allowance for possible loan losses | (477) | (3,391) | (5,074) |
| Increase in liability for employees' retirement benefits | 943 | 876 | 10,026 |
| Increase in liability for reimbursement of deposit losses | 16 | 62 | 170 |
| Increase in liability for contingent losses | 48 | 1 | 514 |
| Interest income | (79,224) | (86,616) | (842,364) |
| Interest expense | 7,716 | 9,397 | 82,041 |
| (Gains) losses on securities | (4,385) | 67 | (46,624) |
| (Gains) losses on money held in trust | (30) | 28 | (328) |
| Foreign exchange (gains) losses | (17,480) | 6,143 | (185,865) |
| Losses on sales of fixed assets | 170 | 237 | 1,813 |
| Net decrease (increase) in trading securities | 3,763 | (4,986) | 40,015 |
| Net increase in loans | (60,442) | (124,699) | (642,662) |
| Net increase (decrease) in deposits | 221,055 | (13,032) | 2,350,407 |
| Net (decrease) increase in negotiable certificates of deposit | (40,710) | 167,266 | (432,860) |
| Net (decrease) increase in borrowed money (excluding subordinated loans) | (2,874) | 18,684 | (30,566) |
| Net (increase) decrease in due from banks (excluding due from Bank of Japan) | (473) | 310 | (5,037) |
| Net (increase) decrease in call loans and bills bought | (46,528) | 118,102 | (494,725) |
| Net increase (decrease) in call money | 5,873 | (118) | 62,455 |
| Net increase (decrease) in payables under securities lending transactions | 8,362 | (7,214) | 88,916 |
| Net decrease (increase) in foreign exchanges (assets) | 952 | (1,044) | 10,123 |
| Net increase (decrease) in foreign exchanges (liabilities) | 39 | (47) | 423 |
| Net (increase) decrease in lease receivables and investment assets | (380) | 673 | (4,043) |
| Interest and dividends received (cash basis) | 87,971 | 91,663 | 935,372 |
| Interest paid (cash basis) | (8,638) | (10,848) | (91,847) |
| Other, net | 6,984 | (10,080) | 74,259 |
| Subtotal | 114,600 | 184,453 | 1,218,511 |
| Income taxes — paid | (3,537) | (10,242) | (37,617) |
| Net cash provided by operating activities | 111,063 | 174,211 | 1,180,894 |
| **Investing Activities:** | | | |
| Purchases of securities | (1,970,168) | (2,861,196) | (20,948,097) |
| Proceeds from sales of securities | 1,455,874 | 2,318,592 | 15,479,797 |
| Proceeds from redemption of securities | 411,610 | 363,229 | 4,376,509 |
| Decrease in money held in trust | 2 | | 23 |
| Purchases of tangible fixed assets | (6,479) | (7,067) | (68,898) |
| Proceeds from sales of tangible fixed assets | 1,524 | 110 | 16,213 |
| Purchases of intangible fixed assets | (360) | (889) | (3,831) |
| Payments for execution of asset retirement obligations | (27) | | (292) |
| Purchases of investment in subsidiaries | (2,593) | | (27,579) |
| Net cash used in investing activities | (110,617) | (187,221) | (1,176,156) |
| **Financing Activities:** | | | |
| Repayments of subordinated loans | | (21,500) | |
| Dividends paid by the Bank | (3,778) | (4,156) | (40,178) |
| Dividends paid by subsidiaries to minority shareholders | (5) | (5) | (57) |
| Net cash used in financing activities | (3,784) | (25,662) | (40,236) |
| **Foreign Currency Translation Adjustments on Cash and Cash Equivalents** | 17 | (2) | 181 |
| **Net Decrease in Cash and Cash Equivalents** | (3,321) | (38,674) | (35,317) |
| **Cash and Cash Equivalents at Beginning of Year** | 237,547 | 276,221 | 2,525,753 |
| **Cash and Cash Equivalents at End of Year** | ¥ 234,225 | ¥ 237,547 | $ 2,490,436 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Bank of Kyoto, Ltd. and Consolidated Subsidiaries    Year Ended March 31, 2013

## 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 accordance 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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 2013 and 2012 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 ¥94.05 to $1, the approximate rate of exchange at March 31, 2013. 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, 2013 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 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. *Business Combinations* — In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

(1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed.

(2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination are capitalized as an intangible asset.

(3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation.

c. *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.

d. *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.

e. *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.

f. *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.

g. *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 3 to 20 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.

h. *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. An impairment losses is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

i. *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.

j. *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, a full reserve is provided after deducting amounts collectible through the disposal of collateral or execution of guarantees.

For claims to debtors classified as possible bankruptcy, which are currently neither legally nor virtually bankrupt but are likely to become bankrupt, and for claims to debtors which had restructured loans, allowances are provided at the amounts deemed necessary based on an overall solvency assessment performed after deducting 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.

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.

k. *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.

l. *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.

m. *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.

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

o. *Stock Options* — In December 2005, the ASBJ issued ASBJ Statement No. 8, "Accounting Standard for Stock Options," and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006. This standard requires companies to measure the cost of employee stock options based on the fair value at the date of grant and recognize compensation expense 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.

p. *Leases* — In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. 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 note 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.

q. *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.

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

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

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

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

(1) Changes in Accounting Policies

When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the 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.

*t. New Accounting Pronouncements*

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

The revised accounting standard does 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 have not yet been 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. Business Combination

Transactions under common control for the year ended March 31, 2013

(1) Overview of the business combination

① Name and business of combined companies

| Name | Main business |
|---|---|
| Kyoto Guaranty Service Co., Ltd. | Credit guarantee services |
| Kyogin Lease & Capital Co., Ltd. | Leasing and investment services |
| Kyoto Credit Service Co., Ltd. | Credit card services |
| Kyogin Card Service Co., Ltd. | Credit card services |
| Kyoto Research Institute, Inc. | Research and business consulting service |

② Date of the business combination

March 12, 2013

③ Legal form of the business combination

Acquisition of shares

④ Name after the business combination

There is no change in the name.

⑤ Purpose and summary of the business combination

The Bank acquired additional shares of consolidated subsidiaries of the five companies above to strengthen the cooperation and governance of the Group. As a result, the voting rights were as follows:

| Name | Pre-acquisition | | After-acquisition | |
|---|---|---|---|---|
| Kyoto Guaranty Service Co., Ltd. | 5.00% | ( —) | 49.00% | ( —) |
| Kyogin Lease & Capital Co., Ltd. | 71.66% | (66.66%) | 89.09% | (66.66%) |
| Kyoto Credit Service Co., Ltd. | 67.10% | (62.10%) | 92.10% | (62.10%) |
| Kyogin Card Service Co., Ltd. | 60.00% | (55.00%) | 80.00% | (55.00%) |
| Kyoto Research Institute, Inc. | 83.33% | (78.33%) | 100.00% | (78.33%) |

Note: In parentheses, indirect ownership percentages by subsidiaries are listed.

(2) Overview of the accounting treatment

The Bank accounted for this transaction as a transaction under common control pursuant to ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10, "Guidance on Accounting Standard for Business Combinations and Business Divestitures" issued on December 26, 2008.

(3) Additional acquisitions of subsidiaries' share

① Acquisition cost and its breakdown

The Bank acquired additional shares in the amount of ¥2,593 million ($27,579 thousand).

② Cause and amount of negative goodwill

The Bank recognized a bargain purchase gain of ¥2,963 million ($31,512 thousand) arising from the transaction, since the acquisition cost of subsidiaries' shares from minority shareholders was lower than the decreased amount of minority interests.

## 4. Securities

Securities at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Japanese government bonds | **¥1,075,508** | ¥1,204,791 | **$11,435,494** |
| Japanese local government bonds | **405,357** | 278,035 | **4,310,016** |
| Japanese corporate bonds | **977,311** | 817,118 | **10,391,399** |
| Japanese corporate stocks | **330,385** | 324,194 | **3,512,871** |
| Other securities | **245,727** | 247,274 | **2,612,728** |
| Total | **¥3,034,289** | ¥2,871,415 | **$32,262,509** |

Securities include investments in unconsolidated subsidiaries of ¥345 million ($3,671 thousand) and ¥554 million at March 31, 2013 and 2012, respectively.

Held-to-maturity debt securities as of March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | | 2012 | | | | |
| | 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 | ¥4,006 | ¥4,024 | ¥18 | ¥18 | ¥0 | ¥4,009 | ¥4,025 | ¥16 | ¥16 | ¥0 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Carrying amount | Fair value | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese government bonds | $42,599 | $42,793 | $194 | $194 | $0 |

The cost and aggregate fair value of available-for-sale securities as of March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | | 2012 | | | | |
| | 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 | ¥ 174,440 | ¥ 326,038 | ¥151,597 | ¥156,995 | ¥5,397 | ¥ 176,073 | ¥ 320,144 | ¥144,070 | ¥149,322 | ¥ 5,251 |
| Japanese government bonds | 1,057,076 | 1,071,501 | 14,424 | 14,981 | 556 | 1,193,119 | 1,200,782 | 7,662 | 8,576 | 913 |
| Japanese local government bonds | 396,847 | 405,357 | 8,509 | 8,520 | 10 | 274,487 | 278,035 | 3,547 | 3,548 | 0 |
| Japanese corporate bonds | 969,072 | 977,311 | 8,238 | 8,668 | 429 | 812,095 | 817,118 | 5,023 | 6,091 | 1,068 |
| Japanese bonds – total | 2,422,997 | 2,454,169 | 31,172 | 32,169 | 996 | 2,279,702 | 2,295,935 | 16,233 | 18,215 | 1,982 |
| Foreign bonds | 184,936 | 187,605 | 2,668 | 2,799 | 130 | 194,716 | 196,255 | 1,539 | 2,411 | 871 |
| Other | 50,890 | 57,291 | 6,400 | 6,543 | 143 | 55,708 | 49,630 | (6,078) | 563 | 6,641 |
| Other – total | 235,826 | 244,896 | 9,069 | 9,342 | 273 | 250,425 | 245,886 | (4,538) | 2,975 | 7,513 |
| Total | ¥2,833,265 | ¥3,025,104 | ¥191,839 | ¥198,507 | ¥6,667 | ¥2,706,201 | ¥2,861,967 | ¥155,765 | ¥170,513 | ¥14,747 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Cost | Carrying amount | Net unrealized gains (losses) | Unrealized gains | Unrealized losses |
| Japanese corporate stocks | $ 1,854,767 | $ 3,466,651 | $1,611,883 | $1,669,272 | $57,389 |
| Japanese government bonds | 11,239,520 | 11,392,895 | 153,374 | 159,289 | 5,914 |
| Japanese local government bonds | 4,219,539 | 4,310,016 | 90,476 | 90,592 | 115 |
| Japanese corporate bonds | 10,303,803 | 10,391,399 | 87,595 | 92,163 | 4,568 |
| Japanese bonds – total | 25,762,863 | 26,094,310 | 331,446 | 342,045 | 10,598 |
| Foreign bonds | 1,966,364 | 1,994,739 | 28,375 | 29,761 | 1,386 |
| Other | 541,099 | 609,156 | 68,057 | 69,578 | 1,521 |
| Other – total | 2,507,464 | 2,603,896 | 96,432 | 99,340 | 2,907 |
| Total | $30,125,095 | $32,164,858 | $2,039,762 | $2,110,657 | $70,895 |

Bonds classified as held-to-maturity were not sold during the fiscal years ended March 31, 2013 and 2012.

Available-for-sale securities sold during the fiscal year:

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Sales amount | Gains on sales | Losses on sales | Sales amount | Gains on sales | Losses on sales |
| Available-for-sale securities | ¥1,462,269 | ¥8,728 | ¥1,324 | ¥2,313,234 | ¥5,765 | ¥1,938 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| | 2013 | | |
| | Sales amount | Gains on sales | Losses on sales |
| Available-for-sale securities | $15,547,788 | $92,802 | $14,085 |

The classification of securities was not changed in the years ended March 31, 2013 and 2012.

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 ¥2,107 million ($22,407 thousand) and ¥3,631 million, respectively, for the years ended March 31, 2013 and 2012.

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 for a specified period of time.

"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 the possibility of restructuring is remote. "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.

## 5. Money Held in Trust

(1) Money held in trust classified as trading:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | |
| | 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 | ¥1,965 | | ¥1,937 | | $20,898 | |

(2) No money held in trust was classified as held-to-maturity at March 31, 2013 and 2012.

(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, 2013 and 2012.

## 6. 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 |
| | 2013 | 2012 | 2013 |
| Net unrealized gains on available-for-sale securities | ¥191,839 | ¥155,765 | $2,039,762 |
| Deferred tax liabilities | (66,442) | (55,042) | (706,458) |
| Net unrealized gains on valuation (before adjustment) | 125,397 | 100,723 | 1,333,304 |
| Minority interests | (38) | (56) | (412) |
| Net unrealized gains on valuation | ¥125,358 | ¥100,666 | $1,332,892 |

## 7. Loans and Bills Discounted

Loans and bills discounted at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Bills discounted | ¥ 31,422 | ¥ 34,856 | $ 334,102 |
| Loans on bills | 117,869 | 124,407 | 1,253,260 |
| Loans on deeds | 3,479,658 | 3,411,874 | 36,997,966 |
| Overdrafts | 491,383 | 488,753 | 5,224,707 |
| Total | ¥4,120,333 | ¥4,059,891 | $43,810,036 |

Loans in legal bankruptcy totaled ¥10,344 million ($109,988 thousand) and ¥10,056 million as of March 31, 2013 and 2012, respectively. Nonaccrual loans totaled ¥126,496 million ($1,344,994 thousand) and ¥121,931 million as of March 31, 2013 and 2012, 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 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 ¥119 million ($1,266 thousand) and ¥5 million as of March 31, 2013 and 2012, respectively. Loans classified as loans in legal bankruptcy and nonaccrual loans are excluded.

Restructured loans totaled ¥4,987 million ($53,033 thousand) and ¥13,874 million as of March 31, 2013 and 2012, 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 in 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.

## 8. Foreign Exchanges

Foreign exchange assets and liabilities at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Assets: | | | |
| Due from foreign correspondents | ¥1,441 | ¥2,248 | $15,325 |
| Foreign bills of exchange purchased | 769 | 943 | 8,181 |
| Foreign bills of exchange receivable | 458 | 429 | 4,880 |
| Total | ¥2,669 | ¥3,621 | $28,386 |
| Liabilities: | | | |
| Foreign bills of exchange sold | ¥ 205 | ¥ 166 | $ 2,188 |
| Total | ¥ 205 | ¥ 166 | $ 2,188 |

## 9. Tangible Fixed Assets

Accumulated depreciation on tangible fixed assets at March 31, 2013 and 2012 amounted to ¥71,353 million ($758,673 thousand) and ¥69,851 million, respectively.

## 10. Assets Pledged

Assets pledged as collateral and related liabilities at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Securities | ¥82,862 | ¥75,470 | $881,046 |
| Receivables under resale agreements | 1,899 | 2,098 | 20,193 |

Collateralized liabilities:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Deposits | ¥10,526 | ¥11,259 | $111,919 |
| Payables under securities lending transactions | 38,629 | 30,266 | 410,733 |
| Payables under repurchase agreements | 1,899 | 2,098 | 20,193 |
| Borrowed money | 37,683 | 40,091 | 400,669 |

In addition, securities totaling ¥370,670 million ($3,941,206 thousand) and ¥366,081 million at March 31, 2013 and 2012, respectively, were pledged as collateral for the settlement of exchange and derivative transactions.

Other assets include surety deposits of ¥1,610 million ($17,123 thousand) and ¥1,578 million at March 31, 2013 and 2012, respectively.

## 11. 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, 2013 and 2012, such commitments amounted to ¥1,220,672 million ($12,978,973 thousand) and ¥1,203,211 million, respectively, of which ¥1,173,452 million ($12,476,899 thousand) and ¥1,168,215 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.

## 12. 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, 2013 and 2012, the carrying amount of the land after the above one-time revaluation was less than the fair value by ¥3,226 million ($34,301 thousand) and by ¥3,273 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.

## 13. Deposits

Deposits at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Current deposits | ¥ 259,890 | ¥ 262,098 | $ 2,763,319 |
| Ordinary deposits | 2,839,114 | 2,698,113 | 30,187,289 |
| Savings deposits | 85,275 | 86,015 | 906,706 |
| Deposits at notice | 16,310 | 18,799 | 173,421 |
| Time deposits | 2,597,986 | 2,560,440 | 27,623,458 |
| Other deposits | 282,492 | 234,546 | 3,003,646 |
| Subtotal | 6,081,070 | 5,860,014 | 64,657,841 |
| Negotiable certificates of deposit | 752,196 | 792,907 | 7,997,837 |
| Total | ¥6,833,266 | ¥6,652,921 | $72,655,679 |

## 14. Borrowed Money

Borrowed money at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Subordinated loans | ¥35,000 | ¥35,000 | $372,142 |
| Borrowing from banks and other | 38,815 | 41,690 | 412,709 |
| Total | ¥73,815 | ¥76,690 | $784,851 |

At March 31, 2013 and 2012, the weighted average interest rates applicable to borrowed money were 0.99% and 0.94%, respectively.

Annual maturities of borrowed money at March 31, 2013 were as follows:

| Year Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2014 | ¥37,862 | $402,581 |
| 2015 | 794 | 8,443 |
| 2016 | 120 | 1,275 |
| 2017 | 38 | 408 |
| 2018 | | |
| 2019 and thereafter | 35,000 | 372,142 |
| Total | ¥73,815 | $784,851 |

## 15. Bonds

Callable, unsecured subordinated bonds at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Bonds | ¥15,000 | ¥15,000 | $159,489 |

## 16. Convertible Bonds

Unsecured, subordinated convertible bonds at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Callable unsecured subordinated convertible bonds, due March 2014, non interest (*1) | ¥29,953 | ¥29,953 | $318,479 |

(*1) At March 31, 2013, 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.

## 17. 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 ¥20,134 million ($214,085 thousand) as of March 31, 2013.

## 18. 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 an Audit & Supervisory Board, 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.

## 19. Stock Options

Stock-based compensation expenses were ¥90 million ($961 thousand) and ¥100 million for the years ended March 31, 2013 and 2012, respectively.

The stock options outstanding as of March 31, 2013, 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 |
| 2012 Stock Option | 13 directors and 10 executive officers of the Bank | 164,800 shares | July 30, 2012 | ¥ 1 ($0.01) | From July 31, 2012 to July 30, 2042 |

The stock option activity is as follows:

| | 2008 Stock option | 2009 Stock option | 2010 Stock option | 2011 Stock option | 2012 Stock option |
|---|---|---|---|---|---|
| Year ended March 31, 2012 | | | | | |
| Non-vested | | | | | |
| April 1, 2011 — Outstanding | | | 143,700 | | |
| Granted | | | | 149,800 | |
| Canceled | | | | | |
| Vested | | | (143,700) | | |
| March 31, 2012 — Outstanding | | | | 149,800 | |
| Vested | | | | | |
| April 1, 2011 — Outstanding | 75,400 | 98,700 | | | |
| Vested | | | 143,700 | | |
| Exercised | | | (2,400) | | |
| Canceled | | | | | |
| March 31, 2012 — Outstanding | 75,400 | 98,700 | 141,300 | | |
| Year ended March 31, 2013 | | | | | |
| Non-vested | | | | | |
| March 31, 2012 — Outstanding | | | | 149,800 | |
| Granted | | | | | 164,800 |
| Canceled | | | | | |
| Vested | | | | (149,800) | |
| March 31, 2013 — Outstanding | | | | | 164,800 |
| Vested | | | | | |
| March 31, 2012 — Outstanding | 75,400 | 98,700 | 141,300 | | |
| Vested | | | | 149,800 | |
| Exercised | (8,200) | (10,700) | (21,200) | (21,800) | |
| Canceled | | | | | |
| March 31, 2013 — Outstanding | 67,200 | 88,000 | 120,100 | 128,000 | |
| Exercise price | ¥ 1 ($0.01) | ¥ 1 ($0.01) | ¥ 1 ($0.01) | ¥ 1 ($0.01) | ¥ 1 ($0.01) |
| Average stock price at exercise | ¥597 ($ 6) | ¥597 ($ 6) | ¥597 ($ 6) | ¥597 ($ 6) | |
| Fair value price at grant date | ¥978 ($ 10) | ¥805 ($ 8) | ¥686 ($ 7) | ¥678 ($ 7) | ¥526 ($ 5) |

The fair value of stock options granted in 2013 was measured on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | |
|---|---|
| Volatility of stock price: | 27.3% |
| Estimated remaining outstanding period: | Four years and 9 months |
| Estimated dividend: | ¥11 per share |
| Risk free interest rate: | 0.18% |

## 20. Other Operating Income

Other operating income for the years ended March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Gains on foreign exchange transactions – net | ¥ 661 | ¥ 938 | $ 7,033 |
| Gains on trading securities | 15 | 14 | 167 |
| Gains on sales of bonds | 8,691 | 5,281 | 92,409 |
| Other | 4,086 | 4,325 | 43,446 |
| Total | ¥13,454 | ¥10,560 | $143,056 |

## 21. Other Income

Other income for the years ended March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Gains on sales of stocks and other securities | ¥ 47 | ¥ 485 | $ 507 |
| Gains on sales of tangible fixed assets | 239 | 51 | 2,545 |
| Other | 2,491 | 2,344 | 26,487 |
| Total | ¥2,778 | ¥2,881 | $29,540 |

## 22. Other Operating Expenses

Other operating expenses for the years ended March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Losses on sales of bonds | ¥ 671 | ¥1,482 | $ 7,136 |
| Other | 4,858 | 4,175 | 51,654 |
| Total | ¥5,529 | ¥5,657 | $58,791 |

## 23. Other Expenses

Other expenses for the years ended March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Charge-off claims | ¥ 112 | ¥ 184 | $ 1,197 |
| Losses on sales of stocks and other securities | 653 | 457 | 6,949 |
| Losses on devaluation of stocks and other securities | 2,107 | 3,689 | 22,412 |
| Losses on sales of tangible fixed assets | 554 | 403 | 5,897 |
| Losses on impairment of long-lived assets | 36 | 47 | 392 |
| Other | 2,601 | 2,907 | 27,659 |
| Total | ¥6,067 | ¥7,690 | $64,508 |

## 24. Leases

### Lessee

The minimum rental commitments under noncancellable operating leases at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Due within one year | ¥ 106 | ¥ 92 | $ 1,130 |
| Due after one year | 1,415 | 1,139 | 15,047 |
| Total | ¥1,521 | ¥1,231 | $16,178 |

### Lessor

A consolidated subsidiary leases other assets.

The net leased investment assets are summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Gross leased investment assets | ¥8,268 | ¥7,943 | $87,913 |
| Unearned interest income | (941) | (952) | (10,013) |
| Leased investment assets | ¥7,326 | ¥6,991 | $77,904 |

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 | 2013 | 2013 | 2013 | 2013 |
| 2014 | ¥131 | $1,399 | ¥2,713 | $28,853 |
| 2015 | 110 | 1,178 | 2,142 | 22,781 |
| 2016 | 108 | 1,156 | 1,523 | 16,200 |
| 2017 | 69 | 736 | 991 | 10,545 |
| 2018 | 27 | 287 | 563 | 5,995 |
| 2019 and thereafter | 6 | 71 | 332 | 3,537 |
| Total | ¥454 | $4,830 | ¥8,268 | $87,913 |

The minimum future rentals to be received under noncancellable operating leases at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Due within one year | ¥13 | ¥35 | $144 |
| Due after one year | 1 | 9 | 17 |
| Total | ¥15 | ¥45 | $162 |

## 25. 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, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Projected benefit obligation | ¥(44,074) | ¥(44,053) | $(468,624) |
| Fair value of plan assets | 19,458 | 17,560 | 206,899 |
| Unfunded projected benefit obligation | (24,615) | (26,492) | (261,725) |
| Unrecognized actuarial net loss | (188) | 2,631 | (2,005) |
| Liability for employees' retirement benefits | ¥(24,803) | ¥(23,860) | $(263,731) |

The components of net periodic benefit costs were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Service cost | ¥1,667 | ¥1,631 | $17,734 |
| Interest cost | 659 | 650 | 7,013 |
| Expected return on plan assets | (263) | (249) | (2,800) |
| Recognized actuarial net loss | 1,531 | 1,630 | 16,288 |
| Net periodic retirements benefit costs | ¥3,596 | ¥3,662 | $38,235 |

Assumptions used for the years ended March 31, 2013 and 2012 were as follows:

| | 2013 | 2012 |
|---|---|---|
| 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 |

## 26. Income Taxes

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 38.0% for the years ended March 31, 2013, and 40.6% for the year ended March 31, 2012.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Deferred tax assets: | | | |
| Allowance for possible loan losses | ¥12,456 | ¥12,367 | $132,450 |
| Liability for employees' retirement benefits | 8,964 | 8,701 | 95,313 |
| Devaluation of stocks and other securities | 4,614 | 4,398 | 49,061 |
| Depreciation | 521 | 577 | 5,542 |
| Other | 7,260 | 6,750 | 77,198 |
| Less valuation allowance | (3,426) | (2,337) | (36,430) |
| Total | ¥30,390 | ¥30,458 | $323,135 |
| Deferred tax liabilities: | | | |
| Net unrealized gains on available-for-sale securities | ¥66,471 | ¥55,071 | $706,769 |
| Other | 54 | 53 | 580 |
| Total | ¥66,526 | ¥55,124 | $707,349 |
| Net deferred tax assets | ¥ 2,288 | ¥ 2,792 | $ 24,337 |
| Net deferred tax liabilities | 38,424 | 27,458 | 408,551 |

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, 2013 and 2012, were as follows:

| | 2013 | 2012 |
|---|---|---|
| Normal effective statutory tax rate | 38.0% | 40.6% |
| Expenses not deductible for income tax purposes | 0.3 | 0.4 |
| Income not taxable for income tax purposes | (2.9) | (4.5) |
| Per capita inhabitant tax | 0.3 | 0.3 |
| Increase (decrease) in valuation allowance for deferred tax assets | 3.7 | (7.2) |
| Bargain purchase gain | (3.6) | |
| Effect of tax rate reduction | | 10.0 |
| Tax rate difference between the year of eliminating temporary differences that occurred during the fiscal year | 0.9 | |
| Other – net | 0.0 | 0.1 |
| Actual effective tax rate | 36.7% | 39.7% |

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.

## 27. Financial Instruments and Related Disclosures

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

(1) Basic policy for financial instruments
The main business of the Group is banking, 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 the 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, 2013. 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 Credit-risk management committee.

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 monthly asset liability management ("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, 2013 and 2012 was ¥10.1 billion ($107 million) and ¥12.4 billion.

VaR by risk type at March 31, 2013 and 2012 were as follows:

| | Billions of Yen | | Millions of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Interest rate fluctuation risk | ¥ 4.7 | ¥ 8.1 | $ 49 |
| Market price fluctuation risk (*) | 5.2 | 4.1 | 55 |
| Foreign currency fluctuation risk | 0.2 | 0.2 | 2 |
| Total | ¥10.1 | ¥12.4 | $107 |

(*) 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, 2013 | Carrying amount | Fair value | Unrealized gains/losses |
| Cash and due from Bank of Japan | ¥ 234,225 | ¥ 234,225 | |
| Due from other banks | 1,364 | 1,364 | |
| Call loans and bills bought | 130,970 | 130,970 | |
| Securities: | | | |
| Held-to-maturity bonds | 4,006 | 4,024 | ¥ 18 |
| Available-for-sale securities | 3,025,104 | 3,025,104 | |
| Loans and bills discounted | 4,120,333 | | |
| Allowance for possible loan losses (*1) | (42,020) | | |
| | 4,078,313 | 4,115,451 | 37,138 |
| Total | ¥7,473,985 | ¥7,511,141 | ¥37,156 |
| Deposits (other than negotiable certificates of deposit) | ¥6,081,070 | ¥6,082,836 | ¥ 1,766 |
| Negotiable certificates of deposit | 752,196 | 752,198 | 1 |
| Total | ¥6,833,266 | ¥6,835,034 | ¥ 1,767 |
| Derivatives (*2): | | | |
| Hedge accounting not applied | ¥ 520 | ¥ 520 | |
| Hedge accounting applied | (8,853) | (8,853) | |
| Total | ¥ (8,333) | ¥ (8,333) | |

| | 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) | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2013 | Carrying amount | Fair value | Unrealized gains/losses |
| Cash and due from Bank of Japan | $ 2,490,436 | $ 2,490,436 | |
| Due from other banks | 14,511 | 14,511 | |
| Call loans and bills bought | 1,392,560 | 1,392,560 | |
| Securities: | | | |
| Held-to-maturity bonds | 42,599 | 42,793 | $ 194 |
| Available-for-sale securities | 32,164,858 | 32,164,858 | |
| Loans and bills discounted | 43,810,036 | | |
| Allowance for possible loan losses (*1) | (446,788) | | |
| | 43,363,247 | 43,758,124 | 394,876 |
| Total | $79,468,213 | $79,863,285 | $395,071 |
| Deposits (other than negotiable certificates of deposit) | $64,657,841 | $64,676,621 | $ 18,780 |
| Negotiable certificates of deposit | 7,997,837 | 7,997,854 | 16 |
| Total | $72,655,679 | $72,674,476 | $ 18,796 |
| Derivatives (*2): | | | |
| Hedge accounting not applied | $ 5,532 | $ 5,532 | |
| Hedge accounting applied | (94,137) | (94,137) | |
| Total | $ (88,604) | $ (88,604) | |

(*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 since 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 since 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 4.

*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 28.

***(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 |
| | 2013 | 2012 | 2013 |
| Non-listed stocks (*1) (*2) | ¥4,347 | ¥4,050 | $46,220 |
| Investments in venture funds (*3) | 830 | 1,388 | 8,831 |
| Total | ¥5,177 | ¥5,438 | $55,052 |

(*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 ¥16 million ($170 thousand) and ¥60 million were recorded for the years ended March 31, 2013 and 2012, 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, 2013 | 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 | ¥ 166,506 | | | | | |
| Calls loans and bills bought | 130,970 | | | | | |
| Securities: | | | | | | |
| Held-to-maturity bonds | 600 | ¥ 2,700 | ¥ 700 | | | |
| Available-for-sale securities | 299,789 | 840,397 | 490,826 | ¥334,957 | ¥567,468 | ¥ 59,213 |
| Loans and bills discounted (*) | 1,093,591 | 775,245 | 602,331 | 319,257 | 357,258 | 814,263 |
| Total | ¥1,691,457 | ¥1,618,343 | ¥1,093,857 | ¥654,214 | ¥924,826 | ¥873,477 |

| | 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 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| **March 31, 2013** | 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 | $ 1,770,402 | | | | | |
| Calls loans and bills bought | 1,392,560 | | | | | |
| Securities: | | | | | | |
| Held-to-maturity bonds | 6,379 | $ 28,708 | $ 7,442 | | | |
| Available-for-sale securities | 3,187,555 | 8,935,650 | 5,218,777 | $3,561,485 | $6,033,686 | $ 629,597 |
| Loans and bills discounted (*) | 11,627,767 | 8,242,911 | 6,404,374 | 3,394,547 | 3,799,663 | 8,657,774 |
| Total | $17,984,665 | $17,207,270 | $11,630,594 | $6,956,033 | $9,833,350 | $9,287,371 |

(*) At March 31, 2013 and 2012, Loans and bills discounted of ¥136,841 million ($1,454,982 thousand) and ¥131,988 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, 2013 and 2012, Loans and bills discounted of ¥21,444 million ($228,015 thousand) and ¥22,471 million, respectively, that do not have fixed maturities are not included as well.

*(d) Maturity analysis for interest bearing liabilities*

| | Millions of Yen | | | | | |
|---|---|---|---|---|---|---|
| **March 31, 2013** | 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) | ¥5,637,288 | ¥402,791 | ¥40,989 | | | |
| Negotiable certificates of deposit | 752,196 | | | | | |
| Borrowed money | 37,862 | 914 | 38 | ¥3,000 | ¥16,000 | ¥16,000 |
| Total | ¥6,427,348 | ¥403,706 | ¥41,027 | ¥3,000 | ¥16,000 | ¥16,000 |

| | 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 |
| 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 |

| | Thousands of U.S. Dollars | | | | | |
|---|---|---|---|---|---|---|
| **March 31, 2013** | 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) | $59,939,274 | $4,282,742 | $435,824 | | | |
| Negotiable certificates of deposit | 7,997,837 | | | | | |
| Borrowed money | 402,581 | 9,719 | 408 | $31,897 | $170,122 | $170,122 |
| Total | $68,339,693 | $4,292,461 | $436,233 | $31,897 | $170,122 | $170,122 |

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

## 28. Derivatives

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

*Derivative transactions to which hedge accounting is not applied*

(1) Interest-rate-related transactions

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2012 | | | |
| | 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 | ¥54,670 | ¥48,415 | ¥875 | ¥875 | ¥45,500 | ¥41,219 | ¥688 | ¥688 |
| Receive floating and pay fixed | 54,670 | 48,415 | (388) | (388) | 45,500 | 41,219 | (332) | (332) |
| Other: | | | | | | | | |
| Sold | ¥ 535 | ¥ 135 | ¥ (0) | ¥ 25 | ¥ 1,209 | ¥ 559 | ¥ (0) | ¥ 47 |
| Bought | 535 | 135 | 0 | (14) | 1,209 | 559 | 0 | (26) |
| Total | | | ¥486 | ¥497 | | | ¥355 | ¥376 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Interest rate swaps: | | | | |
| Receive fixed and pay floating | $581,296 | $514,783 | $9,311 | $9,311 |
| Receive floating and pay fixed | 581,296 | 514,783 | (4,134) | (4,134) |
| Other: | | | | |
| Sold | $ 5,694 | $ 1,441 | $ (3) | $ 267 |
| Bought | 5,694 | 1,441 | 3 | (157) |
| Total | | | $5,176 | $5,286 |

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2012 | | | |
| | 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 | ¥37,303 | ¥ 6,709 | ¥(1,267) | ¥(1,267) | ¥29,098 | ¥ 7,964 | ¥ 941 | ¥941 |
| Bought | 31,265 | 6,204 | 1,300 | 1,300 | 24,544 | 7,526 | (798) | (798) |
| Currency options: | | | | | | | | |
| Sold | ¥16,080 | ¥10,477 | ¥ (844) | ¥ 758 | ¥24,344 | ¥14,990 | ¥(2,280) | ¥ 91 |
| Bought | 16,080 | 10,477 | 844 | (471) | 24,344 | 14,990 | 2,280 | 356 |
| Total | | | ¥ 33 | ¥ 320 | | | ¥ 142 | ¥590 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Contractual value | Contractual value due after one year | Fair value | Unrealized gains (losses) |
| Forward exchange contracts: | | | | |
| Sold | $396,629 | $ 71,337 | $(13,473) | $(13,473) |
| Bought | 332,435 | 65,970 | 13,829 | 13,829 |
| Currency options: | | | | |
| Sold | $170,974 | $111,405 | $ (8,983) | $ 8,063 |
| Bought | 170,974 | 111,405 | 8,983 | (5,015) |
| Total | | | $ 356 | $ 3,403 |

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 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | 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 | ¥83,519 | ¥83,519 | ¥(3,623) | ¥81,759 | ¥61,759 | ¥(2,498) | $888,032 | $888,032 | $(38,531) |

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 | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2013 | | |
| | 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 | ¥36,539 | | ¥(5,229) | ¥35,354 | ¥4,109 | ¥(1,061) | $388,510 | | $(55,606) |

Notes: 1. The Bank applies deferral hedge accounting principally based on the rules of the JICPA Industry Audit Committee Report No. 25.
2. The fair values of the above derivatives are principally based on discounted values of future cash flows.
3. The hedged items for currency swaps are currency denominated available-for-sale securities.

## 29. Other Comprehensive Income

The components of other comprehensive income for the year ended March 31, 2013 and 2012, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Unrealized gains (losses) on available-for-sale securities: | | | |
| Gains (losses) arising during the year | ¥40,464 | ¥(64,827) | $430,242 |
| Reclassification adjustments to profit or loss | (4,390) | 6 | (46,681) |
| Amount before income tax effect | 36,073 | (64,821) | 383,560 |
| Income tax effect | 11,399 | (33,954) | 121,209 |
| Total | ¥24,674 | ¥(30,866) | $262,351 |
| Deferred losses on derivatives under hedge accounting: | | | |
| Losses arising during the year | ¥ (2,192) | ¥ (2,071) | $ (23,315) |
| Reclassification adjustments to profit or loss | 1,098 | 1,063 | 11,683 |
| Amount before income tax effect | (1,094) | (1,008) | (11,632) |
| Income tax effect | (389) | (279) | (4,145) |
| Total | ¥ (704) | ¥ (728) | $ (7,486) |
| Land revaluation surplus: | | | |
| Reclassification adjustments to profit or loss | | | |
| Amount before income tax effect | | | |
| Income tax effect | | ¥ 44 | |
| Total | | ¥ 44 | |
| Total other comprehensive income | ¥23,970 | ¥(31,551) | $254,864 |

## 30. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2012 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, 2013** | | | | |
| Basic EPS – Net income available to common stockholders | ¥17,574 | 377,891 | ¥46.50 | $0.49 |
| Effect of dilutive securities – Convertible bonds and stock acquisition rights | 5 | 26,695 | | |
| Diluted EPS – Net income for computation | ¥17,580 | 404,587 | ¥43.45 | $0.46 |
| **For the year ended March 31, 2012** | | | | |
| Basic EPS – Net income available to common stockholders | ¥15,560 | 377,866 | ¥41.17 | |
| 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 | |

## 31. Subsequent Events

*Appropriations of retained earnings*

The following appropriations of retained earnings at March 31, 2013 were approved at the Bank's general meeting of stockholders held on June 27, 2013:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥5.00 ($0.05) per share | ¥1,889 | $20,090 |

## 32. 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 and 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 | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Reportable segment | | | | |
| | Banking | Other (Note 2) | Total | Reconciliations | Consolidated |
| Operating income (Note 1): | | | | | |
| Outside customers | ¥ 104,189 | ¥ 7,904 | ¥ 112,094 | | ¥ 112,094 |
| Intersegment | 423 | 2,514 | 2,937 | ¥ (2,937) | |
| Total | 104,613 | 10,419 | 115,032 | (2,937) | 112,094 |
| Segment profit (Note 3) | 24,783 | 3,316 | 28,100 | (7) | 28,092 |
| Segment assets (Note 4) | 7,615,893 | 37,025 | 7,652,919 | (26,051) | 7,626,868 |
| Segment liabilities (Note 5) | 7,163,691 | 23,360 | 7,187,051 | (23,257) | 7,163,793 |
| Other: | | | | | |
| Depreciation | 4,430 | 142 | 4,572 | | 4,572 |
| Interest income (Note 3) | 79,046 | 268 | 79,314 | (90) | 79,224 |
| Interest expense (Note 3) | 7,695 | 106 | 7,801 | (85) | 7,716 |
| Income taxes (Note 3) | 9,982 | 1,310 | 11,293 | (1) | 11,292 |
| Increase in tangible and intangible fixed assets | 6,674 | 165 | 6,840 | | 6,840 |

| | 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 |

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Reportable segment | | | | |
| | Banking | Other (Note 2) | Total | Reconciliations | Consolidated |
| Operating income (Note 1): | | | | | |
| Outside customers | $ 1,107,811 | $ 84,046 | $ 1,191,858 | | $ 1,191,858 |
| Intersegment | 4,501 | 26,735 | 31,236 | $ (31,236) | |
| Total | 1,112,313 | 110,781 | 1,223,094 | (31,236) | 1,191,858 |
| Segment profit (Note 3) | 263,514 | 35,268 | 298,782 | (80) | 298,702 |
| Segment assets (Note 4) | 80,977,075 | 393,682 | 81,370,757 | (276,991) | 81,093,765 |
| Segment liabilities (Note 5) | 76,168,967 | 248,381 | 76,417,349 | (247,293) | 76,170,055 |
| Other: | | | | | |
| Depreciation | 47,107 | 1,515 | 48,622 | | 48,622 |
| Interest income (Note 3) | 840,468 | 2,858 | 843,327 | (962) | 842,364 |
| Interest expense (Note 3) | 81,824 | 1,130 | 82,955 | (913) | 82,041 |
| Income taxes (Note 3) | 106,141 | 13,935 | 120,077 | (12) | 120,065 |
| Increase in tangible and intangible fixed assets | 70,966 | 1,763 | 72,730 | | 72,730 |

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 several other businesses.
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 | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Lending services | Securities investment | Other | Total |
| Operating income from outside customers | ¥57,432 | ¥30,232 | ¥24,429 | ¥112,094 |

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

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2013 | | | |
| | Lending services | Securities investment | Other | Total |
| Operating income from outside customers | $610,657 | $321,449 | $259,751 | $1,191,858 |

2. Information about geographical areas

(1) Operating income

Operating income from domestic customers exceeded 90% of total operating income on the consolidated statements of income for the fiscal years ended March 31, 2013 and 2012, 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, 2013 and 2012, therefore geographical tangible fixed assets information is not presented.

3. Information about major customers

Operating income from transactions with a specific customer did not reach 10% of total operating income on the consolidated statements of income for the fiscal years ended March 31, 2013 and 2012, 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, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Bank of Kyoto, Ltd. and consolidated subsidiaries as of March 31, 2013, 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 28, 2013

Member of
**Deloitte Touche Tohmatsu Limited**

# Non-Consolidated Balance Sheet (Unaudited)

The Bank of Kyoto, Ltd. As of March 31, 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Assets:** | | | |
| Cash and due from banks | ¥ 235,260 | ¥ 238,261 | $ 2,501,436 |
| Call loans | 130,970 | 84,466 | 1,392,560 |
| Receivables under resale agreements | 1,899 | 2,098 | 20,193 |
| Monetary claims bought | 5,236 | 5,141 | 55,677 |
| Trading securities | 1,521 | 5,284 | 16,177 |
| Money held in trust | 1,965 | 1,937 | 20,898 |
| Securities | 3,031,777 | 2,866,325 | 32,235,806 |
| Loans and bills discounted | 4,126,492 | 4,065,883 | 43,875,522 |
| Foreign exchanges | 2,669 | 3,621 | 28,386 |
| Other assets | 20,803 | 18,074 | 221,195 |
| Tangible fixed assets | 79,025 | 78,037 | 840,251 |
| Buildings | 27,389 | 26,975 | 291,217 |
| Land | 43,382 | 43,087 | 461,269 |
| Construction in progress | 2,019 | 1,100 | 21,471 |
| Other tangible fixed assets | 6,234 | 6,875 | 66,292 |
| Intangible fixed assets | 1,760 | 2,162 | 18,723 |
| Software | 1,485 | 1,885 | 15,792 |
| Other intangible fixed assets | 275 | 277 | 2,930 |
| Customers' liabilities for acceptances and guarantees | 14,946 | 13,626 | 158,924 |
| Allowance for possible loan losses | (38,436) | (37,828) | (408,678) |
| Total assets | ¥7,615,893 | ¥7,347,093 | $80,977,075 |
| **Liabilities and Equity** | | | |
| **Liabilities:** | | | |
| Deposits | ¥6,848,730 | ¥6,667,707 | $72,820,101 |
| Call money | 19,343 | 13,269 | 205,673 |
| Payables under repurchase agreements | 1,899 | 2,098 | 20,193 |
| Payables under securities lending transactions | 38,629 | 30,266 | 410,733 |
| Borrowed money | 72,735 | 75,290 | 773,368 |
| Foreign exchanges | 205 | 166 | 2,188 |
| Bonds | 15,000 | 15,000 | 159,489 |
| Convertible bonds | 29,953 | 29,953 | 318,479 |
| Other liabilities | 57,664 | 29,380 | 613,128 |
| Liability for employees' retirement benefits | 24,725 | 23,781 | 262,894 |
| Liability for reimbursement of deposit losses | 299 | 283 | 3,179 |
| Liability for contingent losses | 1,046 | 998 | 11,125 |
| Deferred tax liabilities | 38,408 | 27,442 | 408,388 |
| Deferred tax liabilities for land revaluation | 103 | 311 | 1,098 |
| Acceptances and guarantees | 14,946 | 13,626 | 158,924 |
| Total liabilities | 7,163,691 | 6,929,575 | 76,168,967 |
| **Equity:** | | | |
| Common stock | 42,103 | 42,103 | 447,673 |
| Capital surplus | 30,301 | 30,301 | 322,187 |
| Stock acquisition rights | 370 | 326 | 3,942 |
| Retained earnings | 257,501 | 246,466 | 2,737,923 |
| Treasury stock — at cost | (1,199) | (1,240) | (12,757) |
| Accumulated other comprehensive income: | | | |
| Net unrealized gains on available-for-sale securities | 125,306 | 100,661 | 1,332,337 |
| Deferred losses on derivatives under hedge accounting | (2,368) | (1,664) | (25,182) |
| Land revaluation surplus | 186 | 562 | 1,983 |
| Total equity | 452,202 | 417,517 | 4,808,107 |
| Total liabilities and equity | ¥7,615,893 | ¥7,347,093 | $80,977,075 |

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 ¥94.05 to US$1.00 on March 31, 2013, the final business day of the term.

# Non-Consolidated Statement of Income (Unaudited)

The Bank of Kyoto, Ltd.  Year Ended March 31, 2013

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Income** | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 56,832 | ¥ 59,711 | $ 604,282 |
| Interest and dividends on securities | 21,458 | 25,527 | 228,162 |
| Other interest income | 754 | 1,162 | 8,024 |
| Fees and commissions | 13,629 | 13,032 | 144,912 |
| Other operating income | 9,368 | 6,234 | 99,611 |
| Other income | 2,808 | 2,841 | 29,862 |
| Total income | 104,852 | 108,510 | 1,114,854 |
| **Expenses** | | | |
| Interest expenses: | | | |
| Interest on deposits | 5,432 | 6,919 | 57,760 |
| Interest on borrowings and rediscounts | 818 | 1,041 | 8,703 |
| Other interest expenses | 1,444 | 1,410 | 15,360 |
| Fees and commissions | 6,723 | 6,654 | 71,483 |
| Other operating expenses | 1,872 | 1,802 | 19,911 |
| General and administrative expenses | 55,527 | 56,941 | 590,406 |
| Other expenses | 8,601 | 8,588 | 91,453 |
| Total expenses | 80,420 | 83,358 | 855,080 |
| Income before income taxes | 24,431 | 25,151 | 259,774 |
| Income taxes: | | | |
| Current | 10,217 | 5,071 | 108,635 |
| Deferred | (234) | 4,656 | (2,493) |
| Net income | ¥ 14,449 | ¥ 15,422 | $ 153,632 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **Per Share Information:** | | | |
| Basic net income | ¥38.23 | ¥40.81 | $0.40 |
| Diluted net income | 35.72 | 38.14 | 0.37 |
| Cash dividends applicable to the year | 10.00 | 11.00 | 0.10 |

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 ¥94.05 to US$1.00 on March 31, 2013, the final business day of the term.

# Corporate Profile

## The Bank's Organization (As of June 27, 2013)

- 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
- Corporate Communications Division
- Risk Management Division
- Compliance Management Division

Business Headquarters
- Business Promotion Division
  - Area Business Headquarters
- Business Support Division
- Business Development Division

- Public Institutions Division
- Credit Supervision Division
- 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

- Head Office Business Department, Osaka Business Department, Domestic Branches and Sub-branches (166 Offices)

## Board of Directors and Corporate Auditors (As of June 27, 2013)

**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**
Haruo Tanaka

**Corporate Auditors**
Tadahiko Nishiyama
Kaneyoshi Jinde (external)
Shinichi Nakama (external)

**Managing Executive Officers**
Hiroshi Okuno
Hideya Naka
Ko Nishizawa
Shinichi Takenaka

**Executive Officers**
Satoru Kitagawa
Hirokazu Tagano
Hiroyuki Yamamoto
Keizo Tokomoto

# Corporate Data (As of March 31, 2013)

**Date of Establishment**
October 1, 1941

**Number of Employees**
3,360

**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 | 22,591 | (5.95%) |
| Nippon Life Insurance Company | 16,589 | (4.37%) |
| Japan Trustee Services Bank, Ltd. (trust account) | 14,151 | (3.73%) |
| The Tokio Marine & Nichido Fire Insurance Co., Ltd. | 14,098 | (3.71%) |
| Meiji Yasuda Life Insurance Company | 11,501 | (3.03%) |
| Kyocera Corporation | 7,980 | (2.10%) |
| Sompo Japan Insurance Inc. | 7,512 | (1.98%) |
| NORTHERN TRUST Co. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS | 7,494 | (1.97%) |
| The Master Trust Bank of Japan, Ltd. (trust account) | 7,457 | (1.96%) |
| The Bank of Kyoto Employees' Stockholding Association | 6,625 | (1.74%) |

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Republic of China P.C:116011
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Fax: +86-411-3960-8618

**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 (DC) |
| Kyogin Card Service Co., Ltd. | September 1989 | 50 | Credit card services (JCB, Diners) |
| Kyoto Research Institute, Inc. | April 1987 | 30 | Research and business consulting services |

Bank of Kyoto

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