

ANNUAL REPORT

For the year ended March 31, 2007



MINATO BANK 2007



MINATO BANK

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CORPORATE DATA

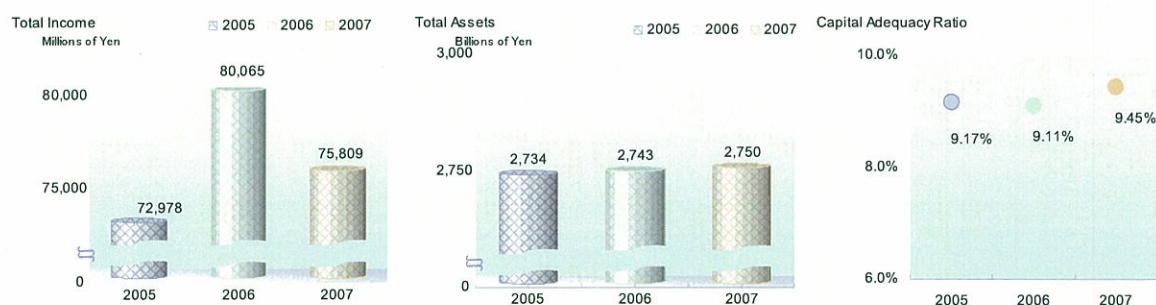
Company Name:	The Minato Bank, Ltd.
Head Office:	1-1, Sannomiya-cho 2-chome, Chuo-ku, Kobe, Hyogo, 651-0193, Japan Phone: 078-331-8141 URL: www.minatobk.co.jp
Authorized Shares:	1,000 million shares
Outstanding Shares:	410,940 thousand shares
Stated Capital:	27.4 billion yen
Number of Shareholders:	11,318
Date of Incorporation:	September 1949 (Company name was changed to The Minato Bank, Ltd. in April 1999.)
Domestic Network:	108 locations (Hyogo:103, Osaka:4, Tokyo:1)
Number of Employees:	1,795
Stock Listings:	The 1st sections of the Tokyo Stock Exchange and the Osaka Securities Exchange
Credit Rating:	Long-term senior debt rating: A - (Japan Credit Rating Agency, Ltd.) Moody's long-term deposit rating: Aa2 (Moody's Investors Service)

CONSOLIDATED FINANCIAL HIGHLIGHTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007, 2006 and 2005

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2007	2006	2005	2007
FOR THE YEAR:				
Total income	¥ 75,809	¥ 80,065	¥ 72,978	\$ 641,959
Total expenses	64,224	70,193	65,968	543,856
Income before Income taxes and minority interests	11,585	9,872	7,010	98,103
Net income	6,949	5,558	4,018	58,845
AT YEAR-END:				
Total assets	¥ 2,749,716	¥ 2,742,960	¥ 2,733,599	\$ 23,284,918
Deposits	2,535,197	2,505,975	2,522,411	21,468,346
Loans and bills discounted	2,164,684	2,098,926	2,040,827	18,330,800
Investment securities	397,056	401,320	499,582	3,362,317
Minority interests	977	923	278	8,273
Common stock	27,484	24,908	24,908	232,738
Total equity	100,074	87,260	85,529	847,438
Capital adequacy ratio	9.45%	9.11%	9.17%	

Note: U.S. dollar amounts represent translation of Japanese Yen at the rate of ¥118.09 to US\$1.00 on March 31, 2007, the final business day of term.



In the above table, the capital adequacy ratio for the fiscal year ended March 31, 2007 is calculated on a consolidated basis based on the domestic standard and formula prescribed in the Notification of the Financial Services Agency of Japan No. 19, 2006 in compliance with the provisions of Article 14-2 of the Banking Law. Prior to the year ended March 31, 2007, we calculated capital adequacy ratios using the formula prescribed in the Finance Ministry Announcement No. 55, 1993 in compliance with the provisions of Article 14-2 of the Banking Law.

Our Thoughts for the Region



Nobuhiro Yabumoto, President

Thanks for the Steady Growth of Our Operating Results

We recorded our highest ever core banking profit of ¥23,100 million and net income of ¥5,500 million for the year ended March 31, 2007. We deeply appreciate your support to which we owe these results. In the year ending March 2008, the final year for the Mid-Term Management Plan "Challenge 21", we anticipate to be able to reach target projections ahead of schedule regarding outstanding housing loans and custody assets, and generate a level of operating results which will completely achieve the Mid-Term Management Plan. We will exert more efforts to sincerely listen to what our customers say and cope with business operations faster than in the past.

"Our Thoughts for the Region"

The Minato Bank, Ltd. as a regional financial institution, has established a management philosophy: "The Bank exists and prospers together with the people in the region".

We want the Minato Bank, Ltd. to be a bank which takes care of customer requests with a conscientious and heartfelt attitude, centering on "face-to-face" communications.

We want the Minato Bank, Ltd. to be a bank capable of proposing products and services matched to our customers.

We want the Minato Bank, Ltd. to be a bank capable of providing a wide range of information, useful to our customers and their businesses.

We want the Minato Bank, Ltd. to be a bank which pleases as many as possible of our customers in the region by providing them various kinds of support.

We will continue to work much harder with the collective force of management and employees from the Bank and its group companies so customers in the region can recognize our "Our Thoughts for the Region".

July 2007

Nobuhiro Yabumoto, President

Mid –Term Management Plan "Challenge 21"

□ Key Indicator Projections

Items (Nonconsolidated, excluding capital adequacy ratio)	FY 2007 (Actual)	FY 2008 (Projected)	FY 2008 Challenge 21
Core banking profit (¥ billions)	23.1	24.2	23.0
Net income (¥ billions)	5.5	6.5	6.0
Overhead Ratio (OHR) (less gains (losses) on bonds, %)	58	57	57
Capital adequacy ratio (consolidated, %)	9.45	9.50	9.70
Outstanding housing loans (¥ billions)	682.9	716.0	700.0
Individual custody assets (¥ billions)	532.9	633.0	600.0

□ Outline of Mid-Term Management Plan "Challenge 21"

Basic Policy	"Aggressive Challenges to Innovation" – Management Base Reinforcement and Profitability Enhancement
Period	April 1, 2005 to March 31, 2008 (3 years)
Major Goals	1. Strength of profitability 2. Structural reinforcement 3. Enhancement of risk management

This annual report provides the descriptions of future results. The descriptions do not guarantee the future results and contain risks and uncertainties. Please note that the future results will change from the projections subject to a change in assumptions related to the management environment.

• Corporate Governance

Basic Concept for Corporate Governance

Reinforcing and enhancing corporate governance is defined as a critical management issue at the Bank and each group company. We adhere to the "Management Philosophy" and "Principles of Conduct"

described below, and strive to sustain sound and healthy operations and contribute to the sound and healthy development of regional communities.

Management
Philosophy

Principles of Conduct
(Corporate Ethics)

**The Bank Exists and Prospers
Together with the People in the Region.**

We work for the region through the provision of financial and information services.

Awareness of the Public Nature and Social Responsibility of our Bank

A bank should be aware of its public role, execute sound and healthy operations according to principles of self-responsibility, and contribute to the steady development of the regional economy and society through the fulfillment of its social commitments.

Fully Customer-Focused

We are always conscious of our "customer-first" policy, and attend to our customers with an honest, faithful and kind spirit, listening to customer requests with a sincere attitude and providing precise, prompt and customer-satisfied financial services.

Fair and Faithful Conduct

We abide by laws, regulations and their spirit thereof and constantly behave in a fair and faithful manner so as to not deviate from social norms.

Contributing to Harmony with Regional Communities

The Bank's principles of conduct are to make contributions for local residents and remove anti-social or anti-ethical conduct from the course of our operations with the aim of becoming closer to being an ideal "bona fide corporate citizen". To realize this, we endeavor to hold close communications with society and ensure the Bank executes corporate activities in line with social common sense and expectations.

Humanity Respect

We are committed to developing a corporate culture which ensures respect for the open and affluent minds of our employees, abounding with power and energies and feelings of value for their employment at the Bank.

Corporate Governance Structure

We have a basic policy for internal control systems and the following structure designed to strengthen and improve our corporate governance so that directors, employees and corporate auditors will be able to cope with their responsibilities in an appropriate and efficient manner.

Board of Directors

Board of Director meetings are in principle held once a month to make important decisions for the Bank's management issues and oversee the execution of directors' responsibilities.

Board of Corporate Auditors

The Bank has adopted a corporate auditor system, and the Board of Corporate Auditors' meeting is in principle held once a month. Based on an audit policy and an audit plan made by the Board of Corporate Auditors, Corporate Auditors have performed audit procedures appropriately through joining Board of Directors' and other important meetings, checking business operations and the status of property, etc.

Also, there is the Office of Corporate Auditors in place aimed to support Corporate Auditors in executing audit procedures.

Management Committee

The Management Committee in principle meets once a month and makes decisions on important issues for the execution of the Bank's business operations based on the Board of Directors' decisions and Management Committee's policies.

Meanwhile, risk management related important issues are determined at the Corporate Risk Management Committee meetings, which is part of the Management Committee.

Committees

The following committees have been set up as advisory panels for the Corporate Risk Management Committee.

□ **Credit Risk Committee**

The Credit Risk Committee in principle meets once every three months to grasp, review and communicate credit risk status, consider and determine a policy or countermeasures for credit risk, manage credit portfolios and big-customer-concentrated risk, and discuss and consider operating policies.

□ **ALM Committee**

The ALM in principle meets once a month and discusses and considers how to maintain a healthy balance sheet and improve profitability, and strategies for proper fund operations and financing through the centralized management of market risks (interest risk, foreign exchange risk, share price risk, etc.) and liquidity risks (cash flow risk, market liquidity risk, etc.) involved in assets and liabilities.

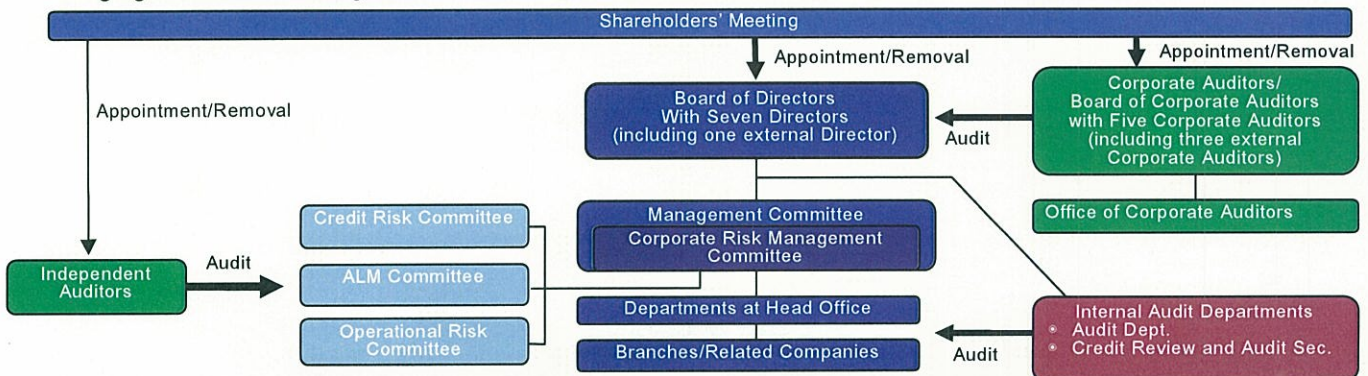
□ **Operational Risk Management Committee**

The Operational Risk Management Committee in principle meets once a month, and analyzes and communicates operational risk related information (improper or non-functioning internal process, staff or systems, or risk of losses resulting from or attributable to external occurrences), discusses various measures required to reduce operational risks, analyzes the causes of incidents and accidents, and discusses and considers preventative measures and reaction methods.

Internal Audit

The Audit Department, an internal audit organization which is independent from other departments, engages in monitoring business operations and risk management at the head office, branches and related companies and issues instructions or proposals for improvement. The department's monitoring results are reported to the Board of Directors and Corporate Auditors.

There is a cooperative system among the Audit Department, Corporate Auditors and independent auditors for exchanging information among them.



● Corporate Social Responsibility (CSR)

CSR Initiatives

Basic Policy for CSR

The Bank's management philosophy is "we work for the region through the provision of financial and information services". We have endeavored to provide financial and information services with an aim to contribute to the development of regional communities.

The Bank and its group companies define CSR as contributing to the sustainable development of regional communities through providing much higher values to (i) our customers, (ii) our shareholders and markets, (iii) society and environment and (iv) our employees in the course of our business operations. Principles of Conduct at the Bank consisting of five items, "awareness of the public nature and social responsibilities of the Bank", "fully customer-focused", "fair and faithful conduct", "contributing to harmony with regional communities" and "humanity respect" is determined as the common philosophy for the Bank and its group companies.

Focal Point for CSR Initiatives

We will reinforce the management system to a greater extent by enhancing the corporate governance system, internal audit system, compliance system and risk management system, and will also grasp each stakeholder's expectations and provide higher value to our stakeholders.

- We will provide our customers with products and services of higher value and make progress together with our customers.
- We will endeavor to sustain sound and healthy operations and increase shareholder value taking advantage of appropriate information disclosure and organized internal controls.
- We will be continuously and proactively involved in social contributory and environmental activities which contribute to regional communities and restore the global environment.
- We will pay respect to people and grow a corporate culture which allows our employees to utilize their own skills or talent thoroughly.

We will support regional communities for their sustainable development by participating in the activities described above.

● Compliance Structure

The Bank's Legal Compliance Section is a unit in charge of managing compliance related matters.

The Legal Compliance Section is responsible for encouraging and educating officers and employees to comply with laws, regulations and social norms required to be abided by, in close cooperation with the Customer Relations Section in the Customer Relationship Management Department, with the support of lawyers and other external professionals. Its highest priority is the prevention of the occurrence of illegal conduct.

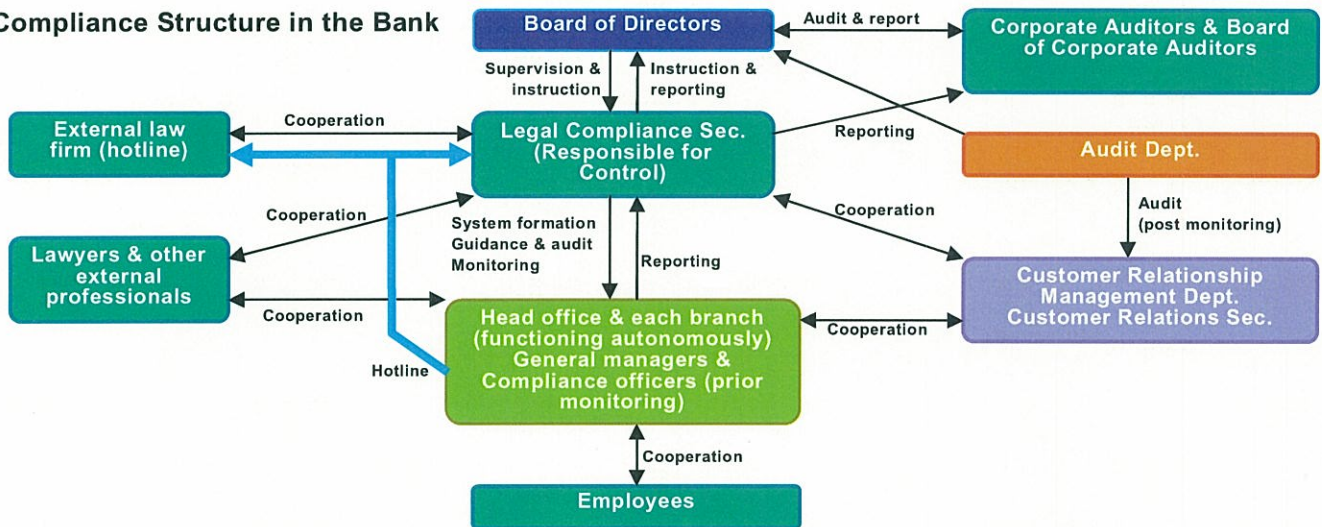
General managers of the head office and each branch are fully responsible to manage and execute assigned operations in compliance with laws, regulations and social norms.

Also, a compliance officer is appointed for each of the above locations, and is required to prevent anti-compliance conduct and detect the occurrence of such conduct in its early stages.

All officers and employees are required to recognize the importance of legal compliance and behave in the most appropriate manner with constant awareness in the course of day to day operations.

If suspected anti-compliance conduct is detected, such conduct needs to be reported to both the general manager and compliance officer of each location and should also be reported directly to the Legal Compliance Section and/or the external law firm, a member of the Legal Compliance Section via hotline, as necessary.

Compliance Structure in the Bank



● Fulfilling Compliance at the Bank

The Bank requires all officers and employees to recognize the public mission and social responsibilities to be fulfilled by a bank and to behave in line with the highest moral standards.

To do that, we must comply with social norms as well as laws and regulations and behave with a fair attitude according to a determined sense of ethics.

The Bank has established concrete regulations, described below, under which its officers and employees are encouraged to fulfill the above requirements: The Code of Conduct provides principles and guidance for all officers and employees to comply with; and the Compliance Policy which comprehensively describes overall compliance related matters (structure, system, roles, procedures, etc.), and the Detailed Operating Policies for Conduct Management which are compiled in a case study style and usable as a guidebook.

These three items are compiled into a booklet called the "Compliance Manual", and the booklet has been provided to each officer and employee to achieve complete compliance.

Principles of Conduct at the Bank

1. Awareness of the public nature and social responsibilities of the Bank
2. Fully customer-focused
3. Fair and faithful conduct
4. Contributing to harmony with regional communities
5. Humanity respect

Guidance of Conduct for Officers and Employees

- Compliance with laws, regulations and rules
- Prohibition of unfair competition
- Duty of confidentiality
- Prohibition of illegal use of information
- Accountability of products and services
- Internal reporting requirements

● Risk Management Structure

Banks are encountering more diversified and complicated risks in line with the expanding scope of operations and innovation of financial technologies. It is therefore of utmost importance to accurately monitor and properly control these risks to retain and reinforce sound banking management.

The establishment of a risk management structure is positioned as one of the most critical management issues at our Bank. We assign departments or sections in charge of risk management by risk type and monitor a range of risks in a precise manner. We also established the Corporate Risk Management Department which is responsible for overview and managing different risks in an integrated manner with the aim of reinforcing our structure to comprehensively manage and control various risks.

As facilities to discuss and determine matters related

to risk management, we organized the Corporate Risk Management Committee and installed three committees; the Credit Risk Management Committee, the Asset and Liability Management (ALM) Committee and the Operational Risk Management Committee. The Corporate Risk Management Committee overviews and examines the status of bank-wide risks to discuss and determine countermeasures and policies, while each committee overviews and examines the status of cross-sectional and uniform risks to discuss and determine countermeasures and policies.

As an internal audit organization operating independently from other departments, the Audit Department reviews and checks the status of business operations and risk management of the head office, branches and related companies. We also have an external audit system led by an independent audit firm.

1. Credit Risk Management

Credit risk is the possibility of a loss arising from a credit event, such as deterioration in the customer's financial condition, which causes an asset including loans receivables to lose value or become worthless.

The Bank strictly complies with the Credit Policy that explicitly prescribes our lending operation rules to achieve healthy and proper business operations. We work to maintain and improve the soundness of assets and profitability through proper controls over credit risks and effective credit review operations according to degrees of credit risks based on the Credit Risk Management Policy prescribing basic policies for credit risk management.

As a basis of such risk management, we have adopted a credit rating system. Credit ratings are borrower classifications ranked according to the probability of loan redemption, and are used as objective indicators to measure the degree of risk pertaining to borrowers. Classifying borrowers according to the degree of risk can promote effective credit review operations.

Concretely, we established a credit approval policy for lending contracts determined based on credit ratings as well as lending approval authority standards, etc. to perform focused (efficient) credit screenings according to the degrees of risk. At the same time, we perform credit status monitoring on a constant basis to detect early signs of credit issues, and adjust the depth and efficiency of management based on the extent of such issues.

In addition, we perform self-assessment of our assets to maintain soundness of assets, prepare financial statements properly reflecting asset conditions, and account for appropriate levels of write-offs and reserves. Self-assessment are designed to classify assets held by the bank according to degrees of risk pertaining to collectibility or value deterioration, and play significant roles as means to manage credit risks. Based on the

results of self-assessment, we accurately and timely estimate future potential losses of loans, etc. in consideration of bad debt conditions, and account for write-offs and allowances based on estimations.

We utilize the Obligor Grading and Self-assessment to quantitatively grasp and manage credit risks to keep control over the degree of credit risk for our overall credit portfolio and any risk concentration on specific industries or large accounts, and report findings to management. As appropriate, we establish and implement remedial measures for our credit portfolio including proper risk controls, risk diversification and reduction of troubled credits, etc.

In an effort to retain soundness of assets, we installed the Credit Review and Audit Section under the Audit Department operating independently from credit related departments, and established a system to check the accuracy of the Credit Ratings and Self-assessment as well as condition of credit review operations.

2. Risk Management over Customers in Derivatives Instrument and Long-term Settlement Transaction

Departments in charge of funding release, foreign exchange and derivative transactions manage such transactions by setting their transaction limits according to the credibility of individual customers. We will review these limits every half year in principle.

3. Operational Risk Management

Operational risk is the possibility of losses arising from inadequate or failed internal processes, people and systems or from external events.

The fundamental policy of the Bank was to establish the Operational Risk Management Policy prescribing basic matters concerning operational risk management and maintenance of an effective framework for identification, valuation, control and monitoring procedures according to characteristics of operations and risks.

Separate from administrative departments for processing risk and systems risk management, we installed departments and divisions responsible for controlling and managing overall operational risk management in an integrated manner, and working to analyze and accumulate internal loss data, etc., to utilize them as basic data for operational risk management. Furthermore, we provide a highly effective structure in which the Operational Risk Management Committee, a cross-sectional in-house organization, is installed to overview and examine various risk conditions to discuss and determine countermeasures and policies.

■ Processing and Systems Risk Management

Processing risk is the possibility of losses arising from negligent processing by employees, accidents, or unauthorized activities.

We promote streamlined or head-office centralized processing operations, and provide group training and on-site guidance offered by the Operations Planning Department to reduce processing risks and improve the level of processing ability. Moreover, the Audit Department periodically conducts branch field audits while head office and branches perform self-inspections to prevent accidents and fraud from occurring.

Systems risk is the possibility of a loss arising from the failure, malfunction, unauthorized use or data leakage of computer systems.

Due to the extent of its impact, we are clearly aware of our social responsibility to maintain stable operations of computer systems and proper controls for customer information. We prescribe systems risk management policy and practical management standards, including the Security Policy, and strictly adhere to these policies in operating and managing our systems. To prepare for unforeseeable circumstances, we developed contingency plans and provide simulation trainings as necessary.

We provide internal and external audits for periodic system valuation and upgrades, and promote the achievement of more secure operations of computer systems and strict data controls.

4. Market and Liquidity Risk Management

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, or stock prices will change the value of financial assets and liabilities, leading to a loss.

We segregate front, middle and back office operations systematically to secure a mutual check and balance function, and established a system in which the audit departments examine the appropriateness of risk management processes, etc.

We review market forecasts, operational policies for ALM and marketable securities and financial strength on a biannual basis to determine allowable ranges of market risk exposure and set individual risk limits for risk capital limits*1, loss limits, VaR limits*2 and position limits. Based on these procedures, we work to maintain administration and operations within predetermined

ranges of risk exposure (under the risk limits).

Each department handling transactions (the front office sections) will improve profitability within these limits, while the middle office sections measure valuation gain/loss, realized gain/loss and probable maximum potential loss (VaR) for equity risks and loan interest rate risks on a daily basis and interest rate risks on all assets and liabilities on a monthly basis. We handle investments in subsidiaries using the same method as for other equity shares.

Liquidity risk is the possibility of encountering an obstacle to raising the funds required for settlement due to either to a mismatch between the use and procurement of funds or to an unexpected outflow of funds, or being forced to borrow at higher interest rates than usual.

INITIATIVES AT THE BANK

We place the highest priority on cash-flow security, and periodically set and maintain funding gap limits*3. We developed the Contingency Plans for Liquidity Emergency prescribing emergency action plans, and take all possible measures to ensure our operating transactions are not interfered with in the event of market confusion, by holding sufficient assets easily convertible to cash, such as government bonds.

The ALM Committee holds monthly meetings to prepare forecasts for trends of business climate, interest rates, stock market prices and foreign exchange rates and provides reporting of profit conditions. The Committee also prepares reports and analysis of the status of observance of market and liquidity risk limits, discusses and considers market risk controls, financing and fund operations to develop an asset and liability structure that ensures stable profitability.

*1 Risk capital limit

Allocating certain portions of capital to each transaction type to regulate probable maximum losses estimates, valuation losses currently existing and realized loss during the fiscal period within the scope of our management resources.

*2 Value at Risk (VaR)

Value calculating a probable maximum potential loss statistically from existing assets and liabilities based on past market fluctuation data.

*3 Funding gap

An estimated amount of future financing requirement arising from the mismatch of periods between financing and fund investments.

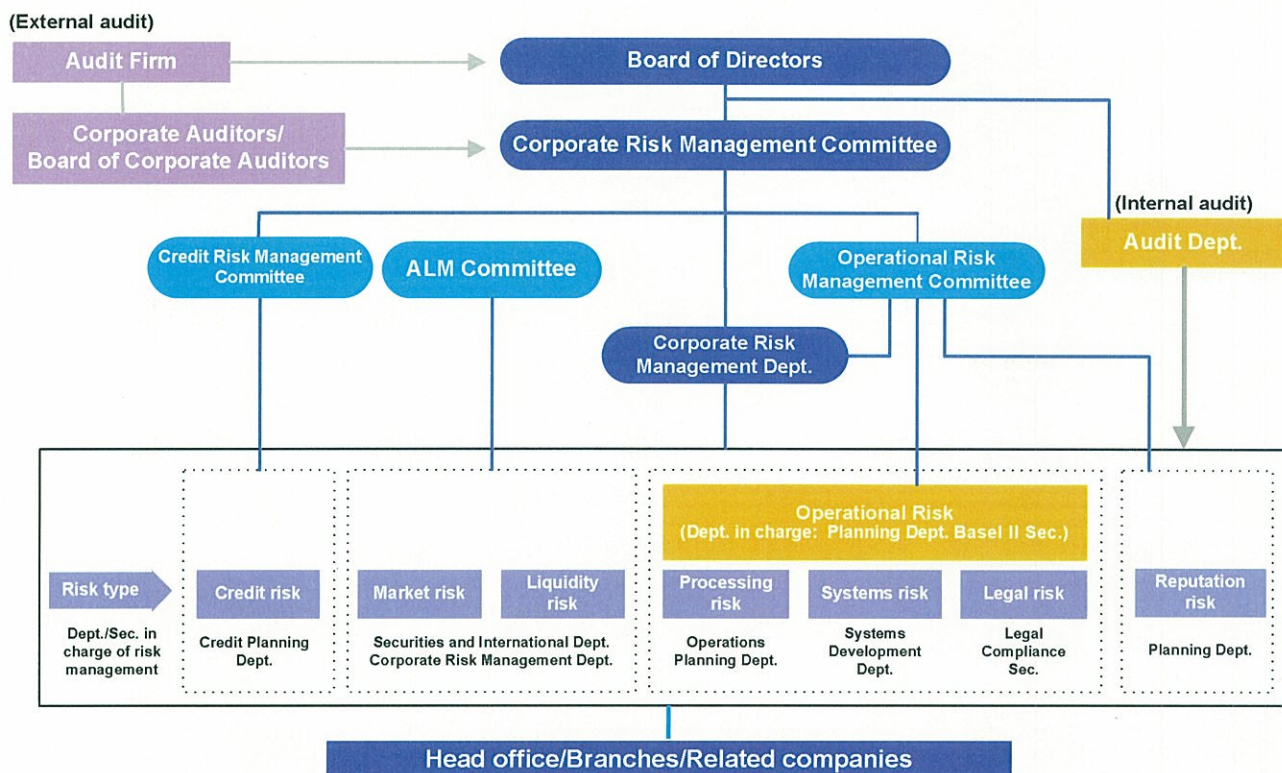
5. Reputation Risk Management

Reputation risk is the possibility of losses arising from damaged reputation attributable to rumors of market players, media publicity, accidents or other troubles.

We make efforts to earn the understanding and trust of regional communities, customers and stockholders through active promotion of public and investor relations. We disclose information in a timely and appropriate

manner to increase transparency of our management to minimize reputation risk exposure. We also work to consolidate and monitor information released from mass media and rumors that could lead to reputation risk exposure, and maintain reporting systems able to react promptly and accurately in the worst-case scenario.

Risk Management Structure



INITIATIVES AT THE BANK

■ Capital Adequacy Ratio (based on the domestic standard)

Commencing the year ended March 31, 2007, capital adequacy ratios are calculated on a consolidated and nonconsolidated basis based on the domestic standard and formula prescribed in the Notification of the Financial Services Agency of Japan No. 19, 2006 in compliance with the provisions of Article 14-2 of the Banking Law. Prior to the year ended March 31, 2007, we calculated capital adequacy ratios using the formula prescribed in the Finance Ministry Announcement No. 55, 1993 in compliance with the provisions of Article 14-2 of the Banking Law.

Capital adequacy ratios were 9.49% (nonconsolidated) and 9.45% (consolidated) for the fiscal year ended March 31, 2007. We maintained these levels, which are significantly more than the four percent capital adequacy ratio required by the domestic standard.



● Progress in Locally-oriented Financial Promotion Plans

Our bank develops and promotes the "Locally-oriented financial promotion plan" as a part of our Mid-Term Management Plan "Challenge 21" (April 2005 through March 2008). Major milestones from April 2005 through March 2007 were as follows:

1. Revitalization of businesses and facilitation of small and medium enterprises (SME) finance

- Established an open investment fund "Minato Genki Fund II". Selected 13 companies for the fund investments (among 28 applicants).
- Offered finance secured by patent rights in addition to Japan's first finance secured by trademarks of professional sport teams.
- As a result of our support for the better management of our customers, 66 companies upgraded their rank (April 2005 through March 2007).

2. Strengthening of business management capacity

- Introduction of "New credit rating and self-assessment system" to reinforce our risk management structure.
- Strengthened cost-profit management by section, customer and branch with application of cost accounting system to increase our profitability.
- Improved asset management consulting services with over-the-counter sales support system "Minato Pro (Professionals)" installed at all branches.

3. More convenience for customers in the region

- Conducted the "10,000 customers' satisfaction survey" to increase customer satisfaction (in January 2006 and 2007).
- Established "consulting plazas" and "housing loan plazas".
- ATM tie-ups with Postal Savings Services of Japan Post and Seven Bank, Ltd.

LOCALLY-ORIENTED ACTIVITIES

● M&A Intermediation

Conclusion of M&A Deals

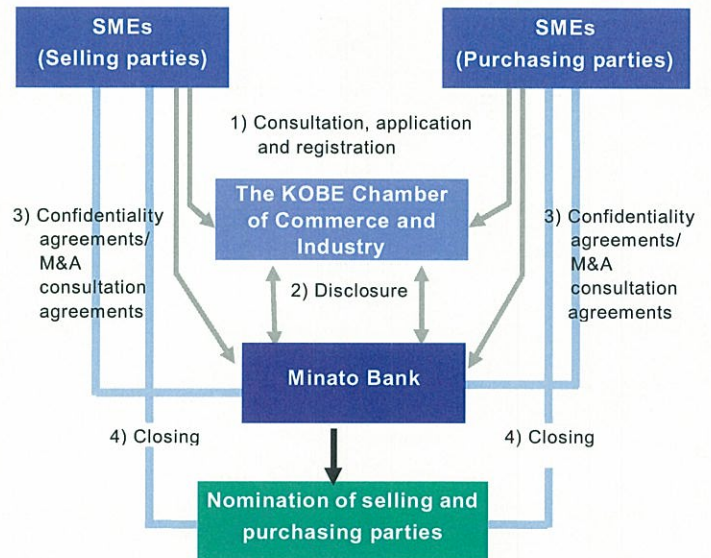
We have closed six M&A deals in FY2006, and a total of 24 deals since the commencement of M&A services. Currently, we have 14 cases undergoing specific M&A matching projects.

M&A Information Network

We are endeavoring to enhance M&A information networks taking advantage of business tie-ups with The Osaka Chamber of Commerce and Industry, The KOBE Chamber of Commerce and Industry, Sumitomo Mitsui Banking Corporation, Development Bank of Japan, ORIX Corporation, RECOF Corporation, and Japan M&A Center Co., Ltd.

■ Hyogo-Style M&A Support System

We promote M&A services for SMEs in cooperation with The KOBE Chamber of Commerce and Industry. We collect information of local business entities in the Hyogo prefecture including members of The KOBE Chamber of Commerce and Industry. Five M&A deals have been closed under the system so far.



● Venture Enterprise Support

We offer financial support by extending loans and making investments in venture enterprises (VEs) seeking growth with new technologies and business models.

We assist VE fund procurement with finance featuring a method which requires no conventional collateral, but

security through intellectual property rights or share warrants, etc.

We also provide investment finance through our group company, Minato Capital Co., Ltd.

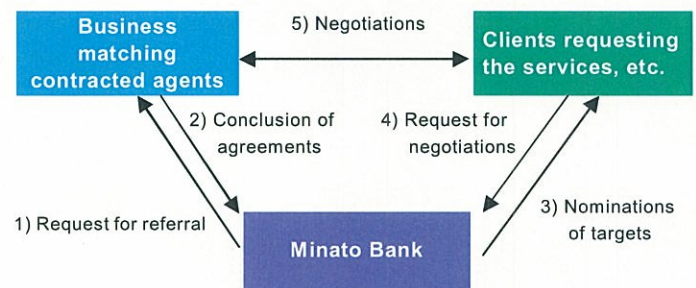
● Business Matching Services

In May 2004, we started offering business matching or referral services for fees; to introduce appropriate suppliers or entities to business clients that need products, services, technology, manpower, etc. We have concluded agreements with 28 partners including management consultants, various sales companies, and lease companies.

As such, utilizing the Bank's network, we provide SME customers with effective information leading to exact and prompt solutions for business matters.

Hyogo-Style M&A Support System

Business Matching Services (for fees)



LOCALLY-ORIENTED ACTIVITIES

● Co-sponsorship of the Kobe Luminarie

In December 2006, we co-sponsored the 12th KOBE Luminarie, one of the most notable winter events in Kobe, as a regional financial institution following previous years.

Kobe Luminarie™

Luminarie was first held in December 1995 to commemorate the victims of the Great Hanshin-Awaji Earthquake disaster which occurred that year. Luminarie extended the hopes and dreams for the recovery and revitalization of communities, and gave the people of Kobe great courage and deep impression.



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● The Minatobank Foundation for Culture - Cultural Support for the Region



This foundation, established in October 1993, aims to contribute to regional communities through promotion of various cultural and sport programs in Hyogo prefecture. The foundation supports art exhibitions, music concerts, theatrical performances, and children's baseball workshops. (<http://www.minatofc.or.jp/>)

● Hyogo Economic Research Institute – Think Tank in the Region

As a regional think tank, this institute engages in research and study of economic and industrial trends and regional issues mainly in Hyogo prefecture, and offers a range of information to people in the region.

Its journal "Quarterly Hyogo Economy" releases timely topics contributed by academic and governmental intellectuals and independent study reports with three pillars of content; regional economy, general economy and prefecture and municipal administrative projects. In fiscal 2006, "Earthquake Crisis Management and Action" was released and received with great feedback from a variety of fields. The institute measured and released "Economic Ripple Effects of *Nojigiku* National Sports Festival in Hyogo". It also hosts lectures presented by prominent figures, dispatches instructors to universities, institutes and enterprises in the region, and undertakes research work for governments and enterprises. These results have been released at its website (<http://www.heri.or.jp/>).

● Minato Bank Scholarship Foundation - Scholarship Program

This foundation provides financial-aid to university students to foster future talents contributing to our society. Scholarships have granted to approximately 860 students up to this date.

● Establishment of Shanghai Representative Office (in April 2007)

Shanghai Representative Office was established as the first overseas base since the incorporation of the Minato Bank, Ltd.

We will reinforce our information collection function and customer support system in China's Yangtze delta economic region to cope with customer needs quickly and completely in conjunction with the operations of the

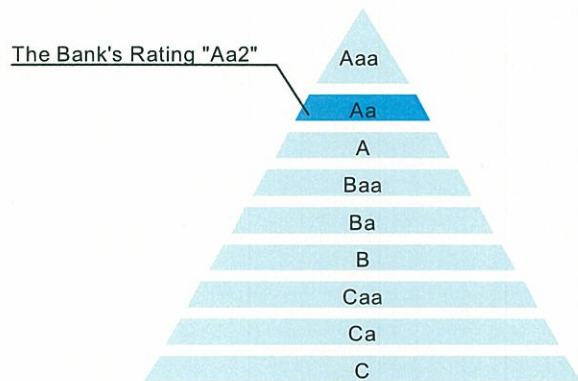
China Business Promotion Section functioning as the contact in Japan.

Name: THE MINATO BANK, LTD.
SHANGHAI REPRESENTATIVE OFFICE
Address: Room No. 3312 United Plaza
195 Tong Ren Road, Shanghai



● Acquisition of Moody's Rating (in May 2007)

Long-term deposits at the Bank were rated "Aa2" by Moody's Investors Service Inc. We hope that the acquisition of ratings from this neutral and independent rating provider will provide investors and our shareholders and customers with credit criteria for the Bank's profitability and financial soundness, and make such stakeholders gain a deeper understanding of the Bank.



FINANCIAL REVIEW (CONSOLIDATED BASIS)

Balance Sheets

The year-end balance of deposits, including negotiable certificates of deposit, stood at ¥2,535,197 million (US\$21,468 million), increase of ¥29,222 million over the previous term-end.

Meanwhile, the balance of loans and bills discounted increased ¥65,758 million, to ¥2,164,684 million (US\$18,331 million). This increase was mainly attributable to an increase of the loaned money for companies by the recovery of corporate earnings and an increase of housing loans.

And investment securities decreased ¥4,264 million, to ¥397,056 million (US\$3,362 million).

Statements of Income

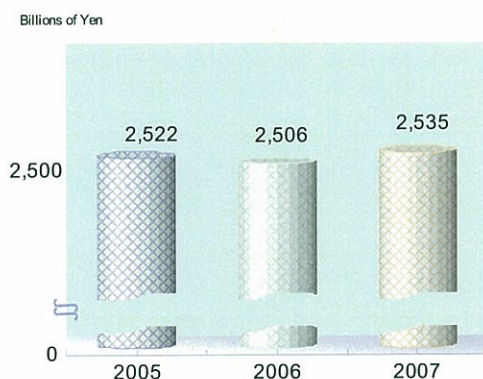
Because of an increase of the balance of loans and bill discounted, interest on loans and discounts for the year increased ¥1,604 million year-on-year to ¥45,522 million (US\$385 million).

Meanwhile, total income for the year decreased ¥4,256 million year-on-year to ¥75,809 million (US\$642 million). This decrease was mainly attributable to a decrease of the gains on sales of investment securities, such as Japanese government bonds and securities, although fees and commissions by sale of asset management products, such as an investment trust, and by financial services which meet company needs, increased.

Net income increased ¥1,391 million year-on-year to ¥6,949 million (US\$59 million). This increase was mainly attributable to a decrease of impairment loss.

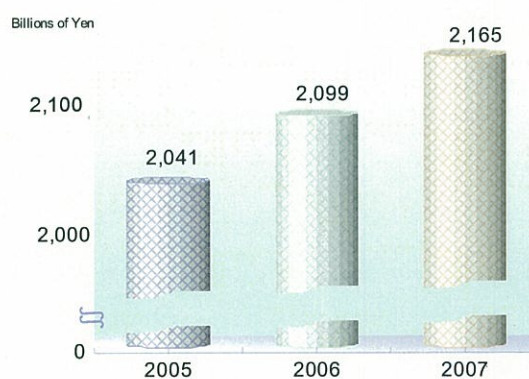
Deposits

2005 2006 2007



Loans and Bills Discounted

2005 2006 2007



FINANCIAL REVIEW (CONSOLIDATED BASIS)

Cash Flows

Cash and cash equivalents at year-end stood at ¥61,652 million (US\$522 million), down ¥22,540 million from a year earlier.

■ Cash flow from operating activities

Net cash used in operating activities amounted to ¥34,472 million (US\$292 million), a decrease of ¥29,251 million over the previous fiscal year.

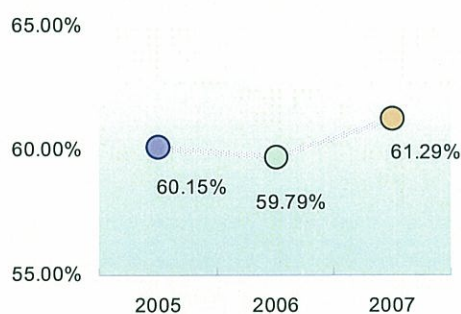
■ Cash flow from investing activities

Net cash used in investing activities totaled ¥1,629 million (US\$14 million), up ¥91,774 million from the previous fiscal year. This resulted primarily from a decrease in proceeds from sales of investment securities.

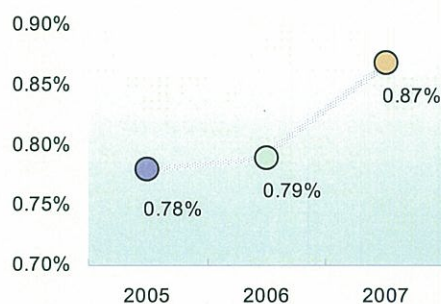
■ Cash flow from financing activities

Net cash provided by financing activities came to ¥13,561 million (US\$115 million), up ¥14,208 million. The significant year-on-year increase resulted principally from proceeds from borrowing of subordinated loans and issuance of new stock.

Overhead Ratio *



Return on Assets (Core Banking Profit Basis) *



* Non-Consolidated Basis

ATTENTION REGARDING FORWARD-LOOKING STATEMENTS

The reader is 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 Bank's management as of the time of writing. Actual results may therefore differ substantially from such statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED BALANCE SHEETS

The Minato Bank, Ltd. and Subsidiaries
As of March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
ASSETS:			
Cash and due from banks (Notes 3 and 10)	¥ 61,942	¥ 84,415	\$ 524,532
Call loans and bills bought	2,377	13,172	20,129
Receivables under securities borrowing transactions	19,846		168,058
Debt purchased	7,033	5,089	59,556
Trading securities (Note 25)	706	385	5,978
Investment securities (Notes 4, 10 and 25)	397,056	401,320	3,362,317
Loans and bills discounted (Notes 5 and 11)	2,164,684	2,098,926	18,330,800
Foreign exchanges (Note 6)	5,726	5,010	48,488
Other assets (Notes 7 and 10)	32,215	35,761	272,800
Premises and equipment, net (Notes 8, 9 and 10)	44,574	51,339	377,458
Deferred tax assets (Note 24)	16,020	21,146	135,659
Customers' liabilities for acceptances and guarantees (Note 16)	22,682	52,750	192,074
Allowance for possible loan losses	(25,145)	(26,353)	(212,931)
TOTAL ASSETS	¥ 2,749,716	¥ 2,742,960	\$ 23,284,918
LIABILITIES:			
Deposits (Notes 10, 12 and 27)	¥ 2,535,197	¥ 2,505,975	\$ 21,468,346
Borrowed money (Notes 13 and 27)	57,752	52,895	489,051
Foreign exchanges (Note 6)	56	57	474
Bonds (Note 14)	5,000		42,341
Other liabilities (Notes 10 and 15)	24,644	36,000	208,688
Liability for employees' bonuses	945	907	8,002
Liability for employees' retirement benefits (Note 23)	3,150	6,193	26,675
Liability for retirement of directors and corporate auditors	216		1,829
Acceptances and guarantees (Note 16)	22,682	52,750	192,074
Total liabilities	2,649,642	2,654,777	22,437,480
MINORITY INTERESTS		923	
EQUITY (Note 17):			
Common stock, authorized, 900,000,000 shares; issued, 410,940,977 shares and 382,940,977 shares as of March 31, 2007 and 2006, respectively	27,484	24,908	232,738
Capital surplus	49,484	46,961	419,036
Retained earnings	18,544	13,125	157,033
Net unrealized gains on available-for-sale securities, net of taxes	4,014	2,366	33,991
Deferred loss on derivatives under hedge accounting	(320)		(2,710)
Treasury stock - at cost 388,634 shares and 361,322 shares as of March 31, 2007 and 2006, respectively	(109)	(100)	(923)
Total	99,097	87,260	839,165
Minority interests	977		8,273
Total equity	100,074	87,260	847,438
TOTAL LIABILITIES AND EQUITY	¥ 2,749,716	¥ 2,742,960	\$ 23,284,918

See Notes to Consolidated Financial Statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF INCOME

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
INCOME:			
Interest income:			
Interest on loans and discounts	¥ 45,522	¥ 43,918	\$ 385,486
Interest and dividends on securities	3,688	3,974	31,230
Other interest income	651	668	5,513
Fees and commissions	16,157	14,519	136,819
Other operating income (Note 18)	6,768	9,609	57,312
Other income (Note 19)	3,023	7,377	25,599
Total income	75,809	80,065	641,959
EXPENSES:			
Interest expenses:			
Interest on deposits	2,990	1,355	25,320
Interest on borrowings and rediscounts	1,024	805	8,671
Other interest expenses	534	995	4,522
Fees and commissions	2,978	3,070	25,218
Other operating expenses (Note 20)	7,815	8,488	66,178
General and administrative expenses	34,430	33,811	291,557
Other expenses (Notes 9 and 21)	14,453	21,669	122,390
Total expenses	64,224	70,193	543,856
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,585	9,872	98,103
INCOME TAXES (Note 24):			
Current	365	460	3,091
Deferred	4,214	3,755	35,684
MINORITY INTERESTS	57	99	483
NET INCOME	¥ 6,949	¥ 5,558	\$ 58,845

	Yen		U.S. Dollars
	2007	2006	2007
PER SHARE INFORMATION (Notes 2.u and 28):			
Basic net income	¥ 17.75	¥ 14.53	\$ 0.150
Cash dividends applicable to the year	4.00	4.00	0.034

See Notes to Consolidated Financial Statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007 and 2006

	Thousands	Millions of Yen			
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Available-for- sale Securities
Balance at April 1, 2005	382,625	¥ 24,908	¥ 46,961	¥ 8,715	¥ 5,030
Net income				5,558	
Cash dividends, ¥3.00 per share				(1,148)	
Purchase of treasury stock	(45)				
Net change in the year					(2,664)
Balance at March 31, 2006	382,580	24,908	46,961	13,125	2,366
Reclassified balance as of March 31, 2006					
Issuance of new stock by public offering and allocation to third party (Note 17)	28,000	2,576	2,523		
Net income				6,949	
Cash dividends, ¥4.00 per share				(1,530)	
Purchase of treasury stock	(28)				
Net change in the year					1,648
Balance at March 31, 2007	410,552	¥ 27,484	¥ 49,484	¥ 18,544	¥ 4,014

	Millions of Yen				
	Deferred Loss on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
Balance at April 1, 2005		¥ (85)	¥ 85,529		¥ 85,529
Net income			5,558		5,558
Cash dividends, ¥3.00 per share			(1,148)		(1,148)
Purchase of treasury stock		(15)	(15)		(15)
Net change in the year			(2,664)		(2,664)
Balance at March 31, 2006		(100)	87,260		87,260
Reclassified balance as of March 31, 2006				¥ 923	923
Issuance of new stock by public offering and allocation to third party (Note 17)			5,099		5,099
Net income			6,949		6,949
Cash dividends, ¥4.00 per share			(1,530)		(1,530)
Purchase of treasury stock		(9)	(9)		(9)
Net change in the year	¥ (320)		1,328	54	1,382
Balance at March 31, 2007	¥ (320)	¥ (109)	¥ 99,097	¥ 977	¥ 100,074

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007 and 2006

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Available-for-sale Securities
Balance at March 31, 2006	\$ 210,924	\$ 397,671	\$ 111,144	\$ 20,036
Reclassified balance as of March 31, 2006				
Issuance of new stock by public offering and allocation to third party (Note 17)	21,814	21,365		
Net income			58,845	
Cash dividends, \$0.034 per share			(12,956)	
Purchase of treasury stock				
Net change in the year				13,955
Balance at March 31, 2007	\$ 232,738	\$ 419,036	\$ 157,033	\$ 33,991

	Thousands of U.S. Dollars (Note 1)				
	Deferred Loss on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
Balance at March 31, 2006		\$ (847)	\$ 738,928		\$ 738,928
Reclassified balance as of March 31, 2006				\$ 7,816	7,816
Issuance of new stock by public offering and allocation to third party (Note 17)			43,179		43,179
Net income			58,845		58,845
Cash dividends, \$0.034 per share			(12,956)		(12,956)
Purchase of treasury stock		(76)	(76)		(76)
Net change in the year	\$ (2,710)		11,245	457	11,702
Balance at March 31, 2007	\$ (2,710)	\$ (923)	\$ 839,165	\$ 8,273	\$ 847,438

See Notes to Consolidated Financial Statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 11,585	¥ 9,872	\$ 98,103
Depreciation	5,532	5,525	46,846
Losses on impairment of long-lived assets	193	1,985	1,634
Increase in allowance for possible loan losses	10,925	18,153	92,514
Increase in liability for employees' bonuses	38	30	322
(Decrease) increase in liability for employees' retirement benefits	(3,043)	124	(25,769)
Increase in liability for retirement of directors and corporate auditors	216		1,829
Increase in prepaid pension expense	(2,186)		(18,511)
Interest income	(49,861)	(48,560)	(422,229)
Interest expenses	4,548	3,154	38,513
Losses (gains) on sales and write-down of investment securities	1,975	(3,696)	16,725
Foreign exchange gains	(76)	(672)	(644)
Losses on sales of premises and equipment	482	157	4,082
Net increase in trading securities	(331)	(159)	(2,803)
Net increase in loans	(77,546)	(77,659)	(656,669)
Net increase (decrease) in deposits	29,645	(15,845)	251,037
Net (decrease) increase in borrowed money (excluding subordinated loans)	(144)	67	(1,219)
Net increase in due from banks (excluding noninterest-bearing due from banks)	(68)	(41)	(576)
Net increase in call loans and bills bought	(10,995)	(199)	(93,107)
Net (increase) decrease in foreign exchanges (assets)	(716)	945	(6,064)
Net (decrease) increase in foreign exchanges (liabilities)	(0)	24	(0)
Interest received (cash basis)	49,495	48,511	419,130
Interest paid (cash basis)	(3,575)	(3,019)	(30,273)
Other	128	(2,163)	1,084
Subtotal	(33,779)	(63,466)	(286,045)
Income taxes - paid	(693)	(257)	(5,868)
Net cash used in operating activities	(34,472)	(63,723)	(291,913)
INVESTING ACTIVITIES:			
Purchases of investment securities	(509,874)	(599,844)	(4,317,674)
Proceeds from sales of investment securities	308,887	523,377	2,615,691
Proceeds from redemptions of investment securities	205,108	171,368	1,736,879
Purchases of premises and equipment	(4,491)	(5,185)	(38,030)
Proceeds from sales of premises and equipment	143	429	1,211
Other	(1,402)		(11,872)
Net cash (used in) provided by investing activities	(1,629)	90,145	(13,795)
FINANCING ACTIVITIES:			
Proceeds from borrowing of subordinated loans	25,000		211,702
Repayment of subordinated loans	(20,000)		(169,362)
Proceeds from issuance of subordinated bonds	5,000		42,341
Proceeds from issuance of new stock	5,099		43,179
Proceeds from issuance of common stock to minority stockholders		515	
Dividends paid by the Bank	(1,529)	(1,147)	(12,948)
Purchases of treasury stock	(9)	(15)	(76)
Net cash provided by (used in) financing activities	13,561	(647)	114,836
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	0	(2)	0
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(22,540)	25,773	(190,872)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	84,192	58,419	712,948
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 61,652	¥ 84,192	\$ 522,076

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

On December 27, 2005, the Accounting Standards Board of Japan (the "ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006.

The consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the consolidated statements of changes in equity" in the current fiscal year.

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 2006 financial statements to conform to the classifications used in 2007.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118.09 to \$1, the approximate rate of exchange at March 31, 2007, the final business day of the term. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Bank and all (14 in 2007 and 2006) of its subsidiaries (together, the "Group"). Under the control concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated.

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

Assets and liabilities of consolidated subsidiaries including the portion attributable to the minority stockholders are valued for consolidation at fair value when the Bank acquired control.

b. Consolidated Subsidiaries' Fiscal Year-End

Fiscal years of 8 (8 in 2006) consolidated subsidiaries end on March 31, while 6 (6 in 2006) others end on December 31. Significant transactions between December 31 and March 31 are adjusted in consolidation.

c. Cash Equivalents

For purposes of the consolidated statements of cash flows, the Group considers noninterest-bearing deposits included in

"Cash and due from banks" in the consolidated balance sheets to be cash equivalents.

d. Trading Securities

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

e. Investment Securities

Investment securities with readily obtainable market values are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average cost method.

Other non-marketable securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Derivative Transactions

In July 2002, the Japanese Institute of Certified Public Accountants ("JICPA") issued the Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry". In accordance with the report, the Bank applies hedge accounting to manage its exposures to fluctuations in interest rates associated with certain assets and liabilities. The Bank enters into derivative financial instruments, such as interest rate swaps, currency options and foreign exchange contracts. Subsidiaries do not perform any derivative transactions.

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

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. Net unrealized losses related to hedging are classified as deferred unrealized losses on hedges in equity.

g. Bills Discounted

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry". The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values at March 31, 2007 and 2006 were ¥65,561 million (\$555,178 thousand) and ¥56,013 million, respectively.

h. Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation.

Depreciation of premises and equipment of the Bank is computed using the declining-balance method while the straight-line method is applied to buildings 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 equipment.

Depreciation of premises and equipment owned by subsidiaries is computed principally using the straight-line

method over the estimated useful lives of the assets.

Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing special reserve in the equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥81 million (\$686 thousand) as of March 31, 2007 and 2006.

On April 28, 2007, "Ordinance for Enforcement of Banking Law", which regulates the financial statement form on Banking Corporation, was revised. Under this revision, Surety accounts and Guarantee deposits, which were previously included in "Premises and equipment", are included in "Other assets". This revision is effective for fiscal years beginning on or after April 1, 2006, and the Group adopted this revision in the current year presentation.

i. Long-lived Assets

In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003, the ASBJ issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted this accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

Accumulated impairment loss is directly deducted from the respective premises and equipment.

Additionally, the effect of adoption of such accounting standard on segment information is described in Note 30.

j. Software

Software costs for internal use are capitalized (presented as other assets) and amortized by the straight-line method over the estimated useful life of five years.

k. Deferred Assets

Bond and stock issuance costs are recognized as expenses when incurred.

l. 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 self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.

The Bank implemented the self-assessment system for asset quality. The quality of all loans is assessed by branches and the Credit Administration Division with a subsequent audit by the Credit Review and Audit 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 for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal", "caution", "possible bankruptcy", "virtual bankruptcy" and "legal bankruptcy".

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

For claims to debtors classified as possible bankruptcy, who are currently neither legally nor virtually bankrupt but are likely to become bankrupt, an allowance is provided at the amounts deemed necessary based on an overall solvency assessment performed for remains of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees.

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

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

m. Liability for Employees' Bonuses

The liability for employees' bonuses is provided for the payment of employees' bonuses based on estimated amounts of the future payments attributed to the current fiscal year.

n. Liability for Employees' Retirement Benefits

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. They may grant additional benefits in cases where certain requirements are met when employees retire. In addition, the Bank contributed some of its marketable equity securities to employee retirement benefit trusts.

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.

o. Liability for Retirement of Directors and Corporate Auditors

Effective April 1, 2006, retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required in accordance with the Bank's internal policy if all directors (including executive officer) and corporate auditors retired at each balance sheet date. As a result of this change, general and administrative expenses increased ¥93 million (\$787 thousand), other expenses increased ¥123 million (\$1,042 thousand), and income before income taxes and minority interests decreased ¥216 million (\$1,829 thousand).

p. Presentation of Equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

q. 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.

r. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases may be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

s. Income Taxes

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

t. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the consolidated financial statements for the following year upon stockholders' approval.

u. 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 is not disclosed because no dilutive securities are outstanding.

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

v. New Accounting Pronouncements

Lease Accounting - On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" and "Cash and due from banks" in the consolidated balance sheets at March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Cash and due from banks	¥ 61,942	¥ 84,415	\$ 524,532
Interest-bearing deposits included in due from banks	(290)	(223)	(2,456)
Cash and cash equivalents	¥ 61,652	¥ 84,192	\$ 522,076

4. INVESTMENT SECURITIES

Investment securities at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Japanese government bonds	¥ 238,187	¥ 185,385	\$ 2,016,996
Japanese local government bonds	44,741	54,284	378,872
Japanese corporate bonds	71,532	114,858	605,741
Corporate stocks	29,951	29,963	253,629
Other securities	12,645	16,830	107,079
Total	¥ 397,056	¥ 401,320	\$ 3,362,317

FINANCIAL REVIEW (CONSOLIDATED BASIS)

5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Bills discounted	¥ 64,462	¥ 55,091	\$ 545,872
Loans on bills	164,522	159,928	1,393,192
Loans on deeds	1,741,316	1,695,368	14,745,669
Overdrafts	194,384	188,539	1,646,067
Total	¥ 2,164,684	¥ 2,098,926	\$ 18,330,800

Loans in legal bankruptcy totaled ¥6,246 million (\$52,892 thousand) and ¥5,935 million as of March 31, 2007 and 2006, respectively. Nonaccrual loans totaled ¥43,429 million (\$367,762 thousand) and ¥47,518 million as of March 31, 2007 and 2006, respectively. Loans in legal bankruptcy are loans in which the interest accrual is discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectibility 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 the interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery.

Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥649 million (\$5,496 thousand) and ¥275 million as of March 31, 2007 and 2006, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

Restructured loans totaled ¥14,221 million (\$120,425 thousand) and ¥28,747 million as of March 31, 2007 and 2006, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors to assist them to recover from the financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded.

6. FOREIGN EXCHANGES

Foreign exchange assets and liabilities at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Assets:			
Due from foreign correspondents	¥ 413	¥ 401	\$ 3,497
Foreign bills of exchange purchased	4,214	923	35,685
Foreign bills of exchange receivable	1,099	3,686	9,306
Total	¥ 5,726	¥ 5,010	\$ 48,488
Liabilities:			
Foreign bills of exchange sold	¥ 47	¥ 52	\$ 398
Accrued foreign bills of exchange	9	5	76
Total	¥ 56	¥ 57	\$ 474

FINANCIAL REVIEW (CONSOLIDATED BASIS)

7. OTHER ASSETS

Other assets at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Prepaid expenses	¥ 22	¥ 17	\$ 186
Prepaid pension expense	2,186		18,511
Accrued income	3,099	2,672	26,243
Deferred unrealized losses on hedges		910	
Derivatives	4,232	1,776	35,837
Other	22,676	30,386	192,023
Total	¥ 32,215	¥ 35,761	\$ 272,800

8. PREMISES AND EQUIPMENT

Accumulated depreciation on premises and equipment at March 31, 2007 and 2006 amounted to ¥23,578 million (\$199,661 thousand) and ¥25,711 million, respectively.

9. LONG-LIVED ASSETS

The Group recognized impairment losses for the year ended March 31, 2007 as follows:

Location	Description	Classification	Impairment Losses	
			Millions of Yen	Thousands of U.S. Dollars (Note 1)
Hyogo prefecture	Operating retail premises	Land	¥ 97	\$ 821
Hyogo prefecture	Operating retail premises	Land	66	559
Hyogo prefecture	Operating retail premises	Land	30	254
Total			¥ 193	\$ 1,634

The Bank groups operating retail premises by operating block (a group of operation branches operating in close relationship).

Subsidiaries with rental premises group all of their assets by each premise, whereas each of the other subsidiaries is grouped as a single unit.

The Bank treats the head office, the computer center, the business concentration center, company condominiums and dormitories, and other, which do not generate independent cash flows, as assets in common use.

Idle assets of the Bank are treated as an independent unit.

The Bank wrote down the carrying amounts to the recoverable amounts and recognized impairment losses of ¥193 million (\$1,634 thousand) for the year ended March 31, 2007 as other expenses, since the carrying amounts of the assets held by the above branches and other exceeded the sum of the undiscounted future cash flows.

The recoverable amounts of such assets were measured at their net realizable selling prices determined by quotations from real estate appraisal information less estimated costs to dispose.

10. ASSETS PLEDGED

Assets pledged as collateral and related liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Investment securities	¥ 32,704	¥ 35,137	\$ 276,941
Due from banks	0	1	0
Other assets	58	18	491

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Related liabilities:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Deposits	¥ 7,229	¥ 6,625	\$ 61,216
Other liabilities	95	180	804

In addition, investment securities totaling ¥43,141 million (\$365,323 thousand) and ¥47,948 million at March 31, 2007 and 2006, respectively, due from banks totaling ¥3 million at March 31, 2006, and other assets totaling ¥7 million (\$59 thousand) and ¥7 million at March 31, 2007 and 2006, respectively, were pledged as collateral for settlement of exchange, fund

11. COMMITMENT LINE

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to the prescribed amount as long as there is no violation of any condition established in the contracts. The amount of unused commitments amounts to ¥474,713 million (\$4,019,925 thousand), of which ¥463,415 million (\$3,924,253 thousand) are those whose original contract terms are 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 unused commitments does not necessarily represent actual future cash flow requirements. Many of these

settlement for joint systems of the industry and derivative transactions.

Other assets include guarantee deposits of ¥4,253 million (\$36,015 thousand) at March 31, 2007. And other assets included surety deposits of ¥5,289 million at March 31, 2006.

commitments have clauses that allow the Bank to reject the application from customers or reduce the contract amounts in some cases, such as economic conditions change, the Bank need to secure their credit, or other events occur. In addition, the Bank requests customers to pledge collateral such as premises and securities at execution of the contracts, and takes necessary measures such as understanding customers' financial positions, revising contracts when the need arises and securing claims after execution of the contracts.

12. DEPOSITS

Deposits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Current deposits	¥ 129,414	¥ 129,654	\$ 1,095,893
Ordinary deposits	1,282,844	1,245,644	10,863,273
Savings deposits	32,803	35,705	277,780
Deposits at notice	12,855	12,322	108,858
Time deposits	1,002,759	1,026,238	8,491,481
Other deposits	34,636	49,130	293,302
Subtotal	2,495,311	2,498,693	21,130,587
Negotiable certificates of deposit	39,886	7,282	337,759
Total	¥ 2,535,197	¥ 2,505,975	\$ 21,468,346

FINANCIAL REVIEW (CONSOLIDATED BASIS)

13. BORROWED MONEY

At March 31, 2007 and 2006, the weighted average interest rates applicable to the borrowed money were 2.15% and 1.50%, respectively.

Borrowed money at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Subordinated loans	¥ 55,000	¥ 50,000	\$ 465,747
Borrowing from banks and other	2,752	2,895	23,304
Total	¥ 57,752	¥ 52,895	\$ 489,051

Annual maturities of borrowed money at March 31, 2007, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2008	¥ 776	\$ 6,571
2009	629	5,326
2010	465	3,938
2011	323	2,735
2012	196	1,660
2013 and thereafter	55,363	468,821
Total	¥ 57,752	\$ 489,051

14. BONDS

Bonds at March 31, 2007 and 2006 consisted of the following:

Description	Millions of Yen		Thousands of U.S. Dollars (Note 1)	Interest Rate	Due
	2007	2006	2007		
Subordinated bonds	¥ 5,000	¥	\$ 42,341	2.51%	Sep. 2006 - Sep. 2016

15. OTHER LIABILITIES

Other liabilities at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Domestic exchange settlement	¥ 149	¥ 82	\$ 1,262
Accrued income taxes	155	414	1,313
Accrued expenses	2,439	1,291	20,654
Unearned income	8,080	8,220	68,422
Derivatives	3,810	1,858	32,264
Other	10,011	24,135	84,773
Total	¥ 24,644	¥ 36,000	\$ 208,688

16. ACCEPTANCES AND GUARANTEES

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

On April 17, 2007, "Ordinance for Enforcement of Banking Law", which regulates the financial statement form on Banking Corporation, was revised. Due to the revision, "Acceptances and guarantees" and "Customer's liabilities for acceptances and guarantees", which are relevant to corporate bonds are set off, if the guaranteed bonds are held by the Bank itself.

17. EQUITY

Through May 1, 2006, Japanese banks were subject to the Commercial Code of Japan (the "Code") and the Banking Law of Japan (the "Banking Law").

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Code with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% (20% for banks pursuant to the Banking Law) 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 aggregate amount of legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Law) of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law 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.

At the Stockholders' Extraordinary Meeting held on December 22, 1998, the Bank's stockholders approved amendment of the Bank's Articles of Incorporation to authorize the Bank to issue preferred stock of 100,000,000 shares. No preferred stocks had been issued until March 31, 2007.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

Issuance of Common Stock under Public Offering

In accordance with the resolution of the Board of Directors on November 17, 2006, the Bank raised capital by issuing new shares to the public on December 5, 2006. Related information is as follows:

- (1) Number of new shares issued: 25,000 shares of common stock
- (2) Issue price per share: ¥182.09
- (3) Total issue price: ¥4,552 million
- (4) Stated capital per share: ¥92
- (5) Total stated capital: ¥2,300 million

Issuance of Common Stock for Allotment to a Third Party

In accordance with the resolution of the Board of Directors on November 17, 2006, the Bank raised capital by allocating new shares to a third party on January 5, 2007. Related information is as follows:

- (1) Number of new shares issued: 3,000 shares of common stock
- (2) Issue price per share: ¥182.09
- (3) Total issue price: ¥546 million
- (4) Stated capital per share: ¥92
- (5) Total stated capital: ¥276 million

18. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Gains on foreign exchange transactions - net	¥ 786	¥ 632	\$ 6,656
Gains on sales of bonds	865	3,470	7,325
Lease-related income	2,864	2,562	24,253
Other	2,253	2,945	19,078
Total	¥ 6,768	¥ 9,609	\$ 57,312

19. OTHER INCOME

Other income for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Gains on sales of stocks and other securities	¥ 1,196	¥ 4,196	\$ 10,128
Recovery of claims previously charged-off	106	291	898
Other	1,721	2,890	14,573
Total	¥ 3,023	¥ 7,377	\$ 25,599

20. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Losses on sales of bonds	¥ 3,494	¥ 3,743	\$ 29,588
Losses on repayment of bonds	46		390
Other	4,275	4,745	36,200
Total	¥ 7,815	¥ 8,488	\$ 66,178

FINANCIAL REVIEW (CONSOLIDATED BASIS)

21. OTHER EXPENSES

Other expenses for the years ended March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Provision for possible loan losses	¥ 10,996	¥ 18,153	\$ 93,116
Losses on sales of stocks and other securities	191	23	1,617
Losses on devaluation of stocks and other securities	706	154	5,979
Losses on sales of premises and equipment	482	157	4,082
Losses on impairment of long-lived assets	193	1,985	1,634
Other	1,885	1,197	15,962
Total	¥ 14,453	¥ 21,669	\$ 122,390

22. LEASES

Lessor

Lease receipts under finance leases amounted to ¥2,864 million (\$24,253 thousand) and ¥2,562 million, for the years ended March 31, 2007 and 2006, respectively.

Information of leased property including acquisition cost, accumulated depreciation, lessor's receivables under finance leases, and depreciation expense for the years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen					
	2007			2006		
	Equipment	Other Assets	Total	Equipment	Other Assets	Total
Acquisition cost	¥ 11,693	¥ 1,499	¥ 13,192	¥ 11,130	¥ 1,435	¥ 12,565
Accumulated depreciation	5,330	677	6,007	4,558	627	5,185
Net leased property	¥ 6,363	¥ 822	¥ 7,185	¥ 6,572	¥ 808	¥ 7,380

	Thousands of U.S. Dollars (Note 1)		
	2007		
	Equipment	Other Assets	Total
Acquisition cost	\$ 99,018	\$ 12,694	\$ 111,712
Accumulated depreciation	45,135	5,733	50,868
Net leased property	\$ 53,883	\$ 6,961	\$ 60,844

Lessor's receivables under finance leases as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Due within one year	¥ 2,663	¥ 2,514	\$ 22,551
Due after one year	5,438	5,827	46,058
Total	¥ 8,101	¥ 8,341	\$ 68,609

The imputed interest income portion is included in the above lessor's receivables under finance leases, since the total of lessor's receivables under finance leases and estimated residual value accounted for a small proportion of operating receivables at the balance sheet date.

Depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Depreciation expense	¥ 2,465	¥ 2,237	\$ 20,874

FINANCIAL REVIEW (CONSOLIDATED BASIS)

23. EMPLOYEES' RETIREMENT BENEFITS

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

The liability for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Projected benefit obligation	¥ (18,548)	¥ (18,063)	\$ (157,067)
Plan assets (fair value)	15,989	9,830	135,397
Unfunded projected benefit obligation	(2,559)	(8,233)	(21,670)
Unrecognized actuarial net loss	1,555	2,245	13,168
Unrecognized prior service cost	40	(205)	338
Prepaid pension expense	2,186		18,511
Liability for employees' retirement benefits	¥ (3,150)	¥ (6,193)	\$ (26,675)

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Service cost	¥ 616	¥ 620	\$ 5,216
Interest cost	457	443	3,870
Expected return on plan assets	(123)	(62)	(1,041)
Recognized actuarial net loss	(9)	(50)	(76)
Amortization of prior service cost	551	604	4,666
Other	248	500	2,100
Net periodic retirements benefit costs	¥ 1,740	¥ 2,055	\$ 14,735

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.5%	2.0%
Recognized period of actuarial gain or loss	9 years	10 years
Amortization period of prior service cost	9 years	10 years

24. INCOME TAXES

On March 29, 2007, JICPA revised "Practical Guidance for accounting for income taxes on non-consolidated financial statement" (JICPA Accounting Committee Research Report No. 10). The Group changed the normal effective statutory tax rate for calculation of the deferred tax assets and liabilities due to the revision. The normal effective statutory tax rate is approximately 40.6% and 40.5% for the years ended March 31, 2007 and 2006, respectively.

As a result of this change, deferred tax assets increased ¥22 million (\$186 thousand), income tax differed decreased ¥26 million (\$220 thousand), and net unrealized gains on available-for-sale securities, net of taxes decreased ¥3 million (\$25 thousand).

FINANCIAL REVIEW (CONSOLIDATED BASIS)

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Deferred tax assets:			
Allowance for possible loan losses	¥ 15,995	¥ 18,116	\$ 135,447
Liability for employees' retirement benefits	2,888	4,118	24,456
Liability for employees' bonuses	384	368	3,252
Accrued enterprise tax	68	86	576
Accrued business office tax	34	23	288
Charge-off claims	91	91	771
Devaluation of stocks and other securities	1,880	1,606	15,920
Depreciation	198	186	1,677
Write off of premise	893	833	7,562
Tax loss carryforwards	873	1,202	7,393
Deferred loss on derivatives under hedge accounting	219		1,854
Other	619	528	5,241
Less valuation allowance	(2,453)	(2,368)	(20,772)
Total	¥ 21,689	¥ 24,789	\$ 183,665
Deferred tax liabilities:			
Gains on securities contributed to employee retirement benefit trust	¥ (685)	¥ (684)	\$ (5,801)
Prepaid pension expense	(888)		(7,520)
Net unrealized gains on available-for-sale securities	(2,787)	(1,656)	(23,601)
Tax refund		(5)	
Allowance for possible loan losses adjustment arising from debts and credits elimination	(1,309)	(1,298)	(11,084)
Total	¥ (5,669)	¥ (3,643)	\$ (48,006)
Net deferred tax assets	¥ 16,020	¥ 21,146	\$ 135,659

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for both of the years ended March 31, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	40.6%	40.5%
Permanent differences - expenses	0.2	0.2
Permanent differences - income	(0.6)	(0.8)
Corporate inhabitant tax per capita	0.5	0.6
Valuation allowance	0.7	2.5
Consolidation adjustment	(1.9)	
Other - net		(0.4)
Actual effective tax rate	39.5%	42.6%

FINANCIAL REVIEW (CONSOLIDATED BASIS)

25. MARKET VALUE AND OTHER INFORMATION ON SECURITIES

Market value and other information on securities as of March 31, 2007 and 2006 were as follows:

Securities

(1) Bonds classified as trading

	Millions of Yen			
	2007		2006	
	Consolidated Balance Sheet Amount	Gains (Losses) Included in Profit/Loss during the Fiscal Year	Consolidated Balance Sheet Amount	Gains (Losses) Included in Profit/Loss during the Fiscal Year
Bonds classified as trading	¥706	Immaterial	¥385	Immaterial

	Thousands of U.S. Dollars (Note 1)	
	2007	
	Consolidated Balance Sheet Amount	Gains (Losses) Included in Profit/Loss during the Fiscal Year
Bonds classified as trading	\$5,978	Immaterial

(2) No bonds classified as held-to-maturity securities that have market value were held by the Group.

(3) Available-for-sale securities that have market value

	Millions of Yen									
	2007					2006				
	Cost	Consolidated Balance Sheet Amount	Net Unrealized Gains (Losses)	Unrealized Gains	Unrealized Losses	Cost	Consolidated Balance Sheet Amount	Net Unrealized Gains (Losses)	Unrealized Gains	Unrealized Losses
Stocks	¥ 16,288	¥ 27,212	¥ 10,924	¥ 11,381	¥ 457	¥ 13,333	¥ 27,054	¥ 13,721	¥ 14,157	¥ 436
Bonds	326,679	322,363	(4,316)	278	4,594	335,352	325,728	(9,624)	43	9,667
Japanese government bonds	241,844	238,187	(3,657)	272	3,929	193,644	185,385	(8,259)	8	8,267
Japanese local government bonds	45,216	44,741	(475)	2	477	55,258	54,284	(974)	7	981
Japanese corporate bonds	39,619	39,435	(184)	4	188	86,450	86,059	(391)	28	419
Other	10,824	11,075	251	268	17	15,400	15,384	(16)	102	118
Total	¥353,791	¥360,650	¥ 6,859	¥ 11,927	¥ 5,068	¥364,085	¥ 368,166	¥ 4,081	¥ 14,302	¥ 10,221

	Thousands of U.S. Dollars (Note 1)				
	2007				
	Cost	Consolidated Balance Sheet Amount	Net Unrealized Gains (Losses)	Unrealized Gains	Unrealized Losses
Stocks	\$ 137,929	\$ 230,434	\$ 92,505	\$ 96,375	\$ 3,870
Bonds	2,766,355	2,729,808	(36,547)	2,354	38,901
Japanese government bonds	2,047,963	2,016,996	(30,967)	2,303	33,270
Japanese local government bonds	382,894	378,872	(4,022)	17	4,039
Japanese corporate bonds	335,498	333,940	(1,558)	34	1,592
Other	91,659	93,784	2,125	2,269	144
Total	\$ 2,995,943	\$ 3,054,026	\$ 58,083	\$ 100,998	\$ 42,915

Note: Market value is calculated by using the market prices at the fiscal year end for bonds and other except that of stocks which is calculated by average market prices for previous month of the fiscal year end.

FINANCIAL REVIEW (CONSOLIDATED BASIS)

(4) Bonds classified as held-to-maturity were not sold.

(5) Available-for-sale securities sold

	Millions of Yen					
	2007			2006		
	Sales Amount	Gains on Sales	Losses on Sales	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	¥ 294,634	¥ 1,961	¥ 3,184	¥ 537,630	¥ 6,198	¥ 2,547

	Thousands of U.S. Dollars (Note 1)		
	2007		
	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	\$ 2,494,995	\$ 16,606	\$ 26,962

(6) Securities with no readily available market value

	Consolidated Balance Sheet Amount		
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Available-for-sale securities:			
Non-listed corporate bonds	¥ 32,097	¥ 28,799	\$ 271,801
Non-listed stocks	2,740	2,909	23,203
Limited liability partnership	1,569	1,447	13,287

(7) The classification of securities has not been changed.

(8) Redemption schedule on available-for-sale securities that have maturities and bonds classified as held-to-maturity was as follows:

	Millions of Yen							
	2007				2006			
	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years
Bonds	¥ 73,111	¥ 182,409	¥ 44,108	¥ 54,831	¥ 50,143	¥ 132,169	¥ 91,534	¥ 80,681
Japanese government bonds	29,981	113,536	39,839	54,831		21,256	83,448	80,681
Japanese local government bonds	16,693	25,210	2,838		7,067	41,933	5,283	
Japanese corporate bonds	26,437	43,663	1,431		43,076	68,980	2,803	
Other	1,376	6,054	1,242		5,120	6,802	3,821	
Total	¥ 74,487	¥ 188,463	¥ 45,350	¥ 54,831	¥ 55,263	¥ 138,971	¥ 95,355	¥ 80,681

	Thousands of U.S. Dollars (Note 1)			
	2007			
	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years
Bonds	\$ 619,113	\$ 1,544,660	\$ 373,512	\$ 464,315
Japanese government bonds	253,883	961,436	337,361	464,315
Japanese local government bonds	141,358	213,481	24,033	
Japanese corporate bonds	223,872	369,743	12,118	
Other	11,652	51,266	10,517	
Total	\$ 630,765	\$ 1,595,926	\$ 384,029	\$ 464,315

FINANCIAL REVIEW (CONSOLIDATED BASIS)

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:

	Consolidated Balance Sheet Amount		
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
Net unrealized gains on investment securities	¥ 6,859	¥ 4,081	\$ 58,083
(Deferred tax liabilities)	(2,787)	(1,656)	(23,601)
Net unrealized gains on valuation (before adjustment)	4,072	2,425	34,482
(Minority interests)	(58)	(59)	(491)
Net unrealized gains on valuation	4,014	2,366	33,991

26. MARKET VALUE INFORMATION ON 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 risk in the derivative instruments is expected to be offset by an opposite movement in the value of hedged assets or liabilities. These figures are the measures used in the calculation of risk-based capital ratios under the Japanese capital ratio guidelines. The Bank adopts the current exposure method stipulated by the guidelines in calculating the amount.

As a risk control system for derivatives, the Bank has

established a risk management division that operates independently from divisions executing derivative transactions. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate the authorization and credit limit amounts. In addition, positions and related gains or losses from derivatives are reported to management on a daily basis for monitoring and evaluation purposes.

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

(1) Interest-rate-related transactions

Interest-rate-related transactions as of March 31, 2007 and 2006 are excluded from disclosure because all the interest-rate-related transactions entered into by the Bank qualified for hedge-accounting.

(2) Currency-related transactions

Market value information on revalued currency-related derivatives as of March 31, 2007 and 2006 was as follows:

	Millions of Yen							
	2007				2006			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:								
Forward exchange contracts:								
Sold	¥ 8,220	¥ 469	¥ (129)	¥ (129)	¥ 5,156	¥ 874	¥ (89)	¥ (89)
Bought	8,317	549	159	159	4,907	803	96	96
Currency options:								
Sold	52,691	38,719	2,159	(0)	24,556	17,918	1,141	(333)
Bought	52,691	38,719	2,639	480	24,556	17,918	1,353	544
Total	¥	¥	¥ 4,828	¥ 510	¥	¥	¥ 2,501	¥ 218

FINANCIAL REVIEW (CONSOLIDATED BASIS)

	Thousands of U.S. Dollars (Note 1)			
	2007			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Forward exchange contracts:				
Sold	\$ 69,608	\$ 3,972	\$ (1,092)	\$ (1,092)
Bought	70,429	4,649	1,346	1,346
Currency options:				
Sold	446,194	327,877	18,283	
Bought	446,194	327,877	22,348	4,065
Total	\$	\$	\$ 40,885	\$ 4,319

- Notes: 1. The above transactions were revalued at the end of each of the years and the related gain and loss are reflected in the accompanying consolidated statements of income.
2. Derivative transactions under hedge accounting, transactions reflected in financial assets and liabilities denominated in currencies and recognized in the consolidated balance sheets, or transactions denominated in foreign currencies which have been eliminated in the consolidation have been excluded from the above table.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

(5) Financial product-related transactions are not performed.

(6) Credit derivative transactions are not performed.

27. RELATED PARTY TRANSACTIONS

At March 31, 2007 and 2006, Sumitomo Mitsui Banking Corporation (the "Parent Company") owns 45.10% of the Bank's voting shares directly and 1.23% of the Bank's voting shares indirectly.

Transactions and balances of the Parent Company and the Associated Company (SMBC Guarantee Co., Ltd.) for the years ended March 31, 2007 and 2006 were as follow:

Parent Company	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
	Subordinated loans	¥ 37,000	¥ 37,000
Financial transactions	10,000		84,681

Associated Company	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
	Negotiable certificates of deposit	¥ 30,000	¥
Operating transactions	3,616		30,621

FINANCIAL REVIEW (CONSOLIDATED BASIS)

28. NET INCOME PER SHARE

Reconciliation of net income per share ("EPS") for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen	Thousands of Shares Weighted Average Shares	Yen	U.S. Dollars
	Net Income		EPS	
For the year ended March 31, 2007				
Basic EPS				
Net income available to common stockholders	¥ 6,949	391,287	¥ 17.75	\$ 0.15
For the year ended March 31, 2006				
Basic EPS				
Net income available to common stockholders	¥ 5,558	382,603	¥ 14.53	

29. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

On June 28, 2007, the Bank's general stockholders' meeting approved the payments of cash dividends to stockholders of record at March 31, 2007 of ¥4.00 (\$0.034) per share or a total of ¥1,642 million (\$13,905 thousand).

30. SEGMENT INFORMATION

i) Business Segment Information

Information about industry segments of the Group as of and for the years ended March 31, 2007 and 2006 is as follows:

a. Operating Income

	Millions of Yen					
	2007					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers	¥ 68,499	¥ 4,596	¥ 2,608	¥ 75,703		¥ 75,703
Intersegment income	436	943	161	1,540	¥ (1,540)	
Total	68,935	5,539	2,769	77,243	(1,540)	75,703
Operating expenses	57,129	5,357	2,604	65,090	(1,540)	63,550
Net income for computation	¥ 11,806	¥ 182	¥ 165	¥ 12,153	¥	¥ 12,153

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2007					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 2,740,088	¥ 18,696	¥ 13,315	¥ 2,772,099	¥ (22,383)	¥ 2,749,716
Depreciation	2,303	915	14	3,232	(2)	3,230
Impairment loss	193			193		193
Capital expenditures	3,517	2,473	9	5,999		5,999

FINANCIAL REVIEW (CONSOLIDATED BASIS)

a. Operating Income

	Millions of Yen					
	2006					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers	¥ 72,118	¥ 5,065	¥ 2,591	¥ 79,774		¥ 79,774
Intersegment income	344	1,148	216	1,708	¥ (1,708)	
Total	72,462	6,213	2,807	81,482	(1,708)	79,774
Operating expenses	61,275	5,909	2,578	69,762	(1,711)	68,051
Net income for computation	¥ 11,187	¥ 304	¥ 229	¥ 11,720	¥ 3	¥ 11,723

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen					
	2006					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 2,734,579	¥ 17,483	¥ 13,681	¥ 2,765,743	¥ (22,783)	¥ 2,742,960
Depreciation	2,390	1,052	93	3,535	(80)	3,455
Impairment loss	1,985			1,985		1,985
Capital expenditures	2,735	3,360	12	6,107		6,107

a. Operating Income

	Thousands of U.S. Dollars (Note 1)					
	2007					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers	\$ 580,058	\$ 38,919	\$ 22,085	\$ 641,062		\$ 641,062
Intersegment income	3,692	7,985	1,363	13,040	\$ (13,040)	
Total	583,750	46,904	23,448	654,102	(13,040)	641,062
Operating expenses	483,775	45,364	22,051	551,190	(13,040)	538,150
Net income for computation	\$ 99,975	\$ 1,540	\$ 1,397	\$ 102,912	\$	\$ 102,912

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Thousands of U.S. Dollars (Note 1)					
	2007					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	\$ 23,203,387	\$ 158,320	\$ 112,753	\$ 23,474,460	\$ (189,542)	\$ 23,284,918
Depreciation	19,502	7,748	119	27,369	(17)	27,352
Impairment loss	1,634			1,634		1,634
Capital expenditures	29,782	20,942	76	50,800		50,800

Notes: 1. "Other" consists of other banking related activities such as credit guarantee, venture capital and entrusted account.

2. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.

3. Operating expenses mean total expenses less certain special expenses included in other expenses in the accompanying consolidated statements of income.

ii) Segment Information by Geographic Area

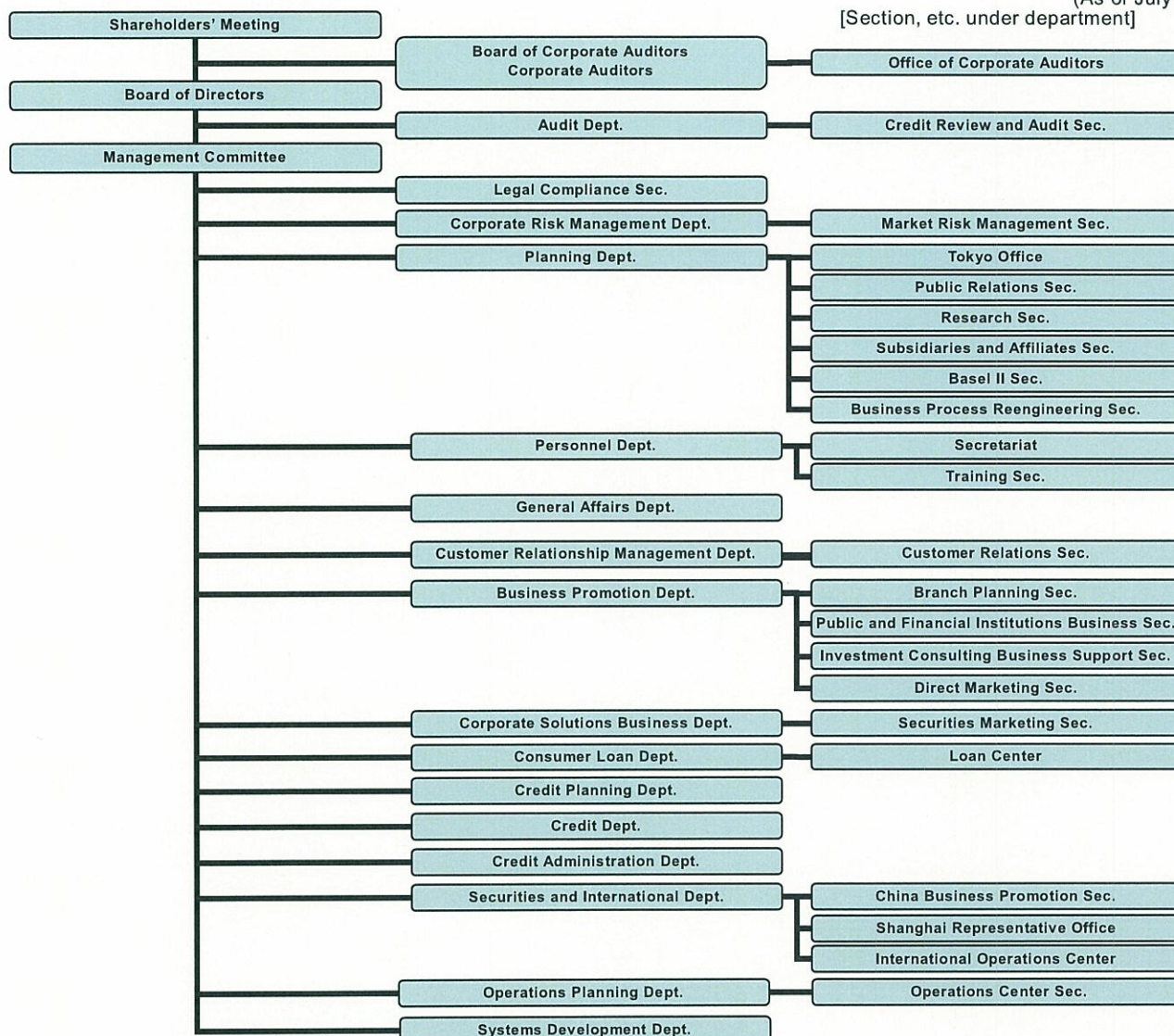
Segment information by geographic area is not presented herein for the years ended March 31, 2007 and 2006, as such information is permitted not to be disclosed if domestic share of both total income and total assets exceeds 90%.

iii) Operating Income from International Operations

Disclosure of operating income arising from international operations for the years ended March 31, 2007 and 2006 is not presented herein, as such information is permitted not to be disclosed if operating income arising from international operations is less than 10% of consolidated operating income.

CORPORATE ORGANIZATION

(As of July 1, 2007)



CORPORATE OFFICERS

(As of June 28, 2007)

Directors, Corporate Auditors and Executive Officers

President (Representative Director)
Nobuhiro Yabumoto*

Deputy President (Representative Director)
Shunji Ono*

Senior Managing Director (Representative Director)
Kenji Takeuchi*

Managing Directors
Shuji Nagahara*
Hiroshi Fujiwara*
Akifumi Imanishi*

Director
Toshiro Ohta (external)

Corporate Auditors
Takeo Yamai (full-time)
Keigo Ihara (full-time)
Shingo Okada
Sadayuki Tsuda
Masaaki Hosome

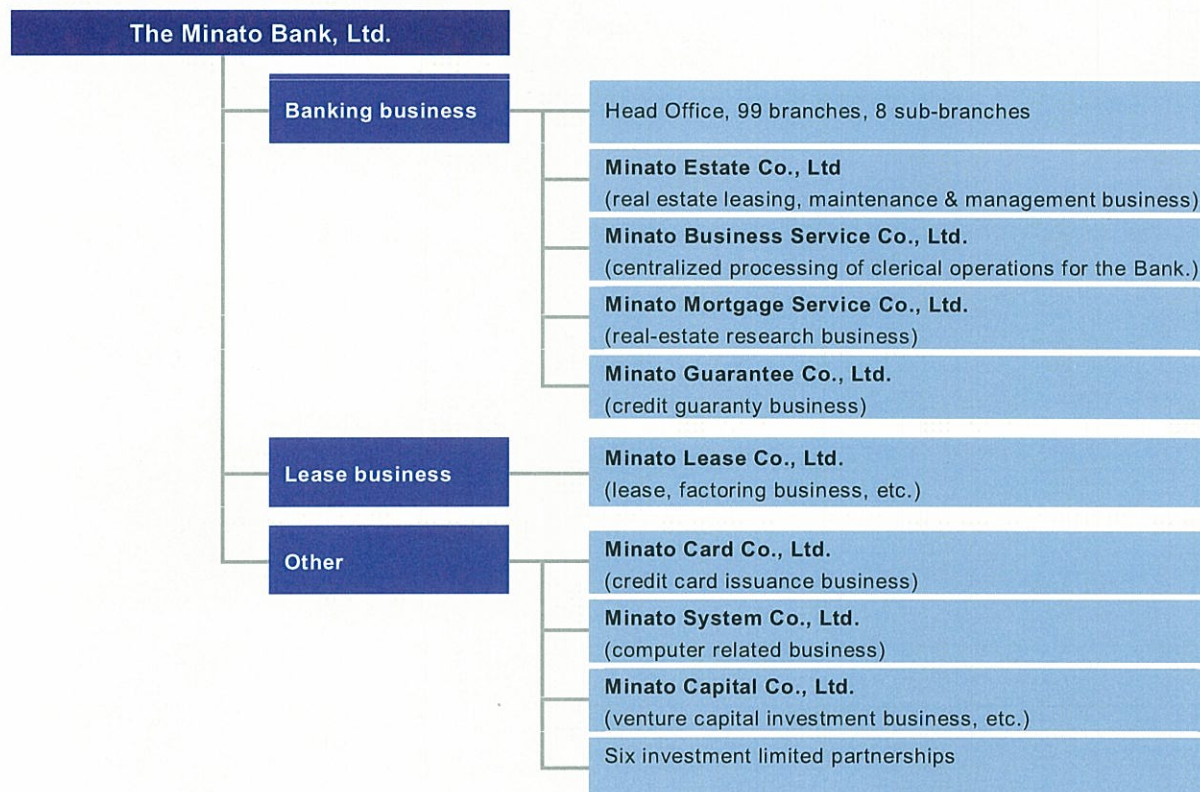
Executive Officers
Akira Yoshida
Hiromi Yoshida
Seiji Masaki
Hideki Maruo
Masataka Imahashi
Kaoru Mori
Shirou Inoue
Seiji Goto
Kazuma Hara
Hiroyasu Yoshida
Akihiro Haku
Yasuki Ohara
Nobuyuki Hishida
Akira Sukata
Naomasa Takemoto

* Executive Officers

CORPORATE INFORMATION

GROUP DIAGRAM (As of March 31, 2007)

Parent Companies



MAJOR STOCKHOLDERS

(As of March 31, 2007)

Name	Number of Shares (Thousands)	Percentage (%)
Sumitomo Mitsui Banking Corporation	184,828	44.97
Minato Bank Kyoeikai	14,340	3.48
Nippon Life Insurance Company	10,501	2.55
Nissay Dowa General Insurance Co., Ltd.	6,661	1.62
Mitsui Sumitomo Insurance Co., Ltd.	6,220	1.51
The Master Trust Bank of Japan, Ltd. (trust accounts)	6,027	1.46
Sumitomo Life Insurance Company	5,203	1.26
Minato Bank Employees' Shareholding Association	4,333	1.05
Japan Trustee Services Bank, Ltd. (trust accounts)	4,121	1.00
The Dai-ichi Mutual Life Insurance Company	3,952	0.96