

# ANNUAL REPORT

For the year ended March 31, 2008

MINATO  
BANK  
2008



MINATO BANK

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### CORPORATE DATA

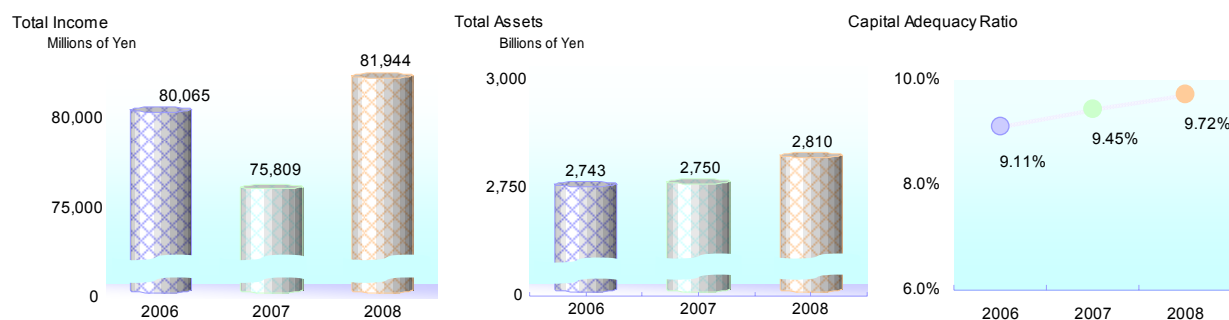
Company Name:	The Minato Bank, Ltd.
Head Office:	1-1, Sannomiya-cho 2-chome, Chuo-ku, Kobe, Hyogo, 651-0193, Japan Phone: 078-331-8141 URL: <a href="http://www.minatobk.co.jp">http://www.minatobk.co.jp</a>
Authorized Shares:	1,000 million shares
Outstanding Shares:	410,940 thousand shares
Stated Capital:	27.4 billion yen
Number of Shareholders:	10,479
Date of Incorporation:	September 1949 (Company name was changed to The Minato Bank, Ltd. in April 1999.)
Domestic Network:	109 locations (Hyogo:104, Osaka:4, Tokyo:1)
Number of Employees:	1,879
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, 2008, 2007 and 2006

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2008	2007	2006	2008
<b>FOR THE YEAR:</b>				
Total income	¥ 81,945	¥ 75,809	¥ 80,065	\$ 817,896
Total expenses	74,227	64,224	70,193	740,862
Income before Income taxes and minority interests	7,718	11,585	9,872	77,034
Net income	5,758	6,949	5,558	57,471
<b>AT YEAR-END:</b>				
Total assets	¥ 2,810,282	¥ 2,749,716	¥ 2,742,960	\$ 28,049,526
Deposits	2,585,398	2,535,197	2,505,975	25,804,951
Loans and bills discounted	2,232,654	2,164,684	2,098,926	22,284,200
Investment securities	380,881	397,056	401,320	3,801,587
Minority interests	795	977	923	7,935
Common stock	27,484	27,484	24,908	274,319
Total equity	99,853	100,074	87,260	996,636
<b>Capital adequacy ratio</b>	<b>9.72%</b>	<b>9.45%</b>	<b>9.11%</b>	

Note1: U.S. dollar amounts represent translation of Japanese Yen at the rate of ¥100.19 to US\$1.00 on March 31, 2008, the final business day of term.



In the above table, the capital adequacy ratio for the fiscal year ended March 31, 2008 and 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.

## Becoming the “Region’s Trusted Core Bank”



Nobuhiro Yabumoto, President

### Our Mid-term Management Plan Results

Our Mid-term Management Plan “Challenge 21” launched in April 2005, centered on the management principle of “Aggressive Challenge to Innovation” - Management Base Reinforcement and Profitability Enhancement. In support of this basic policy, we focused on three major goals of “Strength of Profitability,” “Structural Reinforcement,” and “Enhancement of Risk Management.”

As a result, for the year ended March 31, 2008, the final year of the Mid-term Management Plan, our core banking profit of ¥22,800 million was approximately on target. However, increased allowances for possible loan losses primarily related to major clients with worsened customer business conditions and other factors, prevented net income from reaching target.

On the other hand, our balance of deposits and loans have steadily increased. In particular, we recorded the highest balance of investment trust and foreign trade exchange transactions among banks in the Second Association of Regional Banks. In addition, our balance of housing loans exceeded our target. As a whole, our operations largely achieved the goals in our plan.

### The New Mid-term Management Plan “Minato 10”

In April of next year, our Bank will mark its 10<sup>th</sup> anniversary. We deeply appreciate the support of our customers and shareholders to which we owe this achievement.

We have set forth a new Mid-term Management Plan for the three-year period starting this April through March 2011. With the Bank marking its 10<sup>th</sup> anniversary, we have named our plan as “MINATO 10” - To the Next Stage.

In the new Mid-term Management Plan, we have set forth these three years as “a foundation building period for our Bank to be truly regarded as the “Region’s Trusted Core Bank” by our customers, the people in our region, shareholders and employees.” Furthermore, we have set out three management goals of “Cultivate the MINATO brand,” “Answering customer needs,” and “Reinforce management systems.” In support of these management goals, we have made “10 Commitments (Major Initiatives).”

We aim to achieve further improvements in our revenue base, financial base, and in other areas by consistent implementation of the major initiatives that include “Increasing customer satisfaction,” to become a bank trusted by the people in our region. To put it differently, we will strive with the collective force of management and employees not only of our Bank but also of our group companies to make Minato Bank regarded as a “Bank indispensable to our region” by as many customers as possible.

July 2008

Nobuhiro Yabumoto, President

## Mid-Term Management Plan "MINATO 10"

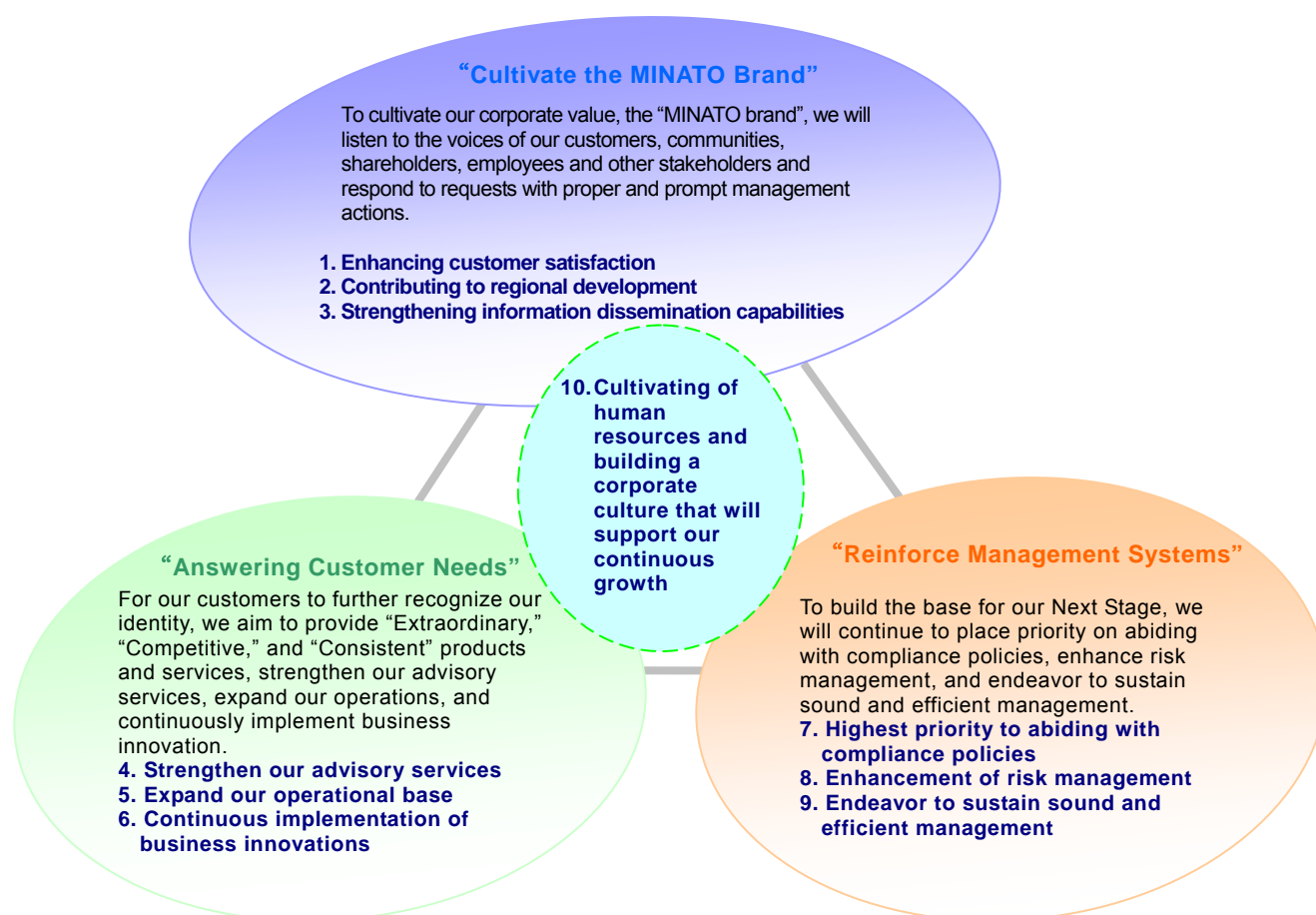
Basic Policy "MINATO 10" - To the Next Stage

Period April 1, 2008 to March 31, 2011

Major Goals

Cultivate the  
MINATO BrandAnswering  
Customer NeedsReinforce  
Management Systems

Ten Commitments (Major Initiatives)



Key Indicator Projections (Non-consolidated)

Category	FY 2008 (Actual)	FY2011 (Projected)
Core banking profit	¥ 22.8 billion	¥ 24.0 billion
Net income	¥ 4.2 billion	¥ 8.0 billion
OHR (Note 1)	58.84%	Below 60%
Capital adequacy ratio (Consolidated) (Note 2)	9.72%	About 10%

(Note1) OHR is obtained by dividing expenses by core gross banking profit (calculated by gross banking profits less gains (losses) on bonds).

(Note2) Capital policies, etc., are not considered in the capital adequacy ratio.

This annual report provides descriptions of future results. These descriptions do not guarantee future business results and contain risks and uncertainties. Please note future results will change from the forecasts subject to changes in assumptions related to the operational environment.

## Corporate Governance

### Basic Concept for Corporate Governance

Reinforcing and enhancing corporate governance is defined as a critical management issue at our Bank and each group company. We adhere to the “Management

Philosophy” and “Principles of Conduct” described below, and strive to sustain sound operations and contribute to the sound development of regional communities.

#### Management Philosophy

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

We contribute to our region through the provision of financial and information services.

#### Principles of Conduct (Corporate Ethics)

#### Awareness of the public nature and social responsibility of the Bank

A bank should be aware of its public role, execute sound 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-satisfying financial services.

#### Fair and faithful conduct

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

#### Contributing to and harmony with regional communities

To express the Bank’s management philosophy, “We contribute to our region,” we make it one of our primary policies to contribute to our region and its communities. The Bank’s principles of conduct also call for removing anti-social and 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.

#### Respect for humanity

We are committed to developing a corporate culture which ensures respect for the open and rich spirit of our employees, brimming with vitality 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 the 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 by attending Board of Director and other important meetings, checking business operations and the status of assets, etc.

There is also the Office of Corporate Auditors in place aimed to support Corporate Auditors in executing their audit procedures.

### Management Committee

The Management Committee in principle meets once a month and makes decisions on important issues related to execution of the Bank's business, based on Board of Director decisions and Management Committee policies.

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

## Committees

### Compliance Committee

The Compliance Committee in principle meets once a month to check and confirm the progress and implementation of the initiatives and compliance programs designed to build corporate ethics focused on legal compliance, and discuss and consider preventative measures for misconducts.

### Credit Risk Management Committee

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

### Asset and Liability Management (ALM) Committee

The ALM Committee in principle meets once a month and discusses and considers how to maintain a healthy balance sheet and improve profitability, strategies for proper fund operations, 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.) related to assets and liabilities.

### Operational Risk Management Committee

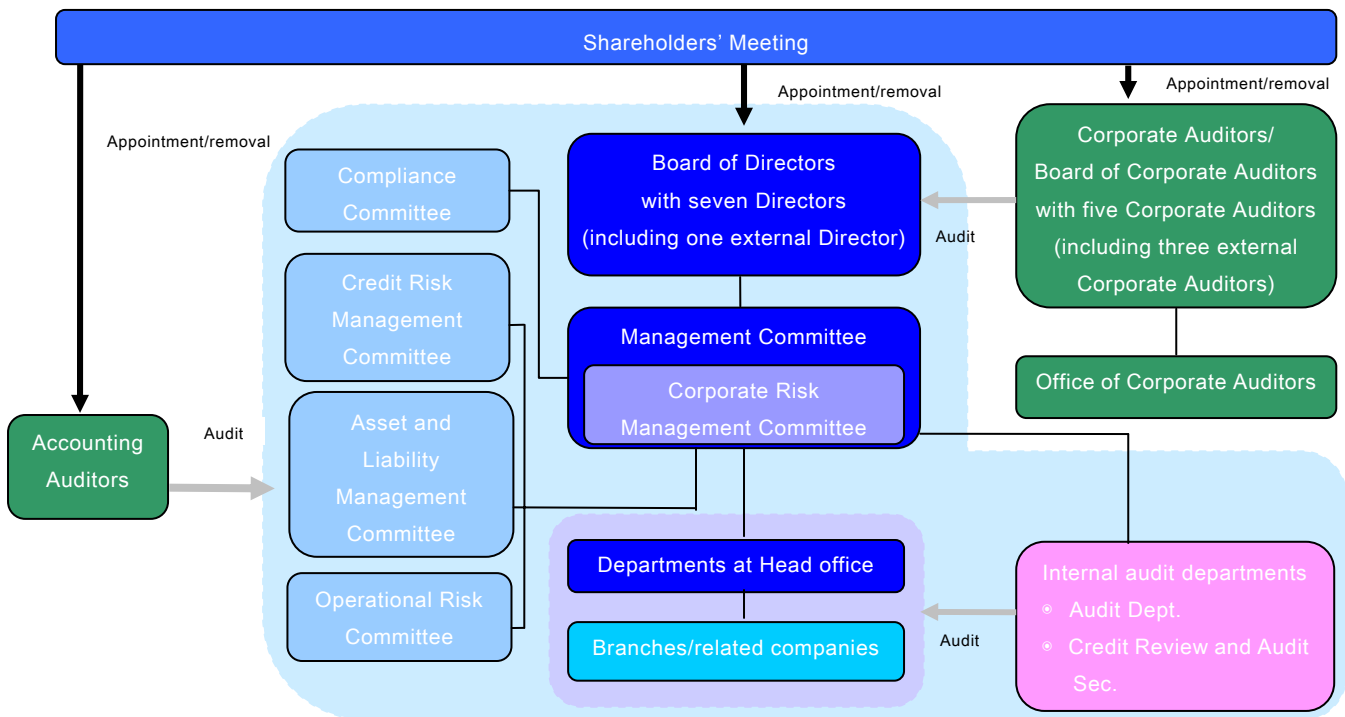
The Operational Risk Management Committee in principle meets once a month, and analyzes and communicates operational risk related information (improper or non-functioning internal process, staff or systems, or risk of losses resulting from or attributable to external occurrences), discusses and considers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

**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 accounting auditors for exchanging information among them.

**Corporate Governance Structure**



## Corporate Social Responsibility (CSR)

### CSR Initiatives

#### Basic Policy for CSR

The Bank's management philosophy is "we contribute to our 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 responsibility of the Bank," "fully customer-focused," "fair and faithful conduct," "contributing to harmony with regional communities" and "respect for humanity" are established 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 structure, internal audit structure, compliance structure and risk management structure, 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 develop together with our customers.
- We will endeavor to sustain sound operations and increase shareholder value, taking advantage of appropriate information disclosure and organized internal controls.
- We will be continuously and proactively involved in social contribution 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 fully utilize their own skills or talent.

Through these activities, we will support the sustained development of our regional communities.

## Compliance System

Based on its management policy, the Bank's basic legal compliance related policy is for the Bank's officers and employees to recognize the significance of the Bank's social responsibilities and public commitments, and strictly comply with laws and rules with an emphasis on corporate ethics, thereby contributing to the region.

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 execution of day-to-day operations.

#### 1. Establishment of the Legal Compliance Department

The Legal Compliance Department was established to manage and control overall compliance related issues.

The Legal Compliance Department is responsible for educating and encouraging officers and employees to comply with laws, regulations and social norms, placing its highest priority on the prevention of illegal conduct.

#### 2. Appointment of Administrative Compliance Officer

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.

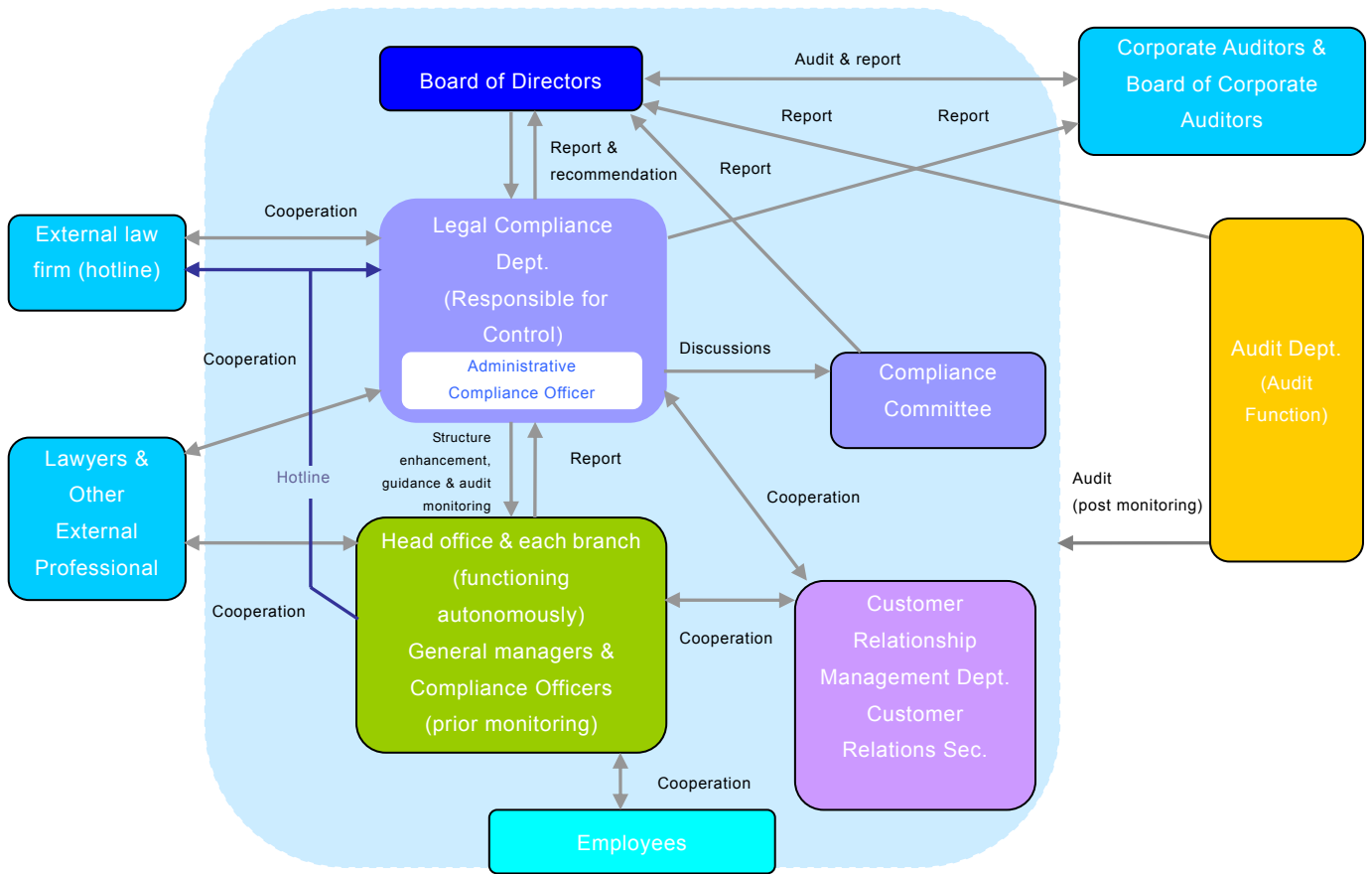
A compliance officer has been appointed for each of the above locations, and is required to prevent anti-compliance conduct and detect the occurrence of such conduct in its early stages.

In addition, an administrative compliance officer was assigned for the Legal Compliance Department, to direct and supervise the compliance officers and responsible individuals of the above locations, investigate compliance conditions at each location, and provide education and guidance.

#### 3. Establishment of the Compliance Committee

The Compliance Committee was established to enhance and strengthen the legal compliance system and incident preventative measures, and deliberate upon various measures necessary to build corporate ethics focused on legal compliance and the implementation status of compliance programs.

**The Bank's Compliance System**



**Implementing 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 fairly 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; the Compliance Policy comprehensively describes overall compliance related matters (structure, system, roles, procedures, etc.); and the Detailed Operating Policies for Conduct Management are compiled in a case study style and usable as a guidebook.

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

**Principles of Conduct at the Bank**

1. Awareness of the public nature and social responsibility of the Bank
2. Fully customer-focused
3. Fair and trustworthy conduct
4. Contributing to harmony with regional communities
5. Respect for humanity

**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 facing increasingly diversified and complicated risks due to their expanding scope of operations and financial technology innovations. It is therefore of utmost importance to accurately monitor and properly control these risks to maintain and improve sound banking management.

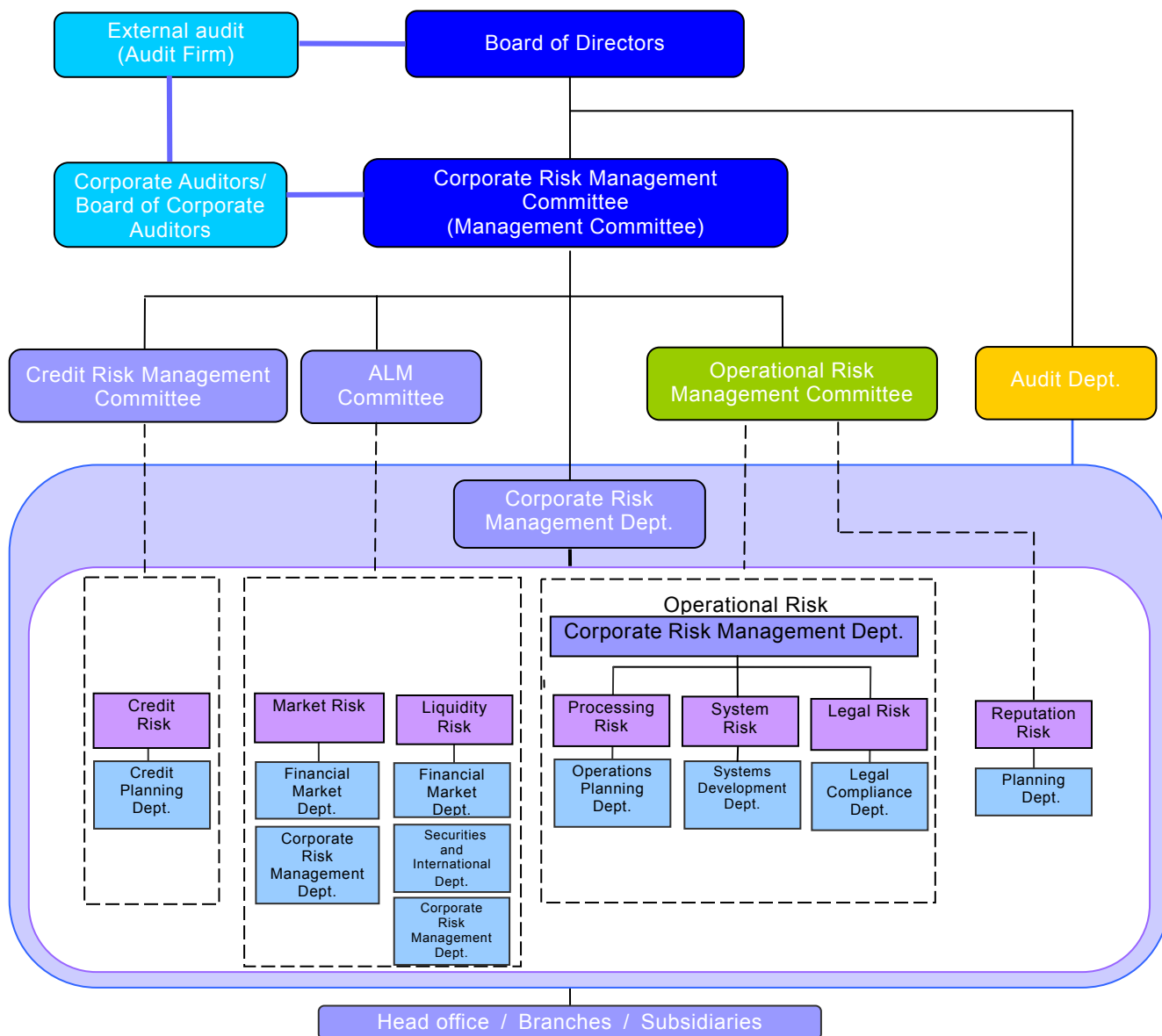
The establishment of a risk management structure is positioned as one of the most critical management issues at our Bank. We have founded departments and sections in charge of risk management by risk type and monitor a range of risks in a precise manner. We also established the Corporate Risk Management 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 organs to deliberate and determine matters related to risk management, we established the Corporate Risk

Management Committee and its 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 subsidiaries. We also have an external audit system led by an independent audit firm.

**Risk Management System (As of June 30, 2008)**



## 1. Credit Risk Management

Credit risk is the possibility of a loss arising from a credit event, such as deterioration of a customer's financial condition, which causes an asset such as 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 sound 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 risk based on the Credit Risk Management Policy which prescribes 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 performance, and are used as objective indicators to measure the degree of risk pertaining to borrowers. Classifying borrowers according to the degree of risk promotes effective credit review operations.

In concrete terms, we established a credit approval policy for lending contracts based on credit ratings as well as lending approval authorizing standards, etc. to perform focused (efficient) credit screenings according to degrees of risk. At the same time, we monitor credit status 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-assessments of our assets to maintain soundness of assets, prepare financial statements properly reflecting asset condition, and account for appropriate levels of write-offs and reserves. Self-assessments are designed to classify assets held by the Bank according to degrees of risk pertaining to collectibility or value deterioration, and play a significant role as a means to managing credit risks. Based on the results of self-assessments, 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 estimates.

We utilize Obligor Grading and Self-assessments 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 credit, etc.

As for concrete measures to enforce our monitoring system, we have set up a section in the monitoring department, which specially deals with particular industries and large accounts, and manages doubtful receivables, etc.

In our effort to maintain soundness of assets, we installed the Credit Review and Audit Section under the Audit Department which operates independently from the credit related departments. We also established a system to check the accuracy of the credit ratings and self-assessments as well as the condition of credit review operations.

For loan arrangements, the Bank may require collateral or guarantees to mitigate credit risks with comprehensive determination of matters related to the financial position of the borrower, intended purpose of financing, loan collectibility, etc. We properly handle collateral and guarantees in accordance with Internal Operational Policies of Security and Guarantees and Operational Procedures that prescribe classifications according to types of collateral or qualifications of guarantors as well as methods for their management, valuation, etc. Particularly, we have detailed rules for mortgage collateral, comprising the majority of collateral, to perform impartial collateral valuations in a timely and proper manner.

## 2. Operational Risk Management

Operational risk is the possibility of losses arising from inadequate or failed internal processes, personnel and systems or due to 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. We manage on an individual basis operational risks classified into processing risks, system risks and legal risks, and have established a department responsible for overall management of operational risks in an integrated and centralized manner. To increase the effectiveness of risk management, operational risk officers are appointed for each department and division and are required to cooperate with the Administrative Departments in order to manage individual operational risks in a unified fashion within the common framework. Also, the Operational Risk Management Committee, a cross-sectional in-house organization, is in place to overview and examine various risk conditions from

a companywide viewpoint and deliberate and determine policies and measures on a regular basis.

We compile a database of internal loss data incurred by each department and division and analyze such loss data on a regular basis for use in risk management. All departments and divisions are required to provide all possible risk scenarios assumed in the course of their operating process. A risk and control assessment (self-assessment on risk and effectiveness of controls) is performed for such risk scenarios to estimate the amount of losses attributable to each scenario and the frequency of occurrence of such losses.

Such risk scenarios, being important data to recognize risk conditions, are compiled as a database and constantly updated based on collected internal and external loss data and objective information such as operating environment and internal control factors. We endeavor to reflect various information to the database appropriately and ensure those scenarios are complete and appropriate for conducting risk and control assessments on a regular basis.

As such, we compile a database of the scenarios reflecting the Bank's risk profile. Each scenario is assessed for the degree of risk impact. For scenarios with a high degree of risk impact, each department and division considers and implements a risk reduction plan. Using this risk quantification system, we execute efficient and effective management within the management system.

**■ Processing and Systems Risk Management**

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

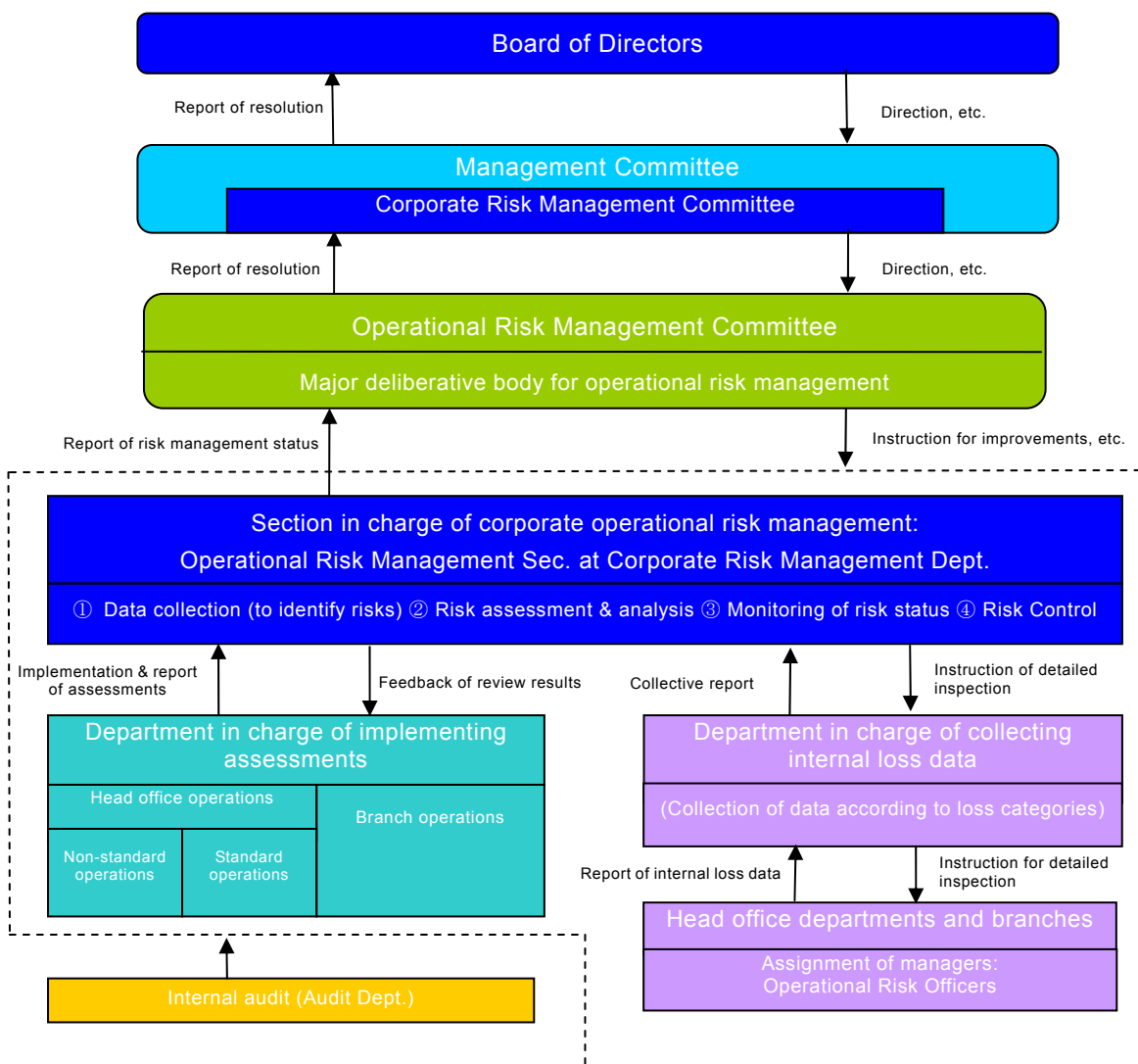
We promote streamlined or head-office centralized processing operations, and provide group training and on-site guidance offered by the Operations Planning Department to reduce processing risks and improve the level of processing ability. Moreover, the Audit Department periodically conducts branch field 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 of or data leakage from computer systems.

Due to the extent of potential 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 policies 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 training on a regular basis.

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

**Operational Risk Management Structure**



### 3. 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.

Liquidity risk is the possibility of encountering cash-flow problems due to differing fund source and usage periods or unexpected fund outflows, or losses caused by being forced to raise funds at interest rates markedly higher than ordinary interest rates.

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

With respect to market risk, 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) improves 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 for all assets and liabilities on a monthly basis.

With respect to liquidity risk, we place the highest priority on cash-flow security, and periodically set and maintain funding gap limits\*3. We developed the Contingency Plan for Liquidity Emergency prescribing an emergency action plan, and take all possible measures to ensure our

operating transactions are not hindered in the event of market confusion, by holding sufficient assets easily convertible to cash, such as government bonds.

We hold ALM Committee meetings every month to prepare forecasted economic, interest rate, stock price, and foreign exchange rate trends and report profit conditions. The Committee also prepares reports and analyses of the status of compliance with market and liquidity risk limits, and discusses and considers market risk controls, financing and fund operations to develop an asset and liability structure that ensures stable profitability.

Issues and results considered and discussed by the ALM Committee are regularly reported to the Corporate Risk Management Committee.

#### \*1 Risk capital limit

A portion of the Bank's capital allocated to provide for the Bank's ability to cover within the scope of its resources, losses realized in the period, valuation losses currently being incurred and probable future maximum loss estimates.

#### \*2 Value at Risk (VaR)

The probable future maximum loss statistically calculated using existing assets and liabilities and historical market fluctuation data.

#### \*3 Funding gap

The estimated amount of future financing requirements arising from the mismatch of periods between financing and fund investments.

### 4. Reputation Risk Management

Reputation risk is the possibility of tangible and intangible loss due to damages to the Bank's reputation attributable to rumors about various risk incidents related to our operating activities or the dissemination of false rumors or slander.

We endeavor to disclose information to our stakeholders such as customers, regional communities, shareholders,

investors and employees in a timely and appropriate manner through constant and active promotion of public and investor relation activities and increased management transparency to minimize reputation risk exposure.

We also monitor and assess rumors on a regular basis, and have prepared a system to take countermeasures promptly when reputation risk exposure becomes apparent.

**Basic Policy for the Promotion of Regional-Oriented Financing**

We developed the “Relationship Banking Function Reinforcement Plan” (2003 – 2004) and the “Regional-Oriented Financing Promotion Plan” (2005 – 2006) in the past four years, and have pursued 1) revitalization of businesses and facilitation of small and medium enterprises financing, 2) strengthening of business management capacity, and 3) more convenience for customers in the region to promote regional-oriented financing.

Given the outcome of our efforts, we became aware that we should be more aggressively involved in promoting regional-oriented financing and will make contributions for the sustainable development of our communities.

Accordingly, we established the “Basic Policy for Regional-Oriented Financing Promotion Plan” to become more aggressively and thoroughly involved in promoting regional-oriented financing.

**Management Philosophy**

**The Bank exists and prospers together with the people in the region.**

- We contribute to the region through the provision of financial and information services -

**CSR Definitions**

In the course of our business, we will provide higher value to:  
**i) customers, ii) shareholders and investors, iii) society and the environment, and iv) employees**

Essence for Regional-Oriented Financing = the Bank’s “Management Philosophy” and “CSR Definitions”

**Basic policies for Regional-Oriented Financing Promotion Plan**

Regional-oriented financing activities are one of our concrete initiatives to practice the Bank’s Management Philosophy and will be strengthened in accordance with the Management Philosophy and the CSR Definitions.

**Focal Points**

To make contributions continuously to regional communities, we will strengthen our regional-oriented financing activities with an emphasis on the three categories described below:

**1. To strengthen customer support matched to corporate customer lifecycles**

- **Support matched to our corporate customer lifecycles is an essential factor for regional-oriented financing activities.**

We will strengthen our support in connection with new enterprises and businesses, management improvement, business revitalization and business successions.

**2. Application of financial methods based on determined business value and financing methods suitable for small and medium enterprises**

- **To provide loans based on determined business values of corporate customers is a basic policy in pursuing regional-based financing.**

We will promote financing without excessive reliance on real-estate collateral and personal guarantees, and use a variety of methods for supplying funds.

**3. Contributing to sustainable development of the regional economy by using gathered and accumulated regional information**

- **To stimulate the whole regional economy and sustain growth, "individual" cases of business revitalization is insufficient; simultaneous integrated "region-wide" business revitalization is needed.**

We will work hard for the regional economy, not only by serving as a fund provider but also having our sights set on stimulating the whole region.

**M&A Intermediation**

**Completed of M&A Transactions**

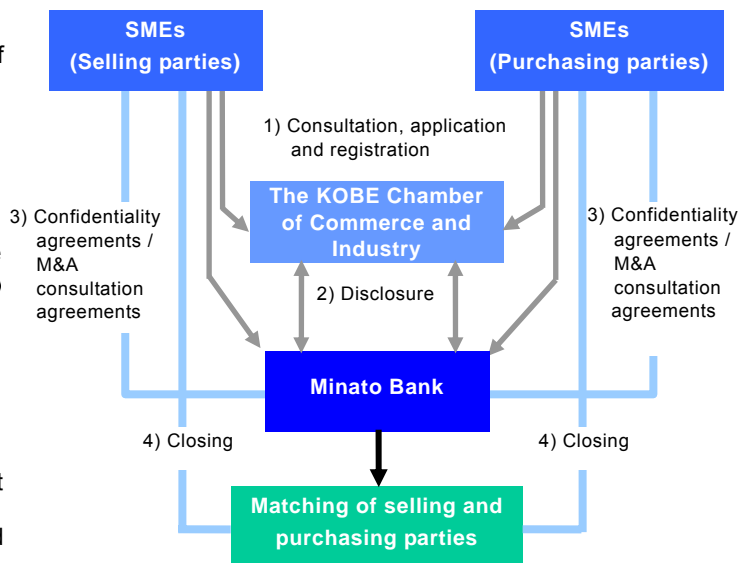
We closed eight M&A transactions in FY2008, and a total of 32 transactions since the commencement of our M&A services.

**M&A Information Network**

We endeavor to enhance our M&A information network through business affiliations with the Osaka Chamber of Commerce and Industry, the KOBE Chamber of Commerce and Industry, the Himeji 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 on local business entities in Hyogo prefecture including members of the KOBE Chamber of Commerce and Industry. Seven M&A deals have been closed under this system so far.



**Venture Company Support**

We offer financial support by extending loans to and making investments in venture companies seeking growth with new technologies and business models.

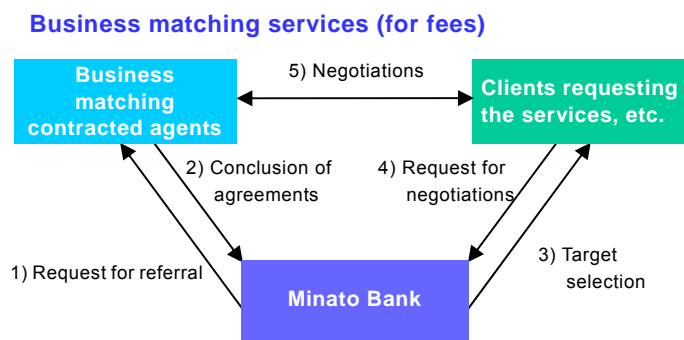
We assist venture company fund procurement with financing using a method which requires no conventional collateral, but security through intellectual property rights or share warrants, etc.

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

**Business Matching Services**

Since May 2004, we have offered business matching or referral services for fees; to introduce appropriate suppliers or entities to business clients that need products, services, technology, human resources, etc. We have concluded agreements with 43 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.



**Business Matching**

To introduce businesses supplying the desired product, service or technology to businesses requiring the same.

**Co-sponsorship of the Kobe Luminarie**

In December 2007, KOBE Luminarie was launched under the theme “L'era della Luce”, attracting more than four million visitors and added beauty to the winter of our Kobe City. As a regional-based bank, we co-sponsored the 13<sup>th</sup> program this year, which commenced in the year of the earthquake.

**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 emotional support.



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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 by promoting various cultural and sport programs in Hyogo prefecture. The foundation supports art exhibitions, music concerts, theatrical performances, and children’s soccer workshops and has many visitors and participants.

(<http://www.minatofc.or.jp/>)



**Hyogo Economic Research Institute – Think Tank in the Region**

As a regional think tank, this institute engages in the 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” publishes timely topics such as environmental issues and the shrinking population phenomenon, contributed by academic and administration intellectuals and independent study reports with three pillars of content; the regional economy, general economy and prefecture and municipal administrative projects. In fiscal 2006, “Earthquake Crisis Management and Action” was released and received with positive feedback from a variety of fields. The institute measured and released “Economic Ripple Effects of the 25<sup>th</sup> National Confectionary Exposition 2008 -Himeji *Kashihaku* 2008” following “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 published at its website (<http://www.herl.or.jp/>).

### Minato Bank Scholarship Foundation – Scholarship Program

This foundation provides financial aid to university students to foster future talent contributing to our society. Scholarships have been granted to approximately 860 students as of date.

### Acquisition of ISO9001 Certification

We had our head office and all branches assessed to check our conformity to ISO9001:2000, the international standard for quality management systems, and obtained a certification as of April 11, 2008.

Taking this opportunity of acquiring the ISO9001 Certification, we will continue to further improve the quality of any and all aspects of our operations ranging from the content of our products to customer support and work harder to enhance customer satisfaction.



- Summary of Certification

Scope of Certification	Planning and provision of financial products and services at the head office and branches
Organization for Assessment and Registration	Japan Quality Assurance Organization
Registration Date	11-Apr-08
Certification Number	JQA-QMA 13593

**Balance Sheets**

The year-end balance of deposits, by the effect of the campaign, stood at ¥2,585,398 million (US\$25,805 million), increase of ¥50,201 million over the previous term-end.

Meanwhile, the balance of loans and bills discounted increased ¥67,970 million, to ¥2,232,654 million (US\$22,284 million). This increase was mainly attributable to positive meetings to the capital needs of local companies and an increase of housing loans.

And investment securities decreased ¥16,175 million, to ¥380,881 million (US\$3,802 million).

**Statements of Income**

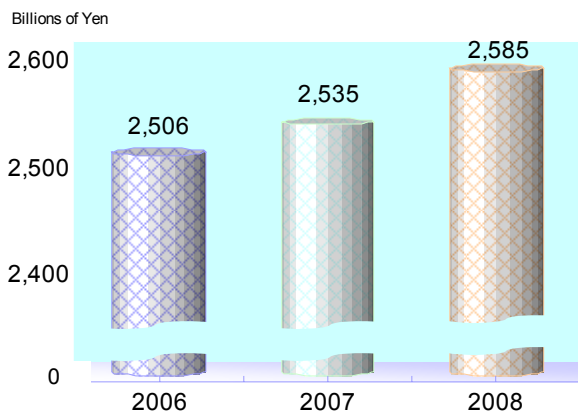
Because of an increase of the balance of loans and bill discounted, interest on loans and discounts for the year increased ¥4,888 million year-on-year to ¥50,410 million (US\$503 million).

As a result, total income for the year increased ¥6,136 million year-on-year to ¥81,945 million (US\$818 million).

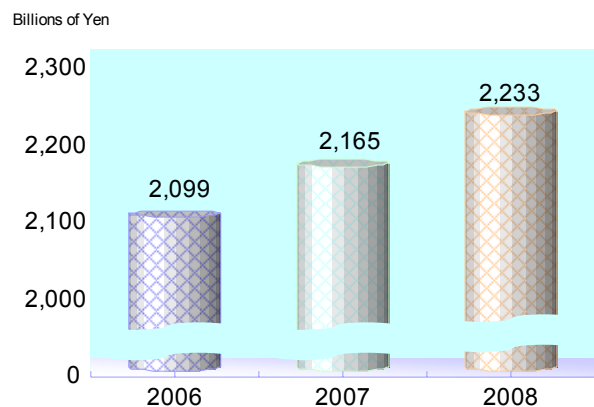
Mainly because of a rise of the interest on deposits and an increase of the provision for the possible loan losses, total expense increased ¥10,003 million year-on-year to ¥74,227 million (US\$741 million).

As a consequence, net income decreased ¥1,191 million year-on-year to ¥5,758 million (US\$57 million).

Deposits



Loans and Bills Discounted



**Cash Flows**

Cash and cash equivalents at year-end stood at ¥48,822 million (US\$487 million), down ¥12,830 million from a year earlier.

■ Cash flow from operating activities

Net cash used in operating activities amounted to ¥21,273 million (US\$212 million), a decrease of ¥13,199 million over the previous fiscal year.

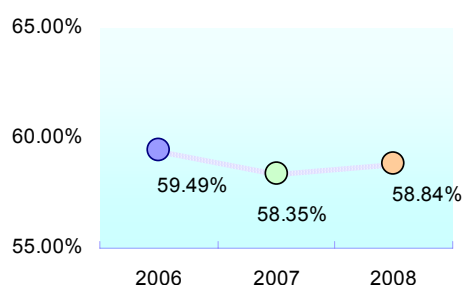
■ Cash flow from investing activities

Net cash provided by investing activities amounted to ¥10,102 million (US\$101 million), up ¥11,731 million from the previous fiscal year. This resulted primarily from an increase in proceeds from redemptions of investment securities.

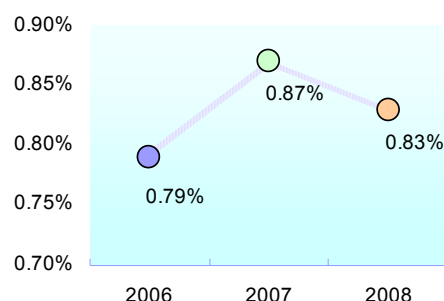
■ Cash flow from financing activities

Net cash used in financing activities amounted to ¥1,646 million (US\$16 million), a decrease of ¥15,207 million over the previous fiscal year. This decrease was primarily attributable to the fact that there is neither borrowing of subordinated loans nor issuance of new stock on the current year.

Overhead Ratio \*



Return on Assets (Core Banking Profit Basis) \*



\* Non-Consolidated Basis

Note: OHR is obtained by dividing expenses by core gross banking profit (calculated by gross banking profits less gains (losses) on bonds).

**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.

## CONSOLIDATED BALANCE SHEETS

The Minato Bank, Ltd. and Subsidiaries  
As of March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
<b>ASSETS:</b>			
Cash and due from banks (Notes 3 and 9)	¥ 49,025	¥ 61,942	\$ 489,320
Call loans and bills bought	9,948	2,377	99,291
Receivables under securities borrowing transactions	39,875	19,846	397,994
Debt purchased	6,755	7,033	67,422
Trading securities (Note 24)	459	706	4,581
Investment securities (Notes 4, 9 and 24)	380,881	397,056	3,801,587
Loans and bills discounted (Notes 5 and 10)	2,232,654	2,164,684	22,284,200
Foreign exchanges (Note 6)	4,971	5,726	49,616
Other assets (Notes 7 and 9)	30,697	28,087	306,388
Tangible Fixed Assets (Note 8)	41,984	44,574	419,044
Intangible Fixed Assets	4,472	4,128	44,635
Deferred tax assets (Note 23)	18,555	16,020	185,198
Customers' liabilities for acceptances and guarantees (Note 15)	20,755	22,682	207,156
Allowance for possible loan losses	(30,749)	(25,145)	(306,906)
<b>TOTAL ASSETS</b>	<b>¥ 2,810,282</b>	<b>¥ 2,749,716</b>	<b>\$ 28,049,526</b>
<b>LIABILITIES:</b>			
Deposits (Notes 9, 11 and 26)	¥ 2,585,398	¥ 2,535,197	\$ 25,804,951
Borrowed money (Notes 12 and 26)	57,956	57,752	578,461
Foreign exchanges (Note 6)	117	56	1,168
Bonds (Note 13)	5,000	5,000	49,905
Other liabilities (Notes 9 and 14)	35,700	24,644	356,323
Liability for employees' bonuses	1,028	945	10,261
Liability for employees' retirement benefits (Note 22)	3,535	3,150	35,283
Liability for retirement of directors and corporate auditors	290	216	2,894
Liability for reimbursement of deposits	650	-	6,488
Acceptances and guarantees (Note 15)	20,755	22,682	207,156
<b>Total liabilities</b>	<b>2,710,429</b>	<b>2,649,642</b>	<b>27,052,890</b>
<b>EQUITY (Notes 16 and 28):</b>			
Common stock, authorized, 900,000,000 shares; issued, 410,940,977 shares as of March 31, 2008 and 2007	27,484	27,484	274,319
Capital surplus	49,484	49,484	493,901
Retained earnings	22,659	18,544	226,160
Net unrealized gains on available-for-sale securities, net of taxes	(403)	4,014	(4,022)
Deferred loss on derivatives under hedge accounting	(51)	(320)	(509)
Treasury stock - at cost 412,954 shares and 388,634 shares as of March 31, 2008 and 2007, respectively	(115)	(109)	(1,148)
<b>Total</b>	<b>99,058</b>	<b>99,097</b>	<b>988,701</b>
Minority interests	795	977	7,935
<b>Total equity</b>	<b>99,853</b>	<b>100,074</b>	<b>996,636</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>¥ 2,810,282</b>	<b>¥ 2,749,716</b>	<b>\$ 28,049,526</b>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

The Minato Bank, Ltd. and Subsidiaries  
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
<b>INCOME:</b>			
Interest income:			
Interest on loans and discounts	¥ 50,410	¥ 45,522	\$ 503,144
Interest and dividends on securities	3,541	3,688	35,343
Other interest income	1,002	651	10,001
Fees and commissions	15,095	16,157	150,664
Other operating income (Note 17)	7,647	6,768	76,325
Other income (Note 18)	4,250	3,023	42,419
<b>Total income</b>	<b>81,945</b>	<b>75,809</b>	<b>817,896</b>
<b>EXPENSES:</b>			
Interest expenses:			
Interest on deposits	6,489	2,990	64,767
Interest on borrowings and rediscounts	1,490	1,024	14,872
Other interest expenses	309	534	3,084
Fees and commissions	2,990	2,978	29,843
Other operating expenses (Note 19)	6,703	7,815	66,903
General and administrative expenses	34,327	34,430	342,619
Other expenses (Note 20)	21,919	14,453	218,774
<b>Total expenses</b>	<b>74,227</b>	<b>64,224</b>	<b>740,862</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>7,718</b>	<b>11,585</b>	<b>77,034</b>
<b>INCOME TAXES (Note 23):</b>			
Current	1,768	365	17,646
Deferred	330	4,214	3,294
<b>MINORITY INTERESTS</b>	<b>(138)</b>	<b>57</b>	<b>(1,377)</b>
<b>NET INCOME</b>	<b>¥ 5,758</b>	<b>¥ 6,949</b>	<b>\$ 57,471</b>

	Yen		U.S. Dollars
	2008	2007	2008
<b>PER SHARE INFORMATION (Notes 2.u and 27):</b>			
Basic net income	¥ 14.02	¥ 17.75	\$ 0.140
Cash dividends applicable to the year	4.00	4.00	0.040

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Minato Bank, Ltd. and Subsidiaries  
Years Ended March 31, 2008 and 2007

	Thousands	Millions of Yen				Net Unrealized Gains on Available-for- sale Securities
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings		
Balance as of April 1, 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 16)	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 as of March 31, 2007	410,552	27,484	49,484	18,544	4,014	
Net income				5,758		
Cash dividends, ¥4.00 per share				(1,643)		
Purchase of treasury stock	(24)					
Net change in the year					(4,417)	
Balance as of March 31, 2008	410,528	¥ 27,484	¥ 49,484	¥ 22,659	¥ (403)	

	Millions of Yen				
	Deferred Loss on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
Balance as of April 1, 2006		¥ (100)	¥ 87,260		¥ 87,260
Reclassified balance at March 31, 2006				¥ 923	923
Issuance of new stock by public offering and allocation to third party (Note 16)			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 as of March 31, 2007	(320)	(109)	99,097	977	100,074
Net income			5,758		5,758
Cash dividends, ¥4.00 per share			(1,643)		(1,643)
Purchase of treasury stock		(6)	(6)		(6)
Net change in the year	269		(4,148)	(182)	(4,330)
Balance as of March 31, 2008	¥ (51)	¥ (115)	¥ 99,058	¥ 795	¥ 99,853

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

The Minato Bank, Ltd. and Subsidiaries  
Years Ended March 31, 2008 and 2007

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gains on Available-for-sale Securities
Balance as of March 31, 2007	\$ 274,319	\$ 493,901	\$ 185,088	\$ 40,064
Net income			57,471	
Cash dividends, \$0.040 per share			(16,399)	
Purchase of treasury stock				
Net change in the year				(44,086)
Balance as of March 31, 2008	\$ 274,319	\$ 493,901	\$ 226,160	\$ (4,022)

	Thousands of U.S. Dollars (Note 1)				
	Deferred Loss on Derivatives under Hedge Accounting	Treasury Stock	Total	Minority Interests	Total Equity
Balance as of March 31, 2007	\$ (3,194)	\$ (1,088)	\$ 989,091	\$ 9,751	\$ 998,842
Net income			57,471		57,471
Cash dividends, \$0.040 per share			(16,399)		(16,399)
Purchase of treasury stock		(60)	(60)		(60)
Net change in the year	2,685		(41,401)	(1,817)	(43,218)
Balance as of March 31, 2008	\$ (509)	\$ (1,148)	\$ 988,701	\$ 7,935	\$ 996,636

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

The Minato Bank, Ltd. and Subsidiaries  
Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 7,718	¥ 11,585	\$ 77,034
Depreciation	5,436	5,532	54,257
Losses on impairment of long-lived assets		193	
Increase in allowance for possible loan losses	17,632	10,925	175,986
Increase in liability for employees' bonuses	83	38	828
Increase (decrease) in liability for employees' retirement benefits	385	(3,043)	3,843
Increase in liability for retirement of directors and corporate auditors	74	216	739
Increase in prepaid pension expense	(400)	(2,186)	(3,993)
Increase in liability for reimbursement of deposits	650		6,488
Interest income	(54,952)	(49,861)	(548,478)
Interest expenses	8,288	4,548	82,723
(Gains) losses on sales and write-down of investment securities	(637)	1,975	(6,358)
Foreign exchange losses (gains)	229	(76)	2,286
Losses on sales of premises and equipment	591	482	5,899
Net decrease (increase) in trading securities	244	(331)	2,435
Net increase in loans	(79,311)	(77,546)	(791,606)
Net increase in deposits	50,629	29,645	505,329
Net increase (decrease) in borrowed money (excluding subordinated loans)	204	(144)	2,036
Net decrease (increase) in due from banks (excluding noninterest-bearing due from banks)	87	(68)	868
Net increase in call loans and bills bought	(27,323)	(10,995)	(272,712)
Net decrease (increase) in foreign exchanges (assets)	756	(716)	7,546
Net increase (decrease) in foreign exchanges (liabilities)	61	(0)	609
Interest received (cash basis)	56,113	49,495	560,066
Interest paid (cash basis)	(7,029)	(3,575)	(70,157)
Other	(482)	128	(4,811)
Subtotal	(20,954)	(33,779)	(209,143)
Income taxes - paid	(319)	(693)	(3,184)
Net cash used in operating activities	(21,273)	(34,472)	(212,327)
<b>INVESTING ACTIVITIES:</b>			
Purchases of investment securities	(757,532)	(509,874)	(7,560,954)
Proceeds from sales of investment securities	241,965	308,887	2,415,061
Proceeds from redemptions of investment securities	529,350	205,108	5,283,461
Purchases of premises and equipment	(3,556)	(4,491)	(35,493)
Proceeds from sales of premises and equipment	1,496	143	14,932
Other	(1,621)	(1,402)	(16,179)
Net cash provided by (used in) investing activities	10,102	(1,629)	100,828
<b>FINANCING ACTIVITIES:</b>			
Proceeds from borrowing of subordinated loans		25,000	
Repayment of subordinated loans		(20,000)	
Proceeds from issuance of subordinated bonds		5,000	
Proceeds from issuance of new stock		5,099	
Dividends paid by the Bank	(1,640)	(1,529)	(16,369)
Purchases of treasury stock	(6)	(9)	(60)
Net cash (used in) provided by financing activities	(1,646)	13,561	(16,429)
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>			
	(13)	0	(129)
DECREASE IN CASH AND CASH EQUIVALENTS	(12,830)	(22,540)	(128,057)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	61,652	84,192	615,351
CASH AND CASH EQUIVALENTS AT END OF YEAR	¥ 48,822	¥ 61,652	\$ 487,294

See Notes to Consolidated Financial Statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Minato Bank, Ltd. and Subsidiaries  
Years Ended March 31, 2008 and 2007

**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 Financial Instruments and Exchange Law (formerly, 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.

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 2007 consolidated financial statements to conform to the classifications used in 2008.

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 ¥100.19 to \$1, the approximate rate of exchange at March 31, 2008, 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 (13 subsidiaries in 2008 and 14 subsidiaries in 2007) 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.

Minato Estate Co., Ltd. and one of investment limited partnerships dissolved due to merger with the Bank or the expiration of business period, respectively.

Minato Preferred Capital Cayman Limited was newly consolidated due to establishment.

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 consolidated subsidiaries end on March 31, 2008 and 2007, while 5 and 6 others end on December 31, 2008 and 2007, respectively. 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 accordance with the Industry Audit Committee Report No. 24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." Issued by the Japanese Institute of Certified Public Accountants ("JICPA"), 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, 2008 and 2007 were ¥53,571 million (\$534,694 thousand) and ¥65,561 million, respectively.

**h. Tangible Fixed Assets**

Tangible Fixed Assets are stated at cost less accumulated depreciation.

Tangible Fixed Assets 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 2 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 (\$808 thousand) as of March 31, 2008 and 2007.

**i. Long-lived Assets**

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. 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.

**l. 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.

**m. 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.

**n. Liability for Retirement of Directors and Corporate Auditors**

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors (including executive officer) and corporate auditors retired at each balance sheet date.

**o. Liability for reimbursement of deposits**

Liability for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal based on the historical reimbursement experience. Formerly, deposits which had been derecognized as liabilities were expensed when they were actually reimbursed. However, from the year ended March 31, 2008, such liability is provided in the estimated amount as described above in accordance with the "Treatment for Auditing of Reserve under Special Laws and Reserve for Retirement Benefits to Directors and Corporate Auditors" (JICPA Audit and Assurance Practice Committee Report No.42) of April 13, 2007.

As a result, Income before income taxes and minority interests decreased by ¥650 million (\$6,488 thousand) as compared with the former method.

**p. 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.

**q. 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.

**r. 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.

**s. Appropriations of Retained Earnings**

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

**t. 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.

**u. 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, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash and due from banks	¥ 49,025	¥ 61,942	\$ 489,320
Interest-bearing deposits included in due from banks	(203)	(290)	(2,026)
Cash and cash equivalents	¥ 48,822	¥ 61,652	\$ 487,294

**4. INVESTMENT SECURITIES**

Investment securities at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Japanese government bonds	¥ 130,287	¥ 238,187	\$ 1,300,399
Japanese local government bonds	103,472	44,741	1,032,758
Japanese corporate bonds	117,180	71,532	1,169,578
Corporate stocks	19,416	29,951	193,792
Other securities	10,526	12,645	105,060
Total	¥ 380,881	¥ 397,056	\$ 3,801,587

**5. LOANS AND BILLS DISCOUNTED**

Loans and bills discounted at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Bills discounted	¥ 52,734	¥ 64,462	\$ 526,340
Loans on bills	160,329	164,522	1,600,249
Loans on deeds	1,800,479	1,741,316	17,970,646
Overdrafts	219,112	194,384	2,186,965
<b>Total</b>	<b>¥ 2,232,654</b>	<b>¥ 2,164,684</b>	<b>\$ 22,284,200</b>

Loans in legal bankruptcy totaled ¥6,412 million (\$63,998 thousand) and ¥6,246 million as of March 31, 2008 and 2007, respectively. Nonaccrual loans totaled ¥39,851 million (\$397,754 thousand) and ¥43,429 million as of March 31, 2008 and 2007, 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 ¥301 million (\$3,004 thousand) and ¥649 million as of March 31, 2008 and 2007, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded.

Restructured loans totaled ¥17,067 million (\$170,346 thousand) and ¥14,221 million as of March 31, 2008 and 2007, 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
<b>Assets:</b>			
Due from foreign correspondents	¥ 650	¥ 413	\$ 6,488
Foreign bills of exchange purchased	3,484	4,214	34,774
Foreign bills of exchange receivable	837	1,099	8,354
<b>Total</b>	<b>¥ 4,971</b>	<b>¥ 5,726</b>	<b>\$ 49,616</b>
<b>Liabilities:</b>			
Due to foreign correspondents	¥ 6		\$ 60
Foreign bills of exchange sold	93	¥ 47	928
Accrued foreign bills of exchange	18	9	180
<b>Total</b>	<b>¥ 117</b>	<b>¥ 56</b>	<b>\$ 1,168</b>

**7. OTHER ASSETS**

Other assets at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of
	2008	2007	U.S. Dollars
Prepaid expenses	¥ 34	¥ 22	\$ 339
Prepaid pension expense	2,586	2,186	25,811
Accrued income	2,984	3,099	29,784
Derivatives	7,998	4,232	79,828
Other	17,095	18,548	170,626
<b>Total</b>	<b>¥ 30,697</b>	<b>¥ 28,087</b>	<b>\$ 306,388</b>

**8. TANGIBLE FIXED ASSETS**

Accumulated depreciation on tangible fixed assets at March 31, 2008 and 2007 amounted to ¥24,429 million (\$243,827 thousand) and ¥23,578 million, respectively.

**9. ASSETS PLEDGED**

Assets pledged as collateral and related liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of
	2008	2007	U.S. Dollars
Investment securities	¥ 35,127	¥ 32,704	\$ 350,604
Due from banks	0	0	0
Other assets	92	58	918

Related liabilities:

	Millions of Yen		Thousands of
	2008	2007	U.S. Dollars
Deposits	¥ 4,813	¥ 7,229	\$ 48,039
Other liabilities	50	95	499

In addition, investment securities totaling ¥48,615 million (\$485,228 thousand) and ¥43,141 million at March 31, 2008 and 2007, respectively, and other assets totaling ¥57 million (\$569 thousand) and ¥7 million at March 31, 2008 and 2007, respectively, were pledged as collateral for

settlement of exchange, fund settlement for joint systems of the industry and derivative transactions.

Other assets include guarantee deposits of ¥4,014 million (\$40,064 thousand) and ¥4,253 million at March 31, 2008 and 2007, respectively.

**10. 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 ¥486,740 million (\$4,858,169 thousand), of which ¥474,800 million (\$4,738,996 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 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.

**11. DEPOSITS**

Deposits at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current deposits	¥ 118,928	¥ 129,414	\$ 1,187,025
Ordinary deposits	1,287,520	1,282,844	12,850,784
Savings deposits	30,261	32,803	302,036
Deposits at notice	11,716	12,855	116,938
Time deposits	1,062,204	1,002,759	10,601,896
Other deposits	42,601	34,636	425,202
Subtotal	2,553,230	2,495,311	25,483,881
Negotiable certificates of deposit	32,168	39,886	321,070
Total	¥ 2,585,398	¥ 2,535,197	\$ 25,804,951

**12. BORROWED MONEY**

At March 31, 2008 and 2007, the weighted average interest rates applicable to the borrowed money were 2.92% and 2.15%, respectively.

Borrowed money at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Subordinated loans	¥ 55,000	¥ 55,000	\$ 548,957
Borrowing from banks and other	2,956	2,752	29,504
Total	¥ 57,956	¥ 57,752	\$ 578,461

Annual maturities of borrowed money at March 31, 2008, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 816	\$ 8,144
2010	682	6,807
2011	540	5,390
2012	413	4,122
2013	232	2,316
2014 and thereafter	55,273	551,682
Total	¥ 57,956	\$ 578,461

**13. BONDS**

Bonds at March 31, 2008 and 2007 consisted of the following:

Description	Millions of Yen		Thousands of U.S. Dollars	Interest Rate	Due
	2008	2007	2008		
Subordinated bonds	¥ 5,000	¥ 5,000	\$ 49,905	2.51%	Sep. 2006 - Sep. 2016

**14. OTHER LIABILITIES**

Other liabilities at March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of
	2008	2007	U.S. Dollars
Domestic exchange settlement	¥ 103	¥ 149	\$ 1,028
Accrued income taxes	1,352	155	13,494
Accrued expenses	3,504	2,439	34,974
Unearned income	8,759	8,080	87,424
Derivatives	6,911	3,810	68,979
Other	15,071	10,011	150,424
<b>Total</b>	<b>¥ 35,700</b>	<b>¥ 24,644</b>	<b>\$ 356,323</b>

**15. 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.

The amounts of "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees," which were set off were ¥30,261 million, because which were relevant to corporate bonds, and the guaranteed bonds were held by the Bank itself.

## 16. EQUITY

Since May 1, 2006, Japanese companies have been 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 accounting 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 Bank 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, 2008.

**17. OTHER OPERATING INCOME**

Other operating income for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Gains on foreign exchange transactions - net	¥ 1,003	¥ 786	\$ 10,011
Gains on sales of bonds	1,362	865	13,594
Lease-related income	2,909	2,864	29,035
Other	2,373	2,253	23,685
<b>Total</b>	<b>¥ 7,647</b>	<b>¥ 6,768</b>	<b>\$ 76,325</b>

**18. OTHER INCOME**

Other income for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Gains on sales of stocks and other securities	¥ 1,881	¥ 1,196	\$ 18,774
Gains on disposal of premises and equipment	297		2,964
Recovery of claims previously charged-off	37	106	369
Other	2,035	1,721	20,312
<b>Total</b>	<b>¥ 4,250</b>	<b>¥ 3,023</b>	<b>\$ 42,419</b>

**19. OTHER OPERATING EXPENSES**

Other operating expenses for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Losses on sales of bonds	¥ 909	¥ 3,494	\$ 9,073
Losses on repayment of bonds	237	46	2,365
Other	5,557	4,275	55,465
<b>Total</b>	<b>¥ 6,703</b>	<b>¥ 7,815</b>	<b>\$ 66,903</b>

**20. OTHER EXPENSES**

Other expenses for the years ended March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Provision for possible loan losses	¥ 17,632	¥ 10,996	\$ 175,986
Losses on sales of stocks and other securities	808	191	8,065
Losses on devaluation of stocks and other securities	653	706	6,517
Losses on sales of premises and equipment	706	482	7,046
Losses on impairment of long-lived assets		193	
Other	2,120	1,885	21,160
<b>Total</b>	<b>¥ 21,919</b>	<b>¥ 14,453</b>	<b>\$ 218,774</b>

21. LEASES

Lessor

Lease receipts under finance leases amounted to ¥2,909 million (\$29,035 thousand) and ¥2,864 million, for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 was as follows:

	Millions of Yen					
	2008			2007		
	Equipment	Other Assets	Total	Equipment	Other Assets	Total
Acquisition cost	¥ 11,503	¥ 1,621	¥ 13,124	¥ 11,693	¥ 1,499	¥ 13,192
Accumulated depreciation	5,857	798	6,655	5,330	677	6,007
Net leased property	¥ 5,646	¥ 823	¥ 6,469	¥ 6,363	¥ 822	¥ 7,185

	Thousands of U.S. Dollars		
	2008		
	Equipment	Other Assets	Total
Acquisition cost	\$ 114,812	\$ 16,179	\$ 130,991
Accumulated depreciation	58,459	7,965	66,424
Net leased property	\$ 56,353	\$ 8,214	\$ 64,567

Lessor's receivables under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
	Due within one year	¥ 2,587	¥ 2,663
Due after one year	4,725	5,438	47,160
Total	¥ 7,312	¥ 8,101	\$ 72,981

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
	2008	2007	2008
	Depreciation expense	¥ 2,521	¥ 2,465

22. 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, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	¥ (19,028)	¥ (18,548)	\$ (189,919)
Plan assets (fair value)	13,546	15,989	135,203
Unfunded projected benefit obligation	(5,482)	(2,559)	(54,716)
Unrecognized actuarial net loss	4,484	1,555	44,755
Unrecognized prior service cost	49	40	489
Prepaid pension expense	2,586	2,186	25,811
Liability for employees' retirement benefits	¥ (3,535)	¥ (3,150)	\$ (35,283)

The components of net periodic benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	¥ 599	¥ 616	\$ 5,979
Interest cost	463	457	4,621
Expected return on plan assets	(348)	(123)	(3,474)
Amortization of prior service cost	(9)	(9)	(90)
Recognized actuarial net loss	535	551	5,340
Other	122	248	1,218
Net periodic retirements benefit costs	¥ 1,362	¥ 1,740	\$ 13,594

Assumptions used for the years ended March 31, 2008 and 2007 were set forth as follows:

	2008	2007
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	0~3.5%	0~3.5%
Recognized period of actuarial gain or loss	9 years	9 years
Amortization period of prior service cost	9 years	9 years

23. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of
	2008	2007	U.S. Dollars
Deferred tax assets:			
Allowance for possible loan losses	¥ 15,418	¥ 15,995	\$ 153,888
Liability for employees' retirement benefits	3,044	2,888	30,382
Liability for employees' bonuses	418	384	4,172
Accrued enterprise tax	169	68	1,687
Devaluation of stocks and other securities	1,185	1,880	11,827
Depreciation	153	198	1,527
Tax loss carryforwards	22	873	220
Deferred loss on derivatives under hedge accounting	35	219	349
Net unrealized losses on available-for-sale securities	262		2,615
Other	1,094	1,637	10,919
Less valuation allowance	(1,510)	(2,453)	(15,071)
<b>Total</b>	<b>¥ 20,290</b>	<b>¥ 21,689</b>	<b>\$ 202,515</b>
Deferred tax liabilities:			
Gains on securities contributed to employee retirement benefit trust	¥ (685)	¥ (685)	\$ (6,837)
Prepaid pension expense	(1,050)	(888)	(10,480)
Net unrealized gains on available-for-sale securities		(2,787)	
Allowance for possible loan losses adjustment arising from debts and credits elimination		(1,309)	
<b>Total</b>	<b>¥ (1,735)</b>	<b>¥ (5,669)</b>	<b>\$ (17,317)</b>
<b>Net deferred tax assets</b>	<b>¥ 18,555</b>	<b>¥ 16,020</b>	<b>\$ 185,198</b>

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, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40.6 %	40.6 %
Permanent differences – expenses	0.4	0.2
Permanent differences – income	(0.9)	(0.6)
Corporate inhabitant tax per capita	0.8	0.5
Valuation allowance	(12.2)	0.7
Consolidation adjustments	(3.5)	(1.9)
Other	1.9	
<b>Actual effective tax rate</b>	<b>27.1 %</b>	<b>39.5 %</b>

24. MARKET VALUE AND OTHER INFORMATION ON SECURITIES

Market value and other information on securities as of March 31, 2008 and 2007 were as follows:

Securities

(1) Bonds classified as trading

	Millions of Yen			
	2008		2007	
	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	¥459	Immaterial	¥706	Immaterial

	Thousands of U.S. Dollars	
	2008	
	Consolidated Balance Sheet Amount	Gains (Losses) Included in Profit/Loss during the Fiscal Year
Bonds classified as trading	\$4,581	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									
	2008					2007				
	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	¥ 13,305	¥ 17,033	¥ 3,728	¥ 4,620	¥ 892	¥ 16,288	¥ 27,212	¥ 10,924	¥ 11,381	¥ 457
Bonds	324,770	320,594	(4,176)	353	4,530	326,679	322,363	(4,316)	278	4,594
Japanese government bonds	134,408	130,287	(4,121)	238	4,359	241,844	238,187	(3,657)	272	3,929
Japanese local government bonds	103,506	103,472	(34)	78	112	45,216	44,741	(475)	2	477
Japanese corporate bonds	86,856	86,835	(21)	37	59	39,619	39,435	(184)	4	188
Other	9,626	9,429	(197)	90	286	10,824	11,075	251	268	17
Total	¥347,701	¥347,056	¥ (645)	¥ 5,063	¥ 5,708	¥353,791	¥ 360,650	¥ 6,859	¥ 11,927	¥ 5,068

## FINANCIAL REVIEW (CONSOLIDATED BASIS)

	Thousands of U.S. Dollars				
	2008				
	Cost	Consolidated Balance Sheet Amount	Net Unrealized Gains (Losses)	Unrealized Gains	Unrealized Losses
Stocks	\$ 132,798	\$ 170,007	\$ 37,209	\$ 46,113	\$ 8,903
Bonds	3,241,541	3,199,860	(41,681)	3,523	45,214
Japanese government bonds	1,341,531	1,300,399	(41,132)	2,375	43,507
Japanese local government bonds	1,033,097	1,032,758	(339)	779	1,118
Japanese corporate bonds	866,913	866,703	(210)	369	589
Other	96,077	94,111	(1,966)	898	2,855
<b>Total</b>	<b>\$ 3,470,416</b>	<b>\$ 3,463,978</b>	<b>\$ (6,438)</b>	<b>\$ 50,534</b>	<b>\$ 56,972</b>

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.

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

**(5) Available-for-sale securities sold:**

	Millions of Yen					
	2008			2007		
	Sales Amount	Gains on Sales	Losses on Sales	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	¥ 241,965	¥ 3,243	¥ 1,717	¥ 294,634	¥ 1,961	¥ 3,184

	Thousands of U.S. Dollars		
	2008		
	Sales Amount	Gains on Sales	Losses on Sales
Available-for-sale securities	\$ 2,415,061	\$ 32,368	\$ 17,137

**(6) Securities with no readily available market value:**

	Consolidated Balance Sheet Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale securities:			
Non-listed corporate bonds	¥ 30,346	¥ 32,097	\$ 302,885
Non-listed stocks	2,383	2,740	23,785
Limited liability partnership	1,097	1,569	10,949

**(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							
	2008				2007			
	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	¥ 224,898	¥ 62,113	¥ 22,159	¥ 41,619	¥ 73,111	¥ 182,409	¥ 44,108	¥ 54,831
Japanese government bonds	58,031	10,026	20,611	41,619	29,981	113,536	39,839	54,831
Japanese local government bonds	76,058	26,941	473		16,693	25,210	2,838	
Japanese corporate bonds	90,809	25,146	1,075		26,437	43,663	1,431	
Other	1,496	7,313	1,082		1,376	6,054	1,242	
Total	¥ 226,394	¥ 69,426	¥ 23,241	¥ 41,619	¥ 74,487	¥ 188,463	¥ 45,350	¥ 54,831

	Thousands of U.S. Dollars			
	2008			
	1 Year or Less	1 to 5 Years	5 to 10 Years	Over 10 Years
Bonds	\$ 2,244,716	\$ 619,952	\$ 221,170	\$ 415,401
Japanese government bonds	579,210	100,070	205,719	415,401
Japanese local government bonds	759,138	268,899	4,721	
Japanese corporate bonds	906,368	250,983	10,730	
Other	14,932	72,991	10,799	
Total	\$ 2,259,648	\$ 692,943	\$ 231,969	\$ 415,401

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 Sheets Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Net unrealized gains(or losses) on investment securities	¥ (645)	¥ 6,859	\$ (6,438)
(Deferred tax assets (liabilities))	262	(2,787)	2,615
Net unrealized gains(or losses) on valuation (before adjustment)	(383)	4,072	(3,823)
(Minority interests)	(20)	(58)	(199)
Net unrealized gains(or losses) on valuation	(403)	4,014	(4,022)

25. 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

## FINANCIAL REVIEW (CONSOLIDATED BASIS)

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, 2008 and 2007 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, 2008 and 2007 was as follows:

	Millions of Yen							
	2008				2007			
	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	¥ 12,102	¥ 1,295	¥ 755	¥ 755	¥ 8,220	¥ 469	¥ (129)	¥ (129)
Bought	11,746	1,476	(659)	(659)	8,317	549	159	159
Currency options:								
Sold	74,956	55,630	4,604	(684)	52,691	38,719	2,159	(0)
Bought	74,956	55,630	5,457	1,537	52,691	38,719	2,639	480
Total			¥ 10,157	¥ 949			¥ 4,828	¥ 510

	Thousands of U.S. Dollars			
	2008			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Forward exchange contracts:				
Sold	\$ 120,790	\$ 12,925	\$ 7,536	\$ 7,536
Bought	117,237	14,732	(6,578)	(6,578)
Currency options:				
Sold	748,139	555,245	45,953	(6,827)
Bought	748,139	555,245	54,466	15,341
Total			\$ 101,377	\$ 9,472

- 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.

**26. RELATED PARTY TRANSACTIONS**

At March 31, 2008 and 2007, 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, 2008 and 2007 were as follows:

Parent Company	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Subordinated loans	¥ 37,000	¥ 37,000	\$ 369,298
Financial transactions		10,000	

Associated Company	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Negotiable certificates of deposit	¥ 30,000	¥ 30,000	\$ 299,431
Operating transactions	30,000	3,616	299,431

**27. NET INCOME PER SHARE**

Reconciliation of net income per share ("EPS") for the years ended March 31, 2008 and 2007 are as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2008				
Basic EPS				
Net income available to common stockholders	¥ 5,758	410,539	¥ 14.02	\$ 0.14
For the year ended March 31, 2007				
Basic EPS				
Net income available to common stockholders	¥ 6,949	391,287	¥ 17.75	

**28. SUBSEQUENT EVENTS**

**Appropriations of Retained Earnings**

On June 27, 2008, the Bank's general stockholders' meeting approved the payments of cash dividends to stockholders of record at March 31, 2008 of ¥4.00 (\$0.040) per share or a total of ¥1,643 million (\$16,399 thousand).

29. SEGMENT INFORMATION

i) Business Segment Information

Information about industry segments of the Group as of and for the years ended March 31, 2008 and 2007 is as follows:

a. Operating Income

	Millions of Yen					
	2008					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers	¥ 74,319	¥ 4,816	¥ 2,475	¥ 81,610		¥ 81,610
Intersegment income	447	495	203	1,145	¥ (1,145)	
Total	74,766	5,311	2,678	82,755	(1,145)	81,610
Operating expenses	65,737	5,221	3,027	73,985	(1,145)	72,840
Net income(losses) for computation	¥ 9,029	¥ 90	¥ (349)	¥ 8,770	¥	¥ 8,770

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

	Millions of Yen					
	2008					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 2,800,598	¥ 17,194	¥ 11,769	¥ 2,829,561	¥ (19,279)	¥ 2,810,282
Depreciation	2,530	488	14	3,032		3,032
Capital expenditures	3,191	1,981	5	5,177		5,177

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

a. Operating Income

	Thousands of U.S. Dollars					
	2008					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Operating income:						
Outside customers	\$ 741,781	\$ 48,068	\$ 24,703	\$ 814,552		\$ 814,552
Intersegment income	4,461	4,941	2,026	11,428	\$ (11,428)	
Total	746,242	53,009	26,729	825,980	(11,428)	814,552
Operating expenses	656,123	52,111	30,212	738,446	(11,428)	727,018
Net income(losses) for computation	\$ 90,119	\$ 898	\$ (3,483)	\$ 87,534	\$	\$ 87,534

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

	Thousands of U.S. Dollars					
	2008					
	Banking	Leasing	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	\$ 27,952,869	\$ 171,614	\$ 117,467	\$ 28,241,950	\$ (192,424)	\$ 28,049,526
Depreciation	25,252	4,871	140	30,263		30,263
Capital expenditures	31,850	19,772	50	51,672		51,672

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.

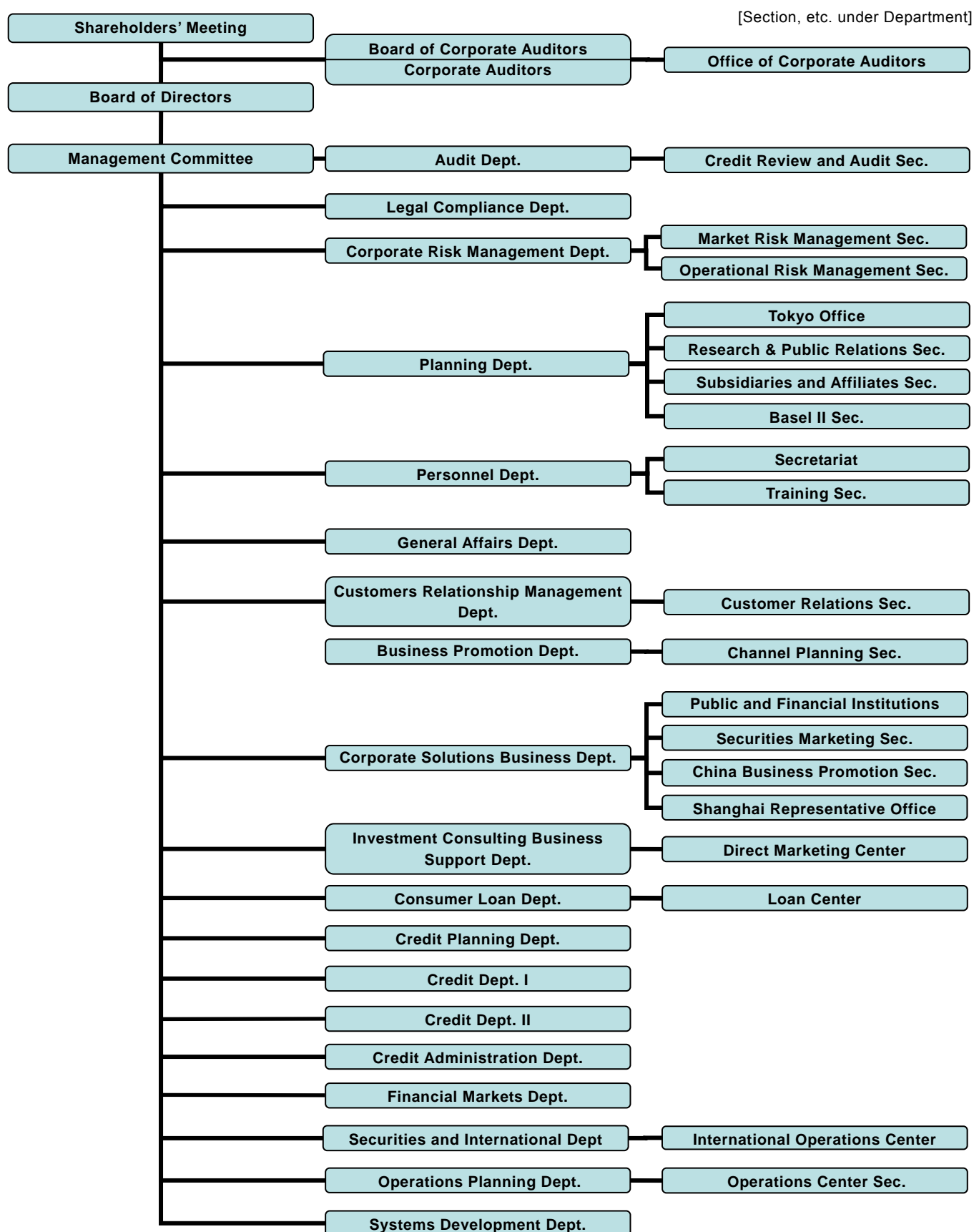
ii) Segment Information by Geographic Area

Segment information by geographic area is not presented herein for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 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, 2008)



## CORPORATE OFFICERS

(As of June 28, 2008)

## Directors, Corporate Auditors and Executive Officers

## President (Representative Director)

Nobuhiro Yabumoto\*

## Vice President (Representative Director)

Shunji Ono \*

## Senior Managing Director (Representative Director)

Kenji Takeuchi\*

## Managing Directors

Hiroshi Fujiwara\*

Akifumi Imanishi\*

Shirou Inoue\*

## Director

Toshiro Ohta (external)

## Corporate Auditors

Keigo Ihara (full-time)

Masataka Imahashi (full-time)

Shingo Okada

Sadayuki Tsuda

Tsutomu Nagate

## Senior Executive Officers

Hiromi Yoshida

Kaoru Mori

Seiji Goto

## Executive Officers

Seiji Masaki

Hideki Maruo

Kazuma Hara

Yasuki Ohara

Nobuyuki Hishida

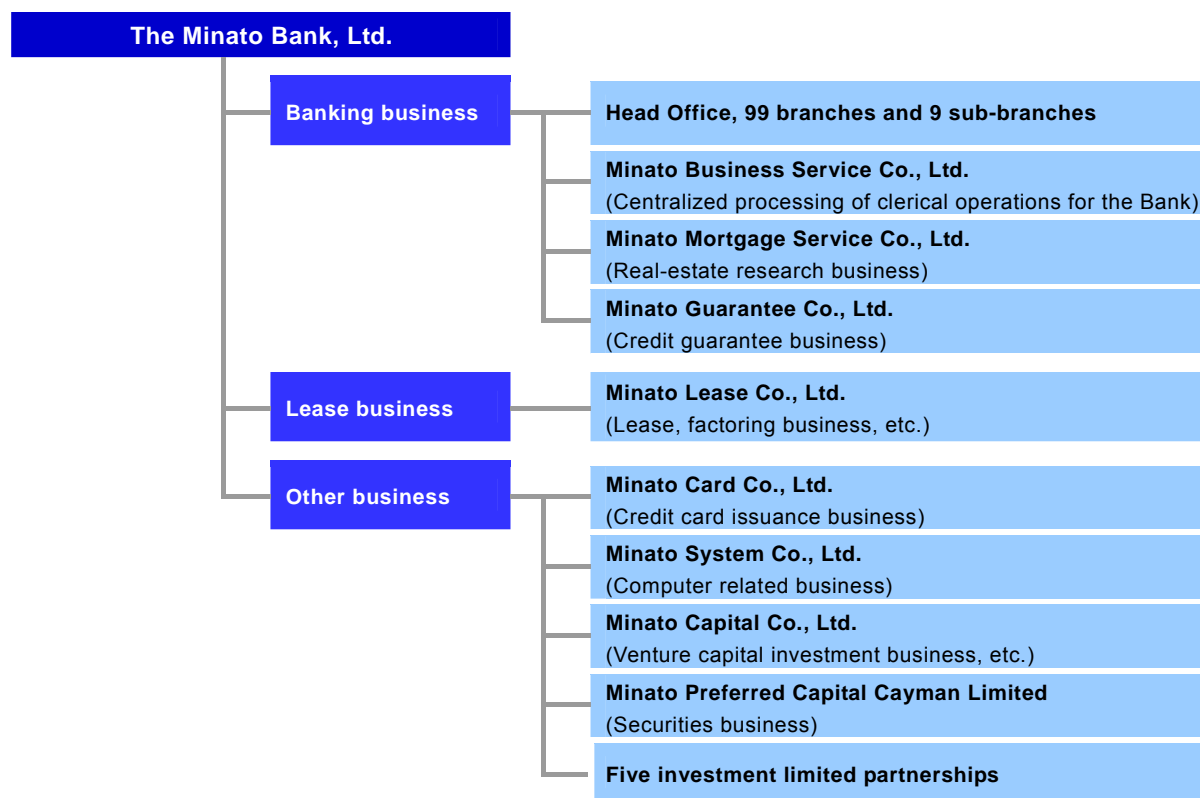
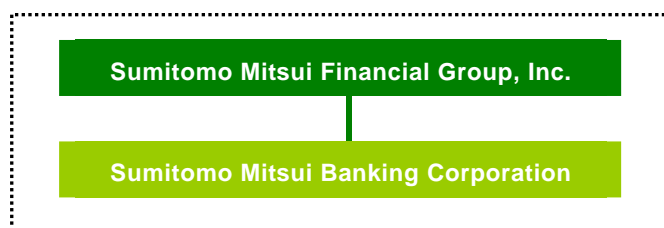
Akira Sukata

Teruo Mizushima

Shingo Watanabe

\* Executive Officers

## GROUP STRUCTURE (As of March 31, 2008)



Minato Preferred Capital Cayman Limited was established in this consolidated fiscal year. Minato Estate Co., Ltd. was dissolved in this consolidated fiscal year as a result of a merger with the Bank, and one of the investment limited partnerships was dissolved due to the expiration of its term of existence.

## MAJOR STOCKHOLDERS (As of March 31, 2008)

Name	Number of Shares (Thousands)	Percentage (%)
Sumitomo Mitsui Banking Corporation	184,828	44.97
Minato Bank Kyoeikai	16,381	3.98
Nippon Life Insurance Company	10,501	2.55
The Master Trust Bank of Japan, Ltd. (trust accounts)	7,372	1.79
Nissay Dowa General Insurance Co., Ltd.	6,661	1.62
Japan Trustee Services Bank, Ltd. (trust accounts)	6,485	1.57
Mitsui Sumitomo Insurance Co., Ltd.	6,220	1.51
Trust & Custody Services Bank, Ltd. (pension trust accounts)	5,860	1.42
Sumitomo Life Insurance Company	5,203	1.26
Minato Bank Employees' Shareholding Association	4,826	1.17