

The Aichi Bank, Ltd. and Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of Financial Statements

(a) Basis of presentation

The consolidated financial statements of The Aichi Bank, Ltd. (the "Bank") and its subsidiaries (collectively the "Group") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Bank as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau in Japan.

The accompanying consolidated financial statements are expressed in millions of Japanese yen and have been rounded down. As a result, the sum of each yen amount appearing in the consolidated financial statements and the notes thereto may not be equal to the sum of the individual account balances.

(b) U.S. dollar amounts

The Group maintains its accounting records in Japanese yen. The U.S. dollar amounts included in the arithmetic results of translating consolidated financial statements and notes thereto represent the converted U.S. dollar amounts from Japanese yen amounts, on the basis of ¥ 118.05 to \$1, the exchange rate prevailing on March 31, 2007. The inclusion of such dollar amounts is solely for the convenience of readers and is not intended to imply that Japanese yen assets and liabilities have been or could be readily converted, realized or settled in U.S. dollars at the given or at any other rates.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements included the accounts of the Bank and all of its subsidiaries. The Bank had four subsidiaries primarily engaged in provision of a wide range of financial services to customers and no affiliates based on the self-judgment of the Bank for its subsidiary as an enterprise that is controlled by the Bank rather than that is owned for a majority voting interest at March 31, 2007 and 2006, respectively. All intercompany transactions and accounts have been eliminated. The difference between the cost of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition is deferred as goodwill and amortized over five years using the straight-line method.

Effective for the year ended March 31, 2007, the Group applied "Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations (ASBJ Practical Solution No.20) issued by the Accounting Standards Board of Japan ("ASBJ") on September 8, 2006. This application had no effects on the consolidated financial statements.

(b) Accounting standard for presentation of net assets in the balance sheet

ASBJ issued "Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No.5)" and Implementation Guidance "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Guidance No. 8)" on December 9, 2005, which are applied for the year ending on and after May 1, 2006. The standard requires presenting the Net Assets section in the balance sheet as similar to International Financial Reporting Standards. The Group has adopted these new accounting standards from the year ended March 31, 2007. If the previous accounting method had been applied for the consolidated balance sheet at March 31, 2007, equity would have

amounted to ¥190,843 million (\$1,616,630 thousand).

(c) Cash and Cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consisted of cash and demand deposits from The Bank of Japan as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Cash and due from banks	¥ 44,065	¥ 52,506	\$ 373,280	\$ 444,781
Less, due from banks other than The Bank of Japan	(1,517)	(2,865)	(12,855)	(24,275)
Cash and cash equivalents	<u>¥ 42,548</u>	<u>¥ 49,640</u>	<u>\$ 360,425</u>	<u>\$ 420,506</u>

(d) Trading securities

Trading securities are stated at fair value at the end of the fiscal years. Related gain or losses, both realized and unrealized, are included in the consolidated statements of income. Accrued interests on trading securities are included in other assets.

(e) Investment securities

Debt securities for which the Group has both positive intent and ability to hold to maturity are classified as held-to-maturity securities, and are stated at amortized cost. Marketable securities, other than those classified as held-to-maturity or trading, are carried at fair value at the balance sheet dates. Net unrealized gain or losses on these securities, net of tax, are reported as a component of equity. Non-marketable securities classified as available-for-sale securities are stated at moving average cost or amortized cost. Carrying values of individual investment securities are reduced, if necessary, through write-downs to reflect other-than-temporary impairment in values. Gain and losses on the disposal of investment securities are principally computed using the moving average method. Accrued interests on securities are included in other assets. Funds entrusted to trust banks for securities (included in "Money held in trust") of the Group are stated at fair value.

Effective for the year ended March 31, 2007, the Group applied "Practical Solution on Investors' Accounting for Limited-Liability Partnerships and Limited-Liability Companies (ASBJ Practical Solution No.21) issued by ASBJ on September 8, 2006. This application had no effects on the consolidated financial statements.

(f) Derivatives

Derivatives are recorded at fair value, if hedge accounting is not applied, and gain or losses on derivatives are recognized in the consolidated statements of income. As the Bank's subsidiaries apply the special treatment of hedge accounting as permitted under the accounting standard for financial instruments, interest rate swaps which are qualified as hedging instruments are accounted for on an accrual basis, and are recorded net of interest expenses generated from borrowings as hedged items, if certain conditions are met.

(g) Reserve for possible losses on investments

Reserve for possible losses on investments is provided to absorb the future loss that may occur relating to the investments in debt securities issued by the borrowers having lowest financial performance based on the internal rules of the Bank.

(h) Loans and bills discounted, and reserve for possible loan losses

Loans and bills discounted are stated at the amount of unpaid principal. Unearned interest and discount are recorded as liabilities and recognized as income over the contract terms of the loans or bills.

A reserve for possible loan losses of the Bank is established to cover future credit losses in accordance with the internal rules for self-assessment of assets quality. Loans written off are charged either to reserve for possible loan losses and/or current income. Recoveries of loans written off are recorded as other income. Reserve for possible loan losses is made based on the Bank's internal rules in accordance with the Report No. 4 of Ad Hoc Committee for Audits of Banks "Practical Guideline for Evaluation of Internal Control Over Valuation of Assets and Audits of Write-off of Bad Loans and Allowance for Doubtful Loans of Banks and Similar Financial Institutions" issued by the Japanese Institute of Certified Public Accountants ("JICPA"). For claims to borrowers that are legally or substantially bankrupt, a reserve has been provided based on the amount of the claims net on the amount expected to be collected through the disposal of collateral or the execution of guarantees. For claims to borrowers who are likely to become bankrupt, a reserve has been provided based on an overall solvency assessment of the amount from the claims net on the amount expected to be collected through the disposal of collateral or the execution of guarantees. For claims to borrowers except for those mentioned above, a reserve has been provided based on the historical loss experience of the Bank for certain past period. All claims are being assessed by the Bank's operating divisions based on the Bank's internal rules for the self-assessment of assets quality. The inspection division, which is independent from the operating divisions, conducts audits of these assessments. The reserves described above are determined based on the audit results.

Reserve for the possible loan losses of the subsidiaries is made for the aggregate amounts of estimated credit losses based on the individual financial review approach for doubtful or troubled receivables and a general reserve is provided for based on the historical loss experience for other receivables.

(i) Tangible fixed assets, and depreciation

Tangible fixed assets of the Bank are stated at cost, less accumulated depreciation. Depreciation is computed using declining-balance method over the following estimated useful lives of the assets, except that the buildings acquired on and after April 1, 1998 have been depreciated using the straight-line method.

Buildings	8 years to 50 years
Equipment and furniture	3 years to 20 years

Tangible fixed assets of the subsidiaries are principally depreciated by the straight-line method over the estimated useful lives of the assets.

(j) Intangible fixed assets

Intangible fixed assets are amortized using a straight-line method. Costs of computer software developed or obtained for internal use are deferred and amortized on a straight-line basis principally over the estimated useful lives of five years.

(k) Leases

In cases of finance leases under which ownership of leased properties is not transferred to lessees during the term of leases, the leased properties of the Group as a lessee are not capitalized and the relating rental and lease expenses are charged to income as incurred as permitted by the "Opinion Concerning Accounting Standards for Leases" issued by the Business Accounting Council of Japan ("BACJ") in June 1993.

The subsidiary which is engaged in leasing business as a lessor accounts for all the lease contracts, including finance leases, using the accounting treatments similar to operating leases as permitted by the accounting principles generally accepted in Japan.

(I) Accounting standard for impairment of fixed assets

On August 9, 2002, BACJ issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning on and after April 1, 2005. ASBJ issued related practical guidance on October 31, 2003. The Group adopted this new accounting standard and related practical guidance effective from the year ended March 31, 2006. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price or value in use. Fixed assets include land, buildings and other forms of property as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets are grouped into cash-generating units, such as operating business branches, other than idle or unused property. Recoverable amounts of the assets were measured based on value in use calculated using discounted future cash flows at interest rates principally of 6.5% and 4.5% at March 31, 2007 and 2006, respectively, or net selling prices primarily for appraisal valuations net of estimated costs of disposal.

As a result of this new accounting standard, income before income taxes and minority interests decreased by ¥262 million (\$2,225 thousand) for the year ended March 31, 2006. Accumulated impairment losses have been directly deducted from the applicable assets.

For the years ended March 31, 2007 and 2006, the Group recognized impairment loss for the property of business branches and idle properties as follows:

	Land	Buildings and structures	Other property	Total
	Millions of Yen			
For the year 2007:				
Operating assets:				
Aichi Prefecture	¥ -	¥ -	¥ 2	¥ 2
Other	0	7	12	20
Idle assets:				
Aichi Prefecture	25	10	2	39
Other	110	21	1	133
Total	<u>¥ 136</u>	<u>¥ 40</u>	<u>¥ 19</u>	<u>¥ 195</u>
	Thousands of U.S. Dollars			
Operating assets:				
Aichi Prefecture	\$ -	\$ -	\$ 22	\$ 22
Other	2	68	106	176
Idle assets:				
Aichi Prefecture	215	93	23	331
Other	937	183	10	1,130
Total	<u>\$ 1,154</u>	<u>\$ 344</u>	<u>\$ 161</u>	<u>\$ 1,659</u>
	Land	Buildings and structures	Other property	Total
	Millions of Yen			
For the year 2006:				
Operating assets:				
Aichi Prefecture	¥ -	¥ 17	¥ 20	¥ 37
Other	24	29	48	102
Idle assets:				
Aichi Prefecture	78	36	2	117
Other	5	-	-	5
Total	<u>¥ 108</u>	<u>¥ 83</u>	<u>¥ 70</u>	<u>¥ 262</u>

	Land	Buildings and structures	Other property	Total
Thousands of U.S. Dollars				
Operating assets:				
Aichi Prefecture	\$ -	\$ 145	\$ 171	\$ 316
Other	208	254	408	870
Idle assets:				
Aichi Prefecture	667	308	20	995
Other	44	-	-	44
Total	<u>\$ 919</u>	<u>\$ 707</u>	<u>\$ 599</u>	<u>\$ 2,225</u>

(m) Foreign currency translation

Assets and liabilities denominated in foreign currencies are principally translated into Japanese yen at the exchange rates prevailing at the balance sheet dates. Income and expenses are translated at the exchange rates at transaction dates. Gains or losses resulting from foreign currency translation are included in the consolidated statements of income.

(n) Employee retirement benefits

Employees who terminate their service with the Group are entitled to retirement benefits generally determined with reference to the current basic salaries, years of service and conditions under which the termination occurs.

In accordance with the accounting standard for employee retirement benefits, the Group principally recognizes the retirement benefits including pension costs and related liabilities based on the actuarial present value of the projected benefit obligation using an actuarial appraisal approach and the pension plan assets available for benefits at the respective fiscal year-ends. Prior service cost is charged to income in the year in which it occurs. Unrecognized actuarial differences such as changes in the projected benefit obligation or pension plan assets resulting from the experience which is different from assumptions and from changes in assumptions are amortized on a straight-line basis principally over thirteen to fourteen years as a certain period within the average remaining years of service of employees from the next fiscal year after the year the differences occur.

Effective from the year ended March 31, 2006, the Group adopted "Amendment of Accounting Standard for Retirement Benefits" (ASBJ Statement No.3) and "Implementation Guidance for Amendment of Accounting Standard for Retirement Benefits" (ASBJ Guidance No.7) issued by ASBJ on March 16, 2005. As a result, the Group has amortized unrecognized pension plan assets, which are the excess of fair values of pension plan assets over benefit obligations as a result of occurrence of unrecognized actuarial gains or pension plan amendments and are not permitted to be recognized as income under the previous accounting standard, as unrecognized actuarial differences. Therefore, prepaid pension plan increased by ¥110 million (\$938 thousand) at March 31, 2006 and income before income taxes and minority interests increased by ¥110 million (\$938 thousand) for the year ended March 31, 2006.

(o) Reserve for employee bonuses

Reserve for employee bonuses is provided based on the estimated amounts of future payments attributable to the respective fiscal years.

(p) Reserve for director and corporate auditor bonuses

From the year ended March 31, 2007, the Group has adopted "Accounting Standard for Directors' Bonus (ASBJ Statement No.4)" issued by ASBJ on November 29, 2005. The standard requires that the directors' bonuses, including those for corporate auditors, shall be accounted for as an expense of

the accounting period in which such bonuses are accrued. Until the year ended March 31, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors' bonuses was approved by the Board of Directors and/or stockholders. As a result, as the Group has accrued such bonus, operating income and income before income taxes and minority interests for the year ended March 31, 2007 decreased by ¥25 million (\$217 thousand), respectively, as compared with the previous accounting method.

(q) Accounting standard for treasury shares and appropriation of legal reserve

The Group has adopted "Accounting Standard for Treasury Shares and Appropriation of Legal Reserve" and its Implementation Guidance issued by ASBJ on August 11, 2006. This accounting change resulted in no effect on the consolidated financial statements.

(r) Income taxes

Income taxes are accounted for using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(s) Appropriation of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or stockholders. See Note 2(o) for the accounting for bonuses to directors and corporate auditors.

(t) Per share data

Net income per share is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is not disclosed, as the Group had no diluted common shares for the years ended March 31, 2007 and 2006.

Cash dividends per share shown in the accompanying consolidated statements of income represent dividends declared by the Bank as applicable to the respective years.

3. Trading Securities and Investment Securities

At March 31, 2007 and 2006, trading securities consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Japanese government bonds	¥ 453	¥ 20,171	\$ 3,840	\$ 170,875
Local government bonds	53	21	457	178
	<u>¥ 507</u>	<u>¥ 20,192</u>	<u>\$ 4,297</u>	<u>\$ 171,053</u>

At March 31, 2007 and 2006, investment securities consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
	Japanese government bonds	¥ 261,282	¥ 257,582	\$ 2,213,317
Local government bonds	32,859	29,884	278,349	253,155
Bonds and debentures	249,555	230,762	2,113,980	1,954,787
Equity securities	145,274	146,969	1,230,620	1,244,975
Other	190,764	194,958	1,615,963	1,651,494
	<u>¥ 879,735</u>	<u>¥ 860,157</u>	<u>\$ 7,452,229</u>	<u>\$ 7,286,385</u>

Securities are classified as trading, held-to-maturity or available-for-sale, the classification determines the respective accounting methods as stipulated by the accounting standard for financial instruments. At March 31, 2007 and 2006, the carrying values of trading securities and the related net unrealized losses or gains included in the consolidated statements of income are as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	2007		2006		2007		2006	
	Carrying value	Unrealized losses	Carrying value	Unrealized gains	Carrying value	Unrealized losses	Carrying value	Unrealized gains
Trading securities	¥ 507	¥ (0)	¥ 20,192	¥ (8)	\$ 4,297	\$ (5)	\$ 171,053	\$ (71)

At March 31, 2007 and 2006, gross unrealized gain and losses for marketable held-to-maturity securities are summarized as follows:

	Carrying value		Gross unrealized gains		Gross unrealized losses		Fair value
	Millions of Yen						
Held-to-maturity debt securities with fair value at March 31, 2007:							
Local government bonds	¥ 250	¥ 4	¥ -	¥ 254			
Bonds and debentures	10,530	221	(1)	10,750			
	<u>¥ 10,781</u>	<u>¥ 225</u>	<u>¥ (1)</u>	<u>¥ 11,005</u>			
Held-to-maturity debt securities with fair value at March 31, 2006:							
Local government bonds	¥ 334	¥ 7	¥ -	¥ 341			
Bonds and debentures	11,623	252	(2)	11,874			
	<u>¥ 11,957</u>	<u>¥ 260</u>	<u>¥ (2)</u>	<u>¥ 12,215</u>			
Thousands of U.S. Dollars							
Held-to-maturity debt securities with fair value at March 31, 2007:							
Local government bonds	\$ 2,122	\$ 35	\$ -	\$ 2,157			
Bonds and debentures	89,207	1,874	(10)	91,071			
	<u>\$ 91,329</u>	<u>\$ 1,909</u>	<u>\$ (10)</u>	<u>\$ 93,228</u>			
Held-to-maturity debt securities with fair value at March 31, 2006:							
Local government bonds	\$ 2,830	\$ 62	\$ -	\$ 2,892			
Bonds and debentures	98,464	2,141	(20)	100,585			
	<u>\$ 101,294</u>	<u>\$ 2,203</u>	<u>\$ (20)</u>	<u>\$ 103,477</u>			

At March 31, 2007 and 2006, gross unrealized gains and losses for marketable available-for-sale securities are summarized as follows:

	Costs	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of Yen				
Available-for-sale securities with fair value at March 31, 2007:				
Japanese government bonds	¥ 261,116	¥ 2,198	¥ (2,033)	¥ 261,282
Local government bonds	32,484	251	(127)	32,608
Bonds and debentures	220,448	974	(752)	220,670
Equity securities	56,282	87,123	(415)	142,991
Other	186,447	6,127	(1,810)	190,764
	<u>¥ 756,780</u>	<u>¥ 96,674</u>	<u>¥ (5,138)</u>	<u>¥ 848,316</u>
Available-for-sale securities with fair value at March 31, 2006:				
Japanese government bonds	¥ 259,755	¥ 2,100	¥ (4,274)	¥ 257,582
Local government bonds	29,869	165	(483)	29,550
Bonds and debentures	205,923	475	(2,673)	203,724
Equity securities	56,061	88,643	(213)	144,491
Other	194,552	3,962	(3,557)	194,958
	<u>¥ 746,162</u>	<u>¥ 95,348</u>	<u>¥ (11,202)</u>	<u>¥ 830,308</u>
Thousands of U.S. Dollars				
Available-for-sale securities with fair value at March 31, 2007:				
Japanese government bonds	\$ 2,211,918	\$ 18,623	\$ (17,224)	\$ 2,213,317
Local government bonds	275,177	2,127	(1,077)	276,227
Bonds and debentures	1,867,416	8,253	(6,372)	1,869,297
Equity securities	476,772	738,023	(3,516)	1,211,279
Other	1,579,396	51,904	(15,340)	1,615,960
	<u>\$ 6,410,679</u>	<u>\$ 818,930</u>	<u>\$ (43,529)</u>	<u>\$ 7,186,080</u>
Available-for-sale securities with fair value at March 31, 2006:				
Japanese government bonds	\$ 2,200,384	\$ 17,795	\$ (36,205)	\$ 2,181,974
Local government bonds	253,021	1,402	(4,098)	250,325
Bonds and debentures	1,744,378	4,025	(22,651)	1,725,752
Equity securities	474,893	750,900	(1,804)	1,223,989
Other	1,648,055	33,570	(30,135)	1,651,490
	<u>\$ 6,320,731</u>	<u>\$ 807,692</u>	<u>\$ (94,893)</u>	<u>\$ 7,033,530</u>

During the years ended March 31, 2007 and 2006, the Group recorded a loss on the write-down of marketable available-for-sale securities due to other-than-temporary impairments in value amounting to ¥265 million (\$2,249 thousand) and ¥71 million (\$606 thousand), respectively.

At March 31, 2007 and 2006, net unrealized gains on available-for-sale securities, net of applicable income taxes and minority interests, recorded in a component of equity on the consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Unrealized gains	¥ 91,536	¥ 84,145	\$ 775,401	\$ 712,799
Less, applicable income taxes	(34,711)	(31,593)	(294,037)	(267,627)
Less, minority interests portion	(24)	(31)	(211)	(270)
Net unrealized gains in equity	<u>¥ 56,800</u>	<u>¥ 52,520</u>	<u>\$ 481,153</u>	<u>\$ 444,902</u>

During the years ended March 31, 2007 and 2006, the Group sold available-for-sale securities and recorded gains of ¥3,737 million (\$31,656 thousand) and ¥4,310 million (\$36,518 thousand), respectively, and losses of ¥2,725 million (\$23,086 thousand) and ¥1,482 million (\$12,559 thousand), respectively, on the consolidated statements of income.

Expected maturities of debt securities classified as held-to-maturity and available-for-sale at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Due in one year or less	¥ 46,815	¥ 51,425	\$ 396,570	\$ 435,626
Due after one year through five years	398,721	384,780	3,377,567	3,259,470
Due after five years through ten years	163,004	177,814	1,380,813	1,506,267
Due after ten years	113,412	93,076	960,718	788,453
	<u>¥ 721,954</u>	<u>¥ 707,097</u>	<u>\$ 6,115,668</u>	<u>\$ 5,989,816</u>

4. Loans and Bills Discounted

At March 31, 2007 and 2006, loans and bills discounted consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Bills discounted	¥ 59,077	¥ 52,233	\$ 500,448	\$ 442,466
Loans on bills	108,684	120,151	920,666	1,017,798
Loans on deeds	1,106,478	1,095,210	9,372,965	9,277,516
Overdrafts	201,405	199,492	1,706,102	1,689,899
	<u>¥ 1,475,646</u>	<u>¥ 1,467,087</u>	<u>\$ 12,500,181</u>	<u>\$ 12,427,679</u>

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No.24 "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry". The Group has rights to sell or pledge bankers' acceptances, commercial bills, documentary bills and foreign exchanges without restrictions. The total face value of these bills amounted to ¥59,229 million (\$501,730 thousand) and ¥52,641 million (\$445,929 thousand) at March 31, 2007 and 2006, respectively.

Claims to borrowers in bankruptcy and past due loans amounted to ¥42,939 million (\$363,736 thousand) and ¥48,603 million (\$411,721 thousand) at March 31, 2007 and 2006, respectively and are included in loans and bills discounted. Loans are generally placed on non-accrual status when

substantial doubt is judged to exist as to the ultimate collectibility of either principal or interest if they are past due for a certain period or for other reasons. Claims to borrowers in bankruptcy represent non-accrual loans, after the charge-off of claims deemed uncollectible, to borrowers who are legally bankrupt, which are defined in Article 96, Paragraph 1, Subparagraph 3 and 4 of Enforcement Ordinance for the Corporation Tax Law of Japan. Past due loans are non-accrual loans other than claims to borrowers in bankruptcy and loans of which interest payment is deferred in order to assist the financial recovery of borrowers in financial difficulties.

At March 31, 2007 and 2006, delinquent loans for which the payment of principal and/or interest is contractually past due three months or more, excluding non-accrual loans, amounted to ¥286 million (\$2,427 thousand) and ¥443 million (\$3,756 thousand), respectively.

At March 31, 2007 and 2006, “restructured loans” of which the Bank has restructured the terms such as a reduction of the original interest rate, forbearance of interest and/or principal payments, and an extension of maturity date in order to support borrowers in their financial recovery or restructuring, excluding “claims to borrowers in bankruptcy”, “past due loans” and “delinquent loans contractually past due three months or more” disclosed above, amounted to ¥4,182 million (\$35,428 thousand) and ¥6,947 million (\$58,854 thousand), respectively.

Total non-performing assets net of charge-off of claims deemed uncollectible, which consisted of “claims to borrowers in bankruptcy”, “past due loans”, “delinquent loans contractually past due three months or more” and “restructured loans”, aggregated ¥47,407 million (\$401,591 thousand) and ¥55,994 million (\$474,331 thousand) at March 31, 2007 and 2006, respectively.

5. Foreign Exchange

At March 31, 2007 and 2006, foreign exchange consists of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Assets:				
Due from banks	¥ 649	¥ 992	\$ 5,501	\$ 8,412
Foreign bills of exchange purchased	151	408	1,282	3,462
Foreign bills of exchange receivable	646	980	5,480	8,305
	<u>¥ 1,447</u>	<u>¥ 2,382</u>	<u>\$ 12,263</u>	<u>\$ 20,179</u>
Liabilities:				
Due to banks	¥ 1	¥ 0	\$ 9	\$ 3
Foreign bills of exchange sold	178	266	1,510	2,256
Foreign bills of exchange payable	80	121	678	1,031
	<u>¥ 259</u>	<u>¥ 388</u>	<u>\$ 2,197</u>	<u>\$ 3,290</u>

6. Tangible fixed assets (Premises and Equipment)

In accordance with the revision of the disclosure requirement of Banking industry, “property and equipment” previously disclosed is classified into “tangible fixed assets”, “intangible fixed assets” and “other assets” in the accompanying consolidated balance sheets.

At March 31, 2007 and 2006, tangible fixed assets (premises and equipment) consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Land	¥ 23,819	¥ 25,587	\$ 201,772	\$ 216,750
Buildings and structures	19,263	20,054	163,179	169,883
Equipment and furniture	11,040	10,912	93,527	92,439
Property held for leases	50,248	49,863	425,657	422,390
Construction in progress	13	7	111	61
Other tangible fixed assets	2,668	-	22,605	-
	<u>107,053</u>	<u>106,424</u>	<u>906,851</u>	<u>901,523</u>
Less, accumulated depreciation	<u>(55,292)</u>	<u>(55,623)</u>	<u>(468,383)</u>	<u>(471,182)</u>
Tangible fixed assets	<u>¥ 51,761</u>	<u>50,801</u>	<u>\$ 438,468</u>	<u>430,341</u>
Software held for leases		1,053		8,923
Lease deposits		541		4,585
Premises and equipment		<u>¥ 52,396</u>		<u>\$ 443,849</u>

As permitted by the accounting principles and practices generally accepted in Japan, deferred capital gains on sales on real property have been deducted from the original acquisition cost of property newly acquired for the replacement purposes in the same line of business as the property sold by the Bank. At March 31, 2007 and 2006, respectively, the amount of ¥2,333 million (\$19,769 thousand) was directly reduced from the acquisition cost of land.

The Bank elected the one-time revaluation to revalue land used for the banking business effective on March 31, 1998, reflecting appropriate adjustments for land shape and other factors, based on the appraisal values issued by the Japanese National Tax Agency under the Law Concerning Revaluation of Land (the "Law"). According to the Law, the amount equivalent to the tax effect on the excess of sound reassessed values over the original book values is stated as deferred tax liabilities for revaluation account, and the rest of such excess, net of the tax effect, is disclosed as a land revaluation increment account and included in equity on the consolidated balance sheets. At March 31, 2007 and 2006, the differences in the carrying values of land used for the banking business after reassessment over the current market value as of March 31, 2007 and March 31, 2006 amounted to ¥6,483 million (\$54,918 thousand) and ¥8,630 million (\$73,110 thousand), respectively.

7. Pledged Assets

At March 31, 2007 and 2006, investment securities totaling ¥37,802 million (\$320,223 thousand) and ¥65,923 million (\$558,435 thousand), respectively, are pledged as collateral for security deposits received relating to lending transactions of ¥37,889 million (\$320,960 thousand) and ¥66,405 million (\$562,519 thousand).

At March 31, 2007 and 2006, investment securities totaling ¥38,461 million (\$325,804 thousand) and ¥38,815 million (\$328,807 thousand), respectively, are pledged as collateral for the settlement of exchange, derivative and other transactions.

At March 31, 2007 and 2006, minimum lease commitments to be received totaling ¥4,090 million (\$34,652 thousand) and ¥6,770 million (\$57,353 thousand) are pledged as collateral for borrowing of ¥2,510 million (\$21,262 thousand) and ¥4,750 million (\$40,237 thousand).

8. Deposits

At March 31, 2007 and 2006, deposits consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Demand deposits	¥ 1,141,668	¥ 1,149,494	\$ 9,671,060	\$ 9,737,352
Time deposits	1,036,371	1,019,030	8,779,087	8,632,195
Other	25,473	39,404	215,785	333,795
Sub-total	2,203,513	2,207,929	18,665,932	18,703,342
Negotiable certificates of deposit	6,920	6,780	58,619	57,433
	<u>¥ 2,210,433</u>	<u>¥ 2,214,709</u>	<u>\$ 18,724,551</u>	<u>\$ 18,760,775</u>

9. Borrowings

At March 31, 2007, the annual maturities of borrowings, which are due through February 2012 with an average interest rate of 1.26% per annum, are as follows:

<u>Year ending March 31,</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2008	¥ 6,721	\$ 56,934
2009	2,778	23,532
2010	1,565	13,257
2011	1,015	8,598
2012	640	5,421
	<u>¥ 12,719</u>	<u>\$ 107,742</u>

10. Employee Retirement Benefits

The Group has qualified pension plans and lump-sum retirement benefit plans, which substantially cover all employees.

The reserve for employee retirement benefits as of March 31, 2007 and 2006 are analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Projected benefit obligation	¥ 20,006	¥ 19,942	\$ 169,478	\$ 168,931
Less, fair value of pension plan assets at end of year	(27,763)	(27,029)	(235,187)	(228,968)
Projected benefit obligation in excess of pension plan assets	(7,756)	(7,087)	(65,709)	(60,037)
Less, unrecognized actuarial differences (loss)	336	(637)	2,850	(5,403)
	(7,420)	(7,725)	(62,859)	(65,440)
Prepaid pension cost	10,224	10,386	86,608	87,980
Balance of reserve for employee retirement benefits recognized on the consolidated balance sheets	<u>¥ 2,803</u>	<u>¥ 2,660</u>	<u>\$ 23,749</u>	<u>\$ 22,540</u>

Note: The projected benefit obligation of certain subsidiaries is calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

Net periodic retirement benefit expenses for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S Dollars	
	2007	2006	2007	2006
Components of net periodic retirement benefit expenses:				
Service cost	¥ 562	¥ 556	\$ 4,762	\$ 4,716
Interest cost	398	403	3,379	3,418
Expected return on pension plan assets	(455)	(391)	(3,856)	(3,314)
Amortization of actuarial differences	281	599	2,383	5,080
Other	29	29	252	247
Net periodic retirement benefit expenses	¥ 816	¥ 1,197	\$ 6,920	\$ 10,147

Major assumptions used in the calculation of the above information for the years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	2.5%	2.5%
Amortization of actuarial differences	13~14 years	13~14 years
Amortization of prior service cost	1 year	1 year

11. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payments of loans from other financial institutions. A contra account, "Customers' liabilities for acceptances and guarantees", is classified as an asset in the consolidated balance sheets, indicating the Bank's right of indemnity from customers.

Liabilities for guarantees on corporate bonds included in "Investment securities", which were issued by private placement (Article 2 Paragraph 3 of the Securities and Exchange Law) amounted to ¥18,247 million (\$154,572 thousand). With effect from the year ended March 31, 2007, the respective amounts of "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees" relating to the liabilities for guarantees are netted in accordance with the revision of the appendix forms of "Banking Law Enforcement Regulations" (Ministry of Finance Ordinance No. 10, 1982) by the "Cabinet Office Ordinance to Amend Part of Banking Law Enforcement Regulations" (Cabinet Office Ordinance No. 38, April 17, 2007) effective from the year beginning April 1, 2006. As a result, "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees" decreased by ¥18,247 million (\$154,572 thousand), respectively, as compared with the previous accounting method.

12. Equity

At March 31, 2007 and 2006, the authorized number of shares of common stock without par value is 30 million and, the number of shares of common stock issued was 10,943,240 shares. At March 31, 2007 and 2006, the number of treasury stock held by the Group was 47,650 and 54,579 shares, respectively.

At March 31, 2007 and 2006, capital surplus principally consists of additional paid-in capital. Included in the retained earnings represented the legal reserve of the Bank ¥5,392 million (\$45,684 thousand) at March 31, 2007 and 2006, respectively. The Japanese Banking Law provides that an amount equivalent to at least 20% of the cash payments as appropriations of retained earnings shall be

appropriated as the legal reserve until the total amount of additional paid-in capital and such reserve equals capital of common stocks. The legal reserve is not available for distributions as dividends, but may be used to reduce a deficit or may be transferred to capital of common stocks by proper actions of the Board of Directors and/or stockholders.

The stockholders of the Bank approved the following appropriation of retained earnings at the annual general meeting on June 28, 2007:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends (¥45 per share)	¥ 490	\$ 4,153

13. Commitments

(a) Loan commitments

Contracts of overdraft facilities and loan commitment limits are the agreement to allow customers to extend overdrafts or loans up to the prescribed limits in response to customers' application of loans as long as there is no violation against any condition in the contracts. At March 31, 2007 and 2006, the unused amount within the limits relating to these contracts which expire within one year or are revocable by the Bank at any time without any conditions aggregated ¥421,723 million (\$3,572,411 thousand) and ¥404,492 million (\$3,426,448 thousand), respectively.

Since many of these commitments expire without being drawn down, the unused amount does not necessarily represent a future cash flow. Most of these contracts have conditions that the Bank can refuse customers' application of loans or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of the contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs periodic review of the customers' business performance in accordance with the Bank's internal rules and takes necessary measures to reconsider conditions in contracts and/or requires additional collateral and guarantees to prevent credit losses.

(b) Lease commitments

The Group has entered into various lease agreements as a lessee principally for land for office space, which are cancelable with a few months' advance notice. In addition, a subsidiary engaged in leasing business entered into various long-term non-cancelable lease agreements with third parties as a lessor, which were categorized as financing leases. At March 31, 2007 and 2006, the aggregate future minimum lease commitments to be received for such noncancelable finance leases, excluding the ones under which ownership of leased properties is recognized to be transferred to lessees, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>	
	2007	2006	2007	2006
Due within one year	¥ 4,909	¥ 4,918	\$ 41,586	\$ 41,665
Due after one year	11,887	11,316	100,697	95,862
	<u>¥ 16,796</u>	<u>¥ 16,235</u>	<u>\$ 142,283</u>	<u>\$ 137,527</u>

14. Derivative Instruments

The Bank has entered into various derivative transactions in the normal course of business to meet the needs of its customers and for risk management and asset-liability management purposes of the Bank. These derivatives involve, in various degrees, credit and market risks. The Bank is exposed to credit loss in the event of non-performance by the other parties. However, the Bank does not expect non-performance by counterparties.

The Bank adopted the accounting standard for financial instruments. At March 31, 2007 and 2006, derivative instruments which are traded on the over-the-counter market and stated at fair value and recognized for valuation gains and losses in the consolidated statements of income, other than those to which hedge accounting is applied, are summarized as follows:

	Notional principal or contract amounts		Fair value	Valuation gains/(losses)
	Total	Over 1 year		
Millions of Yen				
At March 31, 2007:				
Foreign exchange forward contracts	¥ 16,391	¥ 99	¥ (74)	¥ (74)
Currency swap contracts	31,188	19,188	-	-
Interest swap contracts	2,000	1,000	-	-
At March 31, 2006:				
Foreign exchange forward contracts	¥ 15,090	¥ 340	¥ (141)	¥ (141)
Thousands of U.S. Dollars				
At March 31, 2007:				
Foreign exchange forward contracts	\$ 138,848	\$ 842	\$ (632)	\$ (632)
Currency swap contracts	264,193	162,541	-	-
Interest swap contracts	16,942	8,471	-	-
At March 31, 2006:				
Foreign exchange forward contracts	\$ 127,832	\$ 2,888	\$ (1,199)	\$ (1,199)

Note: Fair value is based on the discounted cash flow method or option pricing calculation model.

15. Income taxes

Income taxes for the years ended March 31, 2007 and 2006 consist of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Income taxes:				
Current	¥ 5,476	¥ 5,022	\$ 46,388	\$ 42,547
Deferred	524	4,136	4,441	35,040
	<u>¥ 6,000</u>	<u>¥ 9,159</u>	<u>\$ 50,829</u>	<u>\$ 77,587</u>

The tax effects of temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Deferred tax assets:				
Reserve for possible loan losses	¥ 2,392	¥ 3,510	\$ 20,263	\$ 29,739
Reserve for employee retirement benefits	2,336	2,186	19,789	18,523
Investment securities	3,061	3,184	25,936	26,973
Other	4,126	3,148	34,956	26,674
	<u>11,916</u>	<u>12,030</u>	<u>100,944</u>	<u>101,909</u>
Less, valuation allowance	<u>(3,311)</u>	<u>(2,849)</u>	<u>(28,053)</u>	<u>(24,135)</u>
	8,604	9,181	72,891	77,774
Deferred tax liabilities:				
Unrealized gains on available-for-sale securities	34,711	31,593	294,037	267,627
Deferred gains on sale of property	228	228	1,937	1,937
Gains on transfer of investment securities for trusts for retirement benefit plan	4,040	4,040	34,230	34,231
	<u>38,980</u>	<u>35,862</u>	<u>330,204</u>	<u>303,795</u>
Net deferred tax liabilities	<u>¥ 30,375</u>	<u>¥ 26,681</u>	<u>\$ 257,313</u>	<u>\$ 226,021</u>

At March 31, 2007 and 2006, deferred tax assets and liabilities reported on the accompanying consolidated balance sheets are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2007	2006	2007	2006
Deferred tax assets	¥ 398	¥ 361	\$ 3,379	\$ 3,062
Deferred tax liabilities	30,774	27,043	260,692	229,083

In assessing the realizability of deferred tax assets, management of the Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2007 and 2006, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

A reconciliation of the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the year ended March 31, 2006 was as follows:

	Percentage of pre-tax income
Japanese statutory effective tax rate	40.55%
Increase (decrease) due to:	
Permanently non-deductible expenses	0.35
Tax exempt income	(1.82)
Change in valuation allowance	17.46
Other	(0.41)
Actual effective income tax rate	<u>56.13%</u>

The reconciliation for the year ended March 31, 2007 is not disclosed as such difference was not material.

16. Segment Information

A summary of information classified by lines of business of the Group for the years ended March 31, 2007 and 2006 is as follows:

	Bank	Leasing	Other	Total	Elimination	Consolidated
Millions of Yen						
For the year 2007:						
Ordinary income:						
External customers	¥ 50,461	¥ 7,979	¥ 6	¥ 58,447	¥	¥ 58,447
Inter-segment	70	276	105	451	(451)	0
	50,531	8,255	111	58,898	(451)	58,447
Ordinary expenses	38,621	7,783	85	46,491	(448)	46,042
Ordinary profit	¥ 11,910	¥ 471	¥ 25	¥ 12,407	¥ (2)	¥ 12,405
Special income (expenses), net						1,904
Income before income taxes and minority interests						¥ 14,309
Identifiable assets	¥ 2,527,725	¥ 22,814	¥ 149	¥ 2,550,689	¥ (7,082)	¥ 2,543,607
Depreciation	1,178	5,537	0	6,716	-	6,716
Impairment loss on fixed assets	195	-	-	195	-	195
Capital expenditures	2,138	5,947	-	8,085	-	8,085
For the year 2006:						
Ordinary income:						
External customers	¥ 48,877	¥ 8,240	¥ 5	¥ 57,123	¥ -	¥ 57,123
Inter-segment	65	263	107	435	(435)	-
	48,942	8,503	112	57,559	(435)	57,123
Ordinary expenses	33,247	8,134	92	41,475	(433)	41,041
Ordinary profit	¥ 15,695	¥ 368	¥ 20	¥ 16,084	¥ (2)	¥ 16,082
Special income (expenses), net						233
Income before income taxes and minority interests						¥ 16,315
Identifiable assets	¥ 2,561,797	¥ 21,898	¥ 123	¥ 2,583,820	¥ (5,364)	¥ 2,578,455
Depreciation	1,256	5,505	1	6,762	-	6,762
Impairment loss on fixed assets	262	-	-	262	-	262
Capital expenditures	1,099	4,939	-	6,038	-	6,038
Thousands of U.S. Dollars						
For the year 2007:						
Ordinary income:						
External customers	\$ 427,461	\$ 67,592	\$ 54	\$ 495,107	\$ -	\$ 495,107
Inter-segment	593	2,340	890	3,823	(3,823)	0
	428,054	69,932	944	498,930	(3,823)	495,107
Ordinary expenses	327,164	65,935	727	393,826	(3,803)	390,023
Ordinary profit	\$ 100,890	\$ 3,997	\$ 217	\$ 105,104	\$ (20)	\$ 105,084
Special income (expenses), net						16,135
Income before income taxes and minority interests						\$ 121,219
Identifiable assets	\$ 21,412,331	\$ 193,260	\$ 1,267	\$ 21,606,858	\$ (59,996)	\$ 21,546,862
Depreciation	9,982	46,904	6	56,892	-	56,892
Impairment loss on fixed assets	1,659	-	-	1,659	-	1,659
Capital expenditures	18,116	50,378	-	68,494	-	68,494
For the year 2006:						
Ordinary income:						
External customers	\$ 414,044	\$ 69,803	\$ 44	\$ 483,891	\$ -	\$ 483,891
Inter-segment	551	2,230	912	3,693	(3,693)	-
	414,595	72,033	956	487,584	(3,693)	483,891
Ordinary expenses	281,642	68,908	784	351,334	(3,674)	347,660
Ordinary profit	\$ 132,953	\$ 3,125	\$ 172	\$ 136,250	\$ (19)	\$ 136,231
Special income (expenses), net						1,976
Income before income taxes and minority interests						\$ 138,207
Identifiable assets	\$ 21,700,957	\$ 185,505	\$ 1,049	\$ 21,887,511	\$ (45,445)	\$ 21,842,066
Depreciation	10,641	46,635	10	57,286	-	57,286
Impairment loss on fixed assets	2,226	-	-	2,226	-	2,226
Capital expenditures	9,310	41,846	-	51,156	-	51,156

Information of geographic segment and overseas sales is not shown, as the Bank has no subsidiaries outside Japan and overseas sales are immaterial to be disclosed.

Notes: (1) "Ordinary income" represents total income less certain special income included in other income in the accompanying consolidated statements of income.

"Ordinary expenses" represents total expenses less certain special expenses included in other expenses. "Ordinary profit" represents ordinary income less ordinary expenses.

(2) "Other" business segment includes information technology management operations.

(3) As disclosed in Note 2(1), effective from the year ended March 31, 2006, the Group adopted "Amendment of Accounting Standard for Retirement Benefits" and "Implementation Guidance of Amendment of Accounting Standard for Retirement Benefits." As a result, income before income taxes and minority interests for Bank segment increased by ¥110 million (\$938 thousand) for the year ended March 31, 2006, as compared with the previous accounting method.