Kiyo Holdings, Inc. and its consolidated subsidiaries

1. Basis of presenting consolidated financial statements

Kiyo Holdings, Inc. (the "Company") and its consolidated subsidiaries maintain their official accounting records in Japanese yen, in accordance with the provisions set forth in the Japanese Commercial Code and the Japanese Banking Law, in general conformity with the Japanese regulatory authorities and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation,is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to US$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange. Amounts of less than million yen have been rounded down. As a result, the totals shown in the financial statements do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

(a) Consolidation — The consolidated financial statements include the accounts of the Company and 10 subsidiaries ("the Group").

All significant inter-company transactions and unrealized profits have been eliminated. One significant affiliated company is accounted for by the equity method.

Goodwill is expensed over ten years on a straight-line basis.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time when de facto acquired control of the respective subsidiaries was recognized.

(b) Trading account securities — Trading account securities are stated at fair market value. Gains and losses realized on the sale of such securities and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change. Realized gains and losses on the sale of such securities are computed using moving average cost.

(c) Securities — The Company and its consolidated subsidiaries classify securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies, and (c) all other securities that are not classified in any of the above categories ("available-for-sale securities").

Held-to-maturity debt securities are stated at amortized cost. Held-to-maturity debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible.

Available-for-sale securities with fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Available-for-sale securities with no fair market values are stated at moving-average cost or amortized cost.

Securities within "money held in trust" are stated at fair market value.

The value of securities acquired through repurchase agreements or securities lending transactions with cash collateral, with respect to which the banking subsidiaries have the right to freely dispose of by sale or by (re)offering them as collateral amounted to ¥29,981 million ($255,226 thousand) as of March 31, 2006. At that time the said securities remained undisposed of and in the possession of the said subsidiaries.

(d) Derivatives and hedge accounting — Derivatives are stated at fair value except when the derivatives are used for hedging purposes. If derivatives are used for hedging purposes and meet certain hedging criteria, recognition of gains or losses resulting from changes in their fair value are deferred until the related losses or gains on the hedged items are recognized.

The banking subsidiaries apply the basic provisions of JICPA Industry Audit Committee Report No. 25 to currency swap and foreign exchange swap transactions, which are made to convert funds raised in Japanese yen to funds invested in foreign currencies and other purposes.

The banking subsidiaries assess the effectiveness of currency swap and foreign exchange swap transactions executed to offset the risk of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments that correspond to the foreign currency monetary claims and debts to be hedged.

Net unrealized gains or losses on qualifying hedges are deferred and included in “Other assets.” Gross deferred hedge losses and gains before above offsetting amounted to ¥7 million ($67 thousand) and ¥2 million ($17 thousand).

(e) Premises and equipment and depreciation — Premises and equipment are carried at cost. Depreciation is computed primarily using the declining-balance method. Buildings acquired after March 31, 1998 are depreciated using the straight-line method. Useful lives of buildings and equipment range from 6 to 50 years and 3 to 20 years, respectively. Lease assets are depreciated using the straight-line method over the lease term. Software for internal use is amortized using the straight-line method over its estimated useful life of 5 years.

(f) Reserve for possible loan losses — Based on their own self-assessment rules, the banking subsidiaries make provisions for possible loan losses as follows:

For loans to insolvent customers who are undergoing bankruptcy or other collection proceedings, or who are in a similar financial condition, the reserve for possible loan losses is provided in the full amount of such loans, excluding the portion that is estimated to be recoverable due to the fair value of any underlying collateral or guarantees.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for whom there is a high probability of so becoming, the reserve for possible loan losses is provided for the estimated unrecoverable amounts determined after an evaluation of each customer’s overall financial condition. For other loans, the reserve for possible loan losses is provided based on the banking subsidiaries’ actual rate of loan losses in the past.

The reserves for possible loan losses of non-banking subsidiaries are provided for general claims in the amount deemed necessary based on the rate of losses in the past, and for doubtful claims in the amount deemed uncollectible based on the respective assessments. The Company and the consolidated subsidiaries wrote off loans of ¥165,026 million ($1,404,837 thousand) for the year ended March 31, 2006.

(g) Accrued employees’ severance and retirement benefits — The Kiyo Bank, Ltd.(Kiyo Bank), a subsidiary of the Company, has established a defined benefit plan, under which the bank operates a private pension fund and a qualified retirement plan, and makes payments in lump-sum at the time of the employee’s retirement. Kiyo Bank has also established a trust fund for pension payments.

The Wakayama Bank, Ltd. (Wakayama Bank) another subsidiary, has established a qualified retirement plan. Previously, Wakayama Bank operated a pension fund jointly with other banks belonging to the Association of Second-tier Regional Banks. Upon liquidation of the fund, however, Wakayama Bank established its own pension plan on April 1, 2006, pursuant to stipulations in the Defined Benefit Pension Plan Act.

Other subsidiaries have employed lump-sum payment systems that makes payments to employees at the time of the employee’s retirement.

Provision is made for severance and retirement benefits in an amount deemed necessary based on estimated amounts of retirement benefit obligations and pension assets at the balance-sheet date. Differences generated from changes in actuarial assumptions are charged to income or expenses in an amount allocated on a straight-line basis over 11 years, which is shorter than the average remaining service period of employees, beginning with the term following that when the differences are generated.

In calculating projected benefit obligation and plan assets, the discount rate and expected rate of return on plan assets is 2.0%, and the projected benefit is allocated to each period by the straight-line method.

(h) Foreign currency translation — Receivables and payables in foreign currencies are translated into Japanese yen at the year-end rates.

Hedge accounting is outlined in the above Note 2 (d).

(i) Income taxes — Income taxes comprise corporation, inhabitants and enterprise taxes. Deferred tax assets are recorded based on loss carryforwards and the temporary differences between the financial statement and tax bases of assets and liabilities.

(j) Consumption tax — Amounts do not include consumption taxes.

(k) Finance leases — Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with generally accepted accounting principles in Japan.

(l) Consolidated statements of cash flows — Cash and deposits with the Bank of Japan that are included in the consolidated balance sheets under the caption cash and due from banks are considered to be cash and cash equivalents in the statements of cash flows.

(m) Net income per share — Net income per share is computed by deducting dividends for preferred stock from net income and dividing the balance by the weighted average number of shares of common stock, excluding treasury shares, outstanding during the reporting period.

3. Capital consolidation procedures

On February 1, 2006, through a share transfer procedure, Kiyo Bank and Wakayama Bank jointly established a holding company, under the name of Kiyo Holdings, Inc., of which the two banks became wholly owned subsidiaries.

The capital consolidation procedures followed in this corporate alliance were in accordance with the capital consolidation procedures set forth in the JICPA Accounting System Committee Research Report No. 6 issued by the Japanese Institute of Certified Public Accountants. These are procedures to be followed in the event of a new relationship is created between or among companies as a result of establishing, through share exchange or transference, a holding company of which the companies are wholly owned subsidiaries.

In consideration of the respective share transfers, Kiyo Bank and Wakayama Bank were designated the surviving entity and the non-surviving entity, respectively. The pooling method was applied to Kiyo Bank and its consolidated subsidiaries, while the purchase method was applied to Wakayama Bank and its consolidated subsidiaries.

4. Trading account securities and securities

Net valuation losses from trading account securities for the year ended March 31, 2006 amounted to ¥7 million ($66 thousand). Market values and unrealized gains and losses on held-to-maturity debt securities and available-for-sale securities with available fair market values as of March 31, 2006 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen			Thousands of U.S. dollars		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Bonds	¥27,666	¥27,358	¥ (308)	$235,521	$232,898	$ (2,623)
Other	47,907	46,984	(922)	407,825	399,972	(7,853)
Total	¥75,573	¥74,343	¥(1,230)	$643,346	$632,870	$(10,476)

(b) Available-for-sale securities with available fair market values, including beneficial interests in trusts which are included in "Commercial paper and other debt purchased"

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Market value	Unrealized gains (losses)	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	¥ 46,234	¥ 63,189	¥16,955	$ 393,583	$ 537,923	$144,340
Bonds	528,474	517,419	(11,055)	4,498,806	4,404,692	(94,114)
Other	135,039	132,549	(2,489)	1,149,566	1,128,370	(21,196)
Total	¥709,748	¥713,158	¥ 3,410	$6,041,955	$6,070,985	$ 29,030

Available-for-sale securities whose market values have decreased by 30% or more of their acquisition costs are considered to have market values that have "greatly declined." In such cases, the market value is recognized as the balance sheet amount and valuation loss is recognized in the current fiscal year. During the reporting period, the Group recognized no impairment losses.

(c) The following table summarizes book values of most securities with no available fair values as of March 31, 2006.

Available-for-sale securities:	Millions of yen	Thousands of U.S. dollars
Non-listed securities	¥17,210	$146,508

(d) Maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2006 were as follows:

	Millions of yen			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Bonds	¥ 97,988	¥181,631	¥203,156	¥75,613
Other	6,029	91,834	52,108	19,966
Total	¥104,018	¥273,465	¥255,264	¥95,579

	Thousands of U.S. dollars			
	Due within one year	Due over one year but within five years	Due over five years but within ten years	Due over ten years
Bonds	$834,161	$1,546,194	$1,729,435	$643,680
Other	51,330	781,769	443,586	169,969
Total	$885,491	$2,327,963	$2,173,021	$813,649

(e) Total sales of available-for-sale securities in the year ended March 31, 2006 amounted to ¥324,677 million ($2,763,920 thousand). The related gains and losses for the year ended March 31, 2006 amounted to ¥9,864 million ($83,978 thousand) and ¥1,378 million ($11,736 thousand), respectively.

Securities included ¥586 million ($4,990 thousand) of investments in shares of affiliated companies as of March 31, 2006.

(f) Net Unrealized Gains on Available-for-Sale Securities as of March 31, 2006 was as follows.

As reported in consolidated balance sheets:	Millions of yen	Thousands of U.S. dollars
Difference between acquisition cost and fair value	¥3,410	$29,030
Available-for-Sale Securities	3,410	29,030
Other Money Held in Trust	—	—
Deferred Tax Liabilities	195	1,667
Difference between acquisition cost and fair value (prior to adjustment for minority interests)	3,214	27,363
Amount corresponding to minority interests	136	1,160
Equity stake of the parent company in the amount corresponding to net unrealized gains on available-for-sale securities owned by affiliated companies accounted for using the equity method	0	8
Net unrealized gains on available-for-sale securities	¥3,078	$26,211

5. Money held in trust

At March 31, 2006, money held in trust was as follows:

	Millions of yen		Thousands of U.S. dollars	
	Amounts posted on balance sheet	Unrealized gains and losses for the term	Amounts posted on balance sheet	Unrealized gains and losses for the term
Money held in trust	¥3,500	—	$29,795	—

6. Loans and bills discounted

Loans and bills discounted at March 31, 2006 included the following:

	Millions of yen	Thousands of U.S. dollars
Loans to borrowers legally bankrupt	¥ 6,035	$ 51,376
Other delinquent loans	124,000	1,055,590
Loans past due over 3 months	939	7,997
Restructured loans	22,775	193,879
Total	¥153,749	$1,308,842

Loans to borrowers legally bankrupt are loans to customers who meet specific credit risk criteria, such as undergoing bankruptcy proceedings. Interest is not accrued on these loans.

Other delinquent loans are loans on which the recognition of accrued interest has been suspended after a self-assessment of asset quality, other than those loans included in loans to borrowers legally bankrupt.

Loans past due over 3 months are loans for which principal or interest payments are past due for three months or more.

Restructured loans are loans for which the banking subsidiaries have granted borrowers certain concessions (such as reduced or exempted interest, suspended payments of interest, delayed repayment of principal, and waiver of claims) to allow borrowers to restructure or to provide them support This category of loans excludes loans to borrowers legally bankrupt, other delinquent loans and loans past due over 3 months.

The banking subsidiaries apply "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in Banking Industry" (JICPA Industry Audit Committee Report No. 24) and accounts for bills discounted as financial transactions. The face value of bank acceptances, bills of exchange and bills of lading which were permitted to be sold or pledged without restrictions and were acquired at a discount amounted to ¥41,931 million ($356,954 thousand) at March 31, 2006.

Investments by our banking subsidiary in loan participation programs that are treated as loans to original borrowers in accordance with the stipulations of JICPA Accounting System Committee Report No. 3 (issued June 1, 1995) were posted on the balance sheet in an amount of ¥501 million ($4,266 thousand).

7. Accumulated depreciation for premises and equipment

Accumulated depreciation for premises and equipment at March 31, 2006, was ¥39,367 million ($335,126 thousand).

Advanced depreciation for premises and equipment amounted to ¥4,337 million ($36,926 thousand).

8. Assets pledged as collateral

At March 31, 2006, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Securities	¥134,611	$1,145,921

The above pledged assets secure the following liabilities:

	Millions of yen	Thousands of U.S. dollars
Deposits	¥ 9,560	$ 81,390
Deposits received for securities lending transactions	74,229	631,900
Other liabilities	30	255

In addition to the above, securities, deposited money and other assets pledged as collateral for transaction guarantees of foreign exchange or forward exchange at March 31, 2006 were ¥98,780 million ($840,896 thousand), ¥271 million ($2,304 million) and ¥19 million ($165 million), respectively.

Premises and equipment included guarantee deposits of ¥2,242 million ($19,089 thousand).

9. Deposits

At March 31, 2006, deposits were as follows:

	Millions of yen	Thousands of U.S. dollars
Liquid deposits	¥1,274,282	$10,847,724
Time deposits	1,588,969	13,526,596
Other deposits	81,237	691,557
Negotiable certificates of deposits	3,000	25,538
Total	¥2,947,488	$25,091,415

10. Finance leases

Non-capitalized finance leases for equipment and other at March 31, 2006 was as follows:

(a) As lessee

	Millions of yen	Thousands of U.S. dollars
Original lease obligations (including finance charges)	¥3,118	$26,544
Payments remaining:		
Payments due within one year	¥ 470	$ 4,006
Payments due after one year	1,757	14,965
Total	¥2,228	$18,971

Lease payments under such leases for the year ended March 31, 2006 were ¥66 million ($565 thousand).

(b) As lessor

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	¥12,552	¥6,544	¥6,007
Other	1,019	480	538
Total	¥13,571	¥7,025	¥6,545

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	$106,855	$55,714	$51,141
Other	8,676	4,093	4,583
Total	$115,531	$59,807	$55,724

Total lease income for the year ended March 31, 2006 was ¥2,939 million ($25,021 thousand). Depreciation for the year ended March 31, 2006 amounted to ¥2,513 million ($21,400 thousand). The allocation of such interest income over the lease term is computed using the effective interest method. Interest income for the year ended March 31, 2006 amounted to ¥413 million ($3,516 thousand).

Future lease payments receivable, excluding interests, as of March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ 7	$ 67
Due after one year	21	184
Total	¥29	$251

11. Borrowed money

The weighted average interest rate on the term-end balance of borrowed money was 2.27%.

Borrowed money consisted of loans from other financial institutions.

As of March 31, 2006, subordinated loans in the amount of ¥27,000 million ($229,846 thousand), was included in borrowed money. Annual maturities of borrowed money as of March 31, 2006, were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 179	$ 1,531
2008	1,646	14,014
2009	109	930
2010	75	640
2011	14	126
2012 and thereafter	25,500	217,076
Total	¥27,525	$234,317

12. Bonds

As of March 31, 2006, Kiyo Bank had issued unsecured subordinated bonds as follows:

Issued	Due	Rate	Amount
March 2002	April 2012	2.5%	¥2,000 million ($17,026 thousand)
January 2004	April 2014	2.5%	¥1,000 million ($8,513 thousand)
March 2005	March 2015	2.1581%	¥10,000 million ($85,128 thousand)

13. Other income

For the year ended March 31, 2006, other income included gains on the settlement of the trust fund operation for employees' retirement benefits in the amount of ¥9,074 million ($77,248 thousand) and the collection of written-off claims, amounting to ¥1,582 million ($13,468 thousand).

14. Other expenses

For the year ended March 31, 2006, other expenses included losses on devaluation of stocks and other securities amounting to ¥37 million ($322 thousand), losses on loans written off amounting to ¥12,417 million ($105,710 thousand) and losses on loan obligations amounting to ¥221 million ($1,887 thousand).

In the reporting term, the banking subsidiaries recognized impairment losses for the assets listed below. Aggregate future cash flows on these assets (value prior to discount) did not match total book value. The bank reduced the book value to the amounts deemed recoverable and posted the reduced amount of ¥294 million ($2,503 thousand) as an extraordinary loss. Details were as follows:

Location	Major use	Asset category	Impairment loss
Wakayama Prefecture	Branch (1)	Mainly land	¥ 33 million ($284 thousand)
Wakayama Prefecture	Idle assets (7)	Land	¥110 million ($942 thousand)
Outside the Prefecture	Idle assets (2)	Land and buildings	¥150 million ($1,277 thousand)
Total			¥294 million ($2,503 thousand)

With respect to the calculation of impairment losses, the minimum operational unit recognized for management accounting purposes by the banking subsidiaries is the single bank branch. However, where a number of branches operate as a group at the managerial level, the accounting unit is the group rather than the individual branch. Each unit of idle assets (one "unit" is defined as one plot of land or one building) is treated as a separate and individual unit for accounting purposes. Because the Head Office, Administration Center and Company-provided housing and dormitories for the staff of each banking subsidiary do not independently generate any cash flows, they are treated as assets held in common by the banking subsidiaries for accounting purposes.

With respect to other consolidated subsidiaries, in principle, each company is treated as a separate and individual unit for impairment accounting purposes.

In calculating impairment losses for the reporting period the amount deemed recoverable, i.e. the net proceeds from sale, was estimated by deducting the cost of disposal from the real estate appraisal value, based on official appraisal standards.

15. Income taxes

The difference between the statutory income tax rate of 40.4% and effective income tax rate of 69.5% for the year ended March 31, 2006 was mainly caused by changes in the valuation allowance for deferred tax assets.

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Non-deductible reserve for possible loan losses	¥55,644	$473,688
Retirement benefits	9,898	84,267
Write-down of securities	4,820	41,038
Operating loss carryforwards	3,251	27,682
Other	5,488	46,721
Total deferred tax assets	79,103	673,396
Valuation allowance	(41,884)	(356,557)
Deferred tax liabilities	(4,069)	(34,641)
Net deferred tax assets	¥33,149	$282,198

16. Employees' severance and retirement benefits

The liabilities for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	¥(30,148)	$(256,643)
Unrecognized actuarial differences	(9,638)	(82,046)
Unrecognized pension assets	—	—
Fair value of pension assets	34,719	295,566
Unrecognized net transition obligation	—	—
Prepaid contribution	189	1,617
Liability for severance and retirement benefits	¥ (5,255)	$ (44,740)

Included in the consolidated statements of income for the year ended March 31, 2006 were severance and retirement benefit expenses comprising the following:

	Millions of yen	Thousands of U.S. dollars
Service costs — benefits earned during the year	¥ 921	$ 7,845
Interest cost on projected benefit obligation	562	4,787
Expected return on plan assets	(125)	(1,067)
Reversal of prior service cost	—	—
Amortization of actuarial differences	11	95
Amortization of net transition obligation	—	—
Other	30	255
Severance and retirement benefit expenses	1,399	11,915
Lump-sum amortization of unrecognized actuarial differences resulting from settlement of trust fund operation for employees' retirement benefits	(9,074)	(77,248)
Total	¥(7,674)	$(65,333)

17. Shareholders' equity

a. Capital Stock

Capital stock of the Company as of March 31, 2006 was as follows:

Number of shares:

Authorized:	
Common	1,800,000,000
Preferred (Type 1)	160,000,000
Preferred (Type 2)	10,000,000
Preferred (Type 3)	30,000,000
Issued and outstanding:	
Common	594,693,187
Preferred (Type 1)	266,000
Preferred (Type 2)	5,830,000
Preferred (Type 3)	24,000,000
Preferred (Second series Type 1)	26,000,000
Preferred (Third series Type 1)	10,000,000

Preferred Stock

Preferred stocks are noncumulative and nonparticipating for dividend payments, and holders of preferred stock are not entitled to vote at a general meeting of stockholders except when the proposal to pay the prescribed dividends to stockholders is not submitted to or is rejected at the general meeting of stockholders.

Annual dividends per share of preferred stock (Type 1, Type 2, Type 3, Second series Type 1 and Third series Type 1) were paid to stockholders in the amount of ¥14.00, ¥10.00, ¥6.70, ¥0.10 and ¥0.10, respectively.

If there is a liquidation distribution, holders of preferred stock Type 1, Type 2 and Type 3 will receive ¥700, ¥500 and ¥500 per share, respectively, and will not have the right to participate in any further liquidation distribution.

The Company may, at any time, purchase and retire Type 2 preferred stock out of earnings available for distribution to the stockholders.

Holders of preferred stock may request the Company to convert their preferred stock into common stock. The period during which the conversion may be requested (the "conversion period") and the terms and conditions of conversion may be determined by resolution of a stockholders meeting made in accordance with the provisions of Article 365 of the Commercial Code. The conditions for converting the relevent preferred stock were determined by resolution of the Board of Directors . The conversion period and conversion price* of each type of preferred stock are as follows:

Type	Conversion period	Conversion Price
Type 1	February 1, 2006 to January 30, 2010 (1)	Market price at establishment (2)
Type 2	October 1, 2006 to September 30, 2011	Market price at October 1, 2006 (3)
Type 3	February 1, 2006 to March 31, 2014	¥327.30
Second series Type 1	April 3, 2006 to January 30, 2010	¥338.00
Third series Type 1	April 3, 2006 to January 30, 2010	¥338.00

(1) In the event that the base date to finalize eligible stockholders is determined, the conversion shall be suspended for the period between the day following the base date and the date on which the general meeting of stockholders in question ends.
(2) In the event that the market price of a single share of the Company's stock is less than ¥196.60, ¥196.60 shall be employed as the initial conversion price.
(3) In the event that the market price of a single share of the Company's stock is less than ¥519.50, ¥519.50 shall be employed as the initial conversion price.

* Conversion prices are reset and adjusted pursuant to the stated rules governing the conversion of preferred stock.

Any preferred stock (Type 1, Type 2, or Type 3) with respect to which conversion has not been requested during the conversion period shall be mandatorily converted, as of the date immediately following the last day of the conversion period (the "mandatory conversion date"), into common stock. The number of shares of common stock resulting from the conversion shall be determined by dividing the amount set forth below by the average closing price per share of common stock in regular transactions at the Tokyo Stock Exchange for the 30 consecutive trading days (excluding any day on which the closing price is not available) that commencing on the 45th trading day preceding the mandatory conversion date. If the average price for Type 1, 2 or 3 preferred stock is less than ¥200, ¥519.50 and ¥327.30, respectively, the preferred stock shall be converted into shares of common stock by dividing the corresponding amount set forth below by the relevant amount described above.
Preferred stock (Type 1): ¥700 per share
Preferred stock (Type 2): ¥500 per share
Preferred stock (Type 3): ¥500 per share

b. Retained Earnings

Japanese banks are subject to the Japanese Commercial Code (the "Code") and the Banking Law.

The Code requires that all shares of common stock be recorded with no par value, and that at least 50% of the issue price of new shares be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of their Boards of Directors, to issue shares to existing stockholders without considerating the issuance a stock split. Such issuance of shares generally does not give rise to changes within the stockholders' accounts.

The Banking Law also provides that an amount equal to at least 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 100% of stated capital. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the stated capital may be available to pay dividends by resolution of the stockholders meeting. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in cases where such reduction was resolved at the stockholders' meeting.

In addition to requiring an appropriation for a legal reserve in connection with cash payments, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the stockholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

c. Treasury stock

At March 31, 2006, treasury stock held by the company, its consolidated subsidiaries and affiliates accounted for using the equity method were as follows.

	Thousands shares
Common	1,780
Preferred stock Type 2	4
Preferred stock Type 3	24,000

18. Per share information

	Yen	U.S. dollars
Shareholders' equity per share	¥139.07	$1.184
Basic earnings per share	6.78	0.058
Diluted earnings per share	5.70	0.049

Note: Calculation of basic and diluted earnings per share for the year ended March 31, 2006 is as follows:

	Millions of yen	Thousands of U.S. dollars
Earnings per share:		
Net income	¥3,297	$28,067
Amounts not available to common stockholders	—	—
Net income available to common stockholders	¥3,297	$28,067
Average number of common shares during the term (thousand shares)	486,622	
Diluted earnings per share:		
Reduction in net income	—	—
Increase in number of common shares (thousand shares)	91,618	
Preferred shares (thousand shares)	91,618	
Share warrants without dilution effect	—	—

19. Acceptances and guarantees

All contingent liabilities, including letters of credit, acceptances and guarantees, are reflected in acceptances and guarantees. Customers' liabilities for acceptances and guarantees are shown as a contra account on the asset side and represent the Bank's right of indemnity from customers.

20. Derivative transactions

The banking subsidiaries enter into various contracts, including swaps, options, forwards and futures covering interest rates, foreign currencies and stocks and bonds, in order to meet customers' needs and manage risk of market fluctuations related to the banking subsidiaries' assets, liabilities and interest rates. The banking subsidiaries also use interest futures, bond futures and options, and foreign currency options for limited dealing purposes.

The banking subsidiaries have established procedures and controls to minimize market and credit risk that include limits on transaction levels, hedging exposed positions, reporting to management, and the outside review of trading department activities.

At March 31, 2006, outstanding derivative contracts, which were revalued at market value, and the gains and losses recognized in the consolidated statements of income were as follows:

	Millions of yen				Thousands of U.S. dollars			
	Contract amount	Over one year	Market value	Recognized gain (loss)	Contract amount	Over one year	Market value	Recognized gain (loss)
Interest rate related								
Interest rate futures:								
Sell	—	—	—	—	—	—	—	—
Buy	—	—	—	—	—	—	—	—
Interest rate swaps:								
Receive fixed, pay variable	—	—	—	—	—	—	—	—
Receive variable, pay fixed	¥ 88	¥ 63	¥ (1)	¥ (1)	$ 757	$ 545	$ (10)	$ (10)
Receive variable, pay variable	—	—	—	—	—	—	—	—
Interest rate options:								
Sell	—	—	—	—	—	—	—	—
Buy	—	—	—	—	—	—	—	—
Total	—	—	¥ (1)	¥ (1)	—	—	$ (10)	$ (10)
Currency related								
Currency swaps	¥45,463	¥45,463	¥ 71	¥ 71	$387,018	$387,018	$ 604	$ 604
Forward foreign exchanges:								
Sell	25,457	—	(219)	(219)	216,714	—	(1,867)	(1,867)
Buy	4,396	—	7	7	37,428	—	63	63
Currency options:								
Sell	—	—	—	—	—	—	—	—
Buy	—	—	—	—	—	—	—	—
Total	—	—	¥(140)	¥(140)	—	—	$(1,200)	$(1,200)

The transactions were valued at market value and valuation gains and losses were credited or charged to income. Derivative transactions to which deferred hedge accounting is applied were not included in the above amounts.

21. Segment information

a. Business segment information

	Millions of yen						
	Banking business	Leasing business	Credit card business	Other business	Total	Elimination	Consolidated
Ordinary income:							
Outside customers	¥ 70,361	¥3,171	¥1,844	¥ 151	¥ 75,529	¥ —	¥ 75,529
Intersegment	387	513	41	2,108	3,050	(3,050)	—
Total	70,748	3,685	1,885	2,260	78,580	(3,050)	75,529
Ordinary expenses	70,190	3,524	1,758	2,117	77,591	(3,057)	74,533
Ordinary profit	¥ 558	¥ 160	¥ 127	¥ 142	¥ 989	¥ 6	¥ 996
Assets	¥3,240,551	¥8,207	¥8,991	¥1,573	¥3,259,324	¥(14,183)	¥3,245,141
Depreciation	2,623	3,020	6	5	5,655	—	5,655
Impairment loss	294	—	—	—	294	—	294
Capital expenditure	2,336	2,562	3	2	4,905	—	4,905

	Thousands of U.S. dollars						
	Banking business	Leasing business	Credit card business	Other business	Total	Elimination	Consolidated
Ordinary income:							
Outside customers	$ 598,977	$27,001	$15,704	$ 1,290	$ 642,972	$ —	$ 642,972
Intersegment	3,296	4,372	351	17,952	25,971	(25,971)	—
Total	602,273	31,373	16,055	19,242	668,943	(25,971)	642,972
Ordinary expenses	597,518	30,006	14,966	18,029	660,519	(26,026)	634,493
Ordinary profit	$ 4,755	$ 1,367	$ 1,089	$ 1,213	$ 8,424	$ 55	$ 8,479
Assets	$27,586,205	$69,872	$76,545	$13,395	$27,746,017	$(120,740)	$27,625,277
Depreciation	22,334	25,710	58	46	48,148	—	48,148
Impairment loss	2,503	—	—	—	2,503	—	2,503
Capital expenditure	19,890	21,817	31	20	41,758	—	41,758

b. Geographic segment information

Geographic segment information is not disclosed because the banking subsidiaries have no foreign subsidiaries or branches.

c. Operating income from international operations information

Operating income from international operations for 2006 is not disclosed because operating income from international operations was less than 10% of consolidated operating income.

22. Commitment lines

Loan agreements and commitment line agreements are agreements which oblige the banking subsidiaries to lend funds up to a certain limit agreed to in advance. The banking subsidiaries make the loans upon a borrower's request to draw down funds under such agreements, as long as there is no breach of the various terms and conditions stipulated in the agreements. The unused commitment balances relating to these agreements at March 31, 2006 amounted to ¥341,825 million ($2,909,895 thousand). Of this amount, the unused commitment balances relating to agreements with terms of one year or less or that were unconditionally cancelable at any time totalled ¥338,186 million ($2,878,922 thousand).

In many cases the term of the agreement runs its course without the loan ever being drawn down. Therefore, the unused loan commitment will not necessarily affect future cash flows. Conditions are included in certain loan agreements which allow the banking subsidiaries to decline a request to draw down funds or to reduce the agreed limit amount when there is due cause to do so, such as when there is a change in financial condition or when it is necessary to protect the subsidiary's credit. The banking subsidiaries take various measures to protect their credit, including having the obligor pledge collateral in the form of real estate, securities etc. on signing the loan agreement or confirming the obligor's financial condition in accordance with the subsidiaries established internal procedures.

23. Cash and cash equivalents

Correlation of cash and cash equivalents and items posted under the Balance Sheet was as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and due with banks	¥139,446	$1,187,081
Time deposits	(6,271)	(53,386)
Cash and cash equivalents	¥133,175	$1,133,695

24. Material non-cash financing activities

Increase in securities holdings as a result of settlement of the trust fund operation for employees' retirement benefits: ¥14,352 million ($122,180 thousand).

25. Assets and liabilities held by the newly consolidated banking subsidiary

As of the time of consolidation, the assets and liabilities held by the newly consolidated banking subsidiary that were included in the scope of consolidation through share transfer were as follows:

	Millions of yen	Thousands of U.S. dollars
Total assets	¥393,174	$3,347,020
Loans	281,728	2,398,298
Securities	55,833	475,303
Total liabilities	392,020	3,337,197
Deposits	388,923	3,310,833