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 Corporate Law 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, 2007, which was ¥118.05 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 9 subsidiaries (the "Group"). At the previous year-end, the Company had 10 subsidiaries. However, two banking subsidiaries of the Company (Kiyo Bank and Wakayama Bank) merged on October 10, 2006, with the Kiyo Bank Ltd. as the surviving entity. As a result, the scope of consolidation has narrowed.

All significant intercompany transactions and unrealized profits have been eliminated.

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 subsidiary 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 the 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 subsidiary has the right to freely dispose of by sale or by re-offering them as collateral amounted to ¥143,734 million ($1,217,575 thousand) as of March 31, 2007. 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.

(e) Depreciation and amortization —

Tangible fixed assets:

Depreciation of tangible fixed assets held by the Company and its consolidated subsidiaries that operate banking businesses is computed by the declining-balance method, except for buildings (excluding attached facilities) acquired on after April 1, 1998, which are depreciated using the straight-line method. Useful lives of tangible fixed assets are as follows:

Buildings	6 to 50 years
Equipment	5 to 20 years

Tangible fixed assets (excluding lease assets) held by other consolidated subsidiaries are depreciated using the declining-balance method based on the estimated useful life of the asset.

Intangible fixed assets:

Intangible fixed assets (excluding lease assets) are amortized on a straight-line basis. Software developed or obtained for internal use is amortized by the straight-line method over an estimated useful life of 5 years.

Lease assets:

Lease assets held by consolidated subsidiaries, which are included in tangible fixed assets or intangible assets, are depreciated on a straight-line basis over the lease term.

(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 ¥140,641 million ($1,191,372 thousand) for the year ended March 31, 2007.

(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 a lump-sum at the time of the employee's retirement. Kiyo Bank has also established a trust fund for pension payments.

Another subsidiary has established a defined contribution plan and jointly operates pension funds with other companies outside the Kiyo Group. Upon the merger of the Company's banking subsidiaries mentioned above, accounts were settled for the pension plan operated by the former Wakayama Bank.

Other subsidiaries have employed lump-sum payment systems under which they make payments to their employees at the time of 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 10 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 bases 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.

(n) New accounting standards for classification of net assets — Effective from the year ended March 2007, the Company has been required to adopt new accounting standards for the classification of net assets pursuant to the Business Accounting Standard for Presenting Net Assets (Business Accounting Standard No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and the Application Guidelines for the Application of Business Accounting Standard for Presenting Net Assets (Implementation Guidance for Business Accounting Standards No. 8, December 9, 2005). Amounts equivalent to shareholders' equity under the previous standards came to ¥152,855 million as of the balance-sheet date. The net asset section for the reporting term was prepared in accordance with revisions in regulations for preparing financial statements and Enforcement Regulations to the Banking Law.

(o) New accounting standards for business combination and business separation — Effective from the year ended March 2007, the Company has adopted new accounting standards for business combination and separation in accordance with the Opinion Regarding Establishment of Business Accounting Standards for Business Combination (issued by the Business Accounting Deliberation Council, October 31, 2003), Accounting Standards for Business Separation (Business Accounting Standard No. 7 issued on December 27, 2005) and Guidelines for the Application of Business Accounting Standards for Business Combination and Separation (Implementation Guidance for Business Accounting Standards No. 10, December 27, 2005).

On October 10, 2006, the Company's subsidiary, Wakayama Bank, was merged with another subsidiary, Kiyo Bank, under the umbrella of the holding company (the Company). In exchange for shares of Wakayama Bank, shareholders were given shares of Kiyo Bank, which is subject to the new accounting standards for business combination.

Accounting procedures involving the merger had some effect on the financial statements of Kiyo Bank. The transactions, however, had no effect on the consolidated financial statements of the Company, as Kiyo Bank is a consolidated subsidiary of the Company.

(p) Changes in presentation — Effective from the year ended March 2007, the Company has adopted new accounting standards for the presentation of financial statements in line with revisions on April 28, 2006 in Enforcement Regulations for the Banking Law (1982 Finance Ministry Order No. 10). The changes are as follows:

(Balance Sheet items)

1) Deferred hedge losses on hedge instruments, net of deferred hedge gains, had been included in other assets. Under the new system, relevant figures were posted in the amount of net gains (losses) on deferred hedging under tax-effect accounting as an independent component of "valuation and translation adjustments" under "net assets."

2) Minority interests, which had previously been posted next to liabilities, were included in "net assets."

3) Amounts previously posted under premises and equipment were reclassified under "tangible fixed assets" and "intangible fixed assets."

Regarding guarantee money and leasehold deposits, which had previously been posted under premises and equipment, leasehold deposits were included in other intangible fixed assets and guarantee money was included in other assets.

4) Costs of software developed or obtained were included in intangible fixed assets.

5) Previously, amounts posted under consolidation adjustments were amortized on an equal-amount basis over 10 years. Under the new system, relevant figures were posted under "goodwill" as a component of "intangible fixed assets."

(Income statement items)

Amounts recorded under amortization of consolidation adjustments had previously been included in "other expenses." Effective from the year ended March 31, 2007, relevant amounts were included in "operating expenses" under the category of amortization of intangible fixed assets.

(Cash flow items)

1) Amounts that had previously been posted under amortization of consolidation adjustments were posted under "amortization of goodwill."

2) Amounts that had previously been posted under losses (gains) on disposal of premises and equipment were posted under "losses (gains) on disposal of fixed assets." Amounts that had previously been posted under expenditures for purchases of premises and equipment were posted under "purchases of tangible fixed assets," and amounts that had previously been posted under proceeds from sale of premises and equipment were posted under "proceeds from sale of tangible fixed assets."

Acquisition of intangible assets had previously been included in other under net cash provided by (used in) operating activities. Under the new system, relevant amounts were posted under "purchase of intangible assets," which is a component of net cash provided by (used in) investing activities.

(q) Changes in accounting policy — In accordance with changes in Enforcement Regulations to the Banking Law (1982 Finance Ministry Ordinance No. 10) on April 17, 2007, the Company has adopted new accounting standards for acceptances of and guarantees on the said guarantee obligations and customers' liabilities for acceptances and guarantees. Under the new system, acceptances and guarantees and customers' liabilities for acceptances and guarantees offset each other. As a result, acceptances and guarantees and customers' liabilities for acceptances and guarantees were ¥13,335 million ($112,965 thousand) less than the relevant figures calculated using the previous method.

3. Trading account securities and securities

Net valuation losses from trading account securities for the years ended March 31, 2007 and 2006 amounted to ¥10 million ($86 thousand) and ¥7 million, respectively. 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, 2007 and 2006 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen					
	2007			2006		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Bonds	**¥37,569**	**¥37,673**	**¥ 104**	¥27,666	¥27,358	¥ (308)
Other	**55,563**	**55,299**	**(264)**	47,907	46,984	(922)
Total	**¥93,133**	**¥92,973**	**¥(159)**	¥75,573	¥74,343	¥(1,230)

	Thousands of U.S. dollars		
	2007		
	Book value	Market value	Unrealized gains (losses)
Bonds	**$318,248**	**$319,132**	**$ 884**
Other	**470,682**	**468,444**	**(2,238)**
Total	**$788,930**	**$787,576**	**$(1,354)**

(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					
	2007			2006		
	Acquisition cost	Market value	Unrealized gains (losses)	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**¥ 58,517**	**¥ 71,252**	**¥12,734**	¥ 46,234	¥ 63,189	¥16,955
Bonds	**519,124**	**513,153**	**(5,971)**	528,474	517,419	(11,055)
Other	**117,498**	**118,141**	**642**	135,039	132,549	(2,489)
Total	**¥695,140**	**¥702,547**	**¥ 7,406**	¥709,748	¥713,158	¥ 3,410

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**$ 495,705**	**$ 603,578**	**$107,873**
Bonds	**4,397,495**	**4,346,914**	**(50,581)**
Other	**995,329**	**1,000,776**	**5,447**
Total	**$5,888,529**	**$5,951,268**	**$ 62,739**

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 amounts 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, 2007 and 2006.

	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities:	**2007**	2006	**2007**
Non-listed securities	**¥15,974**	¥17,210	**$135,321**

(d) Changes in purposes for securities holdings

Prior to the merger of our subsidiaries Kiyo Bank and Wakayama Bank on October 10, 2006, Wakayama Bank sold a portion of its held-to-maturity bonds prior to their maturity dates, taking into account fund-operation policies after the merger. In accordance with Article 83 of the Practical Guidelines for Application of Accounting of Financial Products (JICPA committee report No, 14), the Company changed the status of the remaining portion of said bonds (in the amount of ¥20,490 million) to available-for-sale securities.

After the merger, Kiyo Bank sold ¥1,201 million in bonds and posted losses on the sale of ¥109 million ($930 thousand). As a result, securities holdings decreased ¥300 million compared with the amounts calculated under accounting standards applied to held-to-maturity securities. Deferred tax assets increased ¥121 million and gains on available-for-sale securities decreased ¥178 million.

(e) Maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2007 and 2006 were as follows:

	Millions of yen			
2007	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	**¥36,575**	**¥221,243**	**¥219,140**	**¥ 87,127**
Other	**20,432**	**53,874**	**46,189**	**31,397**
Total	**¥57,008**	**¥275,117**	**¥265,329**	**¥118,524**

	Millions of yen			
2006	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			
2007	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	**$309,834**	**$1,874,150**	**$1,856,337**	**$ 738,057**
Other	**173,087**	**456,371**	**391,267**	**265,966**
Total	**$482,921**	**$2,330,521**	**$2,247,604**	**$1,004,023**

(f) Total sales of available-for-sale securities in the years ended March 31, 2007 and 2006 amounted to ¥379,492 million ($3,214,672 thousand) and ¥324,677 million, respectively. The related gains and losses for the year ended March 31, 2007 amounted to ¥2,886 million ($24,451 thousand) and ¥2,615 million ($22,152 thousand), respectively. For the year ended March 31, 2006 the related gains and losses were ¥9,864 million and ¥1,378 million, respectively.

(g) Net unrealized gains on available-for-sale securities as of March 31, 2007 and 2006 were as follows.

	Millions of yen		Thousands of U.S. dollars
As reported in consolidated balance sheets:	**2007**	2006	**2007**
Difference between acquisition cost and fair value	**¥7,406**	¥3,410	**$62,740**
Available-for-sale securities	**7,406**	3,410	**62,740**
Other money held in trust	**—**	—	**—**
Deferred tax liabilities	**(1,827)**	(195)	**(15,485)**
Difference between acquisition cost and fair value (prior to adjustment for minority interests)	**5,578**	3,214	**47,255**
Amount corresponding to minority interests	**(33)**	(136)	**(280)**
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	**—**
Net unrealized gains on available-for-sale securities	**¥5,545**	¥3,078	**$46,975**

4. Money held in trust

At March 31, 2007 and 2006, money held in trust was as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		**2007**	
	Amounts posted on balance sheet	Unrealized gains and losses for the term	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	¥—	**$—**	**$—**

5. Loans and bills discounted

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans to borrowers legally bankrupt	**¥ 5,206**	¥ 6,035	**$ 44,107**
Other delinquent loans	**107,091**	124,000	**907,170**
Loans past due over 3 months	**653**	939	**5,537**
Restructured loans	**18,845**	22,775	**159,637**
Total	**¥131,797**	¥153,749	**$1,116,451**

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 the 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 subsidiary applys "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 ¥42,984 million ($364,121 thousand) and ¥41,931 million at March 31, 2007 and 2006, respectively.

6. Accumulated depreciation for premises and equipment and tangible fixed assets

Accumulated depreciation for tangible fixed assets at March 31, 2007 and 2006 were ¥48,028 million ($406,849 thousand) and ¥39,367 million, respectively.

Advanced depreciation for tangible fixed assets amounted to ¥4,302 million ($36,450 thousand) and ¥4,337 million at March 2007 and 2006, respectively.

7. Assets pledged as collateral

At March 31, 2007 and 2006, assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Securities	**¥66,141**	¥134,611	**$560,284**
Other assets	**64**	—	**547**
Total	**¥66,206**	¥134,611	**$560,831**

The above pledged assets secured the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deposits	**¥5,759**	¥ 9,560	**$48,791**
Deposits received for securities lending transactions	**4,328**	74,229	**36,663**
Other liabilities	**30**	30	**254**

In addition to the above, securities pledged as collateral for transaction guarantees of foreign exchange or forward exchange at March 31, 2007 and 2006 were ¥75,162 million ($636,702 thousand) and ¥98,780 million, respectively.

Other assets included guarantee and leasehold deposits of ¥1,783 million ($15,107 thousand) and ¥2,242 million at March 31, 2007 and 2006, respectively.

8. Deposits

At March 31, 2007 and 2006, deposits were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Liquid deposits	**¥1,350,621**	¥1,274,282	**$11,441,096**
Fixed-term deposits	**1,579,133**	1,588,969	**13,376,821**
Other deposits	**58,937**	81,237	**499,258**
Negotiable certificates of deposit	**86,828**	3,000	**735,520**
Total	**¥3,075,520**	¥2,947,488	**$26,052,695**

9. Finance leases

Non-capitalized finance leases for equipment and other at March 31, 2007 and 2006 were as follows:

(a) As lessee

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Original lease obligations (including finance charges)	**¥3,042**	¥3,118	**$25,773**
Payments remaining:			
Payments due within one year	**¥ 402**	¥ 470	**$ 3,407**
Payments due after one year	**2,297**	1,757	**19,463**
Total	**¥2,699**	¥2,228	**$22,870**

Lease payments under such leases for the years ended March 31, 2007 and 2006 were ¥671 million ($5,689 thousand) and ¥66 million, respectively.

(b) As lessor

	Millions of yen					
	2007			2006		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**¥11,609**	**¥6,041**	**¥5,567**	¥12,552	¥6,544	¥6,007
Other	**994**	**509**	**484**	1,019	480	538
Total	**¥12,603**	**¥6,551**	**¥6,052**	¥13,571	¥7,025	¥6,545

	Thousands of U.S. dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**$ 98,341**	**$51,176**	**$47,165**
Other	**8,422**	**4,318**	**4,104**
Total	**$106,763**	**$55,494**	**$51,269**

Total lease income for the years ended March 31, 2007 and 2006 were ¥2,774 million ($23,499 thousand) and ¥2,939 million, respectively. Depreciation for the years ended March 31, 2007 and 2006 amounted to ¥2,376 million ($20,128 thousand) and ¥2,513 million, respectively. The allocation of such interest income over the lease term is computed using the effective interest method. Interest income for the years ended March 31, 2007 and 2006 amounted to ¥392 million ($3,329 thousand) and ¥413 million, respectively.

Future lease payments receivable, excluding interests, as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Due within one year	**¥10**	¥ 7	**$ 91**
Due after one year	**20**	21	**177**
Total	**¥31**	¥29	**$268**

10. Borrowed money

The weighted average interest rate on the term-end balance of borrowed money was 2.63%.

Borrowed money consisted of loans from other financial institutions.

As of March 31, 2007, subordinated loans in the amount of ¥22,000 million ($186,362 thousand) were included in borrowed money. Annual maturities of borrowed money as of March 31, 2007 were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 179	$ 1,520
2009	142	1,206
2010	108	918
2011	48	406
2012	17	146
2013 and thereafter	22,000	186,362
Total	¥22,495	$190,558

11. Bonds

As of March 31, 2007, Kiyo Bank had issued unsecured subordinated bonds as follows:

Issued	Due	Rate	Amount
January 2004	April 2014	2.5%	¥1,000 million ($8,471 thousand)
March 2005	March 2015	2.7338%	¥10,000 million ($84,710 thousand)
March 2007	March 2017	3.03%	¥5,000 million ($42,355 thousand)

12. Other income

For the year ended March 31, 2007, other income included the collection of written-off claims amounting to ¥4,504 million ($38,154 thousand).

13. Other expenses

For the year ended March 31, 2007, other expenses included losses on devaluation of stocks and other securities amounting to ¥1,095 million ($9,280 thousand), losses on loans written off amounting to ¥6,605 million ($55,955 thousand) and losses on loan obligations amounting to ¥303 million ($2,567 thousand).

In the reporting term, prior to merger of Kiyo Bank and Wakayama Bank, Wakayama Bank recognized impairment losses on the assets listed below. This is, as aforementioned, attributable to changes in the purposes for holding the said assets. As a result, 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 ¥1,217 million ($10,311 thousand) as an extraordinary loss. Details were as follows:

			Impairment loss	
Location	Major use	Asset category	Millions of yen	Thousand of U.S. dollars
Kiyo Bank:				
Wakayama Prefecture	Branch	Mainly land and buildings	¥ 137	$ 1,167
Wakayama Prefecture	Idle assets	Land and buildings	14	121
Outside the Prefecture	Branch	Mainly land and buildings	7	62
Wakayama Bank:				
Wakayama Prefecture	Branch	Land and buildings	151	1,285
Wakayama Prefecture	Assets for business use	Equipment and software	556	4,715
Wakayama Prefecture	Idle assets	Land	7	67
Outside the Prefecture	Branch and assets for business use	Land, buildings, equipment property and software	134	1,137
Compensation money for the cancellation of leasing contracts			207	1,757
Total			¥1,217	$10,311

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.

14. Income taxes

The difference between the statutory income tax rate of 40.4% and effective income tax rate of 30.1% for the year ended March 31, 2007 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Deferred tax assets:			
Non-deductible reserve for possible loan losses	**¥53,516**	¥55,644	**$453,334**
Retirement benefits	**9,115**	9,898	**77,215**
Write-down of securities	**5,202**	4,820	**44,074**
Operating loss carryforwards	**1,608**	3,251	**13,627**
Other	**5,005**	5,488	**42,405**
Total deferred tax assets	**74,448**	79,103	**630,655**
Valuation allowance	**(39,772)**	(41,884)	**(336,910)**
Deferred tax liabilities	**(5,647)**	(4,069)	**(47,837)**
Net deferred tax assets	**¥29,029**	¥33,149	**$245,908**

15. 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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Projected benefit obligation	**¥(27,213)**	¥(30,148)	**$(230,525)**
Unrecognized actuarial differences	**(7,191)**	(9,638)	**(60,922)**
Unrecognized pension assets	**—**	—	**—**
Fair value of pension assets	**31,528**	34,719	**267,075**
Unrecognized net transition obligation	**—**	—	**—**
Prepaid contribution	**212**	189	**1,799**
Liability for severance and retirement benefits	**¥ (3,089)**	¥ (5,255)	**$ (26,171)**

Included in the consolidated statements of income for the year ended March 31, 2007 and 2006 were severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Service costs — benefits earned during the year	**¥977**	¥ 921	**$8,279**
Interest cost on projected benefit obligation	**581**	562	**4,928**
Expected return on plan assets	**(354)**	(125)	**(3,006)**
Reversal of prior service cost	**—**	—	**—**
Amortization of actuarial differences	**(817)**	11	**(6,923)**
Amortization of net transition obligation	**—**	—	**—**
Other	**165**	30	**1,399**
Severance and retirement benefit expenses	**552**	1,399	**4,677**
Lump-sum amortization of unrecognized actuarial differences resulting from settlement of trust fund operation for employees' retirement benefits	**—**	(9,074)	**—**
Gains on termination of fund operations under Wakayama Bank's retirement benefit plan	**(181)**	—	**(1,541)**
Total	**¥370**	¥(7,674)	**$3,136**

16. Shareholders' equity

a. Capital Stock

Capital stock of the Company as of March 31, 2007 and 2006 was as follows:

	2007	2006
Number of shares:		
Authorized:		
Common	**1,800,000,000**	1,800,000,000
Preferred (Type 1)	**127,600,000**	160,000,000
Preferred (Type 2)	**9,540,000**	10,000,000
Preferred (Type 3)	**30,000,000**	30,000,000
Issued and outstanding:		
Common	**727,139,053**	594,693,187
Preferred (Type 1)	**266,000**	266,000
Preferred (Type 2)	**5,370,000**	5,830,000
Preferred (Type 3)	**24,000,000**	24,000,000
Preferred (Second series Type 1)	**3,600,000**	26,000,000
Preferred (Third series Type 1)	**—**	10,000,000
Preferred (Fourth series Type 1)	**45,000,000**	—

Preferred Stock

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

Annual dividends per share of preferred stock (Type 1, Type 2, Type 3, Second series Type 1 and Fourth series Type 1) were paid to shareholders in the amount of ¥14.00, ¥10.00, ¥6.70, ¥0.10 and ¥5.00, 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 shareholders.

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 shareholders' meeting made in accordance with the provisions of Article 365 of the Commercial Code. The conditions for converting the relevant 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*	Market price at establishment**
Type 2	October 1, 2006 to September 30, 2011	Market price at October 1, 2006***
Type 3	February 1, 2006 to March 31, 2014	¥327.30
Second series Type 1	April 3, 2006 to January 30, 2010	¥338.00
Fourth series Type 1	October 1, 2011 to September 30, 2016	Market price at October 1, 2011

* In the event that the base date to finalize eligible shareholders 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 shareholders in question ends.

** In the event that the market price of a single share of the Company's stock is less than ¥196.90, ¥196.90 shall be employed as the initial conversion price.

*** 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 into the common stock as of the date immediately following the last day of the conversion period (the "mandatory conversion date"). 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) 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 shareholders without considerating the issuance a stock split. Such issuance of shares generally does not give rise to changes within the shareholders’ 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 shareholders 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 in which a reduction was resolved at the shareholders’ 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 shareholders 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.

17. Per share information

	Yen		U.S. dollars
	2007	2006	**2007**
Net assets per share	**¥159.53**	¥139.07	**$1.351**
Net income per share (Basic)	**12.46**	6.78	**0.106**
Net income per share (Diluted)	**10.78**	5.70	**0.091**

Note: Calculation of basic and diluted earnings per share for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Earnings per share:			
Net income	**¥8,180**	¥3,297	**$69,296**
Amounts not available to common shareholders	**282**	—	**2,394**
Net income available to common shareholders	**7,897**	3,297	**66,902**
Average number of common shares during the term (thousands)	**633,701**	486,622	
Diluted earnings per share:			
Reduction in net income	**282**	—	**2,394**
Increase in number of common shares (thousands)	**125,124**	91,618	
Preferred shares (thousands)	**125,124**	91,618	
Share warrants without dilution effect	**—**	—	

18. Acceptances and guarantees

All contingent liabilities, including letters of credit and 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.

19. 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, 2007 and 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							
	2007				2006			
	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)
Receive variable, pay variable	**—**	**—**	**—**	**—**	—	—	—	—
Interest rate options:								
Sell	**—**	**—**	**—**	**—**	—	—	—	—
Buy	**—**	**—**	**—**	**—**	—	—	—	—
Total	**—**	**—**	**—**	**—**	—	—	¥ (1)	¥ (1)
Currency related								
Currency swaps	**¥73,346**	**¥70,148**	**¥101**	**¥101**	¥45,463	¥45,463	¥ 71	¥ 71
Forward foreign exchanges:								
Sell	**7,071**	**—**	**(34)**	**(34)**	25,457	—	(219)	(219)
Buy	**10,282**	**—**	**52**	**52**	4,396	—	7	7
Currency options:								
Sell	**—**	**—**	**—**	**—**	—	—	—	—
Buy	**—**	**—**	**—**	**—**	—	—	—	—
Total	**—**	**—**	**¥119**	**¥119**	—	—	¥(140)	¥(140)

	Thousands of U.S. dollars			
	2007			
	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	**—**	**—**	**—**	**—**
Receive variable, pay variable	**—**	**—**	**—**	**—**
Interest rate options:				
Sell	**—**	**—**	**—**	**—**
Buy	**—**	**—**	**—**	**—**
Total	**—**	**—**	**—**	**—**
Currency related				
Currency swaps	**$621,313**	**$594,226**	**$ 858**	**$ 858**
Forward foreign exchanges:				
Sell	**59,899**	**—**	**(295)**	**(295)**
Buy	**87,107**	**—**	**448**	**448**
Currency options:				
Sell	**—**	**—**	**—**	**—**
Buy	**—**	**—**	**—**	**—**
Total	**—**	**—**	**$1,011**	**$1,011**

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 was applied were not included in the above amounts.

20. Segment information
a. Business segment information

2007	Banking business	Other business	Total	Elimination	Consolidated
	Millions of yen				
Ordinary income:					
Outside customers	**¥ 73,560**	**¥ 7,123**	**¥ 80,683**	**¥ —**	**¥ 80,683**
Intersegment	**466**	**2,749**	**3,215**	**(3,215)**	**—**
Total	**74,027**	**9,872**	**83,899**	**(3,215)**	**80,683**
Ordinary expenses	**66,336**	**9,311**	**75,648**	**(3,171)**	**72,477**
Ordinary profit	**¥ 7,690**	**¥ 560**	**¥ 8,251**	**¥ (44)**	**¥ 8,206**
Assets	**¥3,321,241**	**¥21,018**	**¥3,342,260**	**¥(15,981)**	**¥3,326,278**
Depreciation	**2,131**	**2,846**	**4,977**	**—**	**4,977**
Impairment loss	**1,217**	**—**	**1,217**	**—**	**1,217**
Capital expenditure	**1,679**	**2,197**	**3,876**	**—**	**3,876**

2006	Banking business	Leasing business	Credit card business	Other business	Total	Elimination	Consolidated
	Millions of yen						
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

2007	Banking business	Other business	Total	Elimination	Consolidated
	Thousands of U.S. dollars				
Ordinary income:					
Outside customers	**$ 623,132**	**$ 60,341**	**$ 683,473**	**$ —**	**$ 683,473**
Intersegment	**3,954**	**23,288**	**27,242**	**(27,242)**	**—**
Total	**627,086**	**83,629**	**710,715**	**(27,242)**	**683,473**
Ordinary expenses	**561,938**	**78,881**	**640,819**	**(26,863)**	**613,956**
Ordinary profit	**$ 65,148**	**$ 4,748**	**$ 69,896**	**$ 379**	**$ 69,517**
Assets	**$28,134,195**	**$178,048**	**$28,312,243**	**$(135,381)**	**$28,176,862**
Depreciation	**18,057**	**24,109**	**42,166**	**—**	**42,166**
Impairment loss	**10,311**	**—**	**10,311**	**—**	**10,311**
Capital expenditure	**14,223**	**18,616**	**32,839**	**—**	**32,839**

Note: For the previous term, the leasing business and the credit card business were classified as an independent business segment. For the reporting term, however, relevant figures were included in “other business,” because of the segment’s reduced impact on the consolidated financial statements as ordinary profit of the segment did not reach 10% of total ordinary profits.

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

21. 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, 2007 and 2006 amounted to ¥362,682 million ($3,072,278 thousand) and ¥341,825 million, respectively. 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 ¥355,617 million ($3,012,429 thousand) and ¥338,186 million, respectively.

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.

22. Type and number of shares issued and treasury shares

At March 31, 2007 and 2006, the number of shares were as follows:

	Thousands of shares			
	2007	2006	Increase	Decrease
Shares issued:				
Common *1	**727,139**	594,693	132,445	—
Preferred (Type 1)	**266**	266	—	—
Preferred (Second series Type 1) *2	**3,600**	26,000	—	22,400
Preferred (Third series Type 1) *2	**—**	10,000	—	10,000
Preferred (Fourth series Type 1) *3	**45,000**	—	45,000	—
Preferred (Type 2) *2	**5,370**	5,830	—	460
Preferred (Type 3)	**24,000**	24,000	—	—
Total	**805,375**	660,789	177,445	32,860
Treasury shares:				
Common *4	**1,961**	1,780	326	145
Preferred (Second series Type 1) *2	**—**	—	22,400	22,400
Preferred (Third series Type 1) *2	**—**	—	10,000	10,000
Preferred (Type 2) *2	**13**	4	468	460
Preferred (Type 3)	**24,000**	24,000	—	—
Total	**25,974**	25,785	33,195	33,005

*1. The increase in the number of common shares issued is attributable to requests from holders of preferred shares for the issuance of common shares in exchange for preferred shares.

*2. The increase in the number of preferred shares in treasury is attributable to a decrease in the equity stake (8,000 Type 2 preferred shares) held in the Company by consolidated subsidiary Kiyo Bank and requests from holders of preferred shares for the issuance of common shares in exchange for preferred shares. The decrease in the number of preferred shares issued and in treasury is attributable to the retirement of the said shares.

*3. The increase in the number of preferred shares issued is due to the issuance of shares.

*4. The increase in the number of common shares in treasury is due to the purchase by the Company of numbers of common shares in groups not totaling one trading unit (total of 173,000 shares) as well as changes in Kiyo Bank's equity stake in the Company (152,000 shares). The decrease in common shares in treasury is due to the sale by Kiyo Bank of shares in the Company (121,000 shares) as well as requests for the purchase of shares in numbers not equaling one trading unit (24,000 shares).

23. Information on dividends

Amount of dividends paid for the reporting term

Not applicable

Amount of dividends paid for the reporting term whose effective date, (i.e. initial payment date,) falls on a day after March 31, 2007 was as follows:

	Millions of yen	Yen	Thousands of U.S. dollars	U.S. dollars
	Amount of dividends	Cash dividends per share	Amount of dividends	Cash dividends per share
Common	¥1,817	¥ 2.50	$15,392	$0.021
Preferred (Type 1)	3	14.00	25	0.119
Preferred (Second series Type 1)	0	0.10	0	0.001
Preferred (Fourth series Type 1)	225	5.00	1,906	0.042
Preferred (Type 2)	53	10.00	449	0.085
Preferred (Type 3)	160	6.70	1,355	0.057

Notes: 1. Date of the resolution of the ordinary general meeting of shareholders was June 28, 2007.
2. Record date of all type of shares was March 31, 2007.
3. Effective date of all type of shares was June 29, 2007.

24. 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
	2007	2006	**2007**
Cash and due from banks	**¥60,225**	¥139,446	**$510,168**
Interest-earning deposits in other banks	**(4,000)**	(6,271)	**(33,884)**
Cash and cash equivalents	**¥56,225**	¥133,175	**$476,284**