Notes to Consolidated Financial Statements

Kiyo Holdings, Inc. and its consolidated subsidiaries
Years ended March 31, 2008 and 2007

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 the 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 Financial Instruments 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. dollar amounts are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.19 to US$1.00. The 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 one 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 also had 9 subsidiaries.

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 the Company acquired de facto control of the respective subsidiary.

(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.

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 ¥102,858 million ($1,026,638 thousand) as of March 31, 2008. At that time, these securities remained undisposed of and in the possession of the 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 subsidiary applies 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 subsidiary assesses 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 are 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 banking subsidiary is generally computed by the declining-balance method. However, buildings — except attached facilities — acquired on or after April 1, 1998 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, except lease assets, held by other consolidated subsidiaries are depreciated using the declining-balance method based on the estimated useful life of the asset.
Changes in accounting policies:
In line with the amendments to the Income Tax Law in fiscal 2007, the Company has changed its method of depreciation for tangible fixed assets acquired on or after April 1, 2007. As a result, income before income taxes has decreased by ¥46 million ($466 thousand), compared with amounts calculated under the previous standards.
Additional information:
For tangible fixed assets acquired on or before March 31, 2007, an amount equivalent to the residual value of the asset under the previous accounting standards is depreciated in equal amounts over five years beginning with the year following the year in which the book value of the asset is reduced to the residual value. As a result, income before income taxes has reduced by ¥84 million ($840 thousand).
Intangible fixed assets:
Intangible fixed assets, except 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 those are held by consolidated subsidiaries and included in tangible fixed assets or intangible fixed assets are depreciated on by the straight-line method over the lease term.

(f) Reserve for possible loan losses — Based on their own self-assessment rules, the banking subsidiary makes 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 subsidiary's 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 assessments of the respective claims.

For claims against "bankrupt borrowers" and "effectively bankrupt borrowers," the amount exceeding the estimated value of collateral and guarantees is deemed uncollectible and deducted directly from those claims. At March 31, 2008 and 2007, the deducted amounts were ¥95,445 million ($952,645 thousand) and ¥140,641 million, respectively.

(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.

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 the value of 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 the 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) Accrued directors' retirement benefits — On June 29, 2004 the banking subsidiary abolished the system for the payment of retirement allowances to retiring directors and auditors. Instead, a provision is made for accrued retirement benefits of directors and auditors in an amount deemed necessary based on a formula stipulated in the internal regulations at the time of the previous system was abolished.

Changes in accounting policies:

Previously, the banking subsidiary, upon approval of the general meeting of shareholders, expensed executive retirement benefits as they were incurred in an amount deemed necessary based on a formula stipulated in the internal regulations. However, due to the mandatory application of accounting standards stipulated in JICPA Audit and Assurance Practice Committee Report No. 42, for the period ended on or after March 31, 2008, the subsidiary has adopted the new accounting standards for the reporting period. As a result, income before income taxes has decreased by ¥84 million ($840 thousand).

(i) Reserve for reimbursement of deposits — A provision is made for future losses on claims on dormant accounts based on the historical refund record.

Changes in accounting policies:

The banking subsidiary previously expensed losses on the repayment of deposits under dormant accounts as they incurred. However, due to the mandatory application of new accounting standards stipulated in JICPA Audit and Assurance Practice Committee Report No. 42 to the period started on April 1, 2007, the subsidiary has changed in accounting policies for the reporting period. As a result, income before income taxes has decreased by ¥552 million ($5,515 thousand).

(j) Provision for contingent loss — A provision is made for the payment on loan-loss burden-sharing to credit guarantee associations in an amount estimated to be paid in the future.

Additional information:

Pursuant to the new rules for burden-sharing of loan losses between financial institutions and credit guarantee associations, on October 1, 2007, the banking subsidiary made provisions for the payment to credit guarantee associations in an estimated amount for future payment effective from the reporting period. As a result, income before income taxes has decreased by ¥77 million ($778 thousand).

(k) 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).

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

(m) 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.

(n) 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.

(o) 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. Trading account securities and securities

Net valuation gains and losses from trading account securities for the years ended March 31, 2008 and 2007 amounted to ¥27 million ($279 thousand) and ¥10 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, 2008 and 2007 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen					
	2008			2007		
	Book value	Market value	Unrealized gains (losses)	Book value	Market value	Unrealized gains (losses)
Bonds	**¥36,793**	**¥37,093**	**¥ 299**	¥37,569	¥37,673	¥ 104
Other	**49,169**	**48,048**	**(1,121)**	55,563	55,299	(264)
Total	**¥85,963**	**¥85,142**	**¥ (821)**	¥93,133	¥92,973	¥(159)

	Thousands of U.S. dollars		
	2008		
	Book value	Market value	Unrealized gains (losses)
Bonds	**$367,240**	**$370,233**	**$ 2,993**
Other	**490,764**	**479,575**	**(11,189)**
Total	**$858,004**	**$849,808**	**$ (8,196)**

(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," were as follows:

	Millions of yen					
	2008			2007		
	Acquisition cost	Market value	Unrealized gains (losses)	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**¥ 57,993**	**¥ 54,255**	**¥ (3,737)**	¥ 58,517	¥ 71,252	¥12,734
Bonds	**559,784**	**562,040**	**2,255**	519,124	513,153	(5,971)
Other	**220,432**	**207,653**	**(12,778)**	117,498	118,141	642
Total	**¥838,209**	**¥823,950**	**¥(14,259)**	¥695,140	¥702,547	¥ 7,406

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Market value	Unrealized gains (losses)
Stocks	**$ 578,830**	**$ 541,529**	**$ (37,301)**
Bonds	**5,587,233**	**5,609,749**	**22,516**
Other	**2,200,140**	**2,072,597**	**(127,543)**
Total	**$8,366,203**	**$8,223,875**	**$(142,328)**

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, 2008 and 2007.

	Millions of yen		Thousands of U.S. dollars
Available-for-sale securities:	**2008**	2007	**2008**
Non-listed securities	**¥16,004**	¥15,974	**$159,746**

(d) Maturities of available-for-sale securities with maturities and held-to-maturity debt securities as of March 31, 2008 and 2007 were as follows:

	Millions of yen			
2008	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	**¥127,932**	**¥164,954**	**¥241,665**	**¥ 78,024**
Other	**14,237**	**138,033**	**52,182**	**39,575**
Total	**¥142,170**	**¥302,987**	**¥293,847**	**¥117,600**

	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

	Thousands of U.S. dollars			
2008	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	**$1,276,902**	**$1,646,420**	**$2,412,069**	**$ 778,769**
Other	**142,103**	**1,377,714**	**520,832**	**395,004**
Total	**$1,419,005**	**$3,024,134**	**$2,932,901**	**$1,173,773**

(e) Total sales of available-for-sale securities in the years ended March 31, 2008 and 2007 amounted to ¥374,521 million ($3,738,117 thousand) and ¥379,492 million, respectively. The related gains and losses for the year ended March 31, 2008 amounted to ¥5,392 million ($53,819 thousand) and ¥5,428 million ($54,185 thousand), respectively. For the year ended March 31, 2007, the related gains and losses were ¥2,886 million and ¥2,615 million, respectively.

(f) Net unrealized gains and losses on available-for-sale securities as of March 31, 2008 and 2007 were as follows.

	Millions of yen		Thousands of U.S. dollars
As reported in consolidated balance sheets:	**2008**	2007	**2008**
Difference between acquisition cost and fair value	**¥(14,259)**	¥7,406	**$(142,329)**
Available-for-sale securities	**(14,259)**	7,406	**(142,329)**
Other money held in trust	**—**	—	**—**
Deferred tax liabilities	**(38)**	(1,827)	**(383)**
Difference between acquisition cost and fair value (prior to adjustment for minority interests)	**(14,298)**	5,578	**(142,712)**
Amount corresponding to minority interests	**(19)**	(33)	**(196)**
Equity stake of the parent company in the amount corresponding to net unrealized gains on available-for-sale securities owned by affiliated companies accounted for using the equity method	**—**	—	**—**
Net unrealized gains (losses) on available-for-sale securities	**¥(14,317)**	¥5,545	**$(142,908)**

4. Loans and bills discounted

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Loans to borrowers legally bankrupt	**¥ 4,694**	¥ 5,206	**$ 46,859**
Other delinquent loans	**90,199**	107,091	**900,280**
Loans past due over 3 months	**1,077**	653	**10,754**
Restructured loans	**20,358**	18,845	**203,200**
Total	**¥116,329**	¥131,797	**$1,161,093**

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

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 subsidiary has 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 applies "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 ¥38,275 million ($382,031 thousand) and ¥42,984 million at March 31, 2008 and 2007, respectively.

5. Accumulated depreciation for tangible fixed assets

Accumulated depreciation for tangible fixed assets at March 31, 2008 and 2007 was ¥48,103 million ($480,125 thousand) and ¥48,028 million, respectively.

Advanced depreciation for tangible fixed assets amounted to ¥4,300 million ($42,926 thousand) and ¥4,302 million at March 2008 and 2007, respectively.

6. Assets pledged as collateral

At March 31, 2008 and 2007, assets pledged as collateral were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Securities	**¥80,770**	¥66,141	**$806,176**
Other assets	**63**	64	**635**
Total	**¥80,834**	¥66,206	**$806,811**

The above pledged assets secured the following liabilities:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deposits	**¥ 9,223**	¥ 5,759	**$ 92,062**
Deposits received for securities lending transactions	**18,287**	4,328	**182,526**
Other liabilities	**30**	30	**300**
Total	**¥27,540**	¥10,117	**$274,888**

In addition to the above, securities pledged as collateral for transaction guarantees of foreign exchange or forward exchange at March 31, 2008 and 2007 were ¥74,315 million ($741,749 thousand) and ¥75,162 million, respectively.

Other assets included guarantee and leasehold deposits of ¥1,705 million ($17,018 thousand) and ¥1,783 million at March 31, 2008 and 2007, respectively.

7. Deposits

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

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Liquid deposits	**¥1,334,359**	¥1,350,621	**$13,318,293**
Fixed-term deposits	**1,728,811**	1,579,133	**17,255,329**
Other deposits	**61,133**	58,937	**610,173**
Negotiable certificates of deposit	**102,926**	86,828	**1,027,309**
Total	**¥3,227,230**	¥3,075,520	**$32,211,104**

8. Lease transactions

(1) Financing leases

Non-capitalized finance leases for equipment and other at March 31, 2008 and 2007 were as follows:

(a) As lessee

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Original lease obligations (including finance charges)	**¥3,234**	¥3,042	**$32,283**
Payments remaining:			
Payments due within one year	**¥ 426**	¥ 402	**$ 4,257**
Payments due after one year	**2,057**	2,297	**20,539**
Total	**¥2,484**	¥2,699	**$24,796**

Lease payments under such leases for the years ended March 31, 2008 and 2007 were ¥407 million ($4,069 thousand) and ¥671 million, respectively.

(b) As lessor

	Millions of yen					
	2008			2007		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**¥11,510**	**¥5,846**	**¥5,663**	¥11,609	¥6,041	¥5,567
Other	**976**	**487**	**489**	994	509	484
Total	**¥12,486**	**¥6,334**	**¥6,152**	¥12,603	¥6,551	¥6,052

	Thousands of U.S. dollars		
	2008		
	Acquisition cost	Accumulated depreciation	Net book value
Equipment	**$114,884**	**$58,358**	**$56,526**
Other	**9,747**	**4,864**	**4,883**
Total	**$124,631**	**$63,222**	**$61,409**

Total lease income for the years ended March 31, 2008 and 2007 were ¥2,727 million ($27,221 thousand) and ¥2,774 million, respectively. Depreciation for the years ended March 31, 2008 and 2007 amounted to ¥2,339 million ($23,347 thousand) and ¥2,376 million, respectively. The allocation of interest income over the lease term is computed using the effective interest method. Interest income for the years ended March 31, 2008 and 2007 amounted to ¥385 million ($3,849 thousand) and ¥392 million, respectively.

(2)Operating leases

Future lease payments receivable, excluding interests, as of March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Due within one year	**¥10**	¥10	**$108**
Due after one year	**14**	20	**146**
Total	**¥25**	¥31	**$254**

9. Borrowed money

The weighted average interest rate on the term-end balance of borrowed money was 2.77%.

Borrowed money consisted of loans from other financial institutions.

As of March 31, 2008, subordinated loans in the amount of ¥22,000 million ($219,583 thousand) were included in borrowed money. Annual maturities of borrowed money as of March 31, 2008 were as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2009	¥ 175	$ 1,753
2010	141	1,413
2011	81	810
2012	50	503
2013	17	172
2014 and thereafter	22,000	219,583
Total	¥22,466	$224,234

10. Bonds

As of March 31, 2008, Kiyo Bank had issued unsecured subordinated bonds as follows:

Issued	Due	Rate	Millions of yen	Thousands of U.S. dollars
January 2004	April 2014	2.50%	¥ 1,000	$ 9,981
March 2005	March 2015	3.03%	10,000	99,811
March 2007	March 2017	3.03%	5,000	49,905
Total	—	—	¥16,000	$159,697

11. Other income

For the year ended March 31, 2008, other income included the collection of written-off claims in the amount of ¥3,176 million ($31,707 thousand).

12. Other expenses

For the year ended March 31, 2008, other expenses included losses on the devaluation of stocks and other securities in the amount of ¥1,352 million ($13,504 thousand), losses on loans written off in the amount of ¥6,997 million ($69,843 thousand) and losses on loan obligations in the amount of ¥625 million ($6,239 thousand). The Bank reduced the book value to the amounts deemed recoverable and posted the reduced amount of ¥173 million ($1,729 thousand). Details were as follows:

			Impairment loss	
Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
Kiyo Bank:				
Wakayama Prefecture	4 branches	Mainly land	¥ 47	$ 473
Wakayama Prefecture	12 idle assets	Land	125	1,256
Total	—	—	¥173	$1,729

With respect to the calculation of impairment losses, the minimum operational unit recognized for management accounting purposes by the banking subsidiary 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 the banking subsidiary does not independently generate any cash flows, they are treated as assets held in common by the banking subsidiary 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.

13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.4% for the years ended March 31, 2008 and 2007.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2008 and 2007.

	2008	2007
Statutory tax rate	**40.4%**	40.4%
Adjustments:		
Decrease in valuation allowance	**(33.0)**	(16.9)
Consolidation adjustments for loss on sale of shares of the Company by a consolidated subsidiary of the Company	**(16.0)**	—
Amortization of goodwill and negative goodwill	**5.1**	5.1
Other	**0.3**	1.5
Tax rate after the application of tax effect accounting	**(3.2)%**	30.1%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Non-deductible reserve for possible loan losses	**¥36,490**	¥53,516	**$364,208**
Operating loss carryforwards	**14,025**	1,608	**139,992**
Retirement benefits	**8,893**	9,115	**88,767**
Unrealized gains on available-for-sale securities	**5,801**	—	**57,901**
Write-down of securities	**5,192**	5,202	**51,828**
Other	**5,556**	5,005	**55,464**
Subtotal	**75,960**	74,448	**758,160**
Valuation allowance	**(41,274)**	(39,772)	**(411,958)**
Deferred tax assets	**34,685**	34,676	**346,202**
Deferred tax liabilities	**(2,636)**	(5,647)	**(26,317)**
Net deferred tax assets	**¥32,049**	¥29,029	**$319,885**

14. Employees' severance and retirement benefits

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥(27,061)**	¥(27,213)	**$(270,104)**
Unrecognized actuarial differences	**(2,624)**	(7,191)	**(26,198)**
Fair value of pension assets	**28,262**	31,528	**282,093**
Prepaid contribution	**198**	212	**1,977**
Liability for severance and retirement benefits	**¥ (1,621)**	¥ (3,089)	**$ (16,186)**

Included in the consolidated statements of income for the year ended March 31, 2008 and 2007 were severance and retirement benefit expenses comprising the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Service costs — benefits earned during the year	**¥944**	¥977	**$9,431**
Interest cost on projected benefit obligation	**543**	581	**5,428**
Expected return on plan assets	**(346)**	(354)	**(3,457)**
Amortization of actuarial differences	**(651)**	(817)	**(6,505)**
Other	**23**	165	**235**
Severance and retirement benefit expenses	**514**	552	**5,132**
Gains on termination of fund operations under Wakayama Bank's retirement benefit plan	**—**	(181)	**—**
Total	**¥514**	¥370	**$5,132**

15. Shareholders' equity

(a) Capital Stock

Capital stock of the Company as of March 31, 2008 and 2007 was as follows:

	2008	2007
Number of shares:		
Authorized:		
Common	**1,798,381,105**	1,800,000,000
Preferred (Type 1)	**124,000,000**	127,600,000
Preferred (Type 2)	**8,997,500**	9,540,000
Preferred (Type 3)	**6,000,000**	30,000,000
Issued and outstanding:		
Common	**739,425,155**	727,139,053
Preferred (Type 1)	**266,000**	266,000
Preferred (Type 2)	**4,827,500**	5,370,000
Preferred (Type 3)	**—**	24,000,000
Preferred (Second series Type 1)	**—**	3,600,000
Preferred (Fourth series Type 1)	**45,000,000**	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 and Fourth series Type 1) were paid to shareholders in the amount of ¥14.00, ¥10.00 and ¥14.00, respectively.

If there is a liquidation distribution, holders of preferred stock Type 1, Type 2 and Fourth series Type 1 will receive ¥700, ¥500 and ¥700 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***
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 deemed 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 deemed 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 or Type 2) for 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 the 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) commencing on the 45th trading day preceding the mandatory conversion date. If the average price for Type 1 and Type 2 preferred stock is less than ¥200 and ¥519.50, 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

On November 5, 2007, the Company purchased 1,618,895 common shares and 24,000,000 preferred (Type 3) shares of the Company from its consolidated subsidiary Kiyo Bank, Ltd. for inclusion in the Company's treasury and subsequent cancellation. As a result, the subsidiary, on a consolidated basis, posted a loss on sale of shares of its parent company in the amount of ¥5,142 million ($51,330 thousand) under other expenses. In the income statements of the Company itself, however, the loss was eliminated through consolidation adjustment.

(b) Retained Earnings

Japanese banks are subject to the Company Law of Japan (the "Law") and the Banking Law.

The Law 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 Law 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 Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the capital stock. Under the Law, the total amount of additional paid-in capital and legal reserve may be reserved without limitation. The Law also provides that capital stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The Law 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 Law 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 Law.

16. Per share information

	Yen		U.S. dollars
	2008	2007	**2008**
Net assets per share	**¥148.12**	¥159.53	**$1.478**
Net income per share (basic)	**17.19**	12.46	**0.172**
Net income per share (diluted)	**15.02**	10.78	**0.150**

Note: The calculation of basic and diluted earnings per share for the years ended March 31, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Earnings per share:			
Net income	**¥ 13,359**	¥ 8,180	**$133,339**
Amount not available to common shareholders	**681**	282	**6,805**
Net income available to common shareholders	**12,677**	7,897	**126,534**
Average number of common shares during the term (thousands)	**737,638**	633,701	
Diluted earnings per share:			
Reduction in net income	**681**	282	**6,805**
Increase in number of common shares (thousands)	**151,994**	125,124	
Preferred shares (thousands)	**151,994**	125,124	

17. 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.

18. Guarantee obligations for bonds

Guarantee obligations for privately placed bonds (Article 2, Clause 3 of the Financial Instruments and Exchange Law) stood at ¥13,713 million ($136,874 thousand) and ¥13,335 million as of March 31, 2008 and 2007, respectively.

19. Derivative transactions

The banking subsidiary enters 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 subsidiary's assets, liabilities and interest rates. The banking subsidiary also uses interest futures, bond futures and options, and foreign currency options for limited dealing purposes.

The banking subsidiary has 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, 2008 and 2007, 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							
	2008				2007			
	Contract amount	Over one year	Market value	Recognized gain (loss)	Contract amount	Over one year	Market value	Recognized gain (loss)
Currency related								
Currency swaps	**¥213,697**	**¥204,859**	**¥245**	**¥245**	¥73,346	¥70,148	¥101	¥101
Forward foreign exchanges:								
Sell	**4,204**	**—**	**85**	**85**	7,071	—	(34)	(34)
Buy	**263**	**—**	**1**	**1**	10,282	—	52	52
Total	**—**	**—**	**¥332**	**¥332**	—	—	¥119	¥119

	Thousands of U.S. dollars			
	2008			
	Contract amount	Over one year	Market value	Recognized gain (loss)
Currency related				
Currency swaps	**$2,132,926**	**$2,044,706**	**$2,455**	**$2,455**
Forward foreign exchanges:				
Sell	**41,961**	**—**	**857**	**857**
Buy	**2,626**	**—**	**11**	**11**
Total	**—**	**—**	**$3,323**	**$3,323**

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

	Millions of yen				
2008	Banking business	Other business	Total	Elimination	Consolidated
Ordinary income:					
Outside customers	**¥ 81,434**	**¥ 8,123**	**¥ 89,558**	**¥ —**	**¥ 89,558**
Intersegment	**492**	**3,563**	**4,056**	**(4,056)**	**—**
Total	**81,927**	**11,687**	**93,614**	**(4,056)**	**89,558**
Ordinary expenses	**71,638**	**11,325**	**82,963**	**(4,022)**	**78,941**
Ordinary profit	**¥ 10,289**	**¥ 361**	**¥ 10,650**	**¥ (33)**	**¥ 10,617**
Assets	**¥3,506,880**	**¥21,098**	**¥3,527,978**	**¥(14,946)**	**¥3,513,031**
Depreciation	**2,247**	**2,801**	**5,048**	**—**	**5,048**
Impairment loss	**173**	**—**	**173**	**—**	**173**
Capital expenditure	**4,010**	**2,701**	**6,712**	**—**	**6,712**

2007	Millions of yen Banking business	Other business	Total	Elimination	Consolidated
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

2008	Thousands of U.S. dollars Banking business	Other business	Total	Elimination	Consolidated
Ordinary income:					
Outside customers	**$ 812,803**	**$ 81,084**	**$ 893,887**	**$ —**	**$ 893,887**
Intersegment	**4,918**	**35,565**	**40,483**	**(40,483)**	**—**
Total	**817,721**	**116,649**	**934,370**	**(40,483)**	**893,887**
Ordinary expenses	**715,022**	**113,044**	**828,066**	**(40,152)**	**787,914**
Ordinary profit	**$ 102,699**	**$ 3,605**	**$ 106,304**	**$ (331)**	**$ 105,973**
Assets	**$35,002,297**	**$210,584**	**$35,212,881**	**$(149,184)**	**$35,063,697**
Depreciation	**22,428**	**27,962**	**50,390**	**—**	**50,390**
Impairment loss	**1,729**	**—**	**1,729**	**—**	**1,729**
Capital expenditure	**40,032**	**26,962**	**66,994**	**—**	**66,994**

Notes: 1. Ordinary income represents total income less certain special income, and ordinary expenses represents total expenses less certain special expenses.

2. In line with the amendment to the Income Tax Law in fiscal 2007, new accounting standards for the depreciation of tangible fixed assets acquired on and after April 1, 2007, have been adopted. As a result, ordinary expenses for the banking businesses has increased by ¥45 million ($458 thousand), and ordinary profit has decreased by the same amount.

3. For tangible assets acquired on or before March 31, 2007, an amount equivalent to the residual value of the asset under the previous accounting standards is depreciated in equal amounts over five years beginning with the period following that in which the book value of the asset is reduced to the residual value. As a result, ordinary expenses for banking operations has increased by ¥83 million ($832 thousand) and ordinary profit has decreased by the same amount.

4. Regarding repayments of deposits under dormant accounts, the banking subsidiary has changed its accounting procedures. Previously, the subsidiary expensed losses on the repayment of deposits under dormant accounts as they incurred. Effective from the reporting period, the subsidiary has made provisions for losses on claims on dormant accounts in the future (“reserve for reimbursement of deposits”) on the basis of historical refund records. As a result, ordinary expenses has increased by ¥102 million ($1,024 thousand) for banking operations and ordinary profit has decreased by the same amount.

5. In line with the establishment of new rules for burden-sharing of loan losses with credit guarantee associations on October 1, 2007, the banking subsidiary has made provisions for the payment to credit guarantee associations under the provision for contingent loss in an estimated amount for future payments. As a result, ordinary expenses has increased by ¥77 million ($778 thousand) and ordinary profit has decreased by the same amount.

(b) Geographic segment information

Geographic segment information is not disclosed because the banking subsidiary has 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 subsidiary to lend funds up to a certain limit agreed to in advance. The banking subsidiary makes 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, 2008 and 2007 amounted to ¥331,764 million ($3,311,353 thousand) and ¥362,682 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 ¥327,206 million ($3,265,862 thousand) and ¥355,617 million, respectively.

In many cases, the term of the agreement runs its course without the loan ever being drawn down. Therefore, unused loan commitment balances will not necessarily affect future cash flows. Conditions are included in certain loan agreements which allow the banking subsidiary 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 subsidiary makes 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 subsidiary's established internal procedures.

22. Type and number of shares issued and treasury shares

At March 31, 2008 and 2007, the number of shares was as follows:

	Thousands of shares			
	2008	2007	Increase	Decrease
Shares issued:				
Common *1	**739,425**	727,139	13,904	1,618
Preferred (Type 1)	**266**	266	—	—
Preferred (Second series Type 1) *2	**—**	3,600	—	3,600
Preferred (Fourth series Type 1)	**45,000**	45,000	—	—
Preferred (Type 2) *2	**4,827**	5,370	—	542
Preferred (Type 3) *2	**—**	24,000	—	24,000
Total	**789,518**	805,375	13,904	29,761
Treasury shares:				
Common *3	**539**	1,961	224	1,646
Preferred (Second series Type 1) *2	**—**	—	3,600	3,600
Preferred (Type 2) *2	**21**	13	550	542
Preferred (Type 3) *2	**—**	24,000	—	24,000
Total	**560**	25,974	4,374	29,789

*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. The decrease in the number of common shares issued is attributable to cancellation of shares in treasury.

*2. The increase in the number of preferred shares in treasury is attributable to a decrease in the equity stake (8 thousands of Type 2 preferred shares) in the Company held 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 cancellation of the such shares.

*3. The increase in the number of common shares in treasury is due to the purchase by the Company of common shares in amounts less than one trading unit (132 thousands of shares) as well as changes in Kiyo Bank's equity stake in the Company (92 thousands of shares). The decrease in the number of common shares in treasury is due to the cancellation by Kiyo Bank of shares in the Company (1,618 thousands of shares) as well as requests for the purchase of shares in amounts less than one trading unit (27 thousands of shares).

23. Information on dividends

Dividends paid for the reporting term were 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**	**$18,139**	**$0.025**
Preferred (Type 1)	**3**	**14.00**	**37**	**0.140**
Preferred (Second series Type 1)	**0**	**0.10**	**4**	**0.001**
Preferred (Fourth series Type 1)	**225**	**5.00**	**2,246**	**0.050**
Preferred (Type 2)	**53**	**10.00**	**536**	**0.100**
Preferred (Type 3)	**160**	**6.70**	**1,605**	**0.067**

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

Dividends which were paid for the reporting term and whose effective date, (i.e. initial payment date,) falls on a day after March 31, 2008 were 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	**¥2,217**	**¥ 3.00**	**$22,132**	**$0.030**
Preferred (Type 1)	**3**	**14.00**	**37**	**0.140**
Preferred (Fourth series Type 1)	**630**	**14.00**	**6,288**	**0.140**
Preferred (Type 2)	**48**	**10.00**	**482**	**0.100**

Notes: 1. Date of resolution of the ordinary general meeting of shareholders was June 27, 2008
2. Record date for all type of shares was March 31, 2008
3. Effective date for all type of shares was June 30, 2008

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
	2008	2007	**2008**
Cash and due from banks	**¥67,332**	¥60,225	**$672,051**
Interest-earning deposits in other banks	**(4,000)**	(4,000)	**(39,925)**
Cash and cash equivalents	**¥63,332**	¥56,225	**$632,126**

25. Subsequent events

On June 5, 2008, Namirei-Showa Co., Ltd., a company on which the Company's consolidated subsidiary Kiyo Bank Ltd. currently holds claims, applied to the Osaka District Court to commence legal procedures in regard to civil rehabilitation. As of that date, the outstanding loan assets held by Kiyo Bank, Ltd. to Namirei-Showa amounted to ¥822 million ($8,209 thousand). Kiyo Bank is expected to make an additional provision in the amount of ¥595 million ($5,944 thousand) to deal with the default in the following business year.