ANNUAL REPORT 2013

For the year ended March 31, 2013

MINATO BANK

TO OUR STAKEHOLDERS

We sincerely thank you for your continued patronage of Minato Bank.

The 2013 Annual report has been prepared to help you gain a deeper understanding of Minato Bank.

In this 2013 Annual Report, we seek to present Minato Bank's management policy, business overview, earnings results for fiscal 2012 (the fiscal year ended March 31, 2013), corporate governance and risk management structure as clearly as possible. We hope that you will find it a useful reference.

Minato Bank will continue to address its clients' wide-ranging needs by expanding its products and services, and as a regional-based financial institution of Sumitomo Mitsui Financial Group, the Bank will seek to become a more useful and helpful bank in the region by providing financial and information services.

To that end, we look forward to your continued understanding and support.

July 2013

Shunji Ono
President

CONTENTS

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

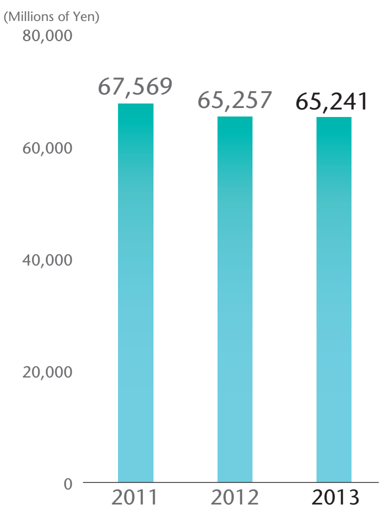
CONSOLIDATED FINANCIAL HIGHLIGHTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013, 2012 and 2011

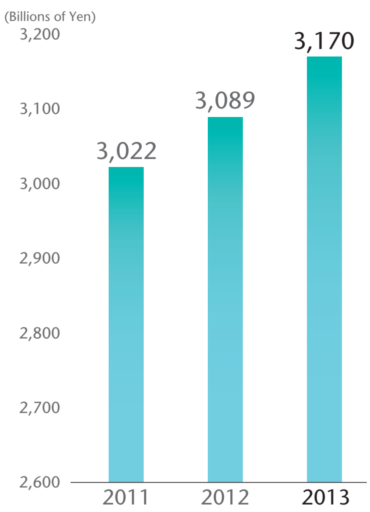
	Millions of Yen			Thousands of U.S. Dollars (Note)
	2013	2012	2011	2013
FOR THE YEAR:				
Total income	¥ 65,241	¥ 65,257	¥ 67,569	$ 693,535
Total expenses	53,162	53,469	54,574	565,130
Income before Income taxes and minority interests	12,079	11,788	12,995	128,405
Net income	6,949	7,717	8,601	73,873
AT YEAR-END:				
Total assets	¥ 3,169,836	¥ 3,089,350	¥ 3,021,816	$ 33,696,563
Deposits	2,876,385	2,819,518	2,736,291	30,577,067
Loans and bills discounted	2,245,483	2,179,265	2,190,230	23,870,343
Investment securities	800,648	771,262	664,562	8,511,195
Minority interests	10,800	10,715	10,633	114,808
Common stock	27,484	27,484	27,484	292,167
Total equity	128,166	118,138	111,481	1,362,455
Capital ratio	10.12%	10.42%	11.40%	

Note: U.S. dollar amounts represent translation of Japanese Yen at the rate of ¥94.07 to US$1.00 on March 31, 2013, the final business day of term.

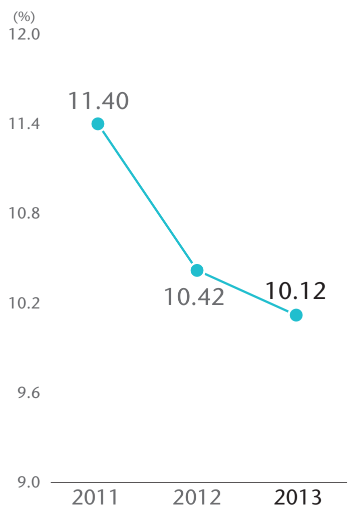
Total Income



Total Assets



Capital Ratio



In the above table, the capital ratio is calculated on a consolidated basis based on the domestic standard and formula prescribed in the Notification of the Financial Services Agency of Japan No. 19, 2006 in compliance with the provisions of Article 14-2 of the Banking Law.

Shunji Ono
President

Earnings for Fiscal 2012

In fiscal 2012 the recovery in Japan's economy came to a standstill against the backdrop of a slowdown of the overseas economies and other factors, however since the change of Japanese government expectations of overcoming the long-term deflation have been growing gradually.

In this economic environment, we were able to achieve consolidated net income of ¥6.9 billion in fiscal 2012, the second year of the Mid-Term Management Plan. Further, on a non-consolidated basis, the net income of the bank came to ¥6.3 billion, meaning we earned an accumulated net income over the last two years of ¥12.7 billion, which represents satisfactory progress toward the target in the Mid-Term Management Plan: accumulated net income of ¥18.0 billion or more over three years.

This was achieved thanks to the continued support of our clients, shareholders, and the people in our region, and we are deeply grateful to all of them.

Toward Completion of the Mid-Term Management Plan "MINATO 3S Up"

We started fiscal 2013, the year of completion of the Mid-Term Management Plan "MINATO 3S Up," as signs of improvement in business confidence began to appear in Hyogo Prefecture, the main operating base of the Bank.

In the current fiscal year the Bank will enhance its regional-oriented financing initiatives even further in order to provide greater assistance to local SMEs and individual clients. As measures for handling the new situation after the expiration of the SME Finance Facilitation Act, we have already strengthened our structures to ensure we can utilize our consulting functions to maximum effect. For example, we reformed our organization to establish the Corporate Consulting Division and establish the Corporate Revitalization Support Office within the division, to integrate our initiatives for the management improvement and corporate rehabilitation of our clients.

Furthermore, we will continue to respond precisely to the accelerating economic and social changes in Japan including the aging population, the spread of information technology, and the increasing entry of companies into Asia. For instance, we will strengthen our readiness regarding business succession and inheritance, expand the content of our Internet banking service, and enhance our provision of overseas information, primarily through the "Minato Asia Circle," with an even greater sensitivity and sense of urgency than before.

We have set our sights on becoming "Minato Bank: A Bank with a Strong Presence" that can sufficiently satisfy the expectations of our stakeholders, including our clients and shareholders and the people in our region. To that end, the entire Minato Banking Group will continue working hard with its affiliates to contribute to the further development and prosperity of the local economy and local community.

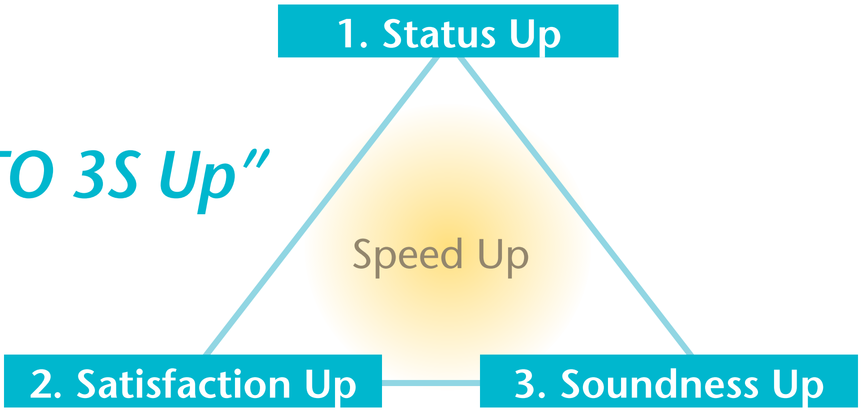
July 2013

President

Mid-Term Management Plan

Slogan

"MINATO 3S Up"



In an environment marked by an aging population, the spread of information technology, and increasing entry of companies into Asia, we have positioned this as the phase for the Bank to rapidly implementing measures to raise its market presence ("Status Up") under the slogan of "MINATO 3S Up," which combines "Satisfaction Up" and "Soundness Up," two other elements that make up the slogan, with the goal of becoming the "region's trusted core bank."

Period

April 1, 2011 through March 31, 2014

Basic Policy

Target	Major measures
1. Status Up	(1) Strengthen consulting capabilities (2) Upgrade and expand products and services (3) Rebuild our network
2. Satisfaction Up	(1) CS *Improve customer satisfaction* (2) ES *Build a workplace that we can be proud of*
3. Soundness Up (improving the Bank's financial soundness)	(1) Raise compliance awareness (2) Enhance equity capital (3) Streamline and rationalize business (4) Strengthen risk management (5) Upgrade ALM management

Key Indicators (Non-consolidated)

	Fiscal 2013 Targets	Fiscal 2012 Results
Net income	¥18.0 billion or more (3 years accumulated)	¥12.7 billion (2 years accumulated)
OHR (Note 1)	approx. 65.0%	67.5%
Tier I ratio (consolidated) (Note 2)	approx. 8.0%	7.2%

(Note 1) OHR = expenses ÷ core gross banking profit
(Note 2) Tier I ratio (based on Basel II) does not take into account capital policies.

Corporate Governance

Basic Concept for Corporate Governance

Reinforcing and enhancing corporate governance is defined as a critical management issue at our Bank and each group company. We adhere to the "Management Philosophy" and "Principles of Conduct" described below, and strive to sustain sound operations and contribute to the sound development of regional communities.

Management Philosophy

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

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

Principles of Conduct (Corporate Ethics)

Awareness of the public nature and social responsibility of the Bank

A bank should be aware of its public role, execute sound operations according to principles of self-responsibility, and contribute to the steady development of the regional economy and society through the fulfillment of its social commitments.

Fully customer-focused

We are always conscious of our "customer-first" policy, and attend to our customers with an honest, faithful and kind spirit, listening to customer requests with a sincere attitude and providing precise, prompt and customer-satisfying financial services.

Sincere and fair conduct

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

Contributing to and harmony with regional communities

To express the Bank's management philosophy, "We contribute to our region," we make it one of our primary policies to contribute to and progress together with our region and its communities. The Bank's principles of conduct serve not only to contribute to our region, but to call for removing anti-social and anti-ethical conduct from the course of our operations with the aim of becoming closer to being an ideal "bona fide corporate citizen." To realize this, we endeavor to hold close communications with society and ensure the Bank executes corporate activities in line with social common sense and expectations.

Respect for humanity

We are committed to developing a corporate culture which ensures respect for the open and rich spirit of our employees, brimming with vitality and feelings of value for their employment at the Bank.

Corporate Governance Structure

We have a basic policy for internal control systems and the following structure designed to strengthen and improve our corporate governance so that directors, employees and corporate auditors will be able to cope with their responsibilities in an appropriate and efficient manner.

Board of Directors

Board of Directors meeting is in principle held once a month to make important decisions for the Bank's management issues and oversee the execution of the Directors' responsibilities.

Board of Corporate Auditors

The Bank has adopted a corporate auditor system, and Board of Corporate Auditor meetings are in principle held once a month. Based on the audit policy and audit plan made by the Board of Corporate Auditors, the Corporate Auditors have performed their audit procedures appropriately by attending Board of Director and other important meetings, examining business operations and assets, etc.

The Office of Corporate Auditors was established to support the Corporate Auditors carry out their audit procedures.

Management Committee

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

Significant items related to risk management are determined by the Corporate Risk Management Committee, which is part of the Management Committee.

Committees

• Compliance Committee

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

• CS (Customer Satisfaction) Committee

To win solid support from the local community and continuously raise customer satisfaction standards, members of the CS Committee formulate improvement policies, set targets for the whole Bank, and discuss and review measures to improve customer satisfaction. The CS Committee meets once every three months as a rule.

• CSR Committee

The CSR Committee is tasked with formulating a CSR action plan, evaluating performance and discussing improvement measures. The Committee meets twice in a year as a rule.

• Financial Facilitation Committee

The Financial Facilitation Committee was set up as a cross-sectional body to discuss how to facilitate financing for small and medium-sized companies. Committee members discuss measures, study actual issues faced by each department, and coordinate action across departments. The Committee meets once every three months as a rule.

• Regional-Oriented Financial Promotion Committee

To enhance and fortify the promotion system, this committee convenes once every six months, in principle, to discuss policies and measures related to regional-oriented financing promotion, to monitor and verify the status of promotional efforts, and to coordinate issues related to each division.

• IT Systems Committee

The IT Systems Committee meets as a general rule once every three months with the objectives of reporting information about the status of the IT systems to the management and deliberating and determining the measures, etc. that must be taken.

• Credit Risk Management Committee

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

• **Asset and Liability Management (ALM) Committee**

The ALM Committee in principle meets once a month to discuss and consider how to maintain a healthy balance sheet and improve profitability, strategies for proper fund operations, and unifies management of market risks (interest risk, foreign exchange risk, share price risk, etc.) and liquidity risks (cash flow risk, market liquidity risk, etc.) related to assets and liabilities.

• **Operational Risk Management Committee**

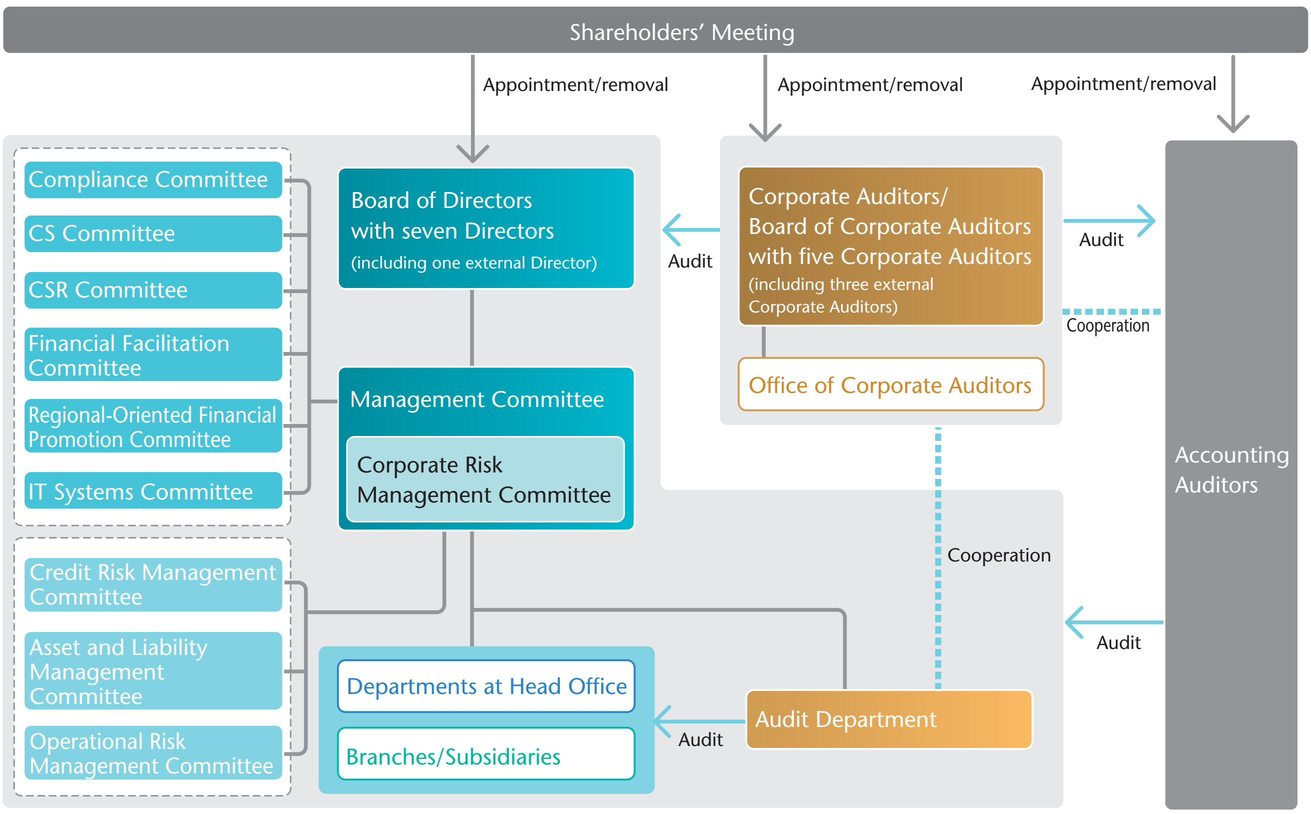
The Operational Risk Management Committee in principle meets once a month, and analyzes and communicates operational risk related information (improper or non-functioning internal processes, staff or systems, or risk of losses related to external occurrences), discusses and considers various measures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

Internal Audit

The Audit Department, an internal audit organization which is independent from other departments, engages in monitoring the status of business operations and risk management at the head office, branches and subsidiaries and issues instructions and proposals for improvement. The department's monitoring results are reported to the Board of Directors and Board of Corporate Auditors.

There is a cooperative system among the Audit Department, Corporate Auditors and accounting auditors for exchanging information.

Corporate Governance Structure



Corporate Social Responsibility (CSR)

Basic Policy for CSR

The Bank's management philosophy is "we contribute to our region through the provision of financial and information services." We endeavor to provide financial and information services with the aim of contributing to the development of regional communities.

The Bank and its group companies define CSR as contributing to the sustainable development of regional communities through providing higher values to (i) our customers, (ii) our shareholders and markets, (iii) society and environment and (iv) our employees in the course of our business operations.

Principles of Conduct at the Bank consisting of five items, "awareness of the public nature and social responsibility of the Bank," "fully customer-focused," "fair and faithful conduct," "contributing to and harmony with regional communities" and "respect for humanity" are established as the common philosophy for the Bank and its group companies.

Focal Point for CSR Initiatives

We will reinforce the management system to a greater extent by enhancing the corporate governance structure, internal audit structure, compliance structure and risk management structure. We will also accurately identify each stakeholder's expectations and provide higher value to them.

- We will provide our customers with products and services of higher value and develop together with our customers.
- We will endeavor to sustain sound operations and increase shareholder value, through appropriate information disclosure and organized internal controls.
- We will be continuously and proactively be involved in social contribution and environmental activities which contribute to regional communities and restore the global environment.
- We will pay respect to people and grow a corporate culture which allows our employees to fully utilize their own skills and talents.

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

Compliance System

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

All officers and employees are required to recognize the importance of legal compliance and behave in the most appropriate manner with constant awareness in the execution of day-to-day operations.

1. Establishment of the Legal Compliance Department

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

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

2. Appointment of Administrative Compliance Officer

General managers of the head office and each branch are fully responsible to manage and execute assigned operations in conformity with compliance policies.

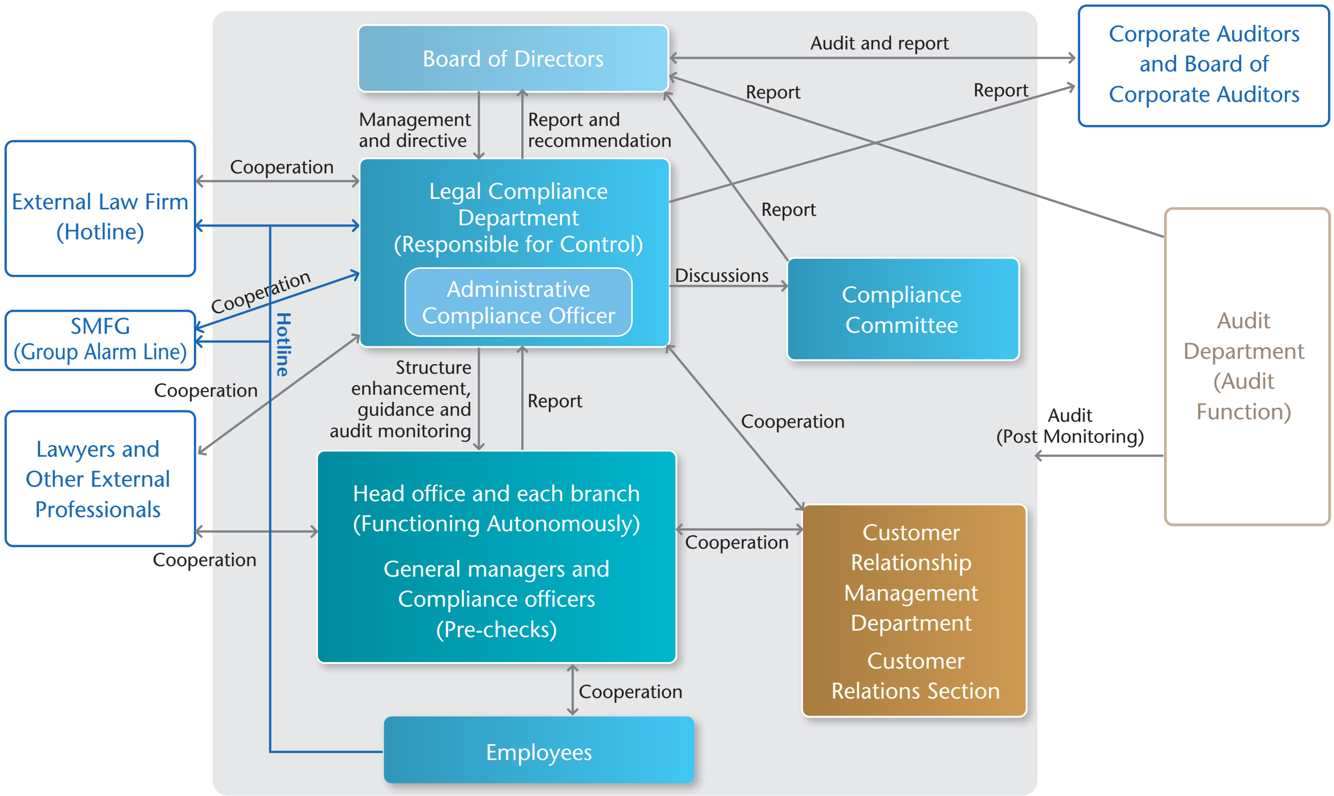
A compliance officer has been appointed for each of the above locations, and is required to prevent anti-compliance conduct and detect the occurrence of such conduct in its early stages.

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

3. Establishment of the Compliance Committee

The Compliance Committee was established to strengthen the legal compliance system and incident-preventing measures. This Committee deliberates upon various measures necessary to build corporate ethics focused on legal compliance and the implementation status of compliance programs.

The Bank's Compliance System



Implementing Compliance

The Bank requires all officers and employees to recognize the public mission and social responsibilities to be fulfilled by the Bank and to behave in line with the highest moral standards. Accordingly, we must comply with social norms as well as laws and regulations and behave fairly with a determined sense of ethics. The Bank has established the following concrete regulations to put these matters into practice: the Code of Conduct provides principles and guidance for all officers and employees to comply with; the Compliance Policy comprehensively describes overall compliance related matters (structure, system, roles, procedures, etc.); and the Detailed Operating Policies for Conduct Management are compiled in the form of a case study guidebook.

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

Principles of Conduct at the Bank

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

Guidance of Conduct for Officers and Employees

- Compliance with laws, regulations and rules
- Prohibition of unfair competition
- Duty of confidentiality
- Prohibition of illegal use of information
- Obligation to explain products and services
- Internal reporting requirements, etc.

Risk Management Structure

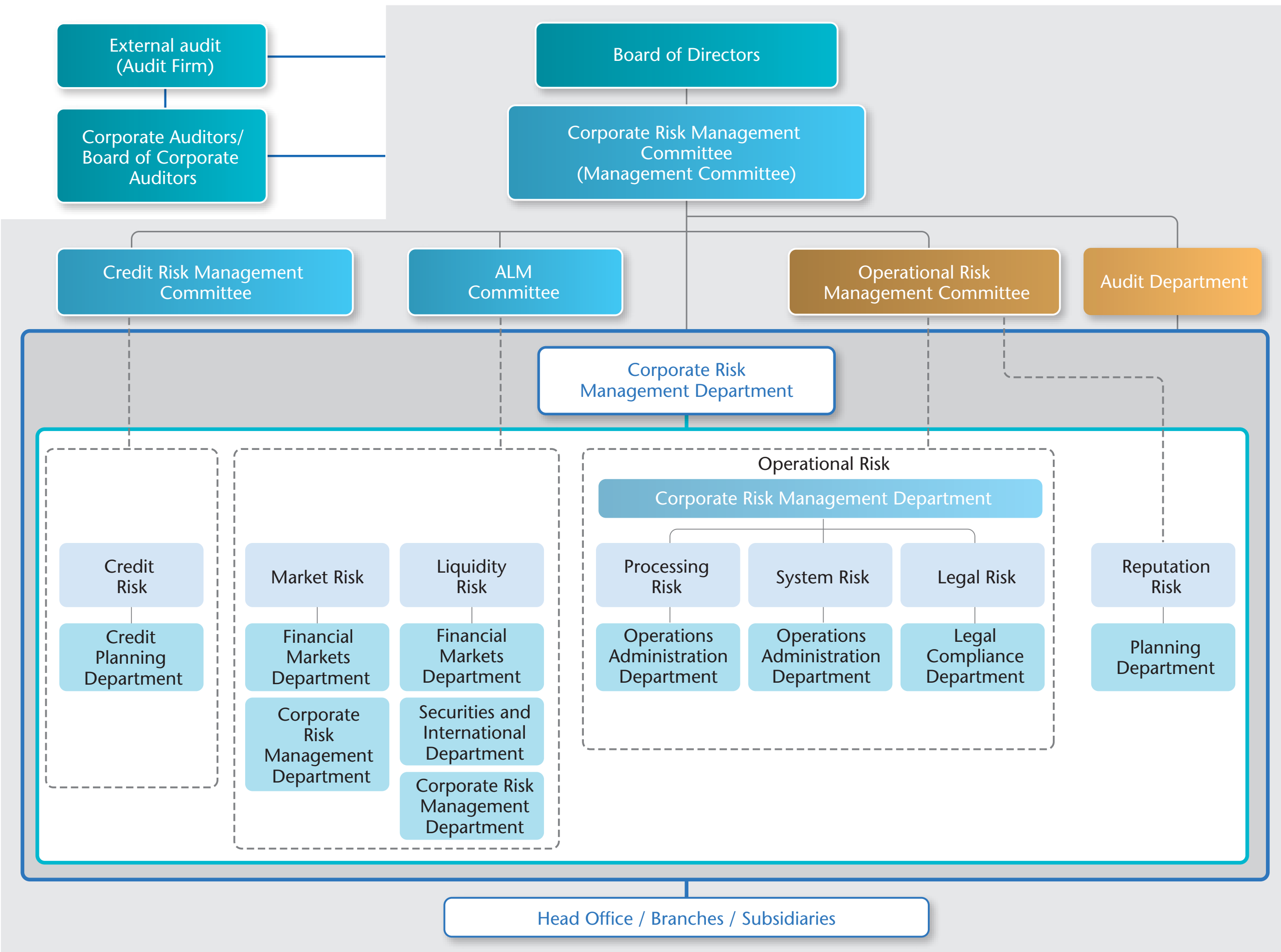
Banks are facing increasingly diversified and complicated risks due to their expanding scope of operations and financial technology innovations. It is therefore important to accurately monitor each individual risk, monitor the risks in an integrated manner, and control them within a scope that is tolerable for the overall bank, in order to maintain and improve sound banking management.

The establishment of a risk management structure is positioned as one of the most critical management issues at our Bank. We have established departments and sections in charge of risk management by risk type and monitor a range of risks in a precise manner. We also established the Corporate Risk Management Department which is responsible for overview and managing different risks in an integrated manner with the aim of reinforcing our structure to comprehensively manage and control various risks.

As organs to deliberate and determine matters related to risk management, we established the Corporate Risk Management Committee and its three committees: the Credit Risk Management Committee, the Asset and Liability Management (ALM) Committee and the Operational Risk Management Committee. The Corporate Risk Management Committee identifies and assesses the condition of bank-wide risks and deliberates and determines countermeasures and policies, while each committee identifies and assesses each risk on a cross-sectional and uniform basis and deliberates and determines countermeasures and policies.

As an internal audit organization operating independently from other departments, the Audit Department reviews and checks the status of business operations and risk management of the head office, branches and subsidiaries. We also have an external audit system led by an independent audit firm.

Risk Management System



1. Credit Risk Management

Credit risk is the possibility of loss arising from financial deterioration, changes in a customer's financial condition, which causes the asset value of loans receivables, etc. to become impaired or worthless.

The Bank strictly complies with the Credit Policy that explicitly prescribes our lending operation rules to achieve sound and proper business operations. We work to maintain and improve the soundness of assets and profitability through proper controls over credit risks and effective credit review operations according to degrees of credit risk based on the Credit Risk Management Policy which prescribes basic policies for credit risk management.

As a basis of such risk management, we have adopted a credit rating system. A credit rating is a borrower classification ranked according to the probability of loan performance, and is used as an objective indicator to measure the degree of risk pertaining to a borrower.
Classifying borrowers according to the degree of risk promotes effective credit review operations.

In concrete terms, we established a credit approval policy for lending contracts based on credit ratings as well as lending approval authorizing standards, etc. to perform focused (efficient) credit screenings according to degrees of risk. At the same time, we monitor credit status on a constant basis to detect early signs of credit issues, and adjust the depth and efficiency of management based on the extent of such issues.

In addition, we perform self-assessments of our assets to maintain soundness of assets, prepare financial statements properly reflecting asset condition, and account for appropriate levels of write-offs and reserves. Self-assessments are designed to classify assets held by the Bank according to degrees of risk pertaining to collectibility or value deterioration, and play a significant role as a means of managing credit risks. Based on the results of self-assessments, we accurately and timely estimate future potential losses of loans, etc. in consideration of bad debt conditions, and account for write-offs and reserves based on estimates to maintain the asset soundness.

We utilize credit ratings and self-assessments to quantitatively grasp and manage credit risks to maintain control over the degree of credit risk for our overall credit portfolio and any risk concentration on specific industries and large accounts, and report findings to management. As appropriate, we establish and implement remedial measures for our credit portfolio including proper risk controls, risk diversification and reduction of troubled credit, etc.

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

In our effort to maintain soundness of assets, the Audit Department, which operates independently from the credit related departments, checks the accuracy of the credit ratings and self-assessments as well as the condition of credit review operations.

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

2. Operational Risk Management

Operational risk is the possibility of losses arising from inadequate or failed internal processes, personnel and systems or external events.

The fundamental policy of the Bank is to establish the Operational Risk Management Policy prescribing basic matters concerning operational risk management and maintenance of an effective framework for identification, valuation, control and monitoring procedures according to characteristics of operations and risks. We manage operational risks on an individual basis classified into processing risks, system risks and legal risks, and have established a department responsible for overall management of operational risks in an integrated and centralized manner. To increase the effectiveness of risk management, operational risk officers are appointed for each department and section and are required to cooperate with the section in charge of corporate operational risk management so individual operational risks can be managed in an integrated fashion within a common framework. Also, the Operational Risk Management Committee, a cross-sectional in-house organization, is in place as a highly effective system to overview and examine various risk conditions from a companywide viewpoint and deliberate and determine policies and measures on a regular basis.

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

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

In this way, we compile a database of the scenarios reflecting the Bank's risk profile. Each scenario is assessed for the degree of risk impact. For scenarios with a high degree of risk impact, each department and section considers and implements a risk reduction plan. Using this risk quantification system, we are able to manage operational risks efficiently and effectively.

Processing and Systems Risk Management

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

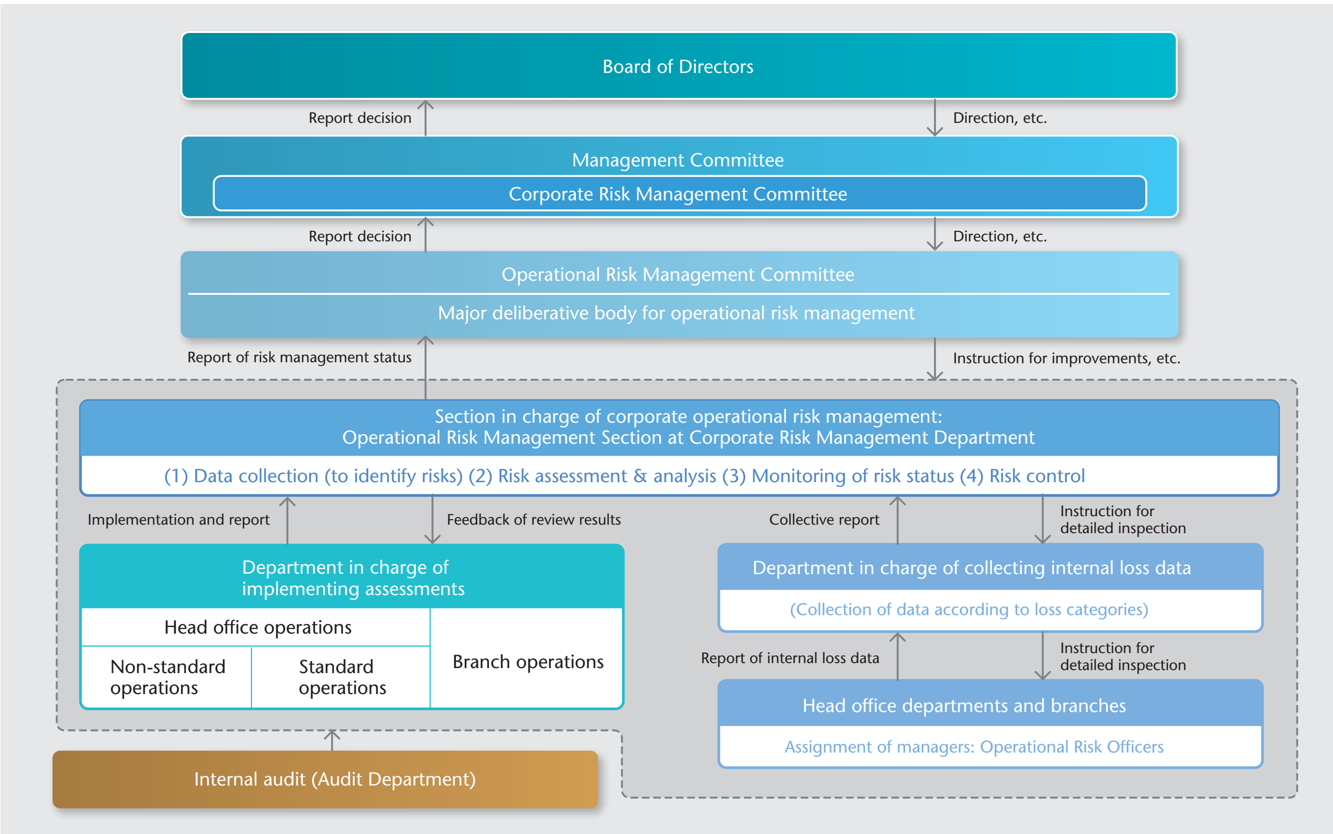
We promote streamlining and head-office centralized processing operations, and provide group training and on-site guidance offered by the Operations Administration Department to reduce processing risks and improve the level of processing ability. Moreover, the Audit Department periodically conducts branch field audits while head office and branches perform self-inspections to prevent accidents and fraud from occurring.

Systems risk is the possibility of losses arising from the failure, malfunction, unauthorized use of or data leakage from computer systems.

Due to the significance of potential impact, we recognize our social responsibility to maintain stable computer system operations and proper management for customer information. We established systems risk management policies and practical management standards, including the Security Policy, and strictly adhere to these policies in operating and managing our systems. To prepare for unforeseeable circumstances, we developed contingency plans and provide simulation training on a regular basis.

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

Operational Risk Management Structure



3. Market and Liquidity Risk Management

Market risk is the possibility that fluctuations in interest rates, foreign exchange rates, or stock prices will change the value of financial assets and liabilities, leading to losses.

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

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

With respect to market risk, we review market forecasts, operational policies for ALM and marketable securities as well as financial strength on a biannual basis to determine allowable ranges of market risk exposure and set individual risk limits for risk capital limits (*1), loss limits, VaR limits (*2) and position limits. Based on these procedures, we work to maintain management and operations within predetermined ranges of risk exposure (risk limits).

Specifically each department handling transactions (the front office sections) works to improve profitability within these limits. The middle office monitors and manages on a daily basis valuation gain or loss on securities and the price fluctuation risk such as for stocks, the loan interest rate risk, and on a monthly basis, the interest rate risk for all assets and liabilities.

With respect to liquidity risk, we place the highest priority on cash-flow security, and periodically set and manage funding gap limits (*3). We developed the Contingency Plan for Liquidity Emergency prescribing an emergency action plan, and take all possible measures for maintaining a system that ensures our operating transactions are not hindered in the event of market confusion, by holding sufficient assets easily convertible to cash, such as government bonds.

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

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

(*2) Value at Risk (VaR)
The probable future maximum loss statistically calculated using existing assets and liabilities and historical market fluctuation data.

(*3) Funding gap
The estimated amount of future financing requirements arising from the mismatch of periods between fund sourcing and fund operations.

4. Reputation Risk Management

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

We endeavor to disclose information to our stakeholders such as customers, regional communities, shareholders investors and employees in a timely and appropriate manner through constant and active promotion of public and investor relation activities and increased management transparency to minimize reputation risk exposure.

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

The Status of Initiatives for the Management Improvement of SME Clients And Regional Revitalization

1. Policies for Initiatives Related To Management Support for SME Clients

The Bank considers "initiatives for management support to SME clients" to be one of the most important items in "promotion of regional-oriented financing" so in 2007 it stipulated the Basic Policy for the Promotion of Regional-Oriented Financing which it is promoting through the steady implementation of the major measures in the Mid-Term Management Plan "MINATO 3S Up."

2. Status of the Development of Structures for Management Support of Our SME Clients

[Reform of our organization]

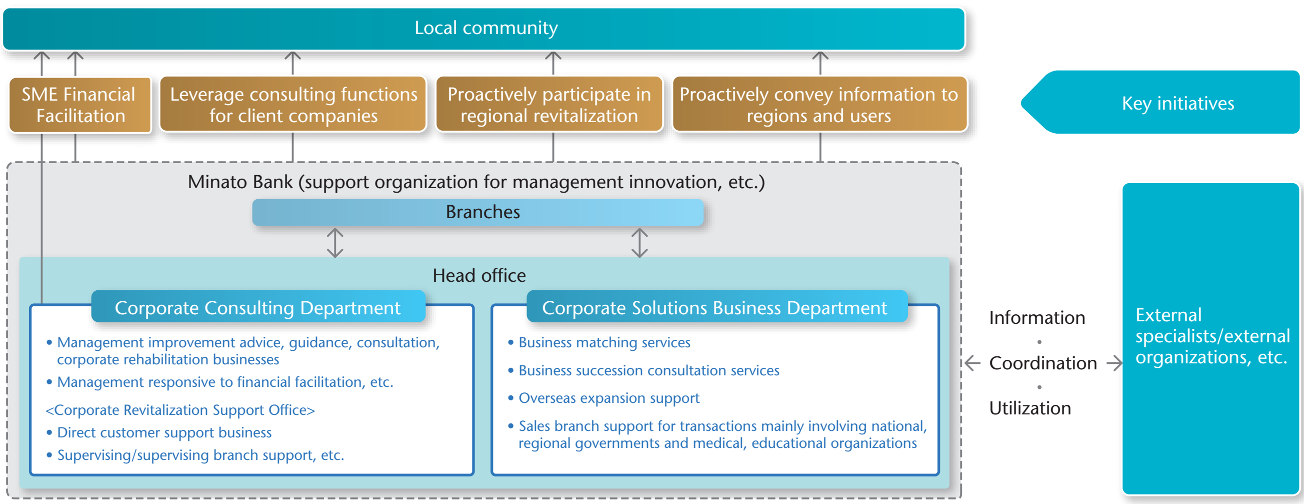
On April 1, 2013 the Bank reorganized the "Credit Department II and Management Support Office" into the "Corporate Consulting Division and Corporate Revitalization Support Office" in order to realize further facilitation of finance and utilization of consulting functions going forward, and clearly positioned the new entities as the central bodies for implementing the practical initiatives related to corporate rehabilitation after the expiration of the SME Finance Facilitation Act.

[Certification as a Support Organization for Management Innovation, etc.]

In November 2012 the Bank received certification as a "support organization for management innovation, etc." based on the SME Management Capacity Strengthening Act. As a result of this, the Bank is aiming to further enhance its support structures for the creation of business plans, business succession, mergers and acquisitions, developing sales channels, developing business overseas, and other areas, and will continue offering a more specialized support service to corporate clients.

Basic Policy for the Promotion of Regional-Oriented Financing

Regional-oriented financing is a practical policy for implementing the Bank's management philosophy. Based on its Management Philosophy (The Bank exists and prospers together with the people in the region, we contribute to our region through the provision of financial and information services) and its CSR Definitions, the Bank promotes regional-oriented financing.



CONSOLIDATED BALANCE SHEETS

The Minato Bank, Ltd. and Subsidiaries
As of March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
ASSETS:			
Cash and due from banks (Notes 3 and 30)	¥ 36,683	¥ 38,748	$ 389,949
Call loans and bills bought (Note 30)	1,123	13,502	11,939
Receivables under resale agreements	5,000	5,000	53,152
Monetary claims bought	2,800	4,367	29,768
Trading account securities (Notes 26 and 30)	720	534	7,656
Securities (Notes 4, 10, 26 and 30)	800,648	771,262	8,511,195
Loans and bills discounted (Notes 5, 11 and 30)	2,245,483	2,179,265	23,870,343
Foreign exchange (Note 6)	5,970	4,453	63,465
Lease receivables and investment assets	9,469	8,833	100,659
Other assets (Notes 7 and 10)	27,663	27,344	294,068
Tangible fixed assets (Note 8)	35,305	35,954	375,305
Intangible fixed assets	5,022	5,205	53,386
Deferred tax assets (Note 25)	9,483	11,998	100,800
Customers' liabilities for acceptances and guarantees (Note 16)	12,587	14,560	133,807
Allowance for loan losses (Note 30)	(28,120)	(31,675)	(298,929)
Total assets	¥3,169,836	¥3,089,350	$33,696,563
LIABILITIES:			
Deposits (Notes 10, 12 and 30)	¥2,876,385	¥2,819,518	$30,577,067
Payables under securities lending transactions (Notes 10 and 30)	55,285	60,114	587,705
Borrowed money (Notes 13 and 30)	16,301	18,576	173,285
Foreign exchange (Note 6)	34	99	357
Bonds payable (Notes 14 and 30)	28,000	28,000	297,651
Other liabilities (Notes 10 and 15)	46,367	23,654	492,897
Provision for bonuses	928	958	9,869
Provision for retirement benefits (Note 23)	4,996	4,832	53,104
Provision for directors' retirement benefits	63	244	672
Provision for reimbursement of deposits	617	622	6,559
Deferred tax liabilities (Note 25)	107	35	1,135
Acceptances and guarantees (Note 16)	12,587	14,560	133,807
Total liabilities	3,041,670	2,971,212	32,334,108
EQUITY (Note 17)**:**			
Capital stock, authorized, 900,000,000 shares; issued, 410,940,977 shares as March of 31, 2013 and 2012	27,484	27,484	292,167
Capital surplus	49,500	49,496	526,207
Retained earnings	32,877	27,949	349,493
Treasury stock — at cost 5,482,600 shares and 6,689,115 shares as of March 31, 2013 and 2012, respectively	(778)	(949)	(8,277)
Total shareholders' equity	109,083	103,980	1,159,590
Valuation difference on available-for-sale securities	8,247	3,443	87,670
Total accumulated other comprehensive income	8,247	3,443	87,670
Equity warrant	36	—	387
Minority interests	10,800	10,715	114,808
Total net assets	128,166	118,138	1,362,455
Total liabilities and net assets	¥3,169,836	¥3,089,350	$33,696,563

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
ORDINARY INCOME:			
Interest income:			
Interest on loans and discounts	¥35,469	¥37,395	$377,049
Interest and dividends on securities	5,270	5,434	56,024
Other interest income	742	1,158	7,884
Fees and commissions	12,542	12,105	133,329
Other ordinary income (Note 18)	9,111	7,692	96,851
Other income (Note 19)	2,107	1,473	22,398
Total income	65,241	65,257	693,535
ORDINARY EXPENSES:			
Financing expenses:			
Interest on deposits	1,847	1,867	19,631
Interest on borrowings and rediscounts	207	667	2,201
Other financing expenses	703	595	7,479
Fees and commissions payments	3,325	3,132	35,346
Other ordinary expenses (Note 20)	5,276	4,114	56,083
General and administrative expenses	34,860	35,714	370,570
Other expenses (Notes 9 and 21)	6,944	7,380	73,820
Total expenses	53,162	53,469	565,130
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	12,079	11,788	128,405
INCOME TAXES (Note 25)**:**			
Current	4,546	2,978	48,328
Deferred	21	535	222
INCOME BEFORE MINORITY INTERESTS	7,512	8,275	79,855
MINORITY INTERESTS IN INCOME	563	558	5,982
NET INCOME	¥ 6,949	¥ 7,717	$ 73,873

	Yen		U.S. Dollars
	2013	2012	2013
PER SHARE INFORMATION (Note 29)**:**			
Basic net income	¥17.16	¥19.11	$0.18
Diluted net income	17.15	—	0.18
Cash dividends applicable to the year	5.00	5.00	0.05

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
INCOME BEFORE MINORITY INTERESTS:	¥ 7,512	¥8,275	$ 79,855
Unrealized gains on available-for-sale securities	4,829	774	51,333
Deferred losses on hedging instruments, net of taxes	—	(52)	—
Comprehensive income	12,341	8,997	131,188
(Attributable to)			
Shareholders of parent	11,754	8,421	124,945
Minority interests	587	576	6,243

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013 and 2012

	Thousands	Millions of Yen										
	Outstanding Number of Shares of Capital Stock	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Total Accumulated Other Comprehensive Income	Equity Warrant	Minority Interests	Total Net Assets
Balance as of March 31, 2011	403,133	¥27,484	¥49,484	¥22,248	¥(1,107)	¥ 98,109	¥2,687	¥52	¥2,739	¥—	¥10,633	¥111,481
Net income	—	—	—	7,717	—	7,717	—	—	—	—	—	7,717
Dividends from surplus	—	—	—	(2,016)	—	(2,016)	—	—	—	—	—	(2,016)
Purchase of treasury stock	(94)	—	—	—	(14)	(14)	—	—	—	—	—	(14)
Disposal of treasury stock	1,213	—	12	—	172	184	—	—	—	—	—	184
Total changes of items during the period	—	—	—	—	—	—	756	(52)	704	—	82	786
Balance as of March 31, 2012	404,252	27,484	49,496	27,949	(949)	103,980	3,443	—	3,443	—	10,715	118,138
Net income	—	—	—	6,949	—	6,949	—	—	—	—	—	6,949
Dividends from surplus	—	—	—	(2,021)	—	(2,021)	—	—	—	—	—	(2,021)
Purchase of treasury stock	(21)	—	—	—	(3)	(3)	—	—	—	—	—	(3)
Disposal of treasury stock	1,227	—	4	—	174	178	—	—	—	—	—	178
Total changes of items during the period	—	—	—	—	—	—	4,804	—	4,804	36	85	4,925
Balance as of March 31, 2013	405,458	¥27,484	¥49,500	¥32,877	¥ (778)	¥109,083	¥8,247	¥—	¥8,247	¥36	¥10,800	¥128,166

	Thousands of U.S. Dollars (Note 1)										
	Capital Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity	Valuation Difference on Available-for-Sale Securities	Deferred Gains or Losses on Hedges	Total Accumulated Other Comprehensive Income	Equity Warrant	Minority Interests	Total Net Assets
Balance as of March 31, 2012	$292,167	$526,160	$297,107	$(10,092)	$1,105,342	$36,597	$—	$36,597	$ —	$113,910	$1,255,849
Net income	—	—	73,873	—	73,873	—	—	—	—	—	73,873
Dividends from surplus	—	—	(21,487)	—	(21,487)	—	—	—	—	—	(21,487)
Purchase of treasury stock	—	—	—	(36)	(36)	—	—	—	—	—	(36)
Disposal of treasury stock	—	47	—	1,851	1,898	—	—	—	—	—	1,898
Total changes of items during the period	—	—	—	—	—	51,073	—	51,073	387	898	52,358
Balance as of March 31, 2013	$292,167	$526,207	$349,493	$ (8,277)	$1,159,590	$87,670	$—	$87,670	$387	$114,808	$1,362,455

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 12,079	¥ 11,788	$ 128,405
Depreciation and amortization	3,586	3,485	38,115
Impairment loss	178	373	1,889
Increase (decrease) in allowance for loan losses	5,188	4,579	55,150
Increase (decrease) in provision for bonuses	(30)	8	(320)
Increase (decrease) in provision for retirement benefits	163	381	1,735
Decrease (increase) in prepaid pension costs	251	299	2,672
Increase (decrease) in provision for directors' retirement benefits	(181)	(29)	(1,924)
Increase (decrease) in provision for reimbursement of deposits	(5)	(19)	(53)
Gain on fund management	(41,481)	(43,986)	(440,957)
Financing expenses	2,757	3,128	29,311
Loss (gain) related to securities	(3,017)	(2,143)	(32,077)
Foreign exchange (gain) losses	(1,783)	13	(18,956)
Loss (gain) on disposal of noncurrent assets	76	161	810
Net decrease (increase) in trading account securities	(186)	63	(1,976)
Net decrease (increase) in loans and bills discounted	(74,997)	2,453	(797,245)
Net increase (decrease) in deposit	57,308	83,669	609,207
Net increase (decrease) in borrowed money (excluding subordinated borrowings)	(1,475)	4,315	(15,675)
Net decrease (increase) in interest-bearing deposit	(550)	(515)	(5,842)
Net decrease (increase) in call loans	13,946	19,032	148,251
Net increase (decrease) in payables under securities lending transactions	(4,829)	(6,822)	(51,335)
Net decrease (increase) in foreign exchanges-assets	(1,517)	(324)	(16,125)
Net increase (decrease) in foreign exchanges-liabilities	(66)	(1)	(698)
Net decrease (increase) in lease receivables and investment assets	(636)	(1,810)	(6,764)
Proceeds from fund management	43,813	44,934	465,746
Payments for finance	(2,998)	(3,514)	(31,870)
Other, net	(914)	(998)	(9,721)
Sub-total	4,680	118,520	49,753
Income taxes paid	(3,787)	(1,584)	(40,264)
Income taxes refund	6	—	67
Net cash provided by operating activities	899	116,936	9,556
INVESTING ACTIVITIES:			
Purchases of securities	(498,573)	(469,983)	(5,300,020)
Proceeds from sales of securities	409,999	321,544	4,358,440
Proceeds from redemptions of securities	91,405	42,152	971,672
Purchases of tangible fixed assets	(1,948)	(2,580)	(20,709)
Proceeds from sales of tangible fixed assets	301	117	3,203
Purchase of intangible fixed assets	(1,323)	(1,489)	(14,062)
Other	(34)	0	(365)
Net cash used in investing activities	(173)	(110,239)	(1,841)
FINANCING ACTIVITIES:			
Proceeds from subordinated borrowings	5,200	3,000	55,278
Repayment of subordinated bonds	(6,000)	(32,000)	(63,782)
Proceeds from issuance of subordinated bonds	—	18,300	—
Redemption of subordinated bonds	—	(5,000)	—
Cash dividends paid	(2,019)	(2,015)	(21,459)
Cash dividends paid to minority interests	(490)	(491)	(5,205)
Repayment of lease obligations	(206)	(194)	(2,185)
Purchase of treasury stock	(3)	(14)	(36)
Proceeds from sales of treasury stock	179	183	1,898
Net cash used in financing activities	(3,339)	(18,231)	(35,491)
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(2)	6	(19)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,615)	(11,528)	(27,795)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	38,019	49,547	404,157
CASH AND CASH EQUIVALENTS AT END OF PERIOD (Note 3)	¥ 35,404	¥ 38,019	$ 376,362

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Minato Bank, Ltd. and Subsidiaries
Years Ended March 31, 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Minato Bank, Ltd. (the "Bank") and its subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and the Enforcement Regulation for the Banking Act and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥94.07 to $1, the approximate rate of exchange at March 31, 2013, the final business day of the term. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation
The consolidated financial statements include the accounts of the Bank and all (15 and 14 subsidiaries in 2013 and 2012) of its subsidiaries (together, the "Group"). Under the control concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Assets and liabilities of consolidated subsidiaries including the portion attributable to the minority shareholders are valuated for consolidation at fair value when the Bank acquired control.

b. Consolidated subsidiaries' fiscal year-end
Fiscal years of 8 and 7 consolidated subsidiaries ended on March 31, 2013 and 2012, while 6 others ended on December 31, 2013 and 2012 and one consolidated subsidiary ended on January 24, 2013 and 2012. Significant transactions between December 31 or January 24 and March 31 are adjusted in consolidation.

c. Cash equivalents
For purposes of the consolidated statements of cash flows, the Group considers noninterest-bearing deposits included in "Cash and due from banks" in the consolidated balance sheets to be cash equivalents.

d. Trading account securities
Trading account securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in the consolidated statements of income.

e. Securities
Securities with readily obtainable fair values are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method.

Available-for-sale securities, the fair values of which are extremely difficult to calculate are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, Securities are reduced to net realizable value by a charge to income.

f. Derivative transactions
In accordance with the Industry Audit Committee Report No.24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." Issued by the Japanese Institute of Certified Public Accountants ("JICPA"), the Bank applies hedge accounting to manage its exposures to fluctuations in interest rates associated with certain assets and liabilities. The Bank enters into derivative financial instruments, such as interest rate swaps, currency options and foreign exchange contracts. Subsidiaries do not perform any derivative transactions.

The Bank enters into derivatives principally as a means of managing its interest rate and foreign exchange rate exposures on certain assets. In addition, the Bank uses derivatives actively to meet its customers' needs for new financial instruments.

Derivative financial instruments are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. Net unrealized losses related to hedging are classified as deferred unrealized losses on hedges in equity.

g. Bills discounted
Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No.24, "Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry." The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values at March 31, 2013 and 2012 were ¥26,444 million ($281,108 thousand) and ¥29,923 million, respectively.

h. Tangible fixed assets
Tangible Fixed Assets are stated at cost less accumulated depreciation. Depreciation of Tangible Fixed Assets and equipment of the Bank is computed using the declining-balance method while the straight-line method is applied to buildings at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 8 to 50 years for buildings and from 2 to 20 years for equipment. Depreciation of tangible fixed assets owned by subsidiaries is computed principally using the straight-line method over the estimated useful lives of the assets. Under certain conditions such as exchanges of fixed assets of similar kinds and sales and purchases resulting from expropriation, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired or by providing special reserve in the equity section. The Bank adopted the former treatment and reduced the cost of the assets acquired by ¥81 million ($866 thousand) as of March 31, 2013 and 2012.
(Changes in accounting policies which are difficult to distinguish from changes in accounting estimates)
In accordance with the amendment of the Corporation Tax Act, effective from the fiscal year ended March 31, 2013 the Bank and its consolidated subsidiaries have changed depreciation method for those tangible fixed assets acquired on or after April 1, 2012. The

effect of this change was to increase income before income taxes and minority interests by ¥20 million ($216 thousand).

i. Long-lived assets

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition. Accumulated impairment loss is directly deducted from the respective tangible fixed assets.

j. Software

Software costs for internal use are capitalized (included in other assets) and amortized by the straight-line method over the estimated useful life of 5 years.

k. Allowance for loan losses

The amount of the Allowance for loan losses is determined based on management's judgment and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators. The Bank implemented the self-assessment system for asset quality. The quality of all loans is assessed by branches and the Credit Administration Division with a subsequent audit by the Credit Review and Audit Division in accordance with the Bank's policy and rules for self-assessment of asset quality. The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes such as "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy." For claims to debtors classified as legal bankruptcy or virtual bankruptcy, an allowance is provided for the remaining amount of claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees. For claims to debtors classified as possible bankruptcy, who are currently neither legally nor virtually bankrupt but are likely to become bankrupt, an allowance is provided at the amounts deemed necessary based on an overall solvency assessment performed for remaining claims after deduction of the amounts collectible through the disposal of collateral or execution of guarantees. For other claims, an allowance is provided based on historical loan loss experience. Subsidiaries provide an allowance for general claims based on historical loan loss experience and for specific claims at the amounts individually estimated to be uncollectible.

l. Provision for bonuses

The Provision for bonuses is provided for the payment of employees' bonuses based on estimated amounts of the future payments attributed to the current fiscal year.

m. Provision for retirement benefits

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Additional benefits may be granted in cases where certain requirements are met when employees retire. In addition, the Bank contributed some of its marketable equity securities to employee retirement benefit trusts. The Bank provides for the Provision for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. Subsidiaries provide for the liability for employees' severance payments based on amounts which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date.

In July 2008, the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Statement No.19, "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)." The Group applied the revised accounting standard effective April 1, 2009. This accounting change had no material impact on consolidated financial statements.

n. Provision for directors' retirement benefits

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

The Bank resolved to abolish the directors' retirement benefits at the board of directors' meeting held on April 25, 2012 and resolved lump sum payment for directors and corporate auditors at the annual shareholders' meeting held on June 28, 2012. As a result of this change the Bank reversed provision for directors' retirement benefits and unpaid amount ¥129 million ($1,378 thousand) is included in other liabilities.

o. Provision for reimbursement of deposits

Provision for reimbursement of deposits which were derecognized as liabilities under certain conditions is provided for the possible losses on the future claims of withdrawal based on the historical reimbursement experience.

p. Foreign currency transactions

Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income.

q. Leases

In March 2007, the ASBJ issued ASBJ Statement No.13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007. Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were treated as sales. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if sold" information was disclosed in the note to the lessor's financial statements. The revised accounting standard requires that all finance leases that deem to transfer ownership of the leased property to the lessee recognized as lease receivables, and all finance leases that deem not to transfer ownership of the leased property to the lessee should be recognized as lease investment assets. Income for finance leases is recognized by allocating interest equivalents to applicable fiscal years instead of recording sale of lease assets. And income for finance leases is measured at total of interest equivalents, instead of the amount of lease transactions. Leased properties on finance lease transactions that do not transfer ownership are depreciated over the useful life of assets, equal to the lease term, by the straight-line method to a residual value of zero or residual value on the lease contract.

r. Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

s. Appropriations of retained earnings

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

t. Per share information
Basic net income per share is computed by dividing net income available to Capital shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income per share is not disclosed because no dilutive securities are outstanding. Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.
u. Accounting standards issued bot not yet effective
Accounting Standard for Retirement Benefit (ASBJ Statement No.26, May 17, 2012) and Guidance for Accounting Standard for Retirement Benefit (ASBJ Guidance No.25, May 17, 2012)
(1) Outline
The accounting standard has been revised in light of improving financial reporting and trend toward international convergence, mainly on (i) changes in accounting methods for unrecognized actuarial net loss and unrecognized prior service cost, and enhancement of disclosure items; (ii) changes of calculation methods for projected benefit obligations and service cost.
(2) Date of application
The Bank intends to adopt (i) to consolidated financial statements as of the end of the fiscal year beginning on April 1, 2013, and to adopt (ii) from the fiscal year beginning on April 1, 2014.
(3) Effects of adoption of the revised accounting standard
Effects of adoption of the revised accounting standard are currently examined.

3. CASH AND CASH EQUIVALENTS

The reconciliation of "Cash and cash equivalents" and "Cash and due from banks" in the consolidated balance sheets at March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Cash and due from banks	¥36,683	¥38,748	$389,949
Interest-bearing deposits included in due from banks	(1,279)	(729)	(13,587)
Cash and cash equivalents	¥35,404	¥38,019	$376,362

4. SECURITIES

The fair values of floating rate Japanese government bonds were previously measured at their market prices. However, after consideration of Practice Issues Task Force No.25, "Practical Solution on Measurement of Fair Value for Financial Assets," issued by the ASBJ and the recent market environment, management has concluded that current market prices are no longer indicative of the fair values.

Securities at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Japanese government bonds	¥418,022	¥400,613	$4,443,730
Japanese local government bonds	172,138	221,481	1,829,890
Japanese corporate bonds	111,474	80,336	1,185,007
Corporate stocks	21,236	15,786	225,752
Other securities	77,778	53,046	826,816
Total	¥800,648	¥771,262	$8,511,195

5. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Bills discounted	¥ 25,225	¥ 29,007	$ 268,155
Loans on bills	64,252	72,645	683,025
Loans on deeds	1,990,156	1,921,586	21,156,119
Overdrafts	165,850	156,027	1,763,044
Total	¥2,245,483	¥2,179,265	$23,870,343

Loans in legal bankruptcy totaled ¥3,580 million ($38,055 thousand) and ¥5,185 million as of March 31, 2013 and 2012, respectively. Nonaccrual loans totaled ¥69,326 million ($736,967 thousand) and ¥64,819 million as of March 31, 2013 and 2012, respectively. Loans in legal bankruptcy are loans for which the interest accrual has been discontinued (excluding the portion recognized as bad debts), based on management's judgment as to the collectability of principal or interest resulting from the delay in payments of interest or principal for a considerable period of time and other factors. Nonaccrual loans are loans in which the interest accrual is discontinued, other than loans in legal bankruptcy and loans granting deferral of interest payment to the debtors in financial difficulties to assist them in their recovery. Accruing loans contractually past due three months or more as to principal or interest payments totaled ¥216 million ($2,296 thousand) and ¥257 million as of March 31, 2013 and 2012, respectively. Loans classified as loans in legal bankruptcy and past due loans are excluded. Restructured loans totaled ¥11,000 million ($116,932 thousand) and ¥9,769 million as of March 31, 2013 and 2012, respectively. Such restructured loans are loans on which creditors grant concessions (e.g., reduction of the stated interest rate, deferral of interest payment, extension of maturity date, waiver of the face amount, or other concessive measures) to the debtors to assist them to recover from their financial difficulties and eventually be able to pay creditors. Loans classified as loans in legal bankruptcy, nonaccrual loans and accruing contractually past due three months or more are excluded from these restructured loans.

6. FOREIGN EXCHANGES

Foreign exchange assets and liabilities at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Assets:			
Due from foreign correspondents	¥2,001	¥ 762	$21,268
Foreign bills of exchange receivable	2,751	2,775	29,244
Foreign bills of exchange purchased	1,218	916	12,953
Total	¥5,970	¥4,453	$63,465
Liabilities:			
Due to foreign correspondents	¥ 12	¥ —	$ 123
Foreign bills of exchange sold	13	46	133
Accrued foreign bills of exchange	9	53	101
Total	¥ 34	¥ 99	$ 357

7. OTHER ASSETS

Other assets at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Prepaid expenses	¥ 31	¥ 36	$ 328
Prepaid pension costs	2,869	3,121	30,505
Accrued income	3,121	3,240	33,180
Derivatives	2,514	2,729	26,721
Other	19,128	18,218	203,334
Total	¥27,663	¥27,344	$294,068

8. TANGIBLE FIXED ASSETS

Accumulated depreciation on tangible fixed assets at March 31, 2013 and 2012 amounted to ¥21,162 million ($224,955 thousand) and ¥19,858 million, respectively.

9. LONG-LIVED ASSETS

The Group recognized impairment losses for the years ended March 31, 2013 and 2012 as follows:

			Millions of Yen	Thousands of U.S. Dollars
			2013	2013
Location	Description	Classification	Impairment Losses	Impairment Losses
Osaka prefecture	Operating retail premises	Land and buildings	¥142	$1,507
Hyogo prefecture	Idle assets	Buildings	4	47
Hyogo prefecture	Operating retail premises	Buildings	24	249
Hyogo prefecture	Operating retail premises	Buildings	8	86
Total			¥178	$1,889

			Millions of Yen
			2012
Location	Description	Classification	Impairment Losses
Hyogo prefecture	Idle assets	Buildings	¥ 4
Hyogo prefecture	Operating retail premises	Buildings	57
Hyogo prefecture	Idle assets	Land and buildings	37
Hyogo prefecture	Idle assets	Land and buildings	275
Total			¥373

The Bank groups operating retail premises by operating block (a group of operation branches in close relationship). Each of the subsidiaries is grouped as a single unit.

The Bank treats the head office, the computer center, the business concentration center, company condominiums and dormitories, and other, which do not generate independent cash flows, as assets in common use. Idle assets of the Group are treated as an independent unit. The Group wrote down the carrying amounts to the recoverable amounts and recognized impairment losses of ¥178 million ($1,889 thousand) and ¥373 million for the year ended March 31, 2013 and 2012, respectively as other expenses, since the carrying amounts of the assets held by the above branches and other exceeded the sum of the undiscounted future cash flows. The recoverable amounts of such assets were measured at their net realizable selling prices determined by quotations from real estate appraisal information less estimated costs to dispose.

10. ASSETS PLEDGED

Assets pledged as collateral and related liabilities at March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Securities	¥91,364	¥96,612	$971,229
Other assets	90	91	962

Related liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deposits	¥ 2,196	¥ 2,612	$ 23,346
Call money and bills sold	4,450	5,420	47,305
Payables under securities lending transactions	55,285	60,114	587,705

In addition, Securities totaling ¥39,821 million ($423,311 thousand) and ¥43,591 million at March 31, 2013 and 2012, respectively, and other assets totaling ¥57 million ($606 thousand) and ¥57 million at March 31, 2013 and 2012, respectively, were pledged as collateral for settlement of exchange, fund settlement for joint systems of the industry and derivative transactions. Other assets include guarantee deposits of ¥3,287 million ($34,944 thousand) and ¥3,437 million at March 31, 2013 and 2012, respectively.

11. COMMITMENT LINE

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing, to the prescribed amount as long as there is no violation of any condition established in the contracts. At March 31, 2013 and 2012, the amount of unused commitments amounts to ¥460,230 million ($4,892,421 thousand) and ¥455,113 million, respectively, of which commitments aggregating ¥451,570 million ($4,800,364 thousand) and ¥449,493 million, respectively, have original contract terms that expire within one year or are unconditionally cancelable at any time. Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements. Many of these commitments have clauses that allow the Bank to reject the application from customers or reduce the contract amounts in some cases, such as change in economic conditions, the Bank need to secure their credit, or other events occur. In addition, the Bank requests customers to pledge collateral such as premises and securities at execution of the contracts, and takes necessary measures such as understanding customers' financial positions, revising contracts when the need arises and securing claims after execution of the contracts.

12. DEPOSITS

Deposits at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Current deposits	¥ 128,680	¥ 123,762	$ 1,367,916
Ordinary deposits	1,500,791	1,437,903	15,953,984
Savings deposits	21,845	22,772	232,216
Deposits at notice	8,742	8,777	92,935
Time deposits	1,173,045	1,143,881	12,469,914
Other deposits	29,899	33,709	317,837
Sub-total	2,863,002	2,770,804	30,434,802
Negotiable certificates of deposit	13,383	48,714	142,265
Total	¥2,876,385	¥2,819,518	$30,577,067

13. BORROWED MONEY

At March 31, 2013 and 2012, the weighted average interest rates applicable to the borrowed money were 1.12% and 1.19%, respectively and at March 31, 2013 and 2012, the weighted average interest rate applicable to the lease obligation was 5.23%. Borrowed money at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Borrowed money	¥16,301	¥18,576	$173,285
Subordinated borrowings	10,200	11,000	108,430
Borrowings from banks and other	6,101	7,576	64,855
Short-term lease obligation	217	205	2,304
Lease obligation (other than short-term)	480	693	5,103

Annual maturities of borrowed money and lease obligation at March 31, 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2013		2013	
Year Ending March 31	Borrowed Money	Lease Obligation	Borrowed Money	Lease Obligation
2014	¥ 5,109	¥217	$ 54,305	$2,304
2015	203	226	2,157	2,409
2016	266	179	2,828	1,900
2017	2,173	72	23,105	762
2018	350	3	3,721	29
2019 and thereafter	8,200	0	87,169	3
Total	¥16,301	¥697	$173,285	$7,407

14. BONDS PAYABLE

Bonds payable at March 31, 2013 and 2012 consisted of the following:

Description	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars 2013	Interest Rate	Due
Subordinated bonds	¥ 9,700	¥ 9,700	$103,115	2.45%	Mar. 2011 – Mar. 2021
Subordinated bonds	18,300	18,300	194,536	2.19	Sep. 2011 – Sep. 2021

15. OTHER LIABILITIES

Other liabilities at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars 2013
Domestic exchange settlement	¥ 693	¥ 475	$ 7,366
Accrued income taxes	2,310	1,748	24,559
Accrued expenses	2,197	2,327	23,354
Unearned income	6,852	7,025	72,839
Derivatives	1,908	2,017	20,286
Other	32,407	10,062	344,493
Total	¥46,367	¥23,654	$492,897

16. ACCEPTANCES AND GUARANTEES

All contingent liabilities arising from acceptances and guarantees are reflected in "Acceptances and guarantees." As a contra account, "Customers' liabilities for acceptances and guarantees," is shown as an asset representing the Bank's right of indemnity from the applicants. At March 31, 2013 and 2012, the amounts of "Acceptances and guarantees" and "Customers' liabilities for acceptances and guarantees," which were set off were ¥21,545 million ($229,028 thousand) and ¥20,660 million, because which were relevant to corporate bonds, and the guaranteed bonds were held by the Bank itself.

17. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant changes in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having accounting auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Bank cannot do so because it does not meet all the above criteria. The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/decreases and transfer of Capital stock, reserve and surplus

The Companies Act requires that an amount equal to 10% (20% for banks pursuant to the Banking Law) of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% (100% for banks pursuant to the Banking Law) of the Capital stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act 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.

c. Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights. At the Shareholders' Extraordinary Meeting held on December 22, 1998, the Bank's shareholders approved amendment of the Bank's Articles of Incorporation to authorize the Bank to issue preferred stock of 100,000,000 shares. No preferred stocks have been issued.

18. OTHER ORDINARY INCOME

Other ordinary income for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Gains on foreign exchange transactions-net	¥ 425	¥ 453	$ 4,519
Gains on sales of bonds	3,371	3,098	35,836
Other	5,315	4,141	56,496
Total	¥9,111	¥7,692	$96,851

19. OTHER INCOME

Other income for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Gains on sales of stocks and other securities	¥ 200	¥ 138	$ 2,120
Gain on disposal of tangible fixed assets	66	—	704
Recovery of claims previously charged-off	47	23	501
Other	1,794	1,312	19,073
Total	¥2,107	¥1,473	$22,398

20. OTHER ORDINARY EXPENSES

Other ordinary expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Losses on sales of bonds	¥ 3	¥ 168	$ 31
Other	5,273	3,946	56,052
Total	¥5,276	¥4,114	$56,083

21. OTHER EXPENSES

Other expenses for the years ended March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Provision for possible loan losses	¥5,188	¥4,579	$55,150
Losses on sales of stocks and other securities	9	688	96
Losses on devaluation of stocks and other securities	541	236	5,752
Loss on disposal of noncurrent assets	142	161	1,514
Impairment loss	178	373	1,889
Other	886	1,343	9,419
Total	¥6,944	¥7,380	$73,820

22. OTHER COMPREHENSIVE INCOME

Reclassification adjustments and the related tax effects concerning other comprehensive income for the year ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Valuation difference on available-for-sale securities			
The amount arising during the period	¥10,484	¥3,077	$111,452
Reclassification adjustments	(3,088)	(2,278)	(32,834)
Before adjustments to tax effect	7,396	799	78,618
The amount of tax effect	(2,567)	(25)	(27,285)
Valuation difference on available-for-sale securities	4,829	774	51,333
Deferred gains or losses on hedges			
The amount arising during the period	—	3	—
Reclassification adjustments	—	(91)	—
Before adjustments to tax effect	—	(88)	—
The amount of tax effect	—	36	—
Deferred gains or losses on hedges	—	(52)	—
Total other comprehensive income	¥ 4,829	¥ 722	$ 51,333

23. RETIREMENT BENEFITS

The Bank has a contributory funded pension plan and an unfunded lump-sum severance payment plan. Subsidiaries have unfunded lump-sum severance payment plans.

The Provision for retirement benefits at March 31, 2013 and 2012 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥(21,794)	¥(22,446)	$(231,682)
Plan assets (fair value)	16,538	15,422	175,807
Unfunded projected benefit obligation	(5,256)	(7,024)	(55,875)
Unrecognized actuarial net loss	3,039	5,230	32,301
Unrecognized prior service cost	91	83	975
Prepaid pension costs	2,870	3,121	30,505
Provision for retirement benefits	¥ (4,996)	¥ (4,832)	$ (53,104)

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 663	¥ 630	$ 7,048
Interest cost	335	419	3,561
Expected return on plan assets	(178)	(170)	(1,893)
Amortization of prior service cost	(9)	(9)	(92)
Recognized actuarial net loss	823	985	8,754
Other	28	47	295
Net periodic retirements benefit costs	¥1,662	¥1,902	$17,673

Assumptions used for the years ended March 31, 2013 and 2012 were set forth as follows:

	2013	2012
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	0–1.5%	0–1.5%
Recognized period of actuarial gain or loss	9 years	9 years
Amortization period of prior service cost	9 years	9 years

24. STOCK OPTIONS

Information on stock acquisition rights for the year ended March 31, 2013 and 2012 were as follows:
1. Share-based compensation expenses which were accounted for as general and administrative expenses

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Share-based compensation expenses	¥36	¥—	$387

2. Outline of stock options and changes
(1) Outline of stock options

	1st Stock Option
Title and number of grantees	7 directors of the Bank and 12 executive officers of the Bank
Number of stock options	Common shares: 368,000
Grant date	July 20, 2012
Condition for vesting	N.A.
Requisite service period	N.A.
Exercise period	July 21, 2012 to July 20, 2052

(2) Stock options granted and changes
Number of stock options

	1st Stock Option
Before vested	
Previous fiscal year end	—
Granted	368,000
Forfeited	12,000
Vested	44,000
Outstanding	312,000
After vested	
Previous fiscal year end	—
Vested	44,000
Exercised	—
Forfeited	—
Exercisable	44,000

Price information

	Yen	U.S. Dollars
	1st Stock Option	1st Stock Option
Exercise price	¥ 1	$ 0
Average exercise price	—	—
Fair value at the grant date	132	1

(3) Valuation technique used for valuating fair value of stock options
Stock options granted in the fiscal year ended March 31, 2013 were valued using the Black-Scholes option pricing model and the principal parameters were as follows:

	1st Stock Option
Expected volatility (Note 1)	34.33%
Average expected life (Note 2)	2 years
Expected dividends (Note 3)	¥5 per share
Risk-free interest rate (Note 4)	0.1%

Notes: 1. Calculated based on actual stock priced from July 21, 2010 to July 20, 2012.
2. The average tenure of the directors and executive officers who retired in the past.
3. The actual dividends on common stock for the year ended March 31, 2012.
4. Japanese government bond yield corresponding to the average expected life.

(4) Method of estimating number of stock options vested
Only the actual number of forfeited stock options is reflected because it is difficult to rationally estimate the actual number of stock options that will be forfeited in the future.

25. INCOME TAXES

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Allowance for loan losses	¥11,516	¥11,569	$122,423
Provision for retirement benefits	3,228	3,190	34,315
Provision for bonuses	353	364	3,750
Accrued enterprise tax	273	193	2,901
Devaluation of stocks and other securities	187	766	1,989
Depreciation	858	278	9,118
Tax loss carryforwards	21	8	218
Other	1,324	1,471	14,075
Less valuation allowance	(2,236)	(2,196)	(23,765)
Total	¥15,524	¥15,643	$165,024
Deferred tax liabilities:			
Net unrealized gains on available-for-sale securities	¥ (4,452)	¥ (1,886)	$ (47,329)
Gains on securities contributed to employee retirement benefit trust	(601)	(600)	(6,383)
Prepaid pension costs	(1,041)	(1,141)	(11,068)
Other	(54)	(53)	(579)
Total	¥ (6,148)	¥ (3,680)	$ (65,359)
Net deferred tax assets	¥ 9,376	¥11,964	$ 99,665

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income of the years ended March 31, 2012 was as follows. The corresponding reconciliation for the year ended March 31, 2013 has been omitted since the difference between normal effective statutory tax rate and actual effective tax rate is less than 5% of normal effective statutory tax rate.

	2012
Normal effective statutory tax rate	40.6%
Permanent differences-expenses	0.3
Permanent differences-income	(0.7)
Corporate inhabitant tax per capita	0.6
Valuation allowance	(20.2)
Changes in effective statutory tax rate	11.0
Other	(1.8)
Actual effective tax rate	29.8%

26. FAIR VALUE AND OTHER INFORMATION ON SECURITIES

Fair value and other information on securities as of March 31, 2013 and 2012 were as follows:

Securities

(1) Bonds classified as trading

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
	Gains (Losses) Included in Profit/Loss during the Fiscal Year	Gains (Losses) Included in Profit/Loss during the Fiscal Year	Gains (Losses) Included in Profit/Loss during the Fiscal Year
Bonds classified as trading	¥5	¥4	$50

(2) Bonds classified as held-to-maturity securities that have fair value as of March 31, 2013 and 2012.

		Millions of Yen			Thousands of U.S. Dollars		
		2013			2013		
		Consolidated Balance Sheet Amount	Fair Value	Difference	Consolidated Balance Sheet Amount	Fair Value	Difference
Unrealized Gains	Japanese local government bonds	¥74,038	¥74,661	¥623	$787,055	$793,670	$6,615
	Japanese corporate bonds	5,000	5,033	33	53,149	53,505	356
	Sub-total	79,038	79,694	656	840,204	847,175	6,971
Unrealized Losses	Japanese local government bonds	373	372	(1)	3,966	3,961	(5)
	Japanese corporate bonds	—	—	—	—	—	—
	Sub-total	373	372	(1)	3,966	3,961	(5)
Total		¥79,411	¥80,066	¥655	$844,170	$851,136	$6,966

		Millions of Yen		
		2012		
		Consolidated Balance Sheet Amount	Fair Value	Difference
Unrealized Gains	Japanese local government bonds	¥84,807	¥85,525	¥718
	Japanese corporate bonds	6,720	6,778	58
	Sub-total	91,527	92,303	776
Unrealized Losses	Japanese local government bonds	2,302	2,299	(3)
	Japanese corporate bonds	—	—	—
	Sub-total	2,302	2,299	(3)
Total		¥93,829	¥94,602	¥773

(3) Available-for-sale securities that have fair value:

		Millions of Yen			Thousands of U.S. Dollars		
		2013			2013		
		Consolidated Balance Sheet Amount	Cost	Difference	Consolidated Balance Sheet Amount	Cost	Difference
Unrealized Gains	Stocks	¥ 16,120	¥ 10,137	¥ 5,983	$ 171,358	$ 107,760	$ 63,598
	Bonds:	561,686	556,148	5,538	5,970,938	5,912,070	58,868
	Japanese government bonds	393,834	389,843	3,991	4,186,611	4,144,176	42,435
	Japanese local government bonds	95,637	94,704	933	1,016,657	1,006,746	9,911
	Short-term Japanese corporate bonds	—	—	—	—	—	—
	Japanese corporate bonds	72,215	71,601	614	767,670	761,148	6,522
	Other	53,236	51,179	2,057	565,923	544,052	21,871
	Sub-total	631,042	617,464	13,578	6,708,219	6,563,882	144,337
Unrealized Losses	Stocks	2,834	3,320	(486)	30,124	35,291	(5,167)
	Bonds:	60,536	60,738	(202)	643,519	645,664	(2,145)
	Japanese government bonds	24,187	24,219	(32)	257,119	257,456	(337)
	Japanese local government bonds	2,090	2,103	(13)	22,212	22,356	(144)
	Short-term Japanese corporate bonds	—	—	—	—	—	—
	Japanese corporate bonds	34,259	34,416	(157)	364,188	365,852	(1,664)
	Other	23,785	23,920	(135)	252,844	254,281	(1,437)
	Sub-total	87,155	87,978	(823)	926,487	935,236	(8,749)
Total		¥718,197	¥705,442	¥12,755	$7,634,706	$7,499,118	$135,588

		Millions of Yen		
		2012		
		Consolidated Balance Sheet Amount	Cost	Difference
Unrealized Gains	Stocks	¥ 9,474	¥ 7,434	¥2,040
	Bonds:	559,054	554,816	4,238
	Japanese government bonds	369,531	367,178	2,353
	Japanese local government bonds	132,865	131,659	1,206
	Short-term Japanese corporate bonds	—	—	—
	Japanese corporate bonds	56,658	55,979	679
	Other	28,437	27,749	688
	Sub-total	596,965	589,999	6,966
Unrealized Losses	Stocks	4,232	5,443	(1,211)
	Bonds:	49,547	49,743	(196)
	Japanese government bonds	31,082	31,108	(26)
	Japanese local government bonds	1,507	1,510	(3)
	Short-term Japanese corporate bonds	—	—	—
	Japanese corporate bonds	16,958	17,125	(167)
	Other	23,941	24,141	(200)
	Sub-total	77,720	79,327	(1,607)
Total		¥674,685	¥669,326	¥5,359

(4) Bonds classified as held-to-maturity have not been sold.

(5) Available-for-sale securities sold:

	Millions of Yen			Thousands of U.S. Dollars		
	2013			2013		
	Sales Amount	Gains on Sales	Losses on Sales	Sales Amount	Gains on Sales	Losses on Sales
Stocks	¥ 146	¥ 4	¥ 9	$ 1,550	$ 47	$ 96
Bonds:	398,217	3,318	1	4,233,193	35,267	9
Japanese government bonds	392,941	3,267	—	4,177,114	34,726	—
Japanese local government bonds	—	—	—	—	—	—
Short-term Japanese corporate bonds	—	—	—	—	—	—
Japanese corporate bonds	5,276	51	1	56,079	541	9
Other	11,491	247	2	122,156	2,625	22
Total	¥409,854	¥3,569	¥12	$4,356,899	$37,939	$127

	Millions of Yen		
	2012		
	Sales Amount	Gains on Sales	Losses on Sales
Stocks	¥ 1,171	¥ 64	¥565
Bonds:	312,462	3,060	24
Japanese government bonds	300,416	2,884	20
Japanese local government bonds	2,739	20	—
Short-term Japanese corporate bonds	—	—	—
Japanese corporate bonds	9,307	156	4
Other	6,916	112	267
Total	¥320,549	¥3,236	¥856

(6) The classification of securities has not been changed.
Net Unrealized Gains on Available-for-sale Securities
Available-for-sale Securities were valued at market and net unrealized gains on valuation were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount
Net unrealized gains on securities	¥12,755	¥5,359	$135,588
Deferred tax assets (liabilities)	4,453	1,885	47,329
Net unrealized gains on valuation (before adjustment)	8,302	3,474	88,259
(Minority interests)	55	31	589
Net unrealized gains on valuation	8,247	3,443	87,670

Securities Subject to Impairment Charges

Fair values of securities other than trading securities for the year ended March 31, 2013 and 2012 that have fair value have decreased significantly from the original acquisition cost.

Securities deemed to have no chance of recovering their value up to their original acquisition cost are listed on the balance sheet (consolidated basis) at their market price, and the valuation difference is booked as a loss ("impairment loss") for the consolidated fiscal year under review.

The total amount of such impairment charges for the consolidated fiscal years ended March 31, 2013 and 2012 under review was ¥470 million ($5,006 thousand) and ¥66 million.

Standards used to determine when a security has "decreased significantly" in value under the Bank's self-assessment system for asset quality are as follows, classified by creditworthiness category.

Issuer is in "legal bankruptcy," "virtual bankruptcy" or "possible bankruptcy:"	Fair value is below acquisition cost
Issuer requires "caution:"	Fair value is 30% or more below acquisition cost
Issuer has "normal" status:	Fair value is 50% or more below acquisition cost

Among issuers with "normal" status under the above-mentioned self-assessment asset screening, for those whose securities' fair value is between 30% and 50% below the original acquisition cost, a decision on the likelihood of recoverability up to acquisition cost is made on a case-by-case basis. Impairment charges are booked in all cases if acquisition cost is not deemed fully recoverable.

Legally bankrupt issuing companies include those that are bankrupt, and those whose businesses have legally failed and that have effectively gone in to special liquidation proceedings, under law. Virtually bankrupt companies are those facing the same circumstances as legally bankrupt companies. Companies in possible bankruptcy are companies that, though currently going concerns, are recognized as having a high probability of failure in the future. Companies requiring caution are those whose management will need monitoring.

Companies performing normally are those which fall into none of the above categories.

27. FAIR VALUE INFORMATION ON DERIVATIVE TRANSACTIONS

Derivatives are subject to market risk, which is the possibility that a loss may result from fluctuations in market conditions, and credit risk, which is the possibility that a loss may result from a counterparty's failure to perform according to the terms and conditions of the contract. Since most of the Bank's derivative transactions are conducted to hedge underlying business exposures, market gain or risk in the derivative instruments is expected to be offset by an opposite movement in the value of hedged assets or liabilities. These figures are the measures used in the calculation of risk-based capital ratios under the Japanese capital ratio guidelines. The Bank adopts the current exposure method stipulated by the guidelines in calculating the amount. As a risk control system for derivatives, the Bank has established a risk management division that operates independently from divisions executing derivative transactions. Derivative transactions entered into by the Bank have been made in accordance with internal policies which regulate the authorization and credit limit amounts. In addition, positions and related gains or losses from derivatives are reported to management on a daily basis for monitoring and evaluation purposes. The contract amounts of forward exchange contracts and option agreements do not necessarily measure the Bank's exposure to credit or market risk.

Derivative transactions to which the deferred hedge accounting method is not applied.

Contractual value, fair value, unrealized gains or losses, and computation method for fair value by types of transactions as of March 2013 and 2012 were as follows. The contract amounts do not necessarily measure the Bank's exposure to market risk:

(1) Interest-rate-related transactions

	Millions of Yen				Thousands of U.S. Dollars			
	2013				2013			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:								
Interest rate swaps:								
Receive fixed and pay floating	¥36,386	¥36,059	¥1,239	¥1,239	$386,792	$383,317	$13,174	$13,174
Receive floating and pay fixed	36,386	36,059	(744)	(744)	386,792	383,317	(7,909)	(7,909)
Others:								
Sold	4,764	3,437	(7)	65	50,647	36,538	(78)	686
Bought	4,764	3,437	7	(38)	50,647	36,538	78	(403)
Total	¥ —	¥ —	¥ 495	¥ 522	$ —	$ —	$ 5,265	$ 5,548

	Millions of Yen			
	2012			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Interest rate swaps:				
Receive fixed and pay floating	¥36,693	¥36,571	¥945	¥945
Receive floating and pay fixed	36,693	36,571	(426)	(426)
Others:				
Sold	5,261	5,095	(17)	68
Bought	5,261	5,095	17	(36)
Total	¥ —	¥ —	¥519	¥551

Notes: 1. The above transactions were revalued at the end of the year and the related gain and loss were reflected in the accompanying consolidated statements of income.
2. The fair values were mainly calculated using the discounted present values.

(2) Currency-related transactions

	Millions of Yen				Thousands of U.S. Dollars			
	2013				2013			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:								
Currency swaps:	¥49,771	¥46,939	¥ 91	¥ 91	$529,082	$498,982	$ 970	$ 970
Forward exchange contracts:								
Sold	12,620	—	(306)	(306)	134,154	—	(3,258)	(3,258)
Bought	8,297	—	299	299	88,196	—	3,179	3,179
Currency options:								
Sold	2,093	452	(86)	102	22,254	4,800	(915)	1,081
Bought	2,093	452	112	(76)	22,254	4,800	1,193	(803)
Total	¥ —	¥ —	¥110	¥110	$ —	$ —	$1,169	$1,169

	Millions of Yen			
	2012			
	Contractual Value	Contractual Value Due after One Year	Fair Value	Net Unrealized Gains (Losses)
Over-the-counter:				
Currency swaps:	¥34,658	¥29,549	¥ 62	¥ 62
Forward exchange contracts:				
Sold	5,614	—	(185)	(185)
Bought	5,703	—	193	193
Currency options:				
Sold	7,951	1,843	(747)	(29)
Bought	7,951	1,843	870	152
Total	¥ —	¥ —	¥193	¥193

Notes: 1. The above transactions were revalued at the end of the year and the related gain and loss were reflected in the accompanying consolidated statements of income.
2. The fair values were mainly calculated using the discounted present values.

(3) Stock-related transactions are not performed.

(4) Bond-related transactions are not performed.

(5) Financial product-related transactions are not performed.

(6) Credit derivative transactions are not performed.

Derivative transactions to which the deferred hedge accounting method is applied.
There were no derivative transactions to which the deferred hedge accounting method is applied for the year ended March 31, 2013 and 2012.

28. RELATED PARTY TRANSACTIONS

At March 31, 2013 and 2012, Sumitomo Mitsui Financial Group and Sumitomo Mitsui Banking Corporation are the parent companies of the Bank.

There were no material transactions between related parties for the years ended March 31, 2013 and 2012.

29. NET INCOME PER SHARE

Reconciliation of net income per share ("EPS") for the years ended March 31, 2013 and 2012 were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted Average Shares	EPS	EPS
For the year ended March 31, 2013 Basic EPS				
Net income available to capital shareholders	¥6,949	404,898	¥17.16	$0.18
For the year ended March 31, 2012 Basic EPS				
Net income available to capital shareholders	¥7,717	403,688	¥19.11	

	Thousands of Shares	Yen	U.S. Dollars
	Increased Shares	Diluted EPS	Diluted EPS
For the year ended March 31, 2013 Diluted EPS			
Net income available to capital shareholders	289	¥17.15	$0.18

30. FINANCIAL INSTRUMENTS

Financial instruments

(1) Financial instrument management plan

The Group operates primarily banking and other financial service businesses related to credit cards, credit guarantees, leasing, and venture capital. To operate these businesses, the Group raises funds by accepting customer deposits while regulating the balance between market conditions and the long and short terms, by indirect financing through borrowings, and by issuing treasury bonds. Because the Group mainly holds financial assets and liabilities with fluctuating interest rates, the Bank operates its business using Asset Liability Management (ALM) to prevent an unfavorable impact caused by interest rate changes. As part of ALM, the Bank conducts derivative transactions.

Some of the consolidated subsidiaries of the Bank hold marketable securities.

(2) Financial instrument attributes and risks

The financial assets held by the Group are primarily commercial loans made to businesses and individuals in Japan. These assets are subject to credit risk arising from client default on loan contracts. There is the possibility that these debts may not be fulfilled in accordance with the contract terms and conditions due to changes in the borrowers' financial conditions and particular conditions in various industries; economic and financial environmental changes in interest rates, share prices, and real estate values. Further, marketable securities and trading account securities held by the Bank are mainly comprised of stocks and bonds, held-to-maturity for net investment and business promotion purposes. These securities are subject to the issuer's credit risk, interest rate fluctuation risk, and market value change risk.

The Group is subject to liquidity risk in its borrowings and bonds, and should it be unable to access the markets under certain conditions, this may prevent the Bank from making payments by contractual due dates. Further, the Group makes loans with variable interest rates and is therefore subject to the risk of fluctuating interest rates.

The Bank engages in interest rate swap transactions as part of ALM. The Bank applies hedge accounting to interest rate swaps as a hedging instrument against the risk of fluctuating interest rates arising from hedged financial assets and liabilities. To evaluate hedge effectiveness, deposits and loans (hedged items) and interest rate swap derivatives (hedging instruments) are grouped for each specified period of time, and hedges for offsetting market price fluctuations are identified from the group and assessed.

Further, the Bank also trades bond futures to offset market price fluctuations of bonds held as available-for-sale securities.

Some consolidated subsidiaries hold marketable securities, and these financial instruments are exposed to interest rate risk, market price fluctuation risk, and credit risk.

(3) Financial instrument risk management system

1. Credit risk management

The Group has established and operates a credit management system for commercial loans. The system performs credit reviews, manages credit limits and credit data, establishes internal ratings, guarantees and collateral, and deals with problem debt in accordance with the Bank's financing rules and other credit risk management rules and regulations. These credit management procedures are conducted by the relevant credit review and sales departments. In addition, the credit management status is reported at regularly-held management meetings and board of directors' meetings for deliberation, and is also subject to corporate auditor reviews.

The Corporate Risk Management Department oversees the credit risk of issuers of the marketable securities and counterparty risk of derivative transactions by periodically collecting credit information and market values.

2. Market risk management

(i) Interest risk management

The Bank conducts Asset Liability Management (ALM) to manage interest rate risk. The risk management methods and procedures are described in detail in ALM regulations and the status of their implementation is checked and verified and future actions are discussed in general risk meetings (management meetings), based on ALM policies reviewed in the ALM Committee. In practice, the Corporate Risk Management Department primarily oversees overall interest rates and terms of financial assets and liabilities and monitors them using gap and interest rate sensitivity analysis, reporting to the ALM Committee monthly. The Bank trades interest rate swaps and other derivative transactions to hedge interest rate risk.

(ii) Exchange risk management

The Group manages exchange risk on individual transactions and oversees exchange positions.

(iii) Price fluctuation risk management

The decision to hold investment instruments including marketable securities is made at general risk meetings based on the policies of the ALM Committee, and carried out following rules and regulations on market risk management. The Financial Markets Department purchases investment instruments from outside sources and mitigates price fluctuation risk by conducting preliminary reviews and setting investment limits, and through consistent monitoring. Shares managed by the Operations Planning Department are held for the purposes of promoting business, including business and capital tie-ups, thereby allowing it to monitor the market environments and financial conditions of its business partners. This information is reported periodically to the ALM Committee and the Management Committee.

Some consolidated subsidiaries hold marketable securities, and these are managed in accordance with the subsidiaries' market and liquidity risk management rules and monitored by the Bank.

(iv) Derivative transactions

For derivative transactions, the Group has created separate divisions for derivative trading, evaluation of hedge effectiveness and business administration, thereby establishing a system of checks and balances. These divisions operate based on market risk management rules and regulations.

(v) Quantitative information related to market risk

In the Bank, financial instruments influenced by interest risk which is a main risk variable number are loans and bills discounted, bonds classified in securities and deposits and financial instruments influenced by stocks price fluctuation risk are stocks and investment trust in securities. The Bank uses the variance-covariance method for the measurement of VaR (a holding period of one day, an observation period of one day and a confidence interval of 99%).

As of March 31, 2013, the market risk amount (estimated value of latent loss) of the main financial instruments in banking account was ¥1,494 million ($15,882 thousand).

The Bank considers that the measurement model used captures market risks with sufficient accuracy. However, VaR measures the amount of market risk by certain occurrence probabilities which are statistically calculated based on past market movements. Therefore, there are cases in which VaR cannot capture risk under sudden and dramatic changes in market beyond normal circumstances.

3. Fund procurement liquidity risk management

The Group manages liquidity risk through timely fund management, diversified fund procurement sources and regulating the balance between long and short term funding in light of market conditions.

(4) Additional information on the fair value of financial instruments, etc.

The fair values of financial instruments include values based on fair values and reasonably calculated values when the fair value is not available. As said values are calculated using certain assumptions, these values may vary when different assumptions are used.

Financial instruments' fair values

Consolidated balance sheet amount, fair value, and unrealized gains or losses as of March 31, 2013 and 2012 were as follows. Unlisted securities, the fair values of which were extremely difficult to calculate were excluded from the table below:

	Millions of Yen			Thousands of U.S. Dollars		
	2013			2013		
	Consolidated Balance Sheet Amount	Fair Value	Difference	Consolidated Balance Sheet Amount	Fair Value	Difference
Cash and due from banks	¥ 36,683	¥ 36,683	¥ —	$ 389,950	$ 389,950	$ —
Call loans and bills bought	1,123	1,123	—	11,939	11,939	—
Trading account securities:						
Trading securities	720	720	—	7,656	7,656	—
Securities:						
Held-to-maturity securities	79,411	80,066	655	844,170	851,136	6,966
Available-for-sale securities	718,197	718,197	—	7,634,706	7,634,706	—
Loans and bills discounted:	2,245,483	—	—	23,870,343	—	—
Allowance for possible loan losses	(27,164)	—	—	(288,764)	—	—
	2,218,319	2,221,285	2,966	23,581,579	23,613,103	31,524
Assets total	3,054,453	3,058,074	3,621	32,470,000	32,508,490	38,490
Deposits	2,863,002	2,863,542	(540)	30,434,802	30,440,539	(5,737)
Negotiable certificate of deposits	13,383	13,384	(1)	142,265	142,278	(13)
Payables under securities lending transactions	55,285	55,285	—	587,705	587,705	—
Borrowed money	16,301	15,391	910	173,285	163,615	9,670
Bonds payable	28,000	28,299	(299)	297,651	300,827	(3,176)
Liabilities total	2,975,971	2,975,901	70	31,635,708	31,634,964	744
Derivative transactions:						
Deferred hedge accounting is applied	605	605	—	6,434	6,434	—
Deferred hedge accounting is not applied	—	—	—	—	—	—
Derivative transactions total	¥ 605	¥ 605	¥ —	$ 6,434	$ 6,434	$ —

	Millions of Yen		
	2012		
	Consolidated Balance Sheet Amount	Fair Value	Difference
Cash and due from banks	¥ 38,748	¥ 38,748	¥ —
Call loans and bills bought	13,502	13,502	—
Trading account securities:			
Trading securities	534	534	—
Securities:			
Held-to-maturity securities	93,829	94,601	773
Available-for-sale securities	674,685	674,685	—
Loans and bills discounted:	2,179,265	—	—
Allowance for possible loan losses	(30,103)	—	—
	2,149,162	2,151,865	2,702
Assets total	2,970,460	2,973,935	3,475
Deposits	2,770,804	2,771,441	(637)
Negotiable certificate of deposits	48,714	48,716	(2)
Payables under securities lending transactions	60,114	60,114	—
Borrowed money	18,576	18,387	188
Bonds payable	28,000	28,163	(163)
Liabilities total	2,926,208	2,926,821	(614)
Derivative transactions:			
Deferred hedge accounting is applied	712	712	—
Deferred hedge accounting is not applied	—	—	—
Derivative transactions total	¥ 712	¥ 712	¥ —

Notes: 1. Allowance for possible loan losses to loans and bills discounted are excluded.
2. Derivative transactions recorded in Other assets and Other liabilities are presented as a lump sum. Net claims and debts that arose from derivative transactions are presented on a net basis.

(Note 1) Calculating method for the fair values of financial instruments was as follows:

Assets

(1) Cash and due from banks

The fair values of non-term deposits approximate the book values, therefore said book values shall be the fair values. For term deposits, present values are calculated for each category based on the deposit term, discounting by the applicable interest rate assumed for any new deposit transaction.

(2) Call loans and bills bought

These transactions have short remaining contract terms (six months or less), and as their fair values approximate the book values, said book values shall be the fair values.

(3) Trading account securities

Values of marketable securities such as bonds held for dealing are based on their securities exchange prices.

(4) Securities

Stock prices are based on their stock exchange prices, while bond prices are based either on their stock exchange prices or on the prices provided by the correspondent financial institutions. Investment trust prices are based on the standard prices publicly released. The fair values of each privately placed bond group, categorized by internal rating and term period, are calculated by discounting the total principal and interest at an interest rate that reflects the risk free rate, estimated default probability based on the internal ratings of the bond issuer, and the estimated uncollectibility rate at default based on guarantees.

Fair values of floating rate Japanese government bonds held as available-for-sale securities are booked on the consolidated balance sheet based upon realistically-calculated valuations made at the end of the consolidated accounting year. This is presumably because fair values do not reflect fair assessment values since there are very few actual transactions. Thus, “Securities” increased by ¥649 million ($6,897 thousand), “Deferred tax assets” fell by ¥231 million ($2,455 thousand), and “Valuation difference on available-for-sale securities” rose by ¥418 million ($4,442 thousand) compared to the fair value-based figures on the consolidated balance sheets.

The reasonably estimated values were calculated by discounting the cash flows based mainly on the yields of Japanese government bonds. The main variables are the yields of Japanese government bonds and volatility of those yields.

Comments regarding available-for-sale securities for each holding category are noted in the “Securities” section.

(5) Loans and bills discounted

Fair values of loans categorized by internal rating and term are calculated by discounting the total principal and interest at an interest rate that reflects the risk free rate, estimated default probability based on the internal ratings of the borrower, and the estimated uncollectibility rate at default based on collateral and guarantees.

Further, loans to borrowers in legal bankruptcy, virtual bankruptcy and possible bankruptcy are calculated based upon the estimated loan losses using the probable recoverable amount based upon collateral and guarantee amounts. Thus, the fair value is approximately the amount on the consolidated balance sheet as of the consolidated settlement date, minus the current loan loss estimate. This figure is used as the market price.

Note that where the repayment period has not been stipulated, like some overdraft facilities, the market price is assumed to approximate the book value from the probable repayment period or the interest rate terms. Therefore, the book value shall be the market price.

Liabilities

(1) Deposits, and (2) Negotiable certificates of deposits

The fair value of demand deposits is considered to be the payment amount (book value) sought on the consolidated settlement date. Time deposits and negotiable certificates of deposit are categorized by given term periods, and their present values are calculated discounting their future cash flow. This discount rate is based upon the rate used when new deposits are accepted.

(3) Payables under securities lending transactions

Book values are used for fair values because these products have short remaining contract terms (six months or less) and the market prices approximate the book values.

(4) Borrowed money

The present value is calculated by discounting the total principal and interest of said borrowings, which have been categorized by specific term periods, at an assumed interest rate for similar borrowings.

(5) Bonds payable

The present value is calculated by discounting the total principal and interest of said bonds payable, which have been categorized by specific time periods, at an assumed interest rate when similar bonds payable are issued.

(Note 2) Financial Instruments, the fair values of which were extremely difficult to calculate were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount	Consolidated Balance Sheet Amount
Unlisted stocks	¥2,283	¥2,080	$24,269
Limited partnership for investment	757	668	8,049
Total	¥3,040	¥2,748	$32,318

Notes: 1. Unlisted stocks are excluded as there are no market prices and extremely difficult to calculate fair values.
2. For the years ended March 31, 2013 and 2012, impairment losses for unlisted stocks amounted to ¥70 million ($746 thousand) and ¥170 million.
3. Limited partnership for investment made up of unlisted securities, the fair values of which are extremely difficult to calculate are excluded from the table.

(Note 3) Maturities of money claims and securities that have maturities were as follows:

	Millions of Yen					
	2013					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits with banks	¥ 1,000	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	1,123	—	—	—	—	—
Securities:	66,428	188,401	205,266	166,640	121,461	—
Held-to-maturity securities:	20,620	44,861	13,444	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	17,120	43,374	13,444	—	—	—
Japanese corporate bonds	3,500	1,487	—	—	—	—
Available-for-sale securities:	45,808	143,540	191,822	166,640	121,461	—
Japanese government bonds	—	33,000	103,000	164,000	101,000	—
Japanese local government bonds	19,194	58,746	17,207	380	—	—
Japanese corporate bonds	15,187	25,584	61,168	1,391	2,550	—
Others	11,427	26,210	10,447	869	17,911	—
Loans and bills discounted	539,913	408,291	328,208	177,705	196,482	506,465
Total	¥608,464	¥596,692	¥533,474	¥344,345	¥317,943	¥506,465

	Thousands of U.S. Dollars					
	2013					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits with banks	$ 10,631	$ —	$ —	$ —	$ —	$ —
Call loans and bills bought	11,939	—	—	—	—	—
Securities:	706,152	2,002,771	2,182,058	1,771,442	1,291,178	—
Held-to-maturity securities:	219,196	476,883	142,912	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	181,990	461,076	142,912	—	—	—
Japanese corporate bonds	37,206	15,807	—	—	—	—
Available-for-sale securities:	486,956	1,525,888	2,039,146	1,771,442	1,291,178	—
Japanese government bonds	—	350,803	1,094,929	1,743,383	1,073,669	—
Japanese local government bonds	204,044	624,493	182,922	4,039	—	—
Japanese corporate bonds	161,437	271,964	650,235	14,787	27,107	—
Others	121,475	278,628	111,060	9,233	190,402	—
Loans and bills discounted	5,739,483	4,340,292	3,488,975	1,889,077	2,088,681	5,383,916
Total	$6,468,205	$6,343,063	$5,671,033	$3,660,519	$3,379,859	$5,383,916

	Millions of Yen					
	2012					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits with banks	¥ 500	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	13,502	—	—	—	—	—
Securities:	89,426	152,342	300,048	92,981	101,587	—
Held-to-maturity securities:	15,635	42,588	34,887	—	—	—
Japanese government bonds	—	—	—	—	—	—
Japanese local government bonds	13,935	39,088	33,400	—	—	—
Japanese corporate bonds	1,700	3,500	1,487	—	—	—
Available-for-sale securities:	73,791	109,754	265,161	92,981	101,587	—
Japanese government bonds	—	10,000	193,000	88,000	99,000	—
Japanese local government bonds	40,529	51,259	36,563	3,051	50	—
Japanese corporate bonds	25,899	28,514	16,566	569	1,500	—
Others	7,363	19,981	19,032	1,361	1,037	—
Loans and bills discounted	500,385	425,900	301,137	184,936	190,519	489,598
Total	¥603,813	¥578,242	¥601,185	¥277,917	¥292,106	¥489,598

Note: Loans in legal bankruptcy, virtual bankruptcy and potential bankruptcy amounting to ¥72,475 million ($770,437 thousand) and ¥69,451 million and loans and bills discounted without maturities amounting to ¥15,943 million ($169,481 thousand) and ¥17,340 million were excluded from the table above as of March 31, 2013 and 2012.

(Note 4) Maturities of borrowed money and others were as follows:

	Millions of Yen					
	2013					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	¥2,750,761	¥94,431	¥17,809	¥—	¥ —	¥—
Negotiable certificate of deposits	13,383	—	—	—	—	—
Payables under securities lending transactions	55,285	—	—	—	—	—
Borrowed money	5,109	469	2,524	—	8,200	—
Corporate bonds	—	—	—	—	28,000	—
Total	¥2,824,538	¥94,900	¥20,333	¥—	¥36,200	¥—

	Thousands of U.S. Dollars					
	2013					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	$29,241,644	$1,003,841	$189,317	$—	$ —	$—
Negotiable certificate of deposits	142,265	—	—	—	—	—
Payables under securities lending transactions	587,705	—	—	—	—	—
Borrowed money	54,306	4,985	26,826	—	87,169	—
Corporate bonds	—	—	—	—	297,651	—
Total	$30,025,920	$1,008,826	$216,143	$—	$384,820	$—

	Millions of Yen					
	2012					
	1 Year or Less	1 to 3 Years	3 to 5 Years	5 to 7 Years	7 to 10 Years	Over 10 Years
Deposits	¥2,658,984	¥93,623	¥18,196	¥—	¥ —	¥—
Negotiable certificate of deposits	48,714	—	—	—	—	—
Payables under securities lending transactions	60,114	—	—	—	—	—
Borrowed money	1,962	5,414	8,201	—	3,000	—
Corporate bonds	—	—	—	—	28,000	—
Total	¥2,769,774	¥99,037	¥26,397	¥—	¥31,000	¥—

Note: Demand deposits were included in "1 Year or Less."

31. SEGMENT INFORMATION

Segment Information

(1) Outline of the reported segments

The reported segments of the Company are those units for which separate financial statements can be obtained and which are regularly examined by the management meeting for decisions on the allocation of management resources and for assessing business performance.

The Group engages in financial services such as credit card operations, credit guarantee operations, lease operations, agent for office functions, venture capital centering on banking operations.

As the banking operations accounts for the large portion of the Group, the reported segment of the Group is only "Banking Operations Segment" conducted by the Bank and other operations conducted by the consolidated subsidiaries are included in "Other."

(2) Calculation method of the amount of ordinary income, segment profit or loss, assets and other items by the reported segment

Accounting method of the reported segment is almost the same to the mention in "Significant Accounting Policies." Business conditions of the transactions between the reported segment and "Other" and transactions in "Other" are same as general trade.

Differences between total of the segment profit and other and the profit on the consolidated statement of income and the segment asset and "Other" asset and asset on the consolidated balance sheet are described in (3).

(3) Information related to operating income, segment profit or loss, assets and other items by the reported segment

For the year ended March 31, 2013

	Millions of Yen				
	2013				
	Reported Segment				
	Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	¥ 56,996	¥ 8,179	¥ 65,175	¥ —	¥ 65,175
Intersegment income	594	3,519	4,113	(4,113)	—
Total	57,590	11,698	69,288	(4,113)	65,175
Segment profit	10,538	2,034	12,572	(239)	12,333
Segment asset	3,163,804	670,501	3,834,305	(664,469)	3,169,836
Other items:					
Depreciation	3,542	68	3,610	(62)	3,548
Interest income	41,102	1,466	42,568	(1,087)	41,481
Financing expenses	3,311	179	3,490	(733)	2,757
Increase in tangible and intangible fixed assets	3,179	103	3,282	—	3,282

	Thousands of U.S. dollars				
	2013				
	Reported Segment				
	Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	$ 605,887	$ 86,944	$ 692,831	$ —	$ 692,831
Intersegment income	6,310	37,408	43,718	(43,718)	—
Total	612,197	124,352	736,549	(43,718)	692,831
Segment profit	112,024	21,620	133,644	(2,541)	131,103
Segment asset	33,632,442	7,127,686	40,760,128	(7,063,565)	33,696,563
Other items:					
Depreciation	37,655	719	38,374	(658)	37,716
Interest income	436,924	15,587	452,511	(11,554)	440,957
Financing expenses	35,202	1,905	37,107	(7,796)	29,311
Increase in tangible and intangible fixed assets	33,792	1,098	34,890	—	34,890

Notes: 1. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.
2. "Other" consists of other banking related activities such as credit card operations, credit guarantee, leasing operations, entrusted account and venture capital.
3. Adjustments include items below.
a. Segment profit adjustments –¥239 million (–$2,541 thousand) are adjustment in consolidation accounting.
b. Segment assets adjustments –¥664,469 million (–$7,063,565 thousand) are adjustment in consolidation accounting.
c. Depreciation adjustments –¥62 million (–$658 thousand), interest income adjustments –¥1,087 million (–$11,554 thousand), financing expenses –¥733 million (–$7,796 thousand) are adjustment in consolidation accounting.
4. Segment profit is adjusted to ordinary income on the consolidated statements of income.

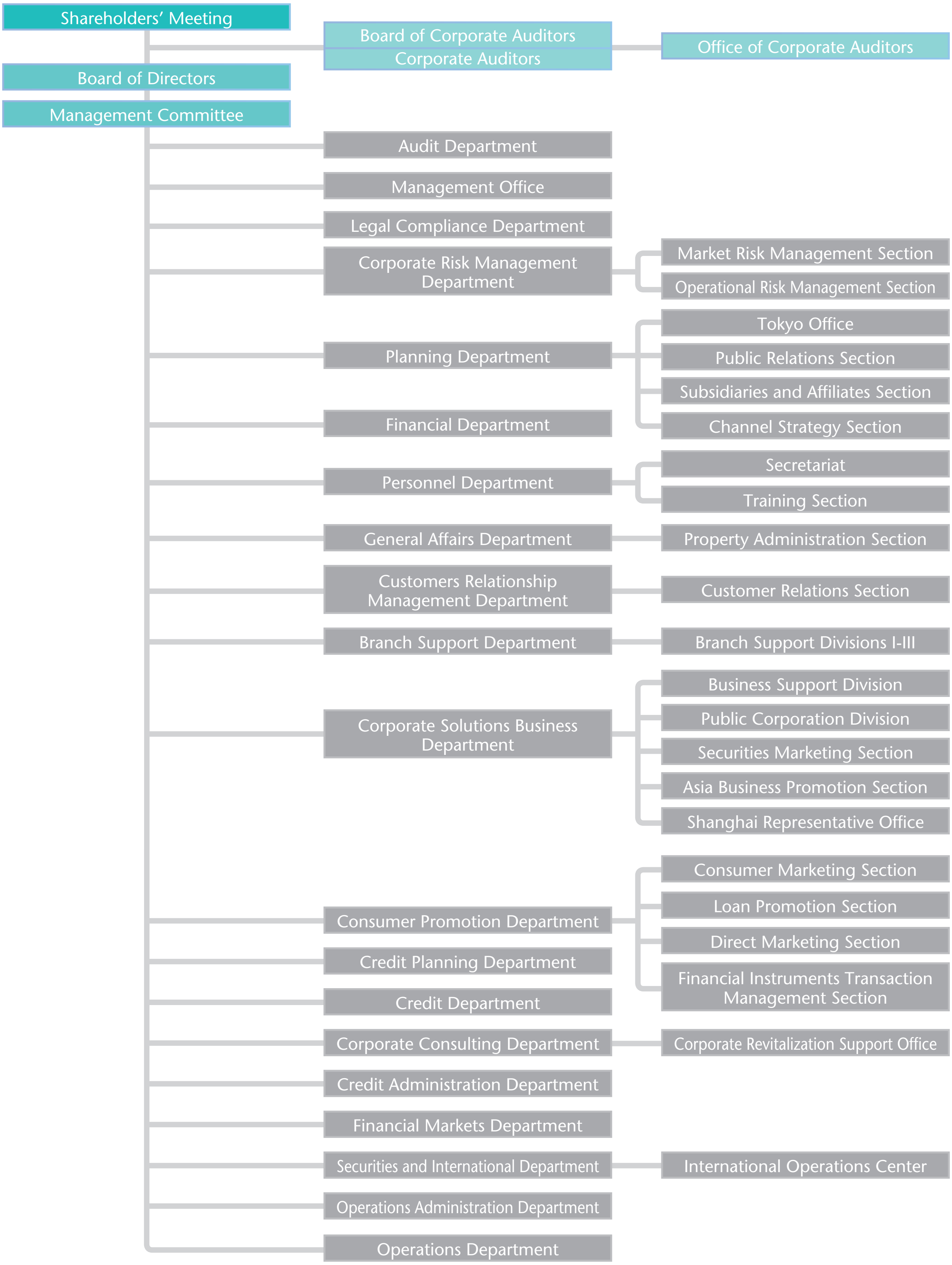
For the year ended March 31, 2012

	Millions of Yen				
	2012				
	Reported Segment				
	Banking	Other	Total	Adjustments	Consolidated
Operating income:					
Outside customers	¥ 58,171	¥ 7,086	¥ 65,257	¥ —	¥ 65,257
Intersegment income	250	3,123	3,373	(3,373)	—
Total	58,421	10,209	68,630	(3,373)	65,257
Segment profit	9,874	2,307	12,181	141	12,322
Segment asset	3,078,950	650,212	3,729,162	(639,812)	3,089,350
Other items:					
Depreciation	3,449	53	3,502	(53)	3,449
Interest income	43,168	1,572	44,740	(754)	43,986
Financing expenses	3,679	174	3,853	(725)	3,128
Increase in tangible and intangible fixed assets	4,356	26	4,382	—	4,382

Notes: 1. Operating income means total income less certain special income included in other income in the accompanying consolidated statements of income.
2. "Other" consists of other banking related activities such as credit card operations, credit guarantee, leasing operations, entrusted account and venture capital.
3. Adjustments include items below.
a. Segment profit adjustments ¥141 million are adjustment in consolidation accounting.
b. Segment assets adjustments –¥639,812 million are adjustment in consolidation accounting.
c. Depreciation adjustments –¥53 million, interest income adjustments –¥754 million, financing expenses –¥725 million are adjustment in consolidation accounting.
4. Segment profit is adjusted to ordinary income on the consolidated statements of income.

CORPORATE ORGANIZATION (As of April 1, 2013)

[Section, etc. under Department]



CORPORATE OFFICERS (As of June 27, 2013)

Directors, Corporate Auditors and Executive Officers

President *(Representative Director)*
Shunji Ono*

Senior Managing Directors *(Representative Directors)*
Seiji Goto*
Shigeru Sadakari*

Managing Directors
Hisashi Yasukuni*
Shinya Kimura*
(General Manager of Financial Markets Department)
Tomohiko Kondo*

Director
Tadaharu Ohashi *(external)*

Corporate Auditors
Masayasu Kikuchi *(full-time)*
Takatsugu Nishimura *(full-time)*
Katsuyuki Watanabe *(external)*
Hironori Oasa *(external)*
Nobuya Amabe *(external)*

* Executive Officers

Managing Executive Officers
Shizuya Kajitani
Takeshi Morimoto
(General Manager of Tokyo Branch and General Manager of Tokyo Office, Planning Department)
Yoshio Sonoo

Executive Officers
Kazuo Ueda
(General Manager of Kakogawa Branch)
Katsuyoshi Namba
(General Manager of Audit Department)
Ikuhisa Tokuda
(General Manager of General Affairs Department)
Takashi Murakami
(General Manager of Corporate Consulting Department)
Toshihiko Kishimoto
(General Manager of Head Office Business Promotion)
Masashi Kondo
(General Manager of Corporate Risk Management Department)
Toru Nakajima
(General Manager of Consumer Promotion Department)
Kenjiro Oda
(General Manager of Planning Department)
Kaoru Aso
(General Manager of Osaka Branch)

CORPORATE DATA (As of March 31, 2013)

Company Name:	The Minato Bank, Ltd.
Head Office:	1-1, Sannomiya-cho 2-chome, Chuo-ku, Kobe, Hyogo, 651-0193, Japan Phone: 078-331-8141 URL: http://www.minatobk.co.jp
Authorized Shares:	1,000 million shares
Outstanding Shares:	410,940 thousand shares
Stated Capital:	27.4 billion yen
Number of Shareholders:	9,094
Date of Incorporation:	September 1949 (Company name was changed to The Minato Bank, Ltd. in April 1999.)
Domestic Network:	106 locations (Hyogo: 101, Osaka: 4, Tokyo: 1)
Number of Employees:	2,087
Stock Listings:	The 1st sections of the Tokyo Stock Exchange and the Osaka Securities Exchange
Credit Rating:	Long-term senior debt rating: A– (Japan Credit Rating Agency, Ltd.) Moody's long-term deposit rating: A2 (Moody's Investors Service)

GROUP STRUCTURE (As of March 31, 2013)

- Sumitomo Mitsui Financial Group, Inc.
  - Sumitomo Mitsui Banking Corporation
- The Minato Bank, Ltd.
  - Banking business
    - Head Office, 101 branches and 4 sub-branches
  - Other business
    - Minato Business Service Co., Ltd. (Centralized processing of administrative operations for the Bank)
    - Minato Asset Research Co., Ltd. (Real-estate research business)
    - Minato Guarantee Co., Ltd. (Credit guarantee business)
    - Minato Lease Co., Ltd. (Lease, factoring business, etc.)
    - Minato Card Co., Ltd. (Credit card business)
    - Minato System Co., Ltd. (Computer related business)
    - Minato Capital Co., Ltd. (Venture capital investment business, Management consulting business, etc.)
    - Minato Consulting Co., Ltd. (Consulting business)
    - Minato Preferred Capital Cayman Limited (Finance)
    - Six investment limited partnerships

MAJOR SHAREHOLDERS (As of March 31, 2013)

Name	Number of Shares (Thousands)	Percentage (%)
Sumitomo Mitsui Banking Corporation	184,828	45.04
Minato Bank Kyoueikai	30,315	7.38
Nippon Life Insurance Company	12,001	2.92
Japan Trustee Services Bank, Ltd. (trust accounts)	10,338	2.51
Minato Bank Employees' Shareholding Association	8,858	2.15
Aioi Nissay Dowa Insurance Co., Ltd.	5,661	1.37
Mitsui Sumitomo Insurance Co., Ltd.	5,220	1.27
Sumitomo Life Insurance Company	5,203	1.26
Sumitomo Mitsui Banking Corporation (trust accounts)	4,901	1.19
Tokio Marine & Nichido Fire Insurance Co., Ltd.	3,840	0.93

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