# Annual Securities Report

*"Yukashoken Hokokusho"*

(Excerpt)

For the fiscal years ended March 31, 2011 and 2010

FIDEA HOLDINGS CO. LTD.

**FIDEA Holdings Co. Ltd.**

**and Subsidiaries**

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets: | | | |
| Cash and due from banks (Notes 18 and 24) | ¥ 86,352 | ¥ 42,596 | $ 1,038,508 |
| Call loans and bills bought (Note 24) | 40,831 | 65,500 | 491,052 |
| Monetary claims bought (Note 24) | 5,072 | 5,038 | 60,998 |
| Trading account securities (Notes 5 and 24) | 770 | 687 | 9,260 |
| Money held in trust (Notes 6 and 24) | 969 | 1,000 | 11,653 |
| Securities (Notes 5, 6, 11, 14 and 24) | 586,296 | 547,609 | 7,051,064 |
| Loans and bills discounted (Notes 7, 23 and 24) | 1,446,861 | 1,406,683 | 17,400,613 |
| Foreign exchange assets (Note 24) | 2,137 | 1,426 | 25,700 |
| Tangible fixed assets (Note 8): | | | |
| Buildings | 10,034 | 10,259 | 120,673 |
| Land | 11,359 | 11,380 | 136,608 |
| Lease assets | 328 | 400 | 3,944 |
| Construction in progress | 79 | 1 | 950 |
| Other tangible fixed assets | 2,015 | 2,812 | 24,233 |
| Intangible fixed assets: | | | |
| Software | 813 | 982 | 9,777 |
| Goodwill | 512 | 548 | 6,157 |
| Other intangible fixed assets | 140 | 142 | 1,683 |
| Deferred tax assets (Note 21) | 15,427 | 16,823 | 185,532 |
| Customers' liabilities for acceptances and guarantees | 14,792 | 16,814 | 177,895 |
| Other assets (Note 11) | 10,103 | 12,678 | 121,503 |
| Allowance for loan losses (Notes 7 and 24) | (21,304) | (27,462) | (256,211) |
| Total assets | ¥ 2,213,596 | ¥ 2,115,924 | $ 26,621,719 |

(Continued)

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Liabilities: | | | |
| Deposits (Note 24) | ¥ 1,950,216 | ¥ 1,895,388 | $ 23,454,191 |
| Negotiable certificates of deposit (Note 24) | 64,326 | 49,483 | 773,613 |
| Call money and bills sold (Notes 11 and 24) | 16,000 | 5,402 | 192,423 |
| Borrowed money (Notes 10, 11 and 24) | 75,614 | 42,516 | 909,368 |
| Foreign exchange liabilities (Note 24) | 17 | 0 | 204 |
| Bonds payable (Notes12 and 24) | 10,000 | 20,700 | 120,264 |
| Provision for bonuses | 355 | 247 | 4,269 |
| Provision for retirement benefits (Note 13) | 2,194 | 2,958 | 26,386 |
| Provision for reimbursement of deposits | 369 | 233 | 4,437 |
| Provision for contingent loss | 314 | 150 | 3,776 |
| Other provisions | 62 | 66 | 745 |
| Deferred tax liabilities (Notes 6 and 21) | 24 | 11 | 288 |
| Deferred tax liabilities for land revaluation (Note 9) | 762 | 764 | 9,164 |
| Negative goodwill | — | 4,142 | — |
| Acceptances and guarantees | 14,792 | 16,814 | 177,895 |
| Other liabilities (Note 10) | 22,211 | 21,005 | 267,119 |
| Total liabilities | 2,157,263 | 2,059,885 | 25,944,233 |
| Net assets (Note 15): | | | |
| Common stock | 15,000 | 15,000 | 180,396 |
| Capital surplus | 24,744 | 34,712 | 297,582 |
| Retained earnings | 16,764 | 13,743 | 201,611 |
| Treasury stock | (0) | (9,972) | (0) |
| Total shareholders' equity | 56,508 | 53,484 | 679,591 |
| Accumulated other comprehensive income: | | | |
| Unrealized loss on available-for-sale securities (Note 6) | (3,318) | (1,149) | (39,903) |
| Deferred loss on derivatives under hedge accounting | (17) | (18) | (204) |
| Revaluation reserve for land (Note 9) | 1,024 | 1,027 | 12,315 |
| Total accumulated other comprehensive income | (2,311) | (140) | (27,793) |
| Minority interests | 2,136 | 2,694 | 25,688 |
| Total net assets | 56,333 | 56,038 | 677,486 |
| Total liabilities and net assets | ¥ 2,213,596 | ¥ 2,115,924 | $ 26,621,719 |

See notes to consolidated financial statements.

(Concluded)

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Statements of Income**
**Years Ended March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Income: | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 29,602 | ¥ 23,036 | $ 356,007 |
| Interest and dividends on securities | 4,915 | 3,112 | 59,110 |
| Other | 102 | 71 | 1,226 |
| Fees and commissions | 9,037 | 6,620 | 108,683 |
| Other operating income | 6,009 | 3,612 | 72,266 |
| Other income | 3,448 | 2,118 | 41,467 |
| Total income | 53,117 | 38,573 | 638,809 |
| Expenses: | | | |
| Interest expenses: | | | |
| Interest on deposits | 3,187 | 3,237 | 38,328 |
| Interest on borrowings and rediscounts | 152 | 147 | 1,828 |
| Interest on bonds payable | 345 | 290 | 4,149 |
| Other | 26 | 27 | 312 |
| Fees and commissions | 2,684 | 2,365 | 32,279 |
| Other operating expenses | 4,280 | 759 | 51,473 |
| General and administrative expenses | 29,264 | 22,227 | 351,942 |
| Provision of allowance for loan losses | 5,311 | 3,212 | 63,872 |
| Other expenses (Note 16) | 2,667 | 1,791 | 32,074 |
| Total expenses | 47,922 | 34,060 | 576,331 |
| Income before income taxes and minority interests | 5,194 | 4,513 | 62,465 |
| Income taxes (Note 21): | | | |
| Current | 168 | 179 | 2,020 |
| Deferred | 1,868 | 1,286 | 22,465 |
| Total income taxes | 2,037 | 1,466 | 24,497 |
| Net income before minority interests | 3,157 | | 37,967 |
| Minority interests in net (loss) earnings | (516) | 179 | (6,205) |
| Net income | ¥ 3,674 | ¥ 2,868 | $ 44,185 |

| | Yen | | U.S. dollars |
|---|---|---|---|
| Per share of common stock (Note 26): | | | |
| Basic net income | ¥ 24.51 | ¥ 21.66 | $ 0.2947 |
| Diluted net income | 18.03 | 21.64 | 0.2168 |
| Cash dividends applicable to the year | 5.00 | 5.00 | 0.0601 |

See notes to consolidated financial statements.

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Statement of Comprehensive Income**
**Year Ended March 31, 2011**

| | Millions of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|
| | 2011 | 2011 |
| Net income before minority interests | ¥ 3,157 | $ 37,967 |
| Other comprehensive income (Note 17): | | |
| Unrealized loss on available-for-sale securities | (2,181) | (26,229) |
| Deferred loss on derivatives under hedge accounting | 0 | 0 |
| Total other comprehensive income | (2,181) | (26,229) |
| Comprehensive income (Note 17) | ¥ 976 | $ 11,737 |
| Total comprehensive income attributable to (Note 17): | | |
| Owners of the parent | ¥ 1,493 | $ 17,955 |
| Minority interests | (517) | (6,217) |
| | ¥ 976 | $ 11,737 |

See notes to consolidated financial statements.

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Changes in Net Assets
### Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Common stock: | | | |
| Balance at the beginning of year | ¥ 15,000 | ¥ 14,200 | $ 180,396 |
| Decrease due to transfer of shares | — | (4,200) | — |
| Issuance of preferred shares | — | 5,000 | — |
| Balance at the end of year | 15,000 | 15,000 | 180,396 |
| Capital surplus: | | | |
| Balance at the beginning of year | 34,712 | 12,056 | 417,462 |
| Increase due to transfer of shares | — | 18,114 | — |
| Issuance of preferred shares | — | 5,000 | — |
| Cancellation of preferred shares | (9,968) | — | (119,879) |
| Sale of treasury stock | 0 | (0) | 0 |
| Cancellation of treasury stock | — | (457) | — |
| Balance at the end of year | 24,744 | 34,712 | 297,582 |
| Retained earnings: | | | |
| Balance at the beginning of year | 13,743 | 10,844 | 165,279 |
| Cash dividends | (717) | — | (8,622) |
| Net income | 3,674 | 2,868 | 44,185 |
| Reversal of revaluation reserve for land | 2 | 31 | 24 |
| Decrease due to a decrease in number of consolidated subsidiaries | (1) | — | (12) |
| Increase due to a change in interests | 64 | — | 769 |
| Balance at the end of year | 16,764 | 13,743 | 201,611 |
| Treasury stock: | | | |
| Balance at the beginning of year | (9,972) | (444) | (119,927) |
| Increase due to transfer of shares | — | (9,971) | — |
| Acquisition of treasury stock | (0) | (15) | (0) |
| Sale of treasury stock | 3 | 1 | 36 |
| Cancellation of treasury stock | — | 457 | — |
| Cancellation of preferred shares | 9,968 | — | 119,879 |
| Balance at the end of year | (0) | (9,972) | (0) |
| Total shareholders' equity: | | | |
| Balance at the beginning of year | 53,484 | 36,656 | 643,223 |
| Cash dividends | (717) | — | (8,622) |
| Increase due to transfer of shares | — | 3,942 | — |
| Issuance of preferred shares | — | 10,000 | — |
| Net income | 3,674 | 2,868 | 44,185 |
| Acquisition of treasury stock | (0) | (15) | (0) |
| Sale of treasury stock | 3 | 0 | 36 |
| Reversal of revaluation reserve for land | 2 | 31 | 24 |
| Decrease due to a decrease in number of consolidated subsidiaries | (1) | — | (12) |
| Increase due to a change in interests | 64 | — | 769 |
| Balance at the end of year | 56,508 | 53,484 | 679,591 |

| | | | |
|---|---|---|---|
| Accumulated other comprehensive income: | | | |
| Unrealized loss on available-for-sale securities: | | | |
| Balance at the beginning of year | (1,149) | (9,693) | (13,818) |
| Net change in the year | (2,169) | 8,544 | (26,085) |
| Balance at the end of year | (3,318) | (1,149) | (39,903) |
| Deferred loss on derivatives under hedge accounting: | | | |
| Balance at the beginning of year | (18) | (16) | (216) |
| Net change in the year | 0 | (1) | 0 |
| Balance at the end of year | (17) | (18) | (204) |

(Continued)

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Statements of Changes in Net Assets**
**Years Ended March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Revaluation reserve for land: | | | |
| Balance at the beginning of year | ¥ 1,027 | ¥ 1,058 | $ 12,351 |
| Net change | (2) | (31) | (24) |
| Balance at the end of year | 1,024 | 1,027 | 12,315 |
| Total accumulated other comprehensive income: | | | |
| Balance at the beginning of year | (140) | (8,652) | (1,683) |
| Net change in the year | (2,171) | 8,512 | (26,109) |
| Balance at the end of year | (2,311) | (140) | (27,793) |
| Minority interests: | | | |
| Balance at the beginning of year | 2,694 | 670 | 32,399 |
| Net change in the year | (558) | 2,024 | (6,710) |
| Balance at the end of year | 2,136 | 2,694 | 25,688 |
| Total net assets: | | | |
| Balance at the beginning of year | 56,038 | 28,674 | 673,938 |
| Cash dividends | (717) | — | (8,622) |
| Increase due to transfer of shares | — | 3,942 | — |
| Issuance of preferred shares | — | 10,000 | — |
| Net income | 3,674 | 2,868 | 44,185 |
| Acquisition of treasury stock | (0) | (15) | (0) |
| Sale of treasury stock | 3 | 0 | 36 |
| Reversal of revaluation reserve for land | 2 | 31 | 24 |
| Decrease due to a decrease in number of consolidated subsidiaries | (1) | — | (12) |
| Increase due to a change in interests | 64 | — | 769 |
| Net change in the year | (2,729) | 10,537 | (32,820) |
| Balance at the end of year | ¥ 56,333 | ¥ 56,038 | $ 677,486 |

See notes to consolidated financial statements.

(Concluded)

## FIDEA Holdings Co. Ltd. and Subsidiaries

### Consolidated Statements of Cash Flows
### Years Ended March 31, 2011 and 2010

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Operating activities: | | | |
| Income before income taxes and minority interests | ¥ 5,194 | ¥ 4,513 | $ 62,465 |
| Adjustments for: | | | |
| Income taxes—(paid) refund | (376) | 217 | (4,521) |
| Depreciation and amortization | 2,346 | 1,843 | 28,214 |
| Loss on impairment fixed assets | 77 | 71 | 926 |
| Amortization of goodwill | 132 | 60 | 1,587 |
| Amortization of negative goodwill | (921) | (465) | (11,076) |
| Change in allowance for loan losses | (6,158) | 1,654 | (74,058) |
| Change in provision for bonuses | 107 | 122 | 1,286 |
| Change in provision for retirement benefits | (763) | (597) | (9,176) |
| Change in provision for reimbursement of deposits | 136 | 1 | 1,635 |
| Change in provision for loss on guarantees | — | (593) | — |
| Change in provision for contingent loss | 163 | 13 | 1,960 |
| Change in other provisions | (3) | 5 | (36) |
| Interest income | (34,622) | (26,221) | (416,380) |
| Interest expenses | 3,712 | 3,705 | 44,642 |
| Loss (gain) on securities—net | 141 | (1,568) | 1,695 |
| Loss (gain) on money held in trust—net | 45 | (5) | 541 |
| Foreign exchange losses—net | 8 | 14 | 96 |
| Loss on sale and disposal of fixed assets—net | 169 | 149 | 2,032 |
| Net change in loans and bills discounted | (40,178) | (1,804) | (483,199) |
| Net change in deposits | 54,827 | 60,324 | 659,374 |
| Net change in negotiable certificates of deposit | 14,843 | (33,809) | 178,508 |
| Net change in trading account securities | (82) | (214) | (986) |
| Net change in borrowed money, excluding subordinated borrowings | 33,097 | 36,677 | 398,039 |
| Net change in due from banks, excluding due from the BoJ | 1,306 | (58) | 15,706 |
| Net change in call loans and bills bought | 24,634 | (19,025) | 296,259 |
| Net change in call money | 10,597 | (25,538) | 127,444 |
| Net change in foreign exchange assets | (711) | 530 | (8,550) |
| Net change in foreign exchange liabilities | 17 | (0) | 204 |
| Interest received | 34,561 | 26,003 | 415,646 |
| Interest paid | (4,248) | (4,397) | (51,088) |
| Other—net | 1,380 | 2,598 | 16,596 |
| Total adjustments | 94,244 | 19,693 | 11,133,421 |
| Net cash provided by operating activities—(Forward) | ¥ 99,438 | ¥ 24,206 | $ 1,195,886 |

(Continued)

## FIDEA Holdings Co. Ltd. and Subsidiaries

**Consolidated Statements of Cash Flows**
**Years Ended March 31, 2011 and 2010**

| | Millions of yen 2011 | Millions of yen 2010 | Thousands of U.S. dollars (Note 1) 2011 |
|---|---|---|---|
| Net cash provided by operating activities—(Forward) | ¥ 99,438 | ¥ 24,206 | $ 1,195,886 |
| Investing activities: | | | |
| Purchase of securities | (359,812) | (260,124) | (4,327,263) |
| Proceeds from sales of securities | 276,569 | 177,684 | 3,326,145 |
| Proceeds from maturity of investment securities | 41,850 | 41,009 | 503,307 |
| Increase in money held in trust | (3,000) | (3,035) | (36,079) |
| Decrease in money held in trust | 3,000 | 3,003 | 36,079 |
| Purchase of tangible fixed assets | (1,183) | (1,139) | (14,227) |
| Proceeds from sales of tangible fixed assets | 134 | 50 | 1,611 |
| Purchase of intangible fixed assets | (284) | (237) | (3,415) |
| Proceeds from sales of shares in a subsidiary | 2 | — | 24 |
| Net cash used in investing activities | (42,723) | (42,789) | (513,806) |
| Financing activities: | | | |
| Proceeds from issuance of subordinated bonds | 4,950 | — | 59,530 |
| Payment for redemption of subordinated bonds | (15,700) | — | (188,815) |
| Proceeds from issuance of common stock | — | 10,000 | — |
| Payment for stock issuance costs | — | (35) | — |
| Repayment of lease obligations | (131) | (92) | (1,575) |
| Dividends paid | (713) | (0) | (8,574) |
| Dividends paid to minority interests | (53) | — | (637) |
| Purchase of treasury stock | (0) | (15) | (0) |
| Proceeds from sales of treasury stock | 3 | 0 | 36 |
| Net cash (used in) provided by financing activities | (11,644) | 9,857 | (140,036) |
| Foreign currency translation adjustments on cash and cash equivalents | (8) | 10 | (96) |
| Net (decrease) increase in cash and cash equivalents | 45,062 | (8,714) | 541,936 |
| Cash and cash equivalents, beginning of year | 36,903 | 21,984 | 443,812 |
| Net increase in cash and cash equivalents due to transfer of shares | — | 23,633 | — |
| Cash and cash equivalents, end of year (Note 18) | ¥ 81,965 | ¥ 36,903 | $ 985,748 |

See notes to consolidated financial statements.

(Concluded)

# Notes to Consolidated Financial Statements

FIDEA Holdings Co. Ltd. and Subsidiaries
Years Ended March 31, 2011 and 2010

## 1. Basis of Presentation

FIDEA Holdings Co. Ltd. (the "Company") is a holding company and conducts its operations through its subsidiaries and affiliates. The Company was established as a joint holding company between The Shonai Bank, Ltd. ("Shonai") and The Hokuto Bank, Ltd. ("Hokuto") on October 1, 2009 by way of a transfer of shares. The accompanying consolidated financial statements include operating results of Shonai and Hokuto for the year ended March 31, 2010.

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, the Enforcement Regulation for the Banking Law of Japan (the "Banking Law") and the Companies Act (the "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.

As discussed in Note 3 (18), a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheets and the consolidated statements of changes in net assets.
Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 17. In addition, "Net income before minority interests" is disclosed in the consolidated statements of income.

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.

In preparing the accompanying consolidated financial statements, Japanese yen amounts are presented in millions of yen by rounding down figures below one million. As a result, the totals in yen in the accompanying consolidated financial statements do not necessarily agree with the sums of the individual amounts.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥83.15 = U.S.$1.00, the exchange rate prevailing on March 31, 2011. This translation should not be construed as a representation that yen can be converted into U.S. dollars at the above or any other rate.

## 2. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its 14 subsidiaries (collectively the "Group").

Under the control of influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and there is no unconsolidated subsidiary.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

The excess of the acquisition cost over the underlying equity in the net assets of the consolidated subsidiaries measured at fair value at their respective dates of acquisition is presented as "goodwill" and is amortized by the straight-line method over a period of five years. Insignificant amounts of goodwill are fully charged to income in the fiscal year when it is incurred. Negative goodwill incurred on or before March 31, 2010 is amortized using the straight-line method over a period of five years. Effective from April 1, 2010, negative goodwill is recognized as a gain when incurred in accordance with the revised accounting standard for business combinations (ASBJ Statement No. 21) issued by the Accounting Standards Board of Japan (the "ASBJ") on December 26, 2008.

The balance sheet dates of 12 subsidiaries and 2 subsidiaries are March 31 and December 31, respectively. The subsidiaries with balance sheet date as of December 31 are consolidated on that date and necessary adjustments are made in the consolidated financial statements to reflect the significant transactions occurred during the period between December 31 and March 31.

Those companies over which the Company has the ability to exercise significant influence, but does not control will be accounted for using the equity method. However, the Company has no affiliates to be accounted for using the equity method.

## 3. Significant Accounting Policies

**(1) Trading account securities**

Trading account securities are stated at fair value as of the balance sheet date and cost of trading account securities sold is determined principally using the moving average method.

**(2) Securities**

Non-trading securities are classified into two categories: held-to-maturity debt securities and available-for-sale securities. Held-to-maturity debt securities are carried at amortized cost being determined by the moving average method. Available-for-sale securities whose fair values are available are stated at fair value determined based on the quoted market price as of the balance sheet date, except for equity securities which are stated at fair value determined based on the average market price during one month before the balance sheet date. Cost of sales of theses available-for sale securities is determined using the moving average method. Available-for-sale securities, for which it is extremely difficult to obtain the fair value, are stated at cost determined by the moving-average method.

Unrealized gain or loss on available-for-sale securities is recorded under net assets, net of income taxes.

**(3) Investment securities held in money trusts**

Investment securities that are part of trust assets in independently managed money trusts with the primary purpose to manage securities are stated at fair value as of the balance sheet date.

**(4) Derivatives**

Derivatives are stated at fair value.

**(5) Tangible fixed assets**

Depreciation of tangible fixed assets of the Company and banking consolidated subsidiaries, except for lease assets, is calculated principally by the declining-balance method, while the straight-line method is applied to buildings (excluding building attachments) acquired on or after April 1, 1998. The principal useful lives are as follows:

Buildings-------------------------------------------6 to 50 years
Others----------------------------------------------4 to 20 years

Depreciation of tangible fixed assets of other subsidiaries is calculated principally by the straight-line method based on the estimated useful lives.

Lease assets under finance lease arrangements which do not transfer ownership of the lease assets to the lessee are depreciated over the respective lease contract periods using the straight-line method with salvage values defined in the lease contracts, otherwise without salvage values.

**(6) Intangible fixed assets**

Intangible fixed assets, except for lease assets, are amortized by the straight-line method. Amortization of the cost of software intended for internal use is calculated by the straight-line method based on a useful life (principally 5 years) determined by the consolidated subsidiaries.

**(7) Deferred charges**

Deferred charges including preopening expenses, business opening expenses and stock issuance costs are fully charged to expenses when paid.

**(8) Allowance for loan losses**

Allowance for loan losses is provided by the banking consolidated subsidiaries and other major consolidated subsidiaries in accordance with the prescribed standards. For claims on borrowers who have declared bankruptcy or have commenced special liquidation proceedings or similar legal proceedings ("bankrupt borrowers"), or borrowers who are not legally or formally insolvent but are regarded as substantially in the same situation ("virtually bankrupt borrowers"), an allowance is provided based on the book value of the claims, after the write-off stated below, net of the expected amount recoverable from collateral and guarantees.

For claims on borrowers who are not currently bankrupt but are likely to become bankrupt (“potentially bankrupt borrowers”), an allowance is provided at the amount deemed necessary based on the overall solvency assessment of the borrowers and the amount of the claims, net of the expected amount recoverable from collateral and guarantees.

For other claims, an allowance is provided based on the historical loan-loss ratio computed from past experiences during the certain period after categorizing into definite types.

All claims are assessed for the quality by the Asset Assessment Department with the cooperation by operating offices in accordance with the Standards for Asset Self-Assessment and then audited by the Asset Audit Department which is independent from the Asset Assessment Department. Based on the results of these assessments, an appropriate allowance is provided for the possible losses arising from doubtful assets.

For collateralized or guaranteed claims on bankrupt borrowers and virtually bankrupt borrowers of Hokuto and certain consolidated subsidiaries, the amount of the claims exceeding the estimated value of collateral and guarantees is deemed to be uncollectible and is charged off against the total amount of the outstanding claims. These write-offs amounted to ¥18,992 million ($228,406 thousand) and ¥13,332 million for the years ended March 31, 2011 and 2010, respectively.

Allowances for loan losses of other consolidated subsidiaries are provided based on the historical loan loss ratio.

**(9) Provision for bonuses**

Provision for bonuses is recorded at an estimated amount of bonuses to be paid to employees based on their services for the current fiscal period.

**(10) Provision for retirement benefits**

Provision for retirement benefits is recorded at an estimated amount based on the retirement benefit obligation and the pension plan assets as of the balance sheet date to provide for employees’ retirement benefits.

Prior service cost is amortized by the straight-line method over a period of 5 years within the average estimated remaining years of service of the eligible employees upon occurrence.

Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized by the straight-line method principally over a certain period of 10 to 15 years within the average estimated remaining years of service of the eligible employees upon occurrence.

Unrecognized transitional obligation incurred at the time of the accounting change in the amount of ¥2,710 million ($32,591 thousand) is amortized over a period of 15 years.

On July 31, 2008, the Accounting Standard Board of Japan (“ASBJ”) issued ASBJ Statement No. 19 “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)”, which requires the companies to use the discount rate determined by reference to market yields at the end of the fiscal year on high quality bonds such as long-term Japanese government bonds, government agency bonds and high quality corporate bonds. The Company adopted this amendment for the year ended March 31, 2010.

**(11) Provision for reimbursement of deposits**

Provision for reimbursement of deposits is provided at an estimated amount of the future payments to be made for reimbursement claims on deposits which were derecognized and credited from liability to income.

**(12) Provision for contingent loss**

Provision for contingent loss is provided at an estimated amount of the future payments to be made for a burden charge to the Credit Guarantee Corporations.

**(13) Other provisions**

Other provisions include provision for point service program, provision for losses on interest repayment claims and provision for losses on gift card claims.

Provision for point service program relating to credit business engaged by a consolidated subsidiary is provided for the future burdens when the service will be used at the necessary amount based on the reasonably estimated amount to be used in future.
Provision for losses on interest repayment claims is provided at an amount reasonably estimated considering the historical repayment experiences to provide for repayment claims on interest on loans made by consolidated subsidiaries exceeding the maximum interest rate stipulated by the Interest Rate Restriction Act.

**(14) Asset retirement obligations**

In March 2008, the ASBJ published the new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010. The Bank adopted this standard for the year beginning on April 1, 2010. There was no effect of applying this accounting standard on the consolidated financial statements.

**(15) Foreign currency transactions**

The assets and liabilities denominated in foreign currencies of the consolidated subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date.

**(16) Leases**

Finance leases which commenced prior to April 1, 2008, except for those substantially requiring the transfer of ownership of the leased assets to the lessee, are accounted for as operating leases.

**(17) Hedge accounting**

*Interest rate risk hedging*

With respect to hedge accounting for the interest rate risk arising from financial assets and liabilities of the banking consolidated subsidiaries, the Group applies deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the Japanese Institute of Certified Public Accountants (JICPA) Industry Audit Committee Report No. 24. With respect to hedging transactions to offset fluctuations of the market price, the effectiveness of hedging transactions is assessed by specifying the hedged items such as deposits and loans and hedging instruments such as interest rate swaps and grouping these items by definite remaining maturity. With respect to hedging transactions to fix cash flows, the effectiveness of hedging is assessed by verifying the correlation of interest floating factors of hedged items and hedging instruments.

*Foreign exchange rate risk hedging*

With respect to the hedge accounting for the foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies of the banking consolidated subsidiaries, the Group adopted deferral hedge accounting, under which gains or losses on derivatives are deferred until maturity of the hedged transactions, as stipulated in the JICPA Industry Audit Committee Report No. 25. The Group assesses the effectiveness of its currency swaps and foreign exchange swaps entered into in order to hedge the risk of fluctuation in foreign exchange rates by comparing the foreign-currency amount of each underlying hedged item with the corresponding foreign-currency amount of the respective hedge.
In addition, the fair value hedge is applied as portfolio hedging on the condition that spot or future liabilities exceeding the acquisition costs of the foreign currency denominated securities on a basis of foreign currency exist, designating the issues of foreign currency denominated securities to be hedged in advance.

**(18) Presentation of Comprehensive Income**

On June 30, 2010, the ASBJ issued ASBJ Statement No. 25 "Accounting Standard for Presentation of Comprehensive Income". This standard requires the entities to present comprehensive income which refers to the change in net assets in an entity's financial statements for a period, other than those changes resulting from direct transactions with equity holders in the entity's net assets in either of a format composed of the statement of income that presents net income and the statement of comprehensive income that presents calculation of comprehensive income (two-statement format) or a format using one statement (statement of income and comprehensive income) that presents net income and comprehensive income (one-statement format). Calculation of comprehensive income for consolidated financial statements shall present net income before adjusting minority interests and additions or deductions of other comprehensive income consisting of net unrealized gain or loss on available-for-securities, deferred gain or loss on hedges under hedge accounting and revaluation reserve for land. Effective March 31, 2011, the Company adopted this standard

**(19) Consumption taxes**

Transactions are principally stated exclusive of national and municipal consumption taxes.

**(20) Cash and cash equivalents**

In preparing the consolidated statement of cash flows, cash and deposits with The Bank of Japan ("BoJ") are considered to be cash and cash equivalents.

**4. Business Combination**

The Company was established by way of a transfer of shares between The Shonai Bank, Ltd. (Shonai) and The Hokuto Bank, Ltd. (Hokuto) on October 1, 2009. In accounting for the transfer of shares, the purchase method of accounting was applied, as defined in the accounting standard for business combination, for Shonai as an acquirer and Hokuto as an acquiree.

1. Name of the acquiree, its businesses, major reason for business combination, date of the business combination, legal form of the business combination and name of the company after business combination
   (1) Name of the acquiree and its businesses
   The Hokuto Bank, Ltd., which is engaged in banking business
   (2) Major reason for business combination
   Both banks integrated their management by establishing a joint holding company, "FIDEA Holdings Co. Ltd." through a transfer of shares effective October 1, 2009, because the management believed that it is essential to incorporate a regional banking holding company as an open platform owning middle and back office function jointly, strengthening each own brand image in the respective operating areas of both banks in order to aim contribution to furthermore development of regional economy and enhancement of management efficiency.
   (3) Date of business combination
   October 1, 2009
   (4) Legal form of business combination
   Incorporation of a joint holding company through a transfer of shares
   (5) Name of the company after business combination
   FIDEA Holdings Co. Ltd.
   (6) Ownership of voting rights acquired:
   100%
2. Operating results of the acquiree included in the consolidated financial statements
   October 1, 2009 through March 31, 2010
3. Acquisition cost of the acquiree and its component
   The acquisition cost of the acquiree amounted to ¥13,914 million, which mainly corresponds to the value of shares issued to the shareholders of the acquiree.
4. Share transfer ratio by type of shares, computation method of the share transfer ratio, number of shares issued, and the fair value

   **Share transfer ratio by type of shares:**
   - One share of common stock of the Company for one share of common stock of Shonai
   - 0.15 shares of A class preferred stock of the Company for one share of A class preferred stock of Hokuto
   - 0.15 shares of common stock of the Company for one share of common stock of Hokuto

**Computation method of the share transfer ratio:**

To determine the share transfer ratio of common stock, Shonai and Hokuto designated Recof Corporation (“Recof”) and Mizuho Corporate Advisory Co., Ltd. (“Mizuho”) as a financial advisor, respectively. Recof made analyses on the value of common stock of Shonai using methods of average share analysis, comparative analysis of similar companies, modified net asset analysis and discounted dividend models, and Mizuho made analyses on the value of common stock of Hokuto using methods of comparative analyses of similar companies and discounted dividend models based on various assumptions and reserved items. Furthermore, they conducted comparative analyses on net income per share of the Company and Shonai and presented the results of their analyses to both banks. Both banks obtained their professional reports about their due diligence which was mutually conducted for the other party. With reference to these results of detailed examination on significant management status including the financial positions of both banks and professional reports from the financial advisors, both banks reached an agreement on the share transfer ratio based on the overall judgment, considering the latest financial results and status of equity of both banks and the fact that future performances and share prices of both banks and the level of future interest rates are opaque, since many financial institutions domestic and abroad have announced significant decline of operating results or losses, and also making much of the analysis result of modified net assets.

Note that Shonai and Hokuto have received professional opinions that the share transfer ratio is fair from the financial viewpoint from Recof and Mizuho, respectively.

**Number of shares issued and its fair value:**

The number of shares of common stock and preferred stock issued was 143,464,890 shares and 20,206,500 shares, respectively.

The value of common stock was measured using the average share price (¥178.20) during five days before the date when the major conditions on the business combination were agreed and published. Preferred stock was measured using the carrying value.

5. Negative goodwill incurred, its cause and amortization method and period

   **Amount of negative goodwill:** ¥3,664 million

   **Cause:** Since the acquisition cost of the acquiree, which was calculated based on the share price during five days before the announcement date on agreement on the share transfer, was lower than the fair value of net assets measured on the date of business combination, the related difference was recognized as negative goodwill.

   **Amortization method and period:** Negative goodwill is being amortized over five years on a straight-line basis.

6. Major components of assets and liabilities accepted on the date of business combination:

| | Millions of yen |
|---|---|
| **Assets:** | |
| Total assets | ¥ 1,142,725 |
| O/w, loans | 696,270 |
| O/w, securities | 352,725 |
| O/w, allowance for loan losses | (9,525) |
| **Liabilities:** | |
| Total liabilities | ¥ 1,125,145 |
| O/w, deposits | 1,037,296 |

7. Estimated impact on the consolidated financial statements for the year, assuming that the business combination were completed at the beginning of the fiscal year:

| | Millions of yen |
|---|---|
| Ordinary income | ¥ 13,669 |
| Ordinary profit | 1,450 |
| Net income | 1,035 |

The above amount of impact was calculated from the consolidated statement of income from April 1, 2009 through September 30, 2009 of Hokuto, which is an acquiree, with certain adjustments including amortization of negative goodwill.

These figures have never been audited by the external accounting auditor, Ernst & Young ShinNihon LLC.

## 5. Securities

Unrealized loss from revaluation of trading account securities amounted to ¥2 million ($24 thousand) and ¥7 million for the years ended March 31, 2011 and 2010, respectively.

Securities at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2011 | Carrying amount | Acquisition cost | Unrealized gain(loss) |
| Securities whose carrying amount exceeds acquisition cost: | | | |
| Held-to-maturity | ¥ — | ¥ — | ¥ — |
| Available-for-sale: | | | |
| Equity securities | ¥ 5,660 | ¥ 4,616 | ¥ 1,043 |
| Debt securities: | 362,869 | 359,136 | 3,732 |
| Japanese government bonds | 167,897 | 166,026 | 1,870 |
| Municipal bonds | 104,769 | 103,719 | 1,050 |
| Corporate bonds | 90,202 | 89,390 | 811 |
| Other | 26,024 | 24,831 | 1,193 |
| Subtotal | ¥ 394,553 | ¥ 388,584 | ¥ 5,969 |
| Securities whose acquisition cost exceeds acquisition cost: | | | |
| Held-to-maturity | ¥ — | ¥ — | ¥ — |
| Available-for-sale: | | | |
| Equity securities | ¥ 10,937 | ¥ 12,405 | ¥ (1,468) |
| Debt securities: | 130,571 | 132,093 | (1,521) |
| Japanese government bonds | 64,420 | 65,180 | (759) |
| Municipal bonds | 24,960 | 25,362 | (402) |
| Corporate bonds | 41,190 | 41,550 | (359) |
| Other | 46,353 | 52,054 | (5,701) |
| Subtotal | ¥ 187,862 | ¥ 196,553 | ¥ (8,691) |
| Total | ¥ 582,415 | ¥ 585,137 | ¥ (2,721) |

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2010 | Carrying amount | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying amount exceeds acquisition cost: | | | |
| Held-to-maturity | ¥ — | ¥ — | ¥ — |
| Available-for-sale: | | | |
| Equity securities | ¥ 11,236 | ¥ 9,378 | ¥ 1,858 |
| Debt securities: | 348,281 | 345,298 | 2,982 |
| Japanese government bonds | 201,372 | 199,599 | 1,773 |
| Municipal bonds | 79,957 | 79,364 | 592 |
| Corporate bonds | 66,951 | 66,334 | 616 |
| Other | 43,272 | 40,753 | 2,519 |
| Subtotal | ¥ 402,790 | ¥ 395,430 | ¥ 7,360 |
| Securities whose acquisition cost exceeds acquisition cost: | | | |
| Held-to-maturity | ¥ — | ¥ — | ¥ — |
| Available-for-sale: | | | |
| Equity securities | ¥ 6,826 | ¥ 7,727 | ¥ (900) |
| Debt securities: | 94,444 | 94,949 | (505) |
| Japanese government bonds | 50,076 | 50,323 | (247) |
| Municipal bonds | 29,390 | 29,605 | (214) |
| Corporate bonds | 14,977 | 15,020 | (42) |
| Other | 39,396 | 45,430 | (6,034) |
| Subtotal | ¥ 140,667 | ¥ 148,107 | ¥ (7,439) |
| Total | ¥ 543,457 | ¥ 543,537 | ¥ (79) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| March 31, 2011 | Carrying amount | Acquisition cost | Unrealized gain (loss) |
| Securities whose carrying amount exceeds acquisition cost: | | | |
| Held-to-maturity: | $ — | $ — | $ — |
| Available-for-sale: | | | |
| Equity securities | $ 68,069 | $ 55,514 | $ 12,543 |
| Debt securities: | 4,364,028 | 4,319,134 | 44,882 |
| Japanese government bonds | 2,019,206 | 1,996,704 | 22,489 |
| Municipal bonds | 1,260,000 | 1,247,372 | 12,627 |
| Corporate bonds | 1,084,810 | 1,075,045 | 9,753 |
| Other | 312,976 | 298,628 | 14,347 |
| Subtotal | $ 4,745,075 | $ 4,673,289 | $ 71,785 |
| Securities whose acquisition cost exceeds acquisition cost: | | | |
| Held-to-maturity | $ — | $ — | $ — |
| Available-for-sale: | | | |
| Equity securities | $ 131,533 | $ 149,188 | $ (17,654) |
| Debt securities: | 1,570,306 | 1,588,610 | (18,292) |
| Japanese government bonds | 774,744 | 783,884 | (9,128) |
| Municipal bonds | 300,180 | 305,015 | (4,834) |
| Corporate bonds | 495,369 | 499,699 | (4,317) |
| Other | 557,462 | 626,025 | (68,562) |
| Subtotal | $ 2,259,314 | $ 2,363,836 | $(104,521) |
| Total | $ 7,004,389 | $ 7,037,125 | $ (32,723) |

Available-for-sale securities sold for the years ended March 31, 2011 and 2010 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2011 | Sales proceeds | Realized gain | Realized loss |
| Equity securities | ¥ 6,745 | ¥ 808 | ¥ 430 |
| Debt securities: | 249,627 | 3,526 | 97 |
| Japanese government bonds | 227,909 | 2,919 | 97 |
| Municipal bonds | 20,552 | 594 | — |
| Corporate bonds | 1,165 | 12 | — |
| Other | 16,719 | 1,228 | 735 |
| Total | ¥ 273,093 | ¥ 5,562 | ¥ 1,263 |

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2010 | Sales proceeds | Realized gain | Realized loss |
| Equity securities | ¥ 6,670 | ¥ 603 | ¥ 212 |
| Debt securities: | 149,831 | 606 | 178 |
| Japanese government bonds | 116,667 | 466 | 175 |
| Municipal bonds | 33,133 | 139 | 3 |
| Corporate bonds | 30 | 0 | — |
| Other | 21,573 | 1,196 | 39 |
| Total | ¥ 178,075 | ¥ 2,407 | ¥ 431 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| March 31, 2011 | Sales proceeds | Realized gain | Realized loss |
| Equity securities | $ 81,118 | $ 9,717 | $ 5,171 |
| Debt securities: | 3,002,128 | 42,405 | 1,166 |
| Japanese government bonds | 2,740,938 | 35,105 | 1,166 |
| Municipal bonds | 247,167 | 7,143 | — |
| Corporate bonds | 14,010 | 144 | — |
| Other | 201,070 | 14,768 | 8,839 |
| Total | $ 3,284,341 | $ 66,891 | $ 15,189 |

**Impairment loss recognized on securities**

Available-for-sale securities with fair value, whose fair value significantly declined compared with the acquisition cost, and is not considered to be able to recover their acquisition cost, are written down to the respective fair value which is recorded as the carrying amount on the consolidation balance sheet. The related loss on revaluation is charged to income for the year.

Impairment loss was recognized on above available-for-sale securities in the amount of ¥2,939 million ($35,345 thousand), consisting of ¥155 million ($1,864 thousand) of equity securities and ¥2,784 million ($33,481 thousand) of others for the year ended March 31, 2011 and ¥15 million (equity securities) for the year ended March 31, 2010.

The criteria for determining whether the fair value is “significantly declined” are defined based on the amount computed based on the average market price for one month before the balance sheet date for equity securities. In addition, impairment loss is recognized on other securities, if the fair value declined more than 50%. If the fair value is between 50% and 70% of the acquisition cost, those securities considered to be unrecoverable considering the financial status and past trend of the market value of the issuer during the past certain period are written down to the fair value.

**Measurement method of fair value**

Fair value of private placement bonds held by Hokuto, which is a consolidated subsidiary, is calculated by discounting these bonds categorized by internal rating and maturity using credit risk spread and market interest rate in accordance with the Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 44, "Auditing Matters Requiring Attention concerning Disclosure of Fair values of Financial Instruments in Banking Industry (Interim Report)", which Hokuto adopted effective the fiscal year ended March 31, 2010 .

## 6. Unrealized loss on available-for-sale securities

Unrealized loss on available-for-sale securities at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Millions of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Unrealized loss: | ¥ (2,721) | ¥ (79) | $ (32,723) |
| Available-for-sale securities | (2,721) | (79) | (32,723) |
| Money held in trust | — | — | — |
| Deferred tax liabilities: | (592) | (1,052) | (7,119) |
| Unrealized loss on available-for-sale securities before adjustments by equity interest | (3,314) | (1,132) | (39,855) |
| Minority interests | (4) | (16) | (48) |
| Unrealized loss on available-for-sale securities | ¥ (3,318) | ¥ (1,149) | $ (39,903) |

## 7. Loans and Bills Discounted and Risk Monitored Loans

**Loans and bills discounted**

Bills discounted are accounted for as finance transactions rather than as purchased bills in accordance with the JICPA Industry Audit Committee Report No. 24. The Group has the right to sell or pledge such bills without any restrictions. These include commercial bills discounted and foreign exchange bills purchased. The total face value of such finance transactions at March 31, 2011 and 2010 totaled ¥7,291 million ($87,684 thousand) ¥7,493 million, respectively.

The principal of loans transferred to a trust bank due to securitization of home mortgage loans by Hokuto amounted to ¥11,184 million ($134,503 thousand) and ¥13,448 million at March 31, 2011 and 2010, respectively. Hokuto held the related subordinated beneficiary right in the amount of ¥7,269 million ($87,420 thousand) and ¥7,445 million, of which ¥6,169 million ($74,191 thousand) and ¥6,345 million was included in "Loans and bills discounted" and ¥1,100 million ($13,229 thousand) and ¥1,100 million was included in "Cash and deposits" as of March 31, 2011 and 2010, respectively.

Loans and bills discounted at March 31, 2011 include a loan participation in an amount of ¥501 million ($6,025 thousand) accounted for as a loan to an original debtor in accordance with the JICPA Accounting System Committee Report No. 3 dated on June 1, 1995

Contracts for overdraft facilities and loan commitments are contracts under which the Group lends money to customers up to their prescribed limits at the customers' request as long as there are no violations of any of the conditions in the contracts. The aggregate unutilized balances within the limits of these contracts totaled ¥404,012 million ($4,858,833 thousand) ¥417,440 million at March 31, 2011 and 2010 including the contracts whose contractual periods were either less than one year or revocable at any time, in the amount of ¥402,062 million ($4,835,381 thousand) and ¥382,500 million, respectively.

Since many of these commitments expire without being fully utilized, the unutilized amounts do not necessarily represent future cash commitments. Most of these contracts include provisions which stipulate that the consolidated subsidiaries can reject customers' requests or decrease the contract limits for an appropriate reason, (for example, a change in financial situation or a deterioration in customers' creditworthiness).

At the inception of the contracts, they obtain collateral in the form of real estate, securities, and so forth, if deemed necessary. Subsequently, they, based on its internal rules, perform periodic reviews of the customers' business results and may take necessary measures such as reconsidering the terms of the contracts and/or requiring additional collateral or guarantees.

**Risk monitored loans**

Risk monitored loans which were included in loans and bills discounted at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Loans to bankrupt borrowers | ¥ 4,046 | ¥ 7,082 | $ 48,659 |
| Delinquent loans | 33,386 | 38,287 | 401,515 |
| Loans past due for 3 months or more | 47 | 245 | 565 |
| Restructured loans | 8,188 | 9,204 | 98,472 |
| Total | ¥ 45,669 | ¥ 54,819 | $ 549,236 |

Loans to bankrupt borrowers represent non-accrual loans to borrowers who are legally bankrupt as defined in Articles 96-1-3 and 96-1-4 of the Corporation Tax Law Enforcement Regulations (Article 97 of the 1965 Cabinet Order).

Delinquent loans represent non-accrual loans other than (i) loans to bankrupt borrowers and (ii) loans on which interest payments have been suspended in order to assist or facilitate the restructuring of borrowers who are experiencing financial difficulties.

Loans past due for 3 months or more represent loans on which the payment of principal and/or interest has not been received for three months or more from the due date, and which are not classified as "loans to bankrupt borrowers" or "delinquent loans."

Restructured loans are loans which have been restructured to support the rehabilitation of borrowers who are encountering financial difficulties, with the intention of ensuring the recovery of the loans by providing more flexible repayment terms for the borrowers (such as reducing the rate of interest or suspending the payment of principal/interest, etc.) or loans which are not classified in any of the above categories.

The amounts presented in the table above are stated before the provision of allowance for loan losses.

## 8. Tangible Fixed Assets

At March 31, 2011 and 2010, accumulated depreciation of tangible fixed assets was ¥34,106 million ($410,174 thousand) and ¥33,292 million, respectively.

Under the Corporation Tax Law, capital gains arising from the exchange or replacement of assets under certain conditions are permitted to be deducted from the cost of tangible fixed assets in order to obtain certain tax benefits. The amount deducted from the cost of tangible fixed assets at March 31, 2011 and 2010 was ¥40 million ($481 thousand) and ¥13 million, respectively.

## 9. Revaluation of Land

In accordance with the "Act on Revaluation of Land" (the "Law") (No. 34, March 31, 1998), land used for business operations of Shonai was revalued as of the date indicated below. The excess of revaluation to carrying value at the time of revaluation, net of income taxes corresponding to the excess which are recognized as "Deferred tax liabilities for land revaluation," is stated as "Revaluation reserve for land" under net assets.

Date of revaluation: September 30, 1999

The method of revaluation of asset forth in Article 3, Paragraph 3 of the "Law":

Fair values are determined based on the land price registered in the book of taxation on land stipulated in Article 2-3 of the "Order for Enforcement on Law on Revaluation of Land" ("Ordinance") (No. 119, March 31, 1998), with price adjustments by shape and time and the appraisal value by an independent Real Estate Appraiser as provided by Article 2-5 of the Ordinance.

The difference between the total fair values of land used for business operations revalued pursuant to article 10 of the "Law" and book value after revaluation of the relevant land at March 31, 2011 and 2010 was ¥1,443 million ($17,354 thousand) and ¥1,337 million, respectively.

## 10. Borrowed Money and Lease Obligations

Borrowed money and lease obligations at March 31, 2011 and 2010 were as follows:

| | Millions of yen | | Thousands of U.S. dollars | Average interest rate (%) | Maturity |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2011 | | |
| Borrowed money | ¥ 75,614 | ¥ 42,516 | $909,368 | 0.25 | Apr. 2011 through Oct. 2018 |
| Current portion of lease obligations | 120 | 116 | 1,443 | 3.09 | |
| Lease obligations, less current portion | 219 | 293 | 2,633 | 3.34 | Apr. 2012 through Sep. 2018 |

Note: Average interest rate is computed by the weighted average method.

Annual maturities of borrowed money and lease obligations within five years at March 31, 2011 are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years |
| Borrowed money | ¥ 69,802 | ¥ 2 | ¥ 2 | ¥ 2 | ¥ 2 |
| Lease obligations | 120 | 104 | 65 | 29 | 11 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | Due in one year or less | Due after one year through two years | Due after two years through three years | Due after three years through four years | Due after four years through five years |
| Borrowed money | $ 839,470 | $ 24 | $ 24 | $ 24 | $ 24 |
| Lease obligations | 1,443 | 1,250 | 781 | 348 | 132 |

Note: Lease obligations are included in "Other liabilities" in the accompanying consolidated balance sheet.

Subordinated borrowings of ¥5,800 million ($69,753 thousand) are included in borrowed money at March 31, 2011 and 2010.

## 11. Assets Pledged

Assets pledged as collateral at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Securities | ¥ 93,252 | ¥ 43,102 | $1,121,491 |

The liabilities secured by the above pledged assets at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Borrowed money | ¥ 69,800 | ¥ 36,700 | $ 839,446 |
| Call money | 16,000 | 4,900 | 192,423 |

In addition to the pledged assets listed above, securities in the amount of ¥104,294 million ($1,254,287 thousand) and ¥98,199 million and cash and due from banks in the amount of ¥8 million ($96 thousand) and ¥8 million are pledged as collateral for domestic exchange transactions or as margins on futures contracts at March 31, 2011 and 2010, respectively. Other assets include guarantee deposit in the amount of ¥612 million ($7,360 thousand) and ¥627 million at March 31, 2011 and 2010, respectively.

## 12. Bonds Payable

Bonds payable at March 31, 2011 and 2010 consisted of the following:

| Issuer/ description | Issued | Millions of yen 2011 | Millions of yen 2010 | Thousands of U.S. dollars 2011 | Coupon rate (%) | Secured/ unsecured | Due |
|---|---|---|---|---|---|---|---|
| The Shonai Bank | | | | | | | |
| 2nd subordinated bonds | Sep. 27, 2005 | ¥ — | ¥ 4,500 | $ — | 1.13 | Unsecured | — |
| 3rd subordinated bonds | Feb. 23, 2007 | 5,000 | 5,000 | 60,132 | 1.90 | Unsecured | Feb. 23, 2017 |
| 4th subordinated bonds | Jul. 13, 2010 | 5,000 | — | 60,132 | 2.84 | Unsecured | Jul. 13, 2020 |
| The Hokuto Bank | | | | | | | |
| 1st subordinated bonds, early redeemable | Aug. 23, 2005 | — | 11,200 | — | Note (1) | Unsecured | — |
| Total | | ¥ 10,000 | ¥ 20,700 | $ 120,264 | | | |

Note (1) 2.61 % p.a. from Aug. 24, 2005 until Aug. 23, 2010
6 month Euro yen Libor at London interbank market + 3.40% after Aug. 23, 2010

## 13. Retirement Benefit Plans

The banking subsidiaries have defined benefit pension plans consisting of corporate pension plans, tax qualified pension plans and lump-sum payment plans. Shonai has introduced a corporate pension plan similar with cash balance plans, and established a defined contribution pension plan in October 2006. Hokuto has established a retirement benefit trust.

The Group may pay additional retirement benefits to certain employees which are not covered by the actuarially projected retirement benefit obligation pursuant to the accounting standard for retirement benefits. Consolidated subsidiaries other than banking subsidiaries adopt principally lump-sum payment plans.

(1) The assets and liabilities of the employees' retirement benefit plans at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Retirement benefit obligation | ¥ (15,264) | ¥ (16,001) | $ (183,571) |
| Pension plan assets at fair value | 11,993 | 12,224 | 144,233 |
| Unfunded benefit obligation | (3,271) | (3,776) | (39,338) |
| Unrecognized net retirement benefit obligation at transition | 722 | 903 | 8,683 |
| Unrecognized actuarial differences | 1,778 | 1,708 | 21,383 |
| Unrecognized prior service cost | (84) | (253) | (1,010) |
| Net retirement benefit obligation | (855) | (1,418) | (10,282) |
| Prepaid pension cost | 1,338 | 1,539 | 16,091 |
| Provision for retirement benefits | ¥ (2,194) | ¥ (2,958) | $ (26,386) |

Notes (1) Above table does not include additional retirement benefits to be paid on a temporary base.

(2) In computing retirement benefit obligation, subsidiaries other than banking subsidiaries adopt simplified method.

(2) Retirement benefit expenses for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Service cost | ¥ 484 | ¥ 523 | $ 5,820 |
| Interest cost | 351 | 358 | 4,221 |
| Expected return on plan assets | (274) | (238) | (3,295) |
| Amortization of prior service cost | (169) | (202) | (2,032) |
| Amortization of actuarial gain | 210 | 492 | 2,525 |
| Amortization of transitional obligation | 180 | 180 | 2,164 |
| Additional retirement benefits and other | 63 | 75 | 757 |
| Net periodic retirement benefit expenses | ¥ 846 | ¥ 1,190 | $ 10,174 |

Retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are collectively recorded in "Service cost".

(3) The assumptions used in accounting for the above plans for the years ended March 31, 2011 and 2010 were as follows:

| | |
|---|---|
| Discount rate | 2.0%-2.5% |
| Expected rate of return on plan assets | 0.04%-3.0% |
| Inter-period allocation method | Straight-line basis |
| Amortization period of prior service cost | Charged to income upon occurrence at Shonai beginning from the year ended March 31, 2010 on a straight-line basis over a period of 5 years within the average remaining service years of employees |
| Amortization period of actuarial gain | 10-15 years (charged to income beginning from the following year after incurrence with the inter-period allocated amount on a straight-line basis over a definite period within the average remaining service years of employees upon occurrence) |
| Amortization period of transitional obligation | 15 years |

### 14. Contingent Liabilities

Contingent liabilities for corporate bonds acquired through private offering (as defined in Article 2-3 of the Financial Instruments and Exchange Act) among those classified as corporate bonds in "securities" amounted to ¥2,940 million ($35,357 thousand) and ¥3,556 million at March 31, 2011 and 2010, respectively.

### 15. Shareholders' Equity

Japanese banks are required to comply with the Banking Law and the Companies Act of Japan (the "Act"). The Act stipulates that neither additional paid-in capital nor the legal reserve is available for dividends, but that both may be used to reduce or eliminate a deficit. Under the Banking Law, an amount which is at least equal to 20% of the aggregate amount of cash dividends and certain appropriations of retained earnings associated with cash outlays applicable to each fiscal period is to be appropriated to the legal reserve until the aggregate amount of the legal reserve and the capital surplus account equals 100% of the amount of share capital. The Law also provides that if the aggregate amount of additional paid-in capital and the legal reserve exceeds 100% of the amount of share capital, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

The maximum amount which the bank can distribute as dividends is calculated based on the non-consolidated financial statements of the bank and in accordance with the Act.

Movements in common stock, preferred stock and treasury stock during the years ended March 31, 2011 and 2010 are summarized as follows:

| | Number of shares (in thousands) | | | | |
|---|---|---|---|---|---|
| | April 1, 2010 | Increase | Decrease | March 31, 2011 | Ref. |
| Outstanding shares: | | | | | |
| Common stock | 143,464 | — | — | 143,464 | |
| Preferred stock Class A | 20,206 | — | 20,206 | — | Note (1) |
| Preferred stock Class B | 25,000 | — | — | 25,000 | |
| Total | 188,671 | — | 20,206 | 168,464 | |
| Treasury stock: | | | | | |
| Common stock | 18 | 2 | 16 | 4 | Note (2) |
| Preferred stock Class A | 20,206 | — | 20,206 | — | Note (1) |
| Preferred stock Class B | — | — | — | — | |
| Total | 20,225 | 2 | 20,223 | 4 | |

Notes (1) All the shares of preferred stock Class A were retired effective December 22, 2010. The decrease in number of shares was due to retirement by purchase.

(2) Increase in number of shares is due to purchase request on less than one unit and decrease in number of shares is due to purchase request on less than one unit and sales of the Company's shares held by a consolidated subsidiary.

| | Number of shares (in thousands) | | | | |
|---|---|---|---|---|---|
| | April 1, 2009 | Increase | Decrease | March 31, 2010 | Ref. |
| Outstanding shares: | | | | | |
| Common stock | 122,866 | 22,144 | 1,545 | 143,464 | Note (1) |
| Preferred stock Class A | — | 20,206 | — | 20,206 | Note (1) |
| Preferred stock Class B | — | 25,000 | — | 25,000 | Note (2) |
| Total | 122,866 | 67,350 | 1,545 | 188,671 | |
| Treasury stock: | | | | | |
| Common stock | 1,522 | 371 | 1,874 | 18 | Note (3) |
| Preferred stock Class A | — | 20,206 | — | 20,206 | Note (1) |
| Preferred stock Class B | — | — | — | — | |
| Total | 1,522 | 20,577 | 1,874 | 20,225 | |

Notes (1) Increase in number of shares is due to a transfer of shares and decrease in number of shares is due to cancellation.
(2) Increase in number of shares is due to issuance of new shares.
(3) Increase in number of shares is due to purchase request on less than one unit and decrease in number of shares is due to cancellation and additional purchase request on less than one unit.

## 16. Other Expenses

Other expenses for the years ended March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Write-offs of loans and bills discounted | ¥ 47 | ¥ 65 | $ 565 |
| Write-down of equity securities | 390 | 98 | 4,690 |
| Loss on sales of equity securities, etc. | 547 | — | 6,578 |
| Loss on sales of loans | 464 | — | 5,580 |
| Loss on disposal of fixed assets | 181 | 156 | 2,176 |
| Impairment loss | 77 | 71 | 926 |
| Other | 961 | 1,400 | 11,557 |
| Total | ¥ 2,667 | ¥ 1,791 | $ 32,074 |

## 17. Comprehensive Income

For the year ended March 31, 2010

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

| | Millions of yen |
|---|---|
| Other comprehensive income: | |
| Unrealized gain on available-for-sale securities | ¥8,559 |
| Deferred loss on derivatives under hedge accounting | (1) |
| Total other comprehensive income | ¥8,558 |

Total comprehensive income for the year ended March 31, 2010 was the following:

| | Millions of yen |
|---|---|
| Total comprehensive income attributable to: | |
| Owners of the parent | ¥11,411 |
| Minority interests | 194 |
| Total comprehensive income | ¥11,605 |

**18. Cash and Cash Equivalents**

A reconciliation of cash and due from banks in the accompanying consolidated balance sheets to cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2011 and 2010 is summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Cash and due from banks | ¥ 86,352 | ¥ 42,596 | $ 1,038,508 |
| Current deposit | (1) | (1) | (12) |
| Ordinary deposit | (2,367) | (3,688) | (28,466) |
| Time deposit | (14) | (14) | (168) |
| Other deposit | (2,003) | (1,989) | (24,088) |
| Cash and cash equivalents | ¥ 81,965 | ¥ 36,903 | $ 985,748 |

**19. Non-cash Transactions**

For the year ended March 31, 2011:

There was no significant non-cash transaction for the year ended March 31, 2011.

For the year ended March 31, 2010:

Major components of assets and liabilities of a subsidiary newly consolidated through an incorporation of a joint holding company by way of share transfer:

Major components of assets and liabilities other than cash and cash equivalents in an amount of ¥23,633 million succeeded from Hokuto which was newly consolidated by way of share transfer are as follows:

| | Millions of yen |
|---|---|
| Assets | ¥1,117,936 |
| Goodwill | 609 |
| Total assets | ¥1,118,545 |
| Liabilities | ¥1,121,897 |
| Negative goodwill | 4,607 |
| Total liabilities | ¥1,126,504 |
| Minority interests | ¥ 1,806 |

**20. Leases**

The Group leases certain personal computers, automated teller machines and etc. under finance lease arrangements.

The Group accounts for finance leases which commenced prior to 1st April, 2008 and do not transfer ownership of the leased assets to the lessee as operating lease transactions as permitted by the accounting standard. The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased tangible fixed assets as of March 31, 2011 and 2010, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases under which the Group are lessees and which are currently accounted for as operating leases:

| March 31, 2011 | Millions of yen<br>Tangible fixed assets | <br>Intangible fixed asses | <br>Total |
|---|---|---|---|
| Acquisition costs | ¥ 1,203 | ¥ 228 | ¥ 1,432 |
| Accumulated depreciation | 844 | 187 | 1,031 |
| Net book value | ¥ 359 | ¥ 41 | ¥ 400 |

| March 31, 2010 | Millions of yen<br>Tangible fixed assets | <br>Intangible fixed asses | <br>Total |
|---|---|---|---|
| Acquisition costs | ¥ 1,370 | ¥ 249 | ¥ 1,619 |
| Accumulated depreciation | 791 | 168 | 959 |
| Net book value | ¥ 578 | ¥ 81 | ¥ 660 |

| March 31, 2011 | Thousands of U.S. dollars<br>Tangible fixed assets | <br>Intangible fixed asses | <br>Total |
|---|---|---|---|
| Acquisition costs | $14,467 | $ 2,742 | $17,221 |
| Accumulated depreciation | 10,150 | 2,248 | 12,399 |
| Net book value | $ 4,317 | $ 493 | $ 4,810 |

Future minimum lease payments subsequent to March 31, 2011 for finance leases accounted for as operating leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Due within one year | ¥ 215 | $ 2,585 |
| Due after one year | 217 | 2,609 |
| Total | ¥ 432 | $ 5,195 |

Total lease payments related to finance leases accounted for as operating leases, depreciation expense and interest expenses, which have not been reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010, are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Total lease payments | ¥ 285 | ¥ 383 | $ 3,427 |
| Depreciation expense | 251 | 341 | 3,018 |
| Interest expenses | 21 | 33 | 252 |

Depreciation expense has been computed by the straight-line method assuming the lease periods to be the useful lives of the respective assets and a nil residual value.
The difference between the total lease payments and the amounts corresponding to acquisition costs of the lease assets, which is the amount corresponding to interest expenses, is allocated over the period using the interest method.

## 21. Income Taxes

The tax effect of temporary differences which gave rise to significant portions of the deferred tax assets and liabilities at March 31, 2011 and 2010 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Deferred tax assets: | | | |
| Allowance for loan losses | ¥ 10,958 | ¥ 10,354 | $ 131,785 |
| Tax loss carryforwards | 4,940 | 6,816 | 59,410 |
| Allowance for investment loss | 4,107 | 3,814 | 49,392 |
| Write-down of securities | 3,633 | 3,744 | 43,692 |
| Provision for retirement benefits | 1,899 | 2,104 | 22,838 |
| Unrealized loss on available-for-sale securities | 1,671 | 897 | 20,096 |
| Depreciation | 1,388 | 1,445 | 16,692 |
| Other | 954 | 1,568 | 11,473 |
| Gross deferred tax assets | 29,553 | 30,744 | 355,417 |
| Valuation allowance | (13,082) | (11,988) | (157,330) |
| Total deferred tax assets | ¥ 16,471 | ¥ 18,756 | $ 198,087 |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | ¥ (677) | ¥ (1,052) | $ (8,141) |
| Other | (391) | (891) | (4,702) |
| Total deferred tax liabilities | (1,069) | (1,944) | (12,856) |
| Net deferred tax assets | ¥ 15,402 | ¥ 16,812 | $ 185,231 |

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2010 is as follows:

| | 2010 |
|---|---|
| Normal effective statutory tax rate | 40.6% |
| Non-deductible expenses such as entertainment expenses | 0.7 |
| Non-taxable income such as dividend income | (7.4) |
| Per capita inhabitant tax | 1.0 |
| Amortization of negative goodwill | (4.1) |
| Consolidation adjustments | 1.7 |
| Other | (0.1) |
| Actual effective tax rate | 32.4% |

The reconciliation for the year ended March 31, 2011 was omitted, since the difference was less than 5% of the effective statutory tax rate.

## 22. Segment Information

(1) Business segment information

The Group is engaged in credit card business and other, in addition to its principal commercial banking business. Segment information by type of business is omitted as such other businesses constitute only an immaterial portion of the whole business segments of the Group.

(2) Geographic segment information

Segment information by geographic area is not presented as the Group had no overseas subsidiaries or branches.

(3) Ordinary income from international operations

Ordinary income from international operations is not presented as it accounts for less than 10% of the consolidated ordinary income.

(4) Related information

Information about service lines

| | Millions of yen | | | |
|---|---|---|---|---|
| March 31, 2011 | Lending | Securities investment | Other | Total |
| Ordinary income from external customers | ¥ 29,602 | ¥ 10,483 | ¥ 12,631 | ¥ 52,717 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| March 31, 2011 | Lending | Securities investment | Other | Total |
| Ordinary income from external customers | $356,007 | $126,073 | $151,906 | $633,998 |

## 23. Related Party Transactions

Transactions between the Company and its directors and major shareholders as of March 31, 2011 and 2010 and for the year then ended are as follows:

2011

| Type | Name | Address | Capital (Millions of yen) | Business | Ownerships of voting rights | Transaction type | Transaction amount | Account | Balance at March 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Companies whose voting rights are owned by the director or its relatives | Ishii Shoji Co., Ltd. Note (1) | Akita city, Akita Pref. | ¥10 | Real estate rental | 0.0% directly held | Lending | ¥93 million ($1,118 thousand) | Loans | ¥85 million ($1,022 thousand) |
| | Netz Toyota Akita Co., Ltd. Note (2) | Akita city, Akita Pref. | ¥40 | Car distributor | 0.0% directly held | Lending | ¥532 million ($6,398 thousand) | Loans | ¥775 million ($9,320 thousand) |
| | Akita Kubota Co., Ltd. Note (1) | Akita city, Akita Pref. | ¥60 | Agricultural machines distributor | 0.0% directly held | Lending | ¥345 million ($4,149 thousand) | Loans | ¥550 million ($6,614 thousand) |
| | Toyota Renta Lease Co., Ltd. Note (2) | Akita city, Akita Pref. | ¥36 | Rental and lease of vehicles | 0.0% directly held | Lending | ¥183 million ($2,200 thousand) | Loans | ¥120 million ($1,443 thousand) |
| | Ugo Setsubi Co., Ltd. Note (3) | Akita city, Akita Pref. | ¥20 | Pipe works | 0.0% directly held | Lending | ¥232 million ($2,790 thousand) | Loans | ¥306 million ($3,680 thousand) |
| | | | | | | Guarantee for liabilities | ¥20 million ($240 thousand) | Acceptance and guarantees | ¥12 million ($144 thousand) |
| | Ugo Densetsu Kogyou Co., Ltd. Note (4) | Akita city, Akita Pref. | ¥30 | Electric works | 0.0% directly held | Lending | ¥25 million ($300 thousand) | Loans | ¥50 million ($601 thousand) |
| | | | | | | Guarantee for liabilities | ¥72 million ($865 thousand) | Acceptances and guarantees | ¥45 million ($541 thousand) |
| | Ugo Hatsuhenden Koji Co., Ltd. Note (4) | Akita city, Akita Pref. | ¥20 | Electric works | — | Lending | ¥54 million ($649 thousand) | Loans | ¥47 million ($565 thousand) |

Notes (1) Sukenori Ishii, who is a director of Hokuto which is a significant subsidiary of the Company, and his relatives own the majority of voting rights of Ishii Shoji Co., Ltd. Akita Kubota Co., Ltd. is a subsidiary of Ishii Shoji Co., Ltd.

(2) Sukenori Ishii, who is a director of Hokuto which is a significant subsidiary of the Company, and his relatives own the majority of voting rights of Netz Toyota Co., Ltd. Toyota Renta Lease Co., Ltd. is a subsidiary of Netz Toyota Akita Co., Ltd.

(3) Hiroyuki Sato, who is a director of Hokuto which is a significant subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Setsubi Co., Ltd.

(4) Shin-ichi Nanayama, corporate auditor of Hokuto which is a significant subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Densetsu Kogyo Co., Ltd. Ugo Hatsuhenden Koji Co., Ltd. is a subsidiary of Ugo Densetsu Kogyou Co., Ltd.

(5) The trading conditions and policies are same as other general parties.

(6) The transaction amount is shown by the average balance.

2010

| Type | Name | Address | Capital (Millions of yen) | Business | Ownerships of voting rights | Transaction type | Transaction amount | Account | Balance at March 31, 2010 |
|---|---|---|---|---|---|---|---|---|---|
| Director or its relatives | Masatoshi Iijima | | — | Note (1) | | Lending | ¥42 million | Loans | ¥40 million |
| Companies whose voting rights are owned by the director or its relatives | Fujita Shoten Co., Ltd. Note (1) | Akita city, Akita Pref. | ¥10 | Alcohol beverage | — | Lending | ¥47 million | Loans | ¥43 million |
| | Ugo Densetsu Kogyou Co., Ltd. Note (2) | Akita city, Akita Pref. | ¥30 | Electric works | 0.0% directly held | Lending | ¥9 million | Loans | ¥100 million |
| | | | | | | Guarantee for liabilities | ¥20 million | Acceptances and guarantees | ¥50 million |
| | Ugo Hatsuhenden Koji Co., Ltd. Note (2) | Akita city, Akita Pref. | ¥20 | Electric works | — | Lending | ¥47 million | Loans | ¥53 million |

Notes (1) Masatoshi Iijima is a close relative of Seishichi Kakizaki, a former director of the Company, and owns the majority of voting rights of Fujita Shoten Co., Ltd.

(2) Shin-ichi Nanayama, corporate auditor of Hokuto which is a significant subsidiary of the Company, and his relatives own the majority of voting rights of Ugo Densetsu Kogyo Co., Ltd. Ugo Hatsuhenden Koji Co., Ltd. is a subsidiary of Ugo Densetsu Kogyou Co., Ltd.

(3) The contents of above transactions are those with Hokuto which is a significant subsidiary of the Company, and trading conditions and policies are same as other general parties. The transaction amount is shown by the average balance.

There is no other related party transaction to be disclosed.

## 24. Financial Instruments and Related Disclosures

The Company adopted ASBJ Statement No. 10 “Accounting Standard for Financial Instruments” and ASBJ Guidance No. 19 “Guidance on Disclosures about Fair Value of Financial Instruments”. The information required by the standard to be disclosed is as follows:

1. Status of Financial Instruments

(1) Policy on financial instruments

The Group is engaged in banking business such as deposit-taking and lending services and holds financial assets and liabilities exposed to the fluctuation risk of interest rates. In addition, the Group holds equity securities for the purpose of strategic investment purpose and other financial assets consisting of debt securities and investment trust for the purpose of investment which are exposed to the fluctuation risk of the market price.
In order to prevent these businesses from being negatively affected by fluctuations in interest rate and market price, the Group conducts integrated asset and liability management (ALM) and as part of such activities, enters into derivative contracts.

(2) Contents of Financial Instruments and their Risks

Financial assets held by the Group mainly consist of loans to domestic corporate and individual customers, which are exposed to credit risk arising from customers’ nonperformance of contractual obligations. In addition, securities, principally consisting of equity securities, debt securities, investment trust and investment in partnerships, are held for the purposes of net investment and strategic investment. These financial assets are exposed to credit risk of issuers and fluctuation risk of interest rates and market prices.
Major financial liabilities, consisting of deposits and negotiable certificates of deposit, are principally deposits accepted from domestic corporate and individual customers. They require attentions to liquidity risk arising from concentrated cancellation of deposits, but most of those deposits are from individual customers and accordingly, the risk is dispersed to small accounts and liquidity risk is controlled by limiting the ratio of large deposit accounts to certain level.
Derivative contracts which the Group enters into consist of interest rate swaps employed as part of ALM and bond futures held in the category of available-for-sale securities, options and etc. In addition, the Group enters into synthetic financial instruments embedded with derivatives. These derivatives are not entered into for speculative purpose, but hedging purposes.

(3) Risk Management System for Financial Instruments

The Group has established “Basic Policy on Risk Management” and various risk control rules and maintains the following:

a. <u>Credit risk management</u>:

In accordance with “Credit Policy” and “Credit Risk Management Rule”, for loans, credit control system has been established and maintained, including credit review by individual contracts, credit limit control, credit information control, internal ratings, retrospective control on self-assessment, establishment of guaranty and security, countermeasures for problem accounts, credit concentration risk management and etc. These credit controls are performed by the loan departments in addition to each operating office, being reported to and discussed at the management meetings held on a regular basis. Furthermore, the status of credit control is examined by the internal auditors.

b. <u>Market risk management</u>:

Market transactions are mutually controlled by independent groups consisting of front office, middle office and back office.

*Interest rate risk:*

The Group controls the fluctuation risk of interest rates by ALM. In accordance with the “Market Risk Control Rule”, the Group measures the exposure of interest rate risk, monitoring by gap analysis and sensitivity analysis on a regular basis and reports to the management meetings on a regular basis and discuss about the future countermeasure based on the analysis of current status.

*Foreign exchange risk:*
The Group controls foreign exchange risk, in accordance with the "Market Risk Control Rule", by establishing total positions and loss limits or entering into hedging activities.
*Price fluctuation risk control:*
The Group controls price fluctuation risk in accordance with "Market Risk Control Rule". Risk exposures to securities are monitored for usage against the pre-set limit by the Risk Control Department based on Value at Risk (VaR) and other risk indexes such as 10BVP and reported to the management meetings.
*Derivative transactions:*
With respect to derivative transactions, the Group segregates the duties of the departments responsible for execution of transactions, verification of hedge effectiveness and operation administration and manages and controls based on the handling rules.
*Quantitative information about market risk:*
Financial instruments except for trading purposes
The Group identifies and controls the market risk volume using VaR on a daily basis, since the Group holds many financial instruments whose fair values fluctuate every day and such fluctuation amount is greater than other risk categories. The market risk volume of the Group is controlled as the total amounts of market risk volume of Shonai and Hokuto which are the subsidiaries.
Market risk volume of the banking business of the Group at March 31, 2011 and for the year ended is as follows:

| | Billions of yen | | | |
|---|---|---|---|---|
| | Average | Maximum | Minimum | As of the fiscal year-end |
| Due from banks, loans and others | ¥ 3.3 | ¥4.4 | ¥2.7 | ¥4.4 |
| Securities: | 18.2 | 20.1 | 16.7 | 19.6 |
| Debt securities | 6.9 | 8.5 | 5.6 | 7.7 |
| Equity securities | 5.0 | 6.1 | 4.5 | 5.9 |
| Other | 9.2 | 10.4 | 8.4 | 9.5 |

| | Millions of U.S. dollars | | | |
|---|---|---|---|---|
| | Average | Maximum | Minimum | As of the fiscal year-end |
| Due from banks, loans and others | $ 39.6 | $52.9 | $32.4 | $52.9 |
| Securities: | 218.8 | 241.7 | 200.8 | 235.7 |
| Debt securities | 82.9 | 102.2 | 67.3 | 92.6 |
| Equity securities | 60.1 | 73.3 | 54.1 | 70.9 |
| Other | 110.6 | 125.0 | 101.0 | 114.2 |

(*1) VaR is measured in principle using the variance/co-variance method, but certain financial instruments such as structured bonds are measured using other different methods including Monte Carlo Simulation method.
(*2) Holding period is assumed to be 60 business days for higher market liquidity financial instruments such as Japanese government bonds, municipal bonds, listed equity securities (excluding strategic investments), etc.) and 125 business days for less market liquidity financial instruments, due from banks, loans, etc.
(*3) 99 % is used for confidence interval and 125 business days are used as extraction period of market data to measure volatility.
(*4) The total amount does not agree since correlation between the risks of debt securities and equity securities is taken into account.
Within the Group, each subsidiary implements back tests comparing the VaR of one day holding period measured by the model and actual losses, in order to verify the accuracy of the measurement model of the market risk volume concerning the VaR of securities.
As a result of back tests implemented in the fiscal year ended March 31, 2011, actual losses including the Great East Japan Earthquake occurred in March 2011 exceeded the VaR, but any subsidiary bank does not consider it necessary to review the measurement model. The measurement models currently in use are considered to be

capturing the market risk on the relevant accuracy.

In implementing the risk management using the VaR, the following particular points are paid attention to:

(i) Quantitative information such as VaR of market risk is determined based on the statistical assumptions and may differ depending on the different assumptions and computation methods.

(ii) Quantitative information such as VaR of market risk is a statistical value computed based on the statistical assumptions and not intended to estimate the amount of maximum losses. Profit or loss is assumed to exceed VaR on the frequency corresponding to the confidence interval.

(iii) Future market conditions may differ significantly from the past.

Financial instruments for trading purposes are excluded from the scope of disclosure, since the outstanding balance at any subsidiary bank is very insignificant and the materiality of effect on the management is quite limited.

c. Liquidity risk management:

The Group sets limits on liquidity risk control in accordance with the "Liquidity Risk Control Rule" and reports to the management meetings, monitoring the results on a daily basis.

(4) Supplementary explanation about fair value of financial instruments

The fair value of financial instruments include, in addition to the value determined based on the market price, a valuation calculated on a reasonable basis if no market price is available. Since certain assumptions are used in calculating the value, the result of such calculation may vary if different assumptions are used.

2. Fair value of financial instruments

The carrying amount, the fair value and their related difference as of March 31, 2011 and 2010 are as follows: Note that unlisted equity securities for which fair value is difficult to determine are not included in the following table (See Note 2):

| | Millions of yen | | |
|---|---|---|---|
| March 31, 2011 | Carrying amount | Fair value | Difference |
| Cash and due from banks | ¥ 86,352 | ¥ 86,352 | ¥ — |
| Call loans and bills bought | 40,831 | 40,831 | — |
| Monetary claims bought (*1) | 5,017 | 5,017 | — |
| Trading account securities: | | | |
| Trading securities | 770 | 770 | — |
| Money held in trust | 969 | 969 | — |
| Securities: | | | |
| Available-for-sale securities | 582,415 | 582,415 | — |
| Loans and bills discounted | 1,446,861 | | |
| Allowance for loan losses (*1) | (19,228) | | |
| | 1,427,633 | 1,466,717 | 39,083 |
| Foreign exchange assets (*1) | 2,135 | 2,135 | — |
| Total assets | ¥ 2,146,125 | ¥ 2,185,209 | ¥ 39,083 |
| Deposits | ¥ 1,950,216 | ¥ 1,950,667 | ¥ 451 |
| Negotiable certificates of deposit | 64,326 | 64,326 | — |
| Call money and bills sold | 16,000 | 16,000 | — |
| Borrowed money | 75,614 | 75,670 | 55 |
| Foreign exchange liabilities | 17 | 17 | — |
| Bonds payable | 10,000 | 10,141 | 141 |
| Total liabilities | ¥ 2,116,175 | ¥ 2,116,823 | ¥ 648 |
| Derivative transactions (*2) | | | |
| To which hedge accounting is not applied | ¥ 531 | ¥ 531 | — |
| To which hedge accounting is applied | (29) | (29) | — |
| Total derivative transactions | ¥ 502 | ¥ 502 | — |

| March 31, 2010 | Millions of yen<br>Carrying amount | <br>Fair value | <br>Difference |
|---|---|---|---|
| Cash and due from banks | ¥ 42,596 | ¥ 42,596 | ¥ — |
| Call loans and bills bought | 65,500 | 65,500 | — |
| Monetary claims bought | 4,993 | 4,993 | — |
| Trading account securities: | | | |
| Trading securities | 687 | 687 | — |
| Money held in trust | 1,000 | 1,000 | — |
| Securities: | | | |
| Available-for-sale securities | 543,457 | 543,457 | — |
| Loans and bills discounted | 1,406,683 | | |
| Allowance for loan losses | (26,845) | | |
| | 1,379,838 | 1,411,564 | 31,726 |
| Foreign exchange assets | 1,425 | 1,425 | — |
| Total assets | ¥ 2,039,498 | ¥ 2,071,225 | ¥ 31,726 |
| Deposits | ¥ 1,895,388 | ¥ 1,897,153 | ¥ 1,765 |
| Negotiable certificates of deposit | 49,483 | 49,483 | — |
| Call money and bills sold | 5,402 | 5,402 | — |
| Borrowed money | 42,516 | 42,273 | (243) |
| Foreign exchange liabilities | 0 | 0 | — |
| Bonds payable | 20,700 | 20,656 | (43) |
| Total liabilities | ¥ 2,013,491 | ¥ 2,014,969 | ¥ 1,477 |
| Derivative transactions | | | |
| To which hedge accounting is not applied | ¥ 318 | ¥ 318 | — |
| To which hedge accounting is applied | (30) | (30) | — |
| Total derivative transactions | ¥ 287 | ¥ 287 | — |

| March 31, 2011 | Thousands of U.S. dollars<br>Carrying amount | <br>Fair value | <br>Difference |
|---|---|---|---|
| Cash and due from banks | $ 1,038,508 | $ 1,038,508 | $ — |
| Call loans and bills bought | 491,052 | 491,052 | — |
| Monetary claims bought (*1) | 60,336 | 60,336 | — |
| Trading account securities: | | | — |
| Trading securities | 9,260 | 9,260 | — |
| Money held in trust | 11,653 | 11,653 | — |
| Securities: | | | |
| Available-for-sale securities | 7,004,389 | 7,004,389 | — |
| Loans and bills discounted | 17,400,613 | | |
| Allowance for loan losses (*1) | (231,244) | | |
| | 17,169,368 | 17,639,410 | 470,030 |
| Foreign exchange assets (*1) | 25,676 | 25,676 | — |
| Total assets | $ 25,810,282 | $ 26,280,324 | $ 470,030 |
| Deposits | $ 23,454,191 | $ 23,459,615 | $ 5,423 |
| Negotiable certificates of deposit | 773,613 | 773,613 | — |
| Call money and bills sold | 192,423 | 192,423 | — |
| Borrowed money | 909,368 | 910,042 | 661 |
| Foreign exchange liabilities | 204 | 204 | — |
| Bonds payable | 120,264 | 121,960 | 1,695 |
| Total liabilities | $ 25,450,090 | $ 25,457,883 | $ 7,793 |
| Derivative transactions (*2) | | | |
| To which hedge accounting is not applied | $ 6,386 | $ 6,386 | $ — |
| To which hedge accounting is applied | (348) | (348) | — |
| Total derivative transactions | $ 6,037 | $ 6,037 | $ — |

(*1) General and specific allowances for loan losses corresponding to loans are deducted. With respect to allowance for loan losses related to monetary claims bought and foreign exchange, carrying amount is shown, net of allowance, since the amount is insignificant.

(*2) Assets and liabilities arising from derivative transactions are presented in net amounts, and net liabilities are shown in parenthesis.

(Note 1) Calculation method for the fair value of financial instruments

**Assets:**

*Cash and due from banks*

For due from banks without maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For due from banks with maturity, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining maturity is short (less than one year).

*Call loans and bills bought*

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the contractual term is short (less than one year).

*Monetary claims bought*

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the contractual term is short (less than one year).

*Trading account securities*

For securities such as debt securities held for dealing purpose, the fair value is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

*Money held in trust*

For securities that are invested as part of trust assets in an independently managed money trust with the primary purpose to manage securities, the fair value of equity securities is determined using the price at the exchange and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted.

*Securities*

The fair value of equity securities is determined using the price at the exchange (monthly average price during the month which belongs to the fiscal year end) and the fair value of debt securities is determined using the price at the exchange or the price presented by the financial institutions with which they are transacted. The fair value of investment trust is determined based on the published standard quotation price. For privately placed bonds, the fair value is determined by discounting the bonds categorized principal using credit risk spread by credit rating and market interest rate by classification based on the internal ratings and terms.

With respect to the floating rate Japanese government bonds, the fair value is determined using a value calculated on a reasonable basis, since the market price cannot be deemed as the fair value after studying current market environments.

The carrying amounts of “Securities” and “Net unrealized loss on available-for-sale securities” as of March 31, 2011 increased by ¥3,844 million ($46,229 thousand) and ¥2,614 million ($31,437 thousand), respectively, and “Deferred tax assets” decreased by ¥1,229 million ($14,780 thousand), compared to the amount that would have been reported using the market prices.

The carrying amounts of “Securities” and “Net unrealized loss on available-for-sale securities” as of March 31, 2010 increased by ¥4,720 million and ¥3,177 million, respectively, and “Deferred tax assets” decreased by ¥1,543 million, compared to the amount that would have been reported using the market prices.

With respect to the value of floating rate Japanese government bonds computed on a reasonably basis, the fair value is computed based on the discounted present value of future cash flows which is derived from the yields of Japanese government bonds and major pricing parameters adopted in above computation are yields of Japanese government bonds and their volatilities.

*Loans and bills discounted*

For the loans with short contractual terms (less than one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount. For the loans without predetermined maturity because of characteristics such as the loans being limited within the amount of the pledged assets, the carrying amount is presented as the fair value since the fair value is considered to approximate the carrying amount considering the expected repayment term and interest rate conditions.

The fair value of the loans with fixed interest rates categorized by type of loans, internal rating and term is computed by discounting the loans using credit risk spread by credit rating and market interest rate. The fair value of the loans with floating interest rate, categorized by type of loans, internal rating and term, is also computed by discounting the loans using credit risk spread by credit rating and market interest rate as well as the loans with fixed interest rates. Credit risk spread is calculated by remaining term belt based on accumulated default rate and loss rate by debtor classification.

The fair value of engineered loans is computed by the Monte Carlo simulation approach using future interest rate calculated by the interest rate estimation model and credit risk spread by credit rating of the loans.

For loans due from bankrupt, virtually bankrupt or likely to become bankrupt borrowers, loan losses are estimated based on factors such as the present value of expected future cash flows or the expected amount to be collected from collaterals and guarantees. Since the fair value of these items approximates the carrying amount, net of the currently expected loan losses, such carrying amount is presented as the fair value.

*Foreign exchange assets*

Foreign exchange assets consist of foreign currency deposits with other banks (due from other foreign banks), short-term loans related to foreign exchanges (due from other foreign banks), export bills and traveler’s checks, etc, (purchased foreign bills) and loans on notes using import bills (foreign bills receivable). For these items, the carrying amount is presented as the fair value, since the fair value approximates the carrying amount because they are deposit without maturity or have short-term contract terms (less than one year).

**Liabilities:**

*Deposits and certificates of deposit*

For demand deposits, the amount payable on demand as of the balance sheet date (i.e., the carrying amount) is considered to be the fair value. The fair value of time deposit is determined using the discounted present value of future cash flows, grouping by certain maturity lengths. The discount rate used is the interest rate that would be applied to newly accepted deposits. For deposits whose remaining maturity is short (less than one year), the carrying amount is presented as the fair value since the fair value approximates the carrying amount.

*Call money and bills sold*

The carrying amount is presented as the fair value since the fair value approximates the carrying amount because the remaining maturity is short (less than one year).

*Borrowed money*

For floating rate borrowed money, the carrying amount is presented as the fair value since the fair value approximates the carrying amount because the maturity is short and it reflects the market interest rate and also the creditworthiness of the Company and the consolidated subsidiaries has not significantly changed. For fixed rate borrowed money, the fair value is calculated as the present value of expected future cash flows from the aggregated value of principal and interest classified by definite maturity using the interest rate applicable to the similar borrowings.

*Foreign exchange liabilities*

Among foreign exchange liabilities, foreign currency deposits taken from other banks and nonresidents' yen deposits are deposits without maturity and short-term borrowings related to foreign exchange (due to other foreign banks) have the short remaining maturity (less than one year). The carrying amount is presented as the fair value since the fair value of these liabilities approximates the carrying amount.

*Bonds*

The fair value of bonds issued by the major consolidated subsidiaries of the Company is computed by discounting the expected future cash flows to the present value. Transaction interest rate is used for such discount rate.

**Derivative transactions:**

Please see note 25.

(Note 2) Financial instruments whose fair value is extremely difficult to identify are as follows: These securities are not included in "Securities" under "Assets" of the fair value information of financial instruments.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Unlisted equity securities (*1) (*2) | ¥ 1,833 | ¥ 1,702 | $ 22,044 |
| Investment in partnerships (*3) | 2,047 | 2,449 | 24,618 |
| Total | ¥ 3,880 | ¥ 4,151 | $ 46,662 |

(*1) No market price is available for unlisted equity securities and the fair value is not disclosed since it is extremely difficult to identify the fair value.

(*2) The Company recognized impairment loss on unlisted equity securities in an amount of ¥229 million ($2,754 thousand) and ¥82 million for the years ended March 31, 2011 and 2010.

(*3) The fair value of investment in partnerships whose assets consist of securities such as unlisted equity securities whose fair value is extremely difficult to identify is not disclosed.

(Note 3) Repayment schedule of monetary receivables and securities with contractual maturities subsequent to March 31, 2011

| March 31, 2011 | Millions of yen<br>Due in one year or less | Due after one year through three years | Due after three years through five years | Due after five years through seven years | Due after seven years through ten years | Due after ten years |
|---|---|---|---|---|---|---|
| Due from banks (*1) | ¥ 34,985 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Call loans and bills bought | 40,831 | — | — | — | — | — |
| Monetary claims bought | 5,072 | — | — | — | — | — |
| Securities: | | | | | | |
| Available-for-sale securities with maturity: | 34,278 | 97,883 | 160,283 | 61,025 | 128,401 | 55,572 |
| Japanese government bonds | 15,200 | 7,000 | 46,000 | 44,000 | 91,500 | 22,000 |
| Municipal bonds | 2,772 | 45,556 | 39,788 | 7,025 | 25,191 | 7,397 |
| Corporate bonds | 15,010 | 32,161 | 63,851 | 2,238 | 8,203 | 9,089 |
| Other | 1,295 | 13,165 | 10,643 | 7,761 | 3,506 | 17,085 |
| Loans and bills discounted (* 2) | 288,372 | 172,277 | 211,628 | 96,377 | 220,896 | 423,231 |
| Total | ¥ 403,540 | ¥ 270,161 | ¥ 371,912 | ¥ 157,403 | ¥ 349,297 | ¥ 478,803 |

| March 31, 2011 | Thousands of U.S. dollars<br>Due in one year or less | Due after one year through three years | Due after three years through five years | Due after five years through seven years | Due after seven years through ten years | Due after ten years |
|---|---|---|---|---|---|---|
| Due from banks (*1) | $ 420,745 | $ — | $ — | $ — | $ — | $ — |
| Call loans and bills bought | 491,052 | — | — | — | — | — |
| Monetary claims bought | 60,998 | — | — | — | — | — |
| Securities: | | | | | | |
| Available-for-sale securities with maturity: | 412,242 | 1,177,185 | 1,927,636 | 733,914 | 1,544,209 | 668,334 |
| Japanese government bonds | 182,802 | 84,185 | 553,217 | 529,164 | 1,100,420 | 264,582 |
| Municipal bonds | 33,337 | 547,877 | 478,508 | 84,485 | 302,958 | 88,959 |
| Corporate bonds | 180,517 | 386,782 | 767,901 | 26,915 | 98,653 | 109,308 |
| Other | 15,574 | 158,328 | 127,997 | 93,337 | 42,164 | 205,472 |
| Loans and bills discounted (* 2) | 3,468,093 | 2,071,882 | 2,545,135 | 1,159,073 | 2,656,596 | 5,089,969 |
| Total | $4,853,156 | $3,249,079 | $4,472,784 | $1,893,000 | $4,200,805 | $5,758,304 |

(*1) Due from banks without maturity is shown under “Due in one year or less”.

(*2) Loans and bills discounted as of March 31, 2011 and 2010 do not include ¥35,588 million ($427,997 thousand) and ¥43,712 million of receivables such as those due from bankrupt, virtually bankrupt or likely to become bankrupt borrowers, since it is not certain when they can be collected or redeemed.

(Note 4)

Repayment schedule of bonds, borrowed money and other interest bearing liabilities subsequent to March 31, 2011

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | Due in one year or less | Due after one year through three years | Due after three years through five years | Due after five years through seven years | Due after seven years through ten years | Due after ten years |
| Deposits (*) | ¥ 1,675,529 | ¥ 134,946 | ¥ 20,486 | ¥ — | ¥ — | ¥ — |
| Negotiable certificates of deposits | 63,326 | — | 1,000 | — | — | — |
| Call money and bills sold | 16,000 | — | — | — | — | — |
| Borrowed money | 69,802 | 4 | 4 | 2 | 5,800 | — |
| Bonds | — | — | — | 5,000 | 5,000 | — |
| Total | ¥ 1,824,658 | ¥ 134,951 | ¥ 21,490 | ¥ 5,002 | ¥ 10,800 | ¥ — |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| March 31, 2011 | Due in one year or less | Due after one year through three years | Due after three years through five years | Due after five years through seven years | Due after seven years through ten years | Due after ten years |
| Deposits (*) | $ 20,150,679 | $ 1,622,922 | $ 246,374 | $ — | $ — | $ — |
| Negotiable certificates of deposits | 761,587 | — | 12,026 | — | — | — |
| Call money and bills sold | 192,423 | — | — | — | — | — |
| Borrowed money | 839,470 | 48 | 48 | 24 | 69,753 | — |
| Bonds | — | — | — | 60,132 | 60,132 | — |
| Total | $ 21,944,173 | $ 1,622,982 | $ 258,448 | $ 60,156 | $ 129,885 | $ — |

(*) Demand deposits are shown under “Due in one year or less” of deposits.

## 25. Derivatives

**Derivative transactions to which hedge accounting is not applied**

With respect to derivatives to which hedge accounting is not applied, contract amount or notional principal, fair value and related valuation gain or loss and computation method of fair value are as follows: Note that contract amounts do not represent the market risk exposure associated with the derivative transactions.

(1) Currency related derivatives at March 31, 2011 and 2010

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | Contract amount | | | |
| March 31, 2011 | | Total | Over one year | Fair value | Valuation gain (loss) |
| **OTC transactions:** | | | | | |
| Forward foreign exchange contracts: | | | | | |
| | Sold | ¥ 4,296 | ¥ 299 | ¥ 26 | ¥ 26 |
| | Bought | 1,666 | 296 | (42) | (42) |
| Total | | | | ¥ (16) | ¥ (16) |

| | | Millions of yen | | | |
|---|---|---|---|---|---|
| | | Contract amount | | | |
| March 31, 2010 | | Total | Over one year | Fair value | Valuation gain (loss) |
| **OTC transactions:** | | | | | |
| Forward foreign exchange contracts: | | | | | |
| | Sold | ¥ 759 | ¥ 513 | ¥ 39 | ¥ 39 |
| | Bought | 2,332 | 507 | (23) | (23) |
| Total | | | | ¥ 15 | ¥ 15 |

| | | Thousands of U.S. dollars | | | |
|---|---|---|---|---|---|
| | | Contract amount | | | |
| March 31, 2011 | | Total | Over one year | Fair value | Valuation gain (loss) |
| **OTC transactions:** | | | | | |
| Forward foreign exchange contracts: | | | | | |
| | Sold | $ 51,665 | $ 3,595 | $ 312 | $ 312 |
| | Bought | 20,036 | 3,559 | (505) | (505) |
| Total | | | | $ 192 | $ 192 |

Notes:

(1) Above transactions are stated at the fair value and the related valuation gain (loss) are reported in the consolidated statement of income.

(2) The fair value is calculated using the discounted present value.

(2) Composite financial instruments at March 31, 2011 and 2010

| | | Millions of yen | | |
|---|---|---|---|---|
| March 31, 2011 | | Contract amount | Fair value | Valuation gain (loss) |
| Transactions other than market | Composite financial instruments (loans) | ¥ 21,000 | ¥ 548 | ¥ 548 |

| | | Millions of yen | | |
|---|---|---|---|---|
| March 31, 2010 | | Contract amount | Fair value | Valuation gain (loss) |
| Transactions other than market | Composite financial instruments (loans) | ¥ 23,000 | ¥ 318 | ¥ 318 |

| March 31, 2011 | | Thousands of U.S. dollars Contract amount | Fair value | Valuation gain (loss) |
|---|---|---|---|---|
| Transactions other than market | Composite financial instruments (loans) | $ 252,555 | $ 6,590 | $ 6,590 |

Notes:

(1) The fair value is calculated using the discounted present value.

(2) The fair value is related to the portion of embedded derivatives and the valuation gain (loss) is reported in the consolidated statement of income.

(3) Contract amount represents the notional amount of the composite financial instruments (loans).

## Derivative transactions to which hedge accounting is applied

With respect to derivatives to which hedge accounting is applied, contract amount or notional principal and fair value at the balance sheet date by transaction type and hedge accounting method and computation method of the fair value are as follows: Note that contract amount or notional principal does not represent the market risk exposure associated with derivatives.

(1) Interest related derivatives at March 31, 2011 and 2010

March 31, 2011

| Hedge accounting method | Transaction type | Major hedged item | Millions of yen Contract amount | Contract amount due after one year | Fair value |
|---|---|---|---|---|---|
| Note 3 | Interest rate swaps | | | | |
| | Receivable floating rate/ Payable fixed rate | Loans and bills discounted | ¥ 676 | ¥ 676 | ¥ (29) |
| | Total | | | | ¥ (29) |

March 31, 2010

| Hedge accounting method | Transaction type | Major hedged item | Millions of yen Contract amount | Contract amount due after one year | Fair value |
|---|---|---|---|---|---|
| Note 3 | Interest rate swaps | | | | |
| | Receivable floating rate/ Payable fixed rate | Loans and bills discounted | ¥ 744 | ¥ 744 | ¥ (30) |
| | Total | | | | ¥ (30) |

March 31, 2011

| Hedge accounting method | Transaction type | Major hedged item | Thousands of U.S. dollars Contract amount | Contract amount due after one year | Fair value |
|---|---|---|---|---|---|
| Note 3 | Interest rate swaps | | | | |
| | Receivable floating rate/ Payable fixed rate | Loans and bills discounted | $ 8,129 | $ 8,129 | $ (348) |
| | Total | | | | $ (348) |

Notes:

(1) These derivatives are mainly accounted for by deferred hedge accounting in accordance with JICPA Industry Audit Committee Report No. 24 “Accounting and Auditing Treatment Relating to the Adoption of the Accounting Standard for Financial Instruments for Banks”.

(2) The fair value is determined using the discounted present value.

(3) The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not measured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses ore income.

## 26. Amounts per Share

Amounts per share at March 31, 2011 and 2010 and for the years then ended are summarized as follows:

| | Yen | | U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Net assets | ¥ 306.97 | ¥ 232.66 | $ 3.6917 |
| Net income: | | | |
| Basic | 24.51 | 21.66 | 0.2947 |
| Diluted | 18.03 | 21.64 | 0.2168 |

Net income per share and net income per share after dilution for the years ended March 31, 2011 and 2010 is computed based on the following information:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Net income for the year | ¥ 3,674 | ¥ 2,868 | $ 44,185 |
| Amounts not attributed to common stock shareholders | 158 | (0) | 1,900 |
| O/w, dividends for preferred stock based on the resolution at the Board of Directors' meeting | 158 | (0) | 1,900 |
| Net income attributable to common stock | 3,515 | 2,868 | 42,273 |
| Average outstanding number of shares of common stock (Unit: thousand shares) | 143,446 | 132,362 | |
| | | | |
| Net income per shares after dilution: | | | |
| Adjustments to net income | 158 | 0 | 1,900 |
| O/w, dividends for B class preferred stock | 158 | 0 | 1,900 |
| Increase in number of common stock (Unit: thousand shares) | 60,240 | 163 | |
| O/w, B class preferred stock | 60,240 | 163 | |

Net assets per share at March 31, 2011 and 2010 is computed based on the following information:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Total net assets | ¥ 56,333 | ¥ 56,038 | $ 677,486 |
| Amounts to be deducted from total net assets | (12,294) | (22,663) | (147,853) |
| O/w, payment for preferred stock | (10,000) | (19,968) | (120,264) |
| O/w, dividends for preferred stock | (158) | (0) | (1,900) |
| O/w, minority interests | (2,136) | (2,694) | (25,688) |
| Net assets attributable to common stock as of March 31, 2010 | ¥ 44,038 | ¥ 33,374 | $ 529,621 |
| Number of shares of common stock as of March 31, 2010 used to compute net assets per share (Unit: thousand shares) | 143,460 | 143,446 | |

## 27. Subsequent Event

The following cash dividends to be paid out of retained earnings were resolved at the Board of Directors' meeting held on May 12, 2011:

| Type of shares | Aggregate amount of dividend | Dividend per share | Base date | Effective date |
|---|---|---|---|---|
| Common stock | ¥717 million ($8,622 thousand) | ¥5.00 ($0.0601) | March 31, 2011 | June 27, 2011 |
| B class Preferred stock | ¥158 million ($1,900 thousand) | ¥6.328 ($0.0761) | March 31, 2011 | June 27, 2011 |

**28. Non-consolidated financial statements of Shonai and Hokuto as of March 31, 2011 and 2010 and for the years then ended**

**The Shonai Bank, Ltd.**

**Non-consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets: | | | |
| Cash and due from banks | ¥ 46,281 | ¥ 23,376 | $ 556,596 |
| Call loans and bills bought | 20,831 | 22,000 | 250,523 |
| Money claims bought | 1,021 | 1,007 | 12,279 |
| Trading account securities | 97 | 72 | 1,166 |
| Money held in trust | 969 | 1,000 | 11,653 |
| Securities | 212,449 | 203,205 | 2,555,009 |
| Loans and bills discounted | 756,958 | 720,979 | 9,103,523 |
| Foreign exchange assets | 1,114 | 1,035 | 13,397 |
| Tangible fixed assets: | | | |
| Buildings | 5,023 | 5,367 | 60,408 |
| Land | 6,428 | 6,439 | 77,306 |
| Lease assets | 230 | 284 | 2,766 |
| Construction in progress | 77 | — | 926 |
| Other tangible fixed assets | 472 | 548 | 5,676 |
| Intangible fixed assets: | | | |
| Software | 493 | 797 | 5,929 |
| Other intangible fixed assets | 68 | 68 | 817 |
| Deferred tax assets | 6,520 | 7,290 | 78,412 |
| Customers' liabilities for acceptances and guarantees | 5,148 | 6,331 | 61,912 |
| Other assets | 3,818 | 3,634 | 45,917 |
| Allowance for loan losses | (6,471) | (7,808) | (77,823) |
| Total | ¥ 1,061,535 | ¥ 995,630 | $ 12,766,506 |

(Continued)

**The Shonai Bank, Ltd.**

**Non-consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Liabilities: | | | |
| Deposits | ¥ 897,398 | ¥ 864,233 | $ 10,792,519 |
| Negotiable certificates of deposit | 33,354 | 22,190 | 401,130 |
| Call money and bills sold | 16,000 | 5,402 | 192,423 |
| Borrowed money | 54,100 | 42,500 | 650,631 |
| Foreign exchange liabilities | 4 | 0 | 48 |
| Bonds payable | 10,000 | 9,500 | 120,264 |
| Provision for retirement benefits | 812 | 1,078 | 9,765 |
| Provision for reimbursement of deposits | 104 | 67 | 1,250 |
| Provision for contingent loss | 89 | 19 | 1,070 |
| Deferred tax liabilities for land revaluation | 762 | 764 | 9,164 |
| Acceptances and guarantees | 5,148 | 6,331 | 61,912 |
| Other liabilities | 8,674 | 8,138 | 104,317 |
| Total liabilities | 1,026,450 | 960,226 | 12,344,558 |
| Net assets: | | | |
| Common stock | 7,000 | 7,000 | 84,185 |
| Capital surplus | 18,808 | 18,808 | 226,193 |
| Retained earnings | 12,576 | 11,167 | 151,244 |
| Total shareholders' equity | 38,384 | 36,976 | 461,623 |
| Unrealized loss on available-for-sale securities | (4,306) | (2,581) | (51,785) |
| Deferred loss on derivatives under hedge accounting | (17) | (18) | (204) |
| Revaluation reserve for land | 1,024 | 1,027 | 12,315 |
| Total valuation and translation adjustments | (3,299) | (1,572) | (39,675) |
| Total net assets | 35,085 | 35,403 | 421,948 |
| Total | ¥ 1,061,535 | ¥ 995,630 | $ 12,766,506 |

(Concluded)

**The Shonai Bank, Ltd.**

**Non-consolidated Statements of Income**
**Years Ended March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Income: | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 14,969 | ¥ 15,222 | $ 180,024 |
| Interest and dividends on securities | 1,792 | 1,640 | 21,551 |
| Other | 41 | 35 | 493 |
| Fees and commissions | 4,168 | 3,767 | 50,126 |
| Other operating income | 3,201 | 755 | 38,496 |
| Other income | 1,093 | 940 | 13,144 |
| Total income | 25,267 | 22,362 | 303,872 |
| Expenses: | | | |
| Interest expense: | | | |
| Interest on deposits | 1,579 | 2,095 | 18,989 |
| Interest on negotiable certificates of deposit | 72 | 128 | 865 |
| Interest on borrowings and rediscounts | 149 | 147 | 1,791 |
| Interest on bonds payable | 221 | 145 | 2,657 |
| Other | 21 | 23 | 252 |
| Fees and commissions | 1,931 | 2,030 | 23,223 |
| Other operating expenses | 3,408 | 189 | 40,986 |
| General and administrative expenses | 13,488 | 13,673 | 162,212 |
| Provision of allowance for loan losses | 820 | 1,209 | 9,861 |
| Other expenses | 1,175 | 1,022 | 14,131 |
| Total expenses | 22,867 | 20,665 | 275,009 |
| Income before income taxes | 2,398 | 1,697 | 28,839 |
| Income taxes: | | | |
| Current | 36 | 42 | 432 |
| Deferred | 955 | 676 | 11,485 |
| Total income taxes | 992 | 718 | 11,930 |
| Net income | ¥ 1,405 | ¥ 978 | $ 16,897 |

**The Hokuto Bank, Ltd.**

**Non-consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Assets: | | | |
| Cash and due from banks | ¥ 39,920 | ¥ 19,209 | $ 480,096 |
| Call loans and bills bought | 20,000 | 43,500 | 240,529 |
| Money claims bought | 1,571 | 1,016 | 18,893 |
| Trading account securities | 672 | 615 | 8,081 |
| Securities | 383,769 | 364,153 | 4,615,381 |
| Loans and bills discounted | 692,432 | 673,836 | 8,327,504 |
| Foreign exchange assets | 1,023 | 391 | 12,303 |
| Tangible fixed assets: | | | |
| Buildings | 4,105 | 3,968 | 49,368 |
| Land | 8,974 | 8,991 | 107,925 |
| Lease assets | 10 | 15 | 120 |
| Construction in progress | 1 | 1 | 12 |
| Other tangible fixed assets | 1,403 | 2,081 | 16,873 |
| Intangible fixed assets: | | | |
| Software | 183 | 128 | 2,200 |
| Other intangible fixed assets | 66 | 67 | 793 |
| Deferred tax assets | 7,824 | 8,440 | 94,095 |
| Customers' liabilities for acceptances and guarantees | 9,671 | 10,515 | 116,307 |
| Other assets | 5,463 | 7,872 | 65,700 |
| Allowance for loan losses | (8,060) | (10,934) | (96,933) |
| Allowance for investment loss | (1,310) | (584) | (15,754) |
| Total | ¥ 1,167,725 | ¥ 1,133,285 | $ 14,043,595 |

(Continued)

**The Hokuto Bank, Ltd.**

**Non-consolidated Balance Sheets**
**March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Liabilities: | | | |
| Deposits | ¥ 1,060,100 | ¥ 1,037,178 | $ 12,749,248 |
| Negotiable certificates of deposit | 33,272 | 28,892 | 400,144 |
| Borrowed money | 21,500 | — | 258,568 |
| Foreign exchange liabilities | 13 | — | 156 |
| Bonds payable | — | 11,900 | — |
| Provision for bonuses | 283 | 195 | 3,403 |
| Provision for retirement benefits | 5 | 6 | 60 |
| Provision for reimbursement of deposits | 265 | 166 | 3,187 |
| Provision for contingent loss | 225 | 131 | 2,705 |
| Deferred tax liabilities for land revaluation | 1,711 | 1,773 | 20,577 |
| Acceptances and guarantees | 9,671 | 10,515 | 116,307 |
| Other liabilities | 4,781 | 6,451 | 57,498 |
| Total liabilities | 1,131,830 | 1,097,210 | 13,611,906 |
| Net assets: | | | |
| Common stock | 11,000 | 11,000 | 132,291 |
| Capital surplus | 18,499 | 18,499 | 222,477 |
| Retained earnings | 1,660 | 1,119 | 19,963 |
| Total shareholders' equity | 31,160 | 30,619 | 374,744 |
| Unrealized gain on available-for-sale securities | 2,644 | 3,279 | 31,797 |
| Revaluation reserve for land | 2,089 | 2,175 | 25,123 |
| Total valuation and translation adjustments | 4,734 | 5,454 | 56,933 |
| Total net assets | 35,894 | 36,074 | 431,677 |
| Total | ¥ 1,167,725 | ¥ 1,133,285 | $ 14,043,595 |

(Concluded)

**The Hokuto Bank, Ltd.**

**Non-consolidated Statements of Income**
**Years Ended March 31, 2011 and 2010**

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2011 | 2010 | 2011 |
| Income: | | | |
| Interest income: | | | |
| Interest on loans and discounts | ¥ 13,922 | ¥ 14,557 | $ 167,432 |
| Interest and dividends on securities | 3,707 | 3,611 | 44,582 |
| Other | 61 | 87 | 733 |
| Fees and commissions | 3,851 | 3,750 | 46,313 |
| Other operating income | 1,410 | 1,868 | 16,957 |
| Other income | 1,242 | 1,142 | 14,936 |
| Total income | 24,195 | 25,019 | 290,980 |
| Expenses: | | | |
| Interest expense: | | | |
| Interest on deposits | 1,471 | 2,070 | 17,690 |
| Interest on negotiable certificates of deposit | 68 | 108 | 817 |
| Interest on bonds payable | 124 | 311 | 1,491 |
| Other | 2 | 0 | 24 |
| Fees and commissions | 1,084 | 1,079 | 13,036 |
| Other operating expenses | 357 | 497 | 4,293 |
| General and administrative expenses | 14,976 | 15,474 | 180,108 |
| Provision of allowance for loan losses | 2,423 | 3,040 | 29,140 |
| Other expenses | 1,572 | 648 | 18,905 |
| Total expenses | 22,081 | 23,231 | 265,556 |
| Income before income taxes | 2,114 | 1,788 | 25,423 |
| Income taxes: | | | |
| Current | 27 | 28 | 324 |
| Deferred | 675 | 726 | 8,117 |
| Total income taxes | 702 | 754 | 8,442 |
| Net income | ¥ 1,412 | ¥ 1,033 | $ 16,981 |