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# ANNUAL REPORT 2011

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Masahiro Takahashi  
*President*

## Message from the President

### On Medium-Term Management Plan “V-Plan—Taking Up New Challenges”

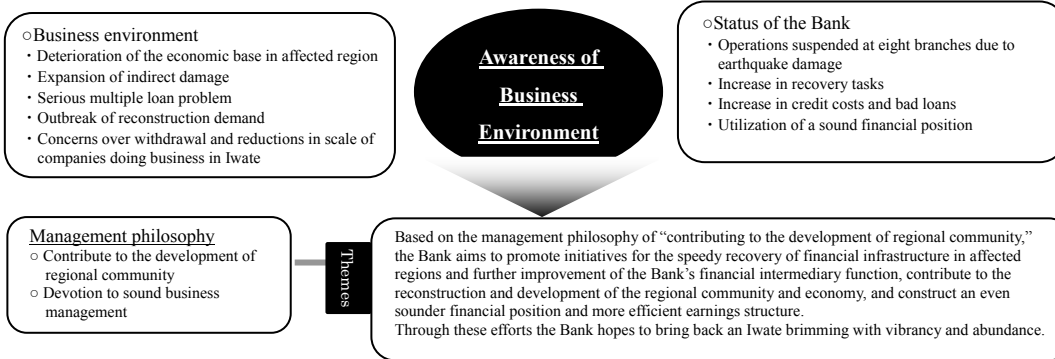
The three-year medium-term management plan known as “V-Plan—Taking Up New Challenges” was to be implemented from April 2009 to March 2012, with a three-in-one strategy of “rebuilding the bank’s earnings structure” that focuses on three strategic challenges; “growing the Bank’s marketing base for improved performance,” “introducing innovations in business processes to lower costs,” and “introducing more sophisticated risk management systems.” As displayed in the chart below, we have achieved the major targets set for the first two years of this plan, excluding net profit-related items (net profits for the period and ROE) for FY2010 due to the impact of the Great East Japan Earthquake.

#### (Achievements in principal measurement indicators)

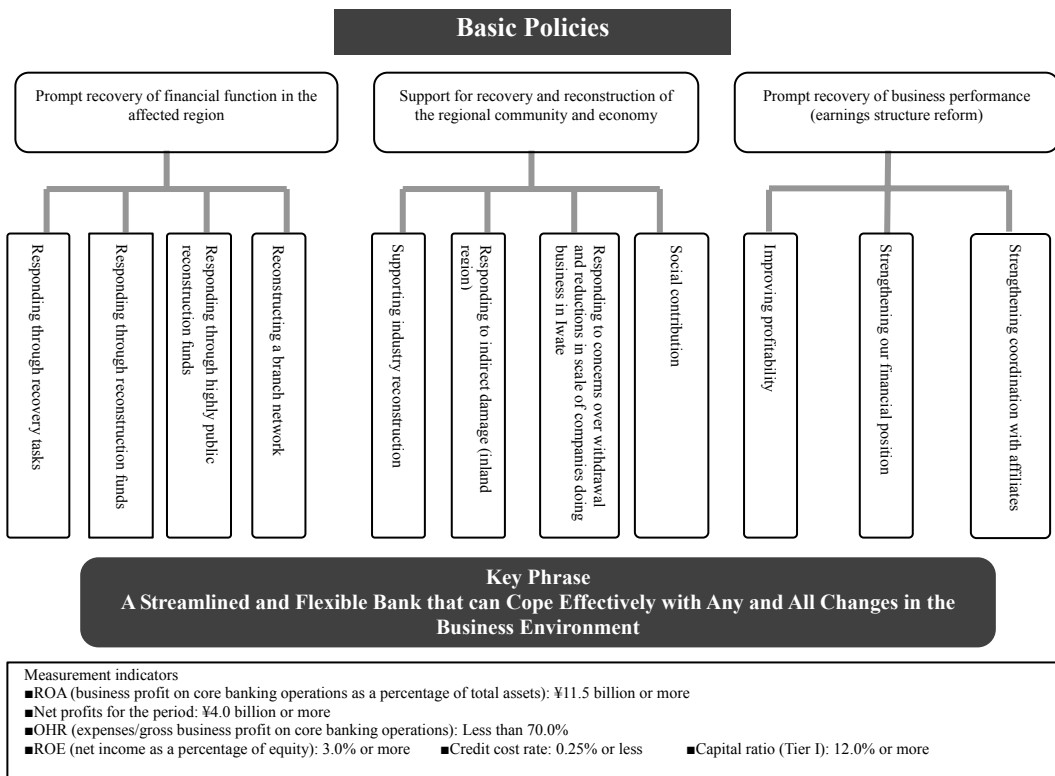
Principal indicators	Medium-term Management Plan “V-Plan—Taking Up New Challenges”				FY2011 Targets
	FY2009 Results		FY2010 Results		
		Medium-term Targets		Medium-term Targets	
<b>ROA (business profit on core banking operations as a percentage of total assets)</b>	¥11.8 billion	¥10.8 billion	¥11.8 billion	¥11.6 billion	¥12.5 billion or over
<b>Net profits for the period</b>	¥5.2 billion	¥4.2 billion	¥1.1 billion	¥4.6 billion	¥5.5 billion or over
<b>OHR (expenses/gross business profit on core banking operations)</b>	69.2%	71.9%	68.8%	70.0%	68.5% or under
<b>ROE (net income as a percentage of equity)</b>	4.0%	3.4%	0.8%	3.6%	4.0% or over
<b>Capital ratio (Tier I)</b>	11.90%	In the 11% range	11.76%	In the 11% range	In the 11% range

However, due to the significant change in the business environment surrounding the Bank following the Great East Japan Earthquake, it was decided to end this medium-term management plan one year ahead of schedule and formulate a new plan aimed at working together with the region for reconstruction.

## Overview of The Bank of Iwate Earthquake Reconstruction Plan —Aiming at Restoration of the Regional Community



### Speedy response



### Basic Ideas of Earthquake Reconstruction Plan “The Bank of Iwate Earthquake Reconstruction Plan—Aiming at Restoration of the Regional Community”

The Great East Japan Earthquake that occurred on March 11, 2011 caused massive damage to the economy of Iwate Prefecture, the Bank’s main base of operations, as well as to the Bank, significantly changing the business environment the Bank operates in. Within this business environment, the Bank hopes to adhere to its management philosophy of contributing to the wellbeing of the regional community and ensuring the financial soundness of the Bank under all circumstances as it works together with the region for speedy recovery and reconstruction and aims for a recovery in performance as early as possible.

With this aim, the Bank has decided to implement a two-year earthquake reconstruction plan named “The Bank of Iwate Earthquake Reconstruction Plan—Aiming at Restoration of the Regional Community” from April 2011 to March 2013, based on the three basic policies of “prompt recovery of financial function in the affected region,” “support for recovery and reconstruction of the regional community and economy,” and “prompt recovery of business performance (earnings structure reform).”

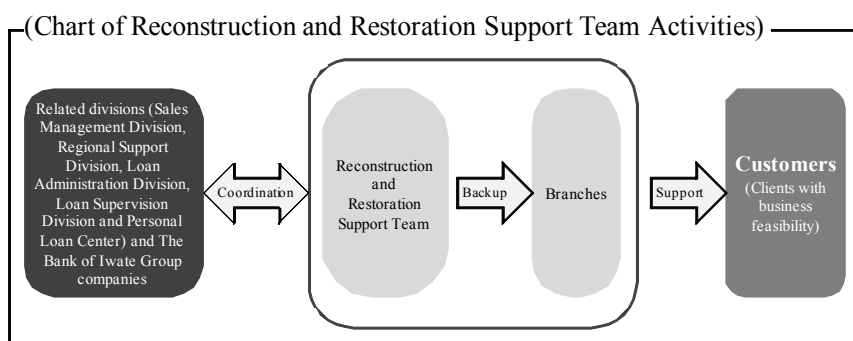
The implementation of this plan will require operation under a more difficult business environment. However,

we are aware of the fact that the Bank is now being called on to embody “strong resilience to changes in the business environment” in line with the theme of the previous medium-term management plan, “a streamlined and flexible bank that can cope effectively with any and all changes in the business environment” and based on that awareness, we intend to maintain this spirit during the implementation of the current plan as we make a speedy response aimed at recovery.

An overview of this plan is displayed in the illustration on the following page.

**●Establishment of the Reconstruction and Restoration Support Team**

In response to an unprecedented crisis for the regional economy and business partners, a “Reconstruction and Restoration Support Team” that dedicates itself to reconstruction support tasks has been established in the Corporate Financial Support Office of the Loan Supervision Division. The Team will bring together the collective abilities of the Group to offer solutions in response to various needs including assistance in procurement of commercial materials, introduction of sales routes, and business succession; as well as offering financial support advice through consultation aimed at reconstruction from the earthquake on site and other locations.



**●“The Bank of Iwate Reconstruction Pledge—Bringing Back Smiles Hand in Hand” Initiative**

This initiative consists of branches announcing “things that have to be done now” and “things that can be done to revitalize the region” as “pledges aimed at reconstruction,” and then adopting specific actions to achieve these aims. Through this initiative the Bank hopes to assist regional reconstruction as all of our employees unite in our aim to work closely together with regional community.

The “pledges aimed at reconstruction” made by branches are based on the current conditions in local regions and vary widely, and are on display at each branch.

*M. Takahashi*

Masahiro Takahashi, *President*

# Analysis of the Financial Position and Business Performance of the Bank

(on a consolidated basis)

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## Financial Position

### Principal Accounts

#### Deposits

In addition to a steady increase in personal deposits, corporate deposits increased significantly due to the build-up in liquidity on hand by corporations while public deposits also increased. As a result, total deposits grew by ¥76.4 billion during the term, to ¥2,387.3 billion (US\$28,711.0 million).

#### Loans

Loans to both corporations and local governments increased, and loans to individuals posted firm growth. As a result, the value of total loans increased by ¥45.0 billion during the term, to ¥1,473.6 billion (US\$17,721.8 million).

#### Securities

With the intention of maintaining a safe and flexible portfolio along with the increase in fund management, we pressed ahead with the purchase of national and local government bonds. As a result, the value of total securities increased by ¥63.9 billion during the term, to ¥1,003.7 billion (US\$12,071.2 million).

#### Cash Flow Analysis

Net cash provided by operating activities increased by ¥77.6 billion to a net inflow of ¥121.8 billion (US\$1,465.2 million). An increase of ¥88.1 billion due to decrease in call loans and others and ¥72.5 billion cash inflow due to increase in deposits outweighed cash outflow of ¥45.0 billion increase in loans and bills discounted and a ¥5.0 billion decrease in call money.

Net cash used in investing activities decreased by ¥32.4 billion to a net outflow of ¥77.0 billion (US\$926.4 million). A cash outflow of ¥256.2 billion on acquisitions of securities was more than offset by a cash inflow of ¥185.1 billion from sales and redemptions of securities.

Net cash used in financing activities decreased by ¥1.1 billion to a net outflow of ¥3.2 billion (US\$38.8 million). Primary factors were the payment of cash dividends and the redemption of warrant bonds.

As a result of the above, the term-end balance of cash and cash equivalents increased by ¥41.5 billion from the previous term-end, to ¥70.9 billion (US\$852.7 million).

#### Business performance

##### Earnings

Total income decreased by ¥4.0 billion, to ¥47.0 billion (US\$565.5 million). This was mainly attributable to decreases in interest on loans reflecting a lower yield and in interest and dividends on securities, in addition to the decrease in gain on sales of securities. Total expenses decreased by ¥4.6 billion to ¥45.0 billion (US\$541.7 million). This was mainly attributable to a decrease in financing expenses reflecting a lower yield on deposits, a decrease in losses on sales of securities held, and a reduction in operating expenses.

As a result, income before income taxes was ¥2.0 billion compared to ¥8.1 billion a term earlier. However net income decreased by ¥4.1 billion to ¥1.1 billion (US\$13.3 million) due in part to loss on disaster related to premises and equipment of ¥0.8 billion incurred as a result of the Great East Japan Earthquake and a transfer to reserve for possible loan losses of ¥6.1 billion stemming from the deterioration of business conditions for our clients that were posted as an extraordinary loss.

##### Capital Ratio

A high capital ratio was maintained, although it decreased 0.02 point year-on-year to 13.25%, reflecting an increase in risk assets mainly attributable to an increase in business loans.

### 1 Corporate Governance

#### (1) Outline of the Bank's Governance Structure

##### ① Governance structure and basic approach to corporate governance

Governance structure of the Bank is developed on the basis of the coordination between appointed outside directors and the Board of Corporate Auditors as well as internal audit divisions. The reason behind the adoption of this structure is the philosophy that supervision of management ought to be reinforced by the enhanced functions of the Board of Directors and implementation of outside directors, along with the reinforcement of corporate auditors' functions through the appointment of highly independent outside auditors.

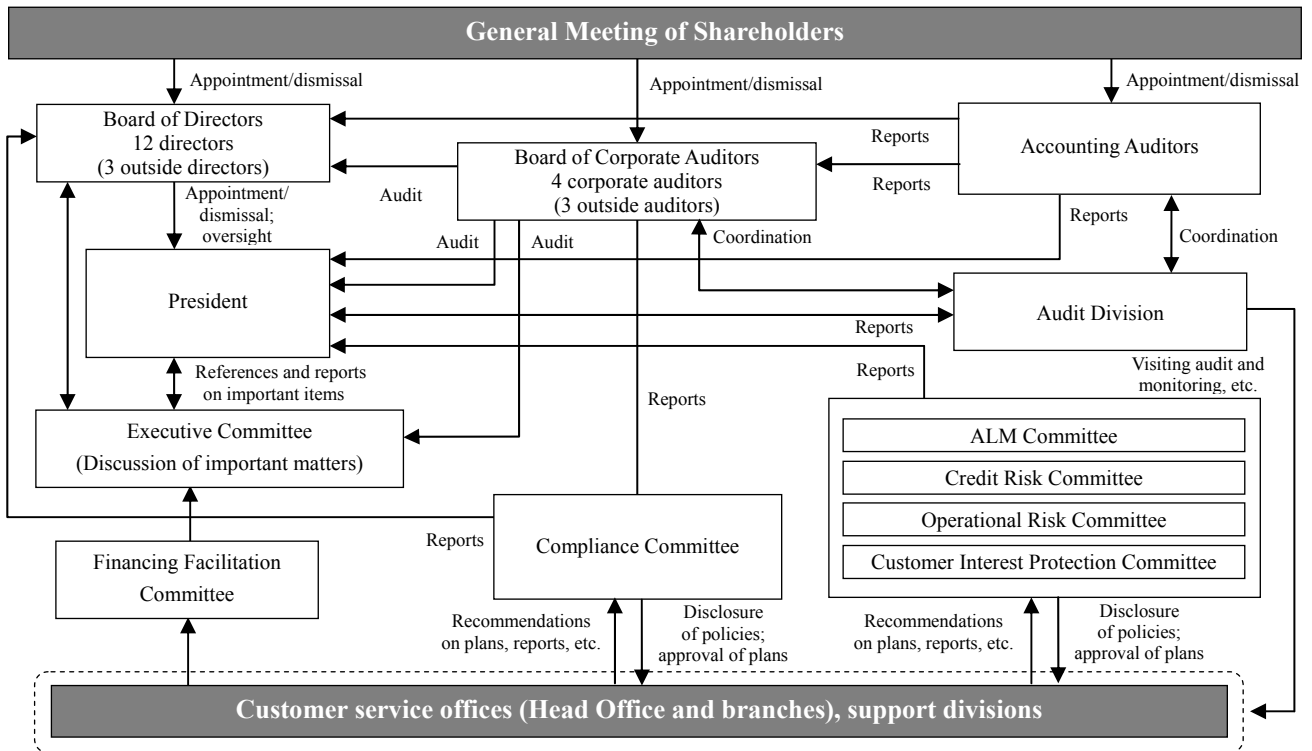
Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the wellbeing of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, the management of Iwate Bank continues to uphold these principles in its day-to-day performance of business operations. To fulfill the duties expected of us, as the leading bank in our region, by our business partners, shareholders, and the community as a whole, we take complete responsibility for our management decisions and are working to raise our management transparency, strengthen management oversight functions, and practice corporate governance in a manner that meets the very highest standards.

##### ② Outline of the corporate governance functions within the Bank

The Bank has chosen corporate auditor system, in which business execution of directors is monitored by the Board of Directors and corporate auditors. As executive institutions for operation, the Board of Directors is in place along with the Executive Committee and the Compliance Committee that discusses and decides the matters referred by the Board of Directors, on top of executive officers system.

With the purpose to reinforce executive structure focused on corporate governance, the Bank has placed the Compliance Committee on a par with the Executive Committee, along with the hitherto efforts to enhance functions to supervise management including extended functions of the Board of Directors, appointment of outside directors and strengthening of corporate auditors' functions.

③ Organization chart



④ Internal control system development

With regard to internal control, the Board of Directors has laid down the Basic Policies Regarding the Structure of the Bank's Internal Control System, which contains nine items, including a statement of the need for the Bank to operate a system that ensures that the conduct of all directors and employees conforms both to the law and to the Articles of Incorporation of the Bank.

⑤ Development of risk management structure

For the purpose of risk management, a structure to manage various categories of risks on an integral basis has been developed, along with the aforementioned structures for execution of operation and monitoring. Audit Division responsible for internal audits is striving to improve business administration by auditing to examine the adequacy and effectiveness of the internal control system including compliance and risk management, on the basis of its independence from the departments being audited.

To firm up these management structures, the Risk Management Regulations has been set out, to clearly indicate the basic principles of risk management while defining the specific functions responsible for each category of risk within the Bank. Meanwhile, Risk Management Division is in place as the department responsible for managing various categories of risks on an integral basis, which coordinates risk management across the Bank, and ensures proper check and control over each department responsible for managing risk in specific area, through monitoring the status of risk management.

⑥ Accounting audit

Accounting audits of the Bank are conducted by the independent auditing company KPMG AZSA LLC at the request of the Bank. The certified public accountants in charge of auditing the Bank's financial statements for the reporting term were Toshiaki Konno, Hideyuki Kobayashi, and Takayuki Narita, and they were assisted by seven other certified public accountants and fifteen other staff.

## (2) Internal Audits and Auditing by Corporate Auditors

### ① Internal audits

The Bank's Audit Division, with a staff of 21, is primarily responsible for conducting internal audits. In principle, audits are conducted on all divisions of the head office, branches, subsidiaries and affiliate companies at least once a year. The audits focus principally on checking the accuracy of the Bank's securities reports and financial statements, to confirm the effective operation of the Bank's internal control system. Staff of the division is making effort to enhance coordination with corporate auditors by exchanging information, to ensure objective and efficient auditing.

### ② Auditing by corporate auditors

The Board of Corporate Auditors comprises four corporate auditors including three outside auditors with higher degree of independence. Auditing conducted by the Bank's corporate auditors consists of audits of divisions at the Bank's Head office as well as on-site audits of branch offices conducted on a periodical basis. In addition, the corporate auditors carry out their auditing tasks with the collaboration of the Audit Division and the accounting auditors. Furthermore, corporate auditors regularly meet with accounting auditors to receive reports and exchange opinions, and attend visiting audits by accounting auditors to check the adequacy of their execution of duties.

## (3) Outside Directors and Outside Auditors

### ① Functions, duties, and appointment of outside directors and outside auditors

Business execution of the Bank's directors is monitored by the Board of Directors and corporate auditors. Besides the aforementioned three outside auditors, three outside directors are appointed out of the 12 directors in all, engaging in monitoring activities from multidimensional points of view such as asking questions and expressing opinions as appropriate, at the Board of Directors meetings and on other occasions. Although the three outside directors serve as executive directors, etc. at the Bank's major clients, it is believed that their independence has been secured from the perspective of effectiveness and expertise as a supervisory organization as they monitor and supervise execution of duties by directors of the Bank by utilizing their high level of knowledge.

Of the six outside directors and outside auditors, two outside auditors have been reported to the Tokyo Stock Exchange, Inc. as independent directors/corporate auditors with no risks of conflicts of interest between general stockholders.

### ② Conflicts of interest between the Bank and outside directors and outside auditors

In terms of conflicts of interest between the Bank and companies where outside directors and outside auditors concurrently serve as executive directors, although three outside directors concurrently serve as executive directors of companies which have outstanding loans from the Bank and three outside auditors have deposits at the Bank as individuals, it is not believed that there are any risks of conflict of interests between the outside directors and outside auditors, and general stock holders as these are all standard banking transactions.

In terms of shareholding of the Bank's stock by outside directors and outside auditors, although one outside director and two outside auditors have holdings of the Bank's stock and companies where outside directors concurrently serve as executive directors have holdings of the Bank's stock as stated in "5. Status of Directors and Corporate Auditors," all of these holdings only account for a very small proportion of outstanding shares.

### ③ Cooperation between outside auditors and internal audit divisions

Outside auditors monitor and supervise the management of the Bank through attendance at the Board of Directors meetings and the Board of Corporate Auditors meetings, reports from the Compliance Committee etc., and cooperation with the Audit Division and Accounting Auditors to ensure the effectiveness of audits based on a high level of independence.

(4) Compensation for Directors and Corporate Auditors

- ① Aggregate amount of compensation paid to directors and corporate auditors, amount of compensation by category of compensation, and the number of persons that were paid, by classification of directors and corporate auditors

Classification of directors and corporate auditors	Number of persons	Aggregate amount of compensation			
		(¥ million)	Basic compensation	Bonus	Retirement benefits
Directors (excluding outside directors)	10	218	120	21	76
Corporate auditors (excluding outside auditors)	3	23	15	2	5
Outside directors and outside auditors	5	32	22	4	6

(Notes) 1. The above numbers of persons include one director and one corporate auditor who resigned at the closing of the 128th General Meeting of Shareholders held on June 25, 2010.

2. The above amounts include ¥79 million provision for retirement benefits for directors and corporate auditors (¥68 million for directors, ¥4 million for corporate auditors and ¥6 million for outside directors and outside auditors), ¥28 million accrued bonuses for directors and corporate auditors (¥20 million for directors, ¥2 million for corporate auditors and ¥4 million for outside directors and outside auditors) and ¥8 million for the difference between the retirement benefits paid to the directors and corporate auditors retired during the current fiscal year and the provision for retirement benefits made for the same directors and corporate auditors during the previous fiscal year (¥7 million for directors and ¥1 million for corporate auditors).

3. Apart from the above, ¥43 million employees' compensation was paid to directors concurrently serving as employees (¥34 million employees' salary and ¥9 million employees' bonus). Meanwhile, it was decided that ¥56 million retirement benefits for directors and corporate auditors (¥42 million for one director and ¥13 million for one corporate auditor) are to be paid according to the resolution at the 128th General Meeting of Shareholders, which includes addition to provision for retirement benefits for directors and corporate auditors posted in the previous fiscal year.

4. Maximum aggregate amounts of compensation for directors and corporate auditors were decided as follows by the general meetings of shareholders.

For directors: ¥20 million per month

(According to the resolution at the 107th General Meeting of Shareholders)

(Excluding employees' compensation payable to directors concurrently serving as employees)

For corporate auditors: ¥4 million per month

(According to the resolution at the 100th General Meeting of Shareholders)

- ② Combined compensation for individual directors and corporate auditors

Not applicable, as there are no directors or corporate auditors whose combined compensations exceeded ¥100 million.

- ③ The Group's Policies on deciding the amount of compensation for directors and corporate auditors

Compensation for directors and corporate auditors comprises basic compensation, bonus and retirement benefits for directors and corporate auditors. Basic compensation for directors and corporate auditors (monthly amount) is decided at the Board of Directors meeting immediately after the General Meeting of Shareholders, based on the scope and nature of responsibility as well as experience of each director and corporate auditor that are paid. The amount of bonus for directors and corporate auditors is decided according to the internal rule separately set out, in consideration of the Bank's financial results of the fiscal year as well as each director and corporate auditor's personal contribution thereto. Retirement benefits for directors and corporate auditors are payable within the range set out in the Bank's relevant guidelines, and

finalized, according to a past resolution by the General Meeting of Shareholders, subject to the decision of the Board of Directors in the case of retiring or resigning directors, while up to the consultation by corporate auditors in the case of retiring or resigning corporate auditors. Specifically, the amount of directors' retirement benefits is decided at the Board of Directors or in the consultation by corporate auditors according to the formulas based on the scope and nature of responsibility, as well as years of service of each retiring or resigning director and corporate auditor, as stipulated by the Bank's internal rules separately set out.

(5) Holding of Shares

① Number of stocks held by the Bank for other purposes than pure investment and their balance sheet value  
Number of stocks held: 152

Balance sheet value: ¥20,238 million

② Classification, stock name, number of shares, balance sheet values, and purpose of holding of investment securities for other purposes than pure investment are as follows:

(Current fiscal year)

The 39 stocks with the largest balance sheet values are displayed below in order of balance sheet value.

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Tohoku Electric Power Company, Incorporated	2,277,797	3,200	Reinforcement of relationship through shareholding
Mitsubishi UFJ Financial Group, Inc.	4,040,310	1,551	Ibid.
NIPPON STEEL CORPORATION	4,918,200	1,308	Ibid.
TAIYO NIPPON SANSO CORPORATION	1,822,849	1,263	Ibid.
East Japan Railway Company	200,000	925	Ibid.
TOSHIBA CORPORATION	2,024,483	823	Ibid.
The Yamagata Bank, Ltd.	1,323,800	549	Ibid.
JFE Holdings, Inc.	200,047	486	Ibid.
Shoei Company, Limited.	632,491	475	Ibid.
Hitachi, Ltd.	1,027,391	444	Ibid.
Daiwa Securities Group Inc.	1,099,806	420	Ibid.
THE AKITA BANK, LTD.	1,517,159	409	Ibid.
SECOM CO., LTD.	104,644	404	Ibid.
The Bank of Kyoto, Ltd.	540,000	397	Ibid.
Tokio Marine Holdings, Inc.	127,086	282	Ibid.
The Yamanashi Chuo Bank, Ltd.	656,000	265	Ibid.
NTN CORPORATION	657,555	262	Ibid.
Sumitomo Metal Industries, Ltd.	1,383,988	257	Ibid.
THE OITA BANK, LTD.	860,000	242	Ibid.
The Aomori Bank, Ltd.	937,000	238	Ibid.
The Toho Bank, Ltd.	1,052,090	236	Ibid.
The Ogaki Kyoritsu Bank, Ltd.	863,000	234	Ibid.
The Hyakugo Bank, Ltd.	619,000	231	Ibid.
Yamaguchi Financial Group, Inc.	300,000	231	Ibid.
THE KAGOSHIMA BANK, LTD.	377,000	212	Ibid.
The Chugoku Bank, Limited	222,000	209	Ibid.
The Daishi Bank, Ltd.	731,000	201	Ibid.
The Musashino Bank, Ltd.	71,600	193	Ibid.
The Iyo Bank, Ltd.	277,000	191	Ibid.
THE BANK OF SAGA LTD.	801,000	187	Ibid.

Electric Power Development Co., Ltd.	72,000	184	Ibid.
The Juroku Bank, Ltd.	611,000	166	Ibid.
THE SHIMIZU BANK, LTD.	45,400	166	Ibid.
DCM Holdings Co., Ltd.	317,949	161	Ibid.
Sumitomo Seika Chemicals Company, Limited.	356,000	153	Ibid.
The Hokkoku Bank, Ltd.	500,000	140	Ibid.
The Kita-Nippon Bank, Ltd.	68,250	139	Ibid.
Nagase & Co., Ltd.	137,000	135	Ibid.
MS&AD Insurance Group Holdings, Inc.	66,756	126	Ibid.

- ③ Balance sheet value, dividend income, gain or loss on sales and gain or loss on valuation, in respect of the investment stocks held purely for investment purpose

	At the end of the previous fiscal year			
	Balance sheet value (Millions of yen)	Dividend income (Millions of yen)	Gain or loss on sales (Millions of yen)	Gain or loss on valuation (Millions of yen)
Listed stocks	13,574	338	2,190	3,780
Unlisted stocks	-	-	-	-

	At the end of the current fiscal year			
	Balance sheet value (Millions of yen)	Dividend income (Millions of yen)	Gain or loss on sales (Millions of yen)	Gain or loss on valuation (Millions of yen)
Listed stocks	10,439	265	1,257	1,662
Unlisted stocks	-	-	-	-

- ④ Of all investment stocks held during the current fiscal year, those whose purpose of holding changed from other than pure investment to pure investment meanwhile

Stock name	Number of shares	Balance sheet value (Millions of yen)
NTN CORPORATION	657,555	262
Electric Power Development Co., Ltd.	72,000	184

- (6) Statutory Number of Directors

The Articles of Incorporation of the Bank stipulate that there shall be no more than 12 directors.

- (7) Resolutions for Appointment of Directors

The Articles of Incorporation provide that resolutions for appointment of directors are passed by simple majority at a General Meeting of Shareholders at which at least one third of eligible shareholders with voting rights are present, without use of cumulative voting.

- (8) Important Items that may be Approved by Resolution of the Board of Directors

- ① Based on Article 165, Clause 2 of the Corporation Law, the Articles of Incorporation of the Bank provide that Bank shares may be purchased on the markets by resolution of the Board of Directors only, without the need for approval at the General Meeting of Shareholders. This measure is intended to ensure flexible adjustment of the number of the Bank's shares on the market.
- ② Based on Article 454, Clause 5 of the Corporation Law, the Articles of Incorporation of the Bank provide that an interim dividend may be paid by resolution of the Board of Directors only, with September 30 each year as date of record. This measure is to ensure a more stable distribution of profits to shareholders.

(9) Special Resolutions of the General Meeting of Shareholders

Based on Article 309, Clause 2 of the Corporation Law, special resolutions may be passed with a majority of two-thirds of eligible shareholders at a meeting at which at least one-third of shareholders with voting rights are present. By relaxing quorum requirements for approval of special resolutions by the General Meeting of Shareholders, our objective is to achieve smoother progress through the agenda at meetings of shareholders.

## 2 Compensation for Audit Certification Services

### (1) Compensation Paid to Certified Public Accountants for Audit Certification Services

(¥ millions)

	FY2009		FY2010	
	Compensation for audit certification services	Compensation for services other than audit certification	Compensation for audit certification services	Compensation for services other than audit certification
For the Bank	¥56	¥1	¥56	¥2
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥56	¥1	¥56	¥2

Notes: 1. Compensation paid during the previous term with respect to audit certification services includes ¥1 million paid to KPMG AZSA & Co. for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2008.

2. Compensation paid during the reporting term with respect to audit certification services includes ¥1 million paid to KPMG AZSA LLC for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2009.

### (2) Other Important Compensatory Payments

None

### (3) Nature of Services Performed for the Bank by the Certified Public Accountants Other than Financial Accounting

In the previous fiscal year, advisory services were provided in respect to organizing training seminars on International Financial Reporting Standards (IFRS), while in the current fiscal year, advisory services were provided in respect to preparing a comfort letter accompanying the sale of treasury stocks.

### (4) Changes in Policy Regarding Payment of Compensation for Auditing Services

There were no changes during the reporting period.

## Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiary  
31 March 2011 and 2010

	Millions of yen		Thousands of U.S dollars (Note 1)
	2011	2010	2011
<b>ASSETS</b>			
Cash and due from banks (Notes 3 and 5)	¥71,425	¥29,839	\$858,990
Call loans and bills bought (Note 5)	5,118	88,326	61,551
Commercial paper and other debt purchased (Note 5)	12,510	18,321	150,451
Trading account securities	5	—	60
Money held in trust (Note 5)	4,923	—	59,206
Securities (Notes 4, 5 and 7)	1,003,721	939,829	12,071,209
Loans and bills discounted (Notes 5, 6 and 8)	1,473,566	1,428,560	17,721,780
Foreign exchange assets	2,132	2,259	25,641
Premises and equipment (Note 10)	16,640	17,433	200,120
Intangible assets (Note 11)	994	1,227	11,954
Deferred tax assets (Note 17)	5,482	1,889	65,929
Customers' liabilities for acceptances and guarantees (Note 15)	7,604	7,768	91,449
Other assets (Notes 7 and 9)	7,933	8,535	95,406
Reserve for possible loan losses	(19,430)	(15,513)	(233,674)
Total assets	¥2,592,623	¥2,528,473	\$31,180,072
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Deposits (Notes 5, 7 and 12)	¥2,387,322	¥2,310,937	\$28,711,028
Borrowed money	4,478	266	53,855
Call money (Notes 5 and 7)	5,000	10,000	60,132
Foreign exchange liabilities	1	6	12
Corporate bonds (Notes 5 and 13)	31,700	33,670	381,239
Liability for severance and retirement benefits (Note 16)	8,294	7,369	99,747
Accrued bonuses for directors and corporate auditors	29	29	349
Retirement benefits for directors and corporate auditors	361	335	4,342
Provision for losses on reimbursement of dormant deposits	184	186	2,213
Provision for contingent losses	352	130	4,233
Provision for disastrous losses	378	—	4,546
Acceptances and guarantees (Note 15)	7,604	7,768	91,449
Other liabilities (Note 14)	10,777	16,696	129,609
Total liabilities	2,456,480	2,387,392	29,542,754
<b>Net assets (Note 18):</b>			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2011 and 31 March 2010			
Issued and outstanding — 19,098 thousand shares at 31 March 2011 and 31 March 2010			
	12,090	12,090	145,400
Capital surplus	4,811	4,811	57,859
Retained earnings	114,606	114,943	1,378,304
Treasury stock, at cost	(3,985)	(4,160)	(47,925)
Net unrealized holding gains on securities	8,617	13,148	103,632
Net unrealized gains on hedging derivatives	4	249	48
Total net assets	136,143	141,081	1,637,318
Total liabilities and net assets	¥2,592,623	¥2,528,473	\$31,180,072

See accompanying notes.



## Consolidated Statement of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Year ended 31 March 2011

	<u>Millions of yen</u>	<u>Thousands of U.S dollars (Note 1)</u>
	<u>2011</u>	<u>2011</u>
Net income before minority interests	¥1,109	\$13,337
Other comprehensive income (Note 23):		
Unrealized loss on available-for-sale securities	(4,531)	(54,492)
Deferred loss on derivatives under hedge accounting	(244)	(2,934)
Share of the other comprehensive income of affiliates accounted for using the equity method	0	0
Total other comprehensive income	<u>(4,775)</u>	<u>(57,426)</u>
Comprehensive income (Note 23)	(3,666)	(44,089)
Total comprehensive income (Note 23)	(3,666)	(44,089)
Attributable to:		
Owners of the parent	(3,666)	(44,089)
Minority interests	—	—

See accompanying notes.

**Consolidated Statements of Changes in Net Assets**  
The Bank of Iwate, Ltd. and its consolidated subsidiary  
Years ended 31 March 2011 and 2010

	Millions of yen		Thousands of U.S dollars (Note 1)
	2011	2010	2011
Stockholders' equity			
Common stock			
Balance at end of previous year	¥12,090	¥12,090	\$145,400
Change during current year	—	—	—
Total change during current year	—	—	—
Balance at end of current year	¥12,090	¥12,090	\$145,400
Capital surplus			
Balance at end of previous year	¥4,811	¥4,811	\$57,859
Change during current year	—	—	—
Total change during current year	—	—	—
Balance at end of current year	¥4,811	¥4,811	\$57,859
Retained earnings			
Balance at end of previous year	¥114,943	¥110,825	\$1,382,357
Change during current year			
Cash dividends	(1,110)	(1,108)	(13,349)
Net income	1,109	5,226	13,337
Disposal of treasury stock	(336)	(0)	(4,041)
Total change during current year	(337)	4,118	(4,053)
Balance at end of current year	¥114,606	¥114,943	\$1,378,304
Treasury stock			
Balance at end of previous year	¥(4,160)	¥(3,993)	\$(50,030)
Change during current year			
Acquisition of treasury stock	(580)	(168)	(6,975)
Disposal of treasury stock	755	1	9,080
Total change during current year	175	(167)	2,105
Balance at end of current year	¥(3,985)	¥(4,160)	\$(47,925)
Total shareholders' equity			
Balance at end of previous year	¥127,684	¥123,733	\$1,535,586
Change during current year			
Cash dividends	(1,110)	(1,108)	(13,349)
Net income	1,109	5,226	13,337
Acquisition of treasury stock	(580)	(168)	(6,975)
Disposal of treasury stock	419	1	5,039
Total change during current year	(162)	3,951	(1,948)
Balance at end of current year	¥127,522	¥127,684	\$1,533,638
Net Unrealized holding gains (losses) on securities			
Balance at end of previous year	¥13,148	¥(2,389)	\$158,124
Change during current year			
Net changes of items other than stockholders' equity during current year	(4,531)	15,537	(54,492)
Total change during current year	(4,531)	15,537	(54,492)
Balance at end of current year	¥8,617	¥13,148	\$103,632
Net Unrealized gains on hedging derivatives			
Balance at end of previous year	¥249	¥300	\$2,995
Change during current year			
Net changes of items other than stockholders' equity during current year	(245)	(51)	(2,947)
Total change during current year	(245)	(51)	(2,947)
Balance at end of current year	¥4	¥249	\$48
Total valuation adjustments			
Balance at end of previous year	¥13,397	¥(2,089)	\$161,119
Change during current year			
Net changes of items other than stockholders' equity during current year	(4,776)	15,486	(57,439)
Total change during current year	(4,776)	15,486	(57,439)
Balance at end of current year	¥8,621	¥13,397	\$103,680
Total net assets			
Balance at end of previous year	¥141,081	¥121,644	\$1,696,705
Change during current year			
Cash dividends	(1,110)	(1,108)	(13,349)
Net income	1,109	5,226	13,337
Acquisition of treasury stock	(580)	(168)	(6,975)
Disposal of treasury stock	419	1	5,039
Net changes of items other than stockholders' equity during current year	(4,776)	15,486	(57,439)
Total change during current year	(4,938)	19,437	(59,387)
Balance at end of current year	¥136,143	¥141,081	\$1,637,318

See accompanying notes.

## Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiary  
Years ended 31 March 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Net income before income taxes	¥1,975	¥8,087	\$23,752
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	1,840	2,430	22,129
Impairment losses	44	91	529
Equity in losses of affiliates	27	22	325
Increase in reserve for possible loan losses	3,917	106	47,108
Increase in provision for contingent losses	222	52	2,670
Increase in accrued bonuses for directors	0	29	0
Increase in liability for severance and retirement benefits	926	675	11,137
Increase (decrease) in retirement benefits for directors and corporate auditors	25	(146)	300
Increase (decrease) in provision for losses on reimbursement of dormant deposits	(1)	71	(12)
Increase in provision for disastrous losses	377	—	4,534
Interest income	(37,354)	(38,970)	(449,236)
Interest expenses	3,172	4,902	38,148
Investment securities gains, net	(87)	(950)	(1,046)
Decrease in money held in trust	77	—	926
Losses on disposal of premises and equipment	155	34	1,864
Net increase in loans and bills discounted	(45,006)	(25,970)	(541,263)
Net increase in deposits	72,524	102,526	872,207
Net decrease (increase) in call loans and others	88,107	(28,534)	1,059,615
Net decrease in call money	(5,000)	(11,000)	(60,132)
Net decrease (increase) in foreign exchange assets	128	(700)	1,539
Net increase (decrease) in foreign exchange liabilities	(5)	3	(60)
Net increase in negotiable certificates of deposit	3,861	18,738	46,434
Net increase (decrease) in borrowed money	4,212	(13)	50,655
Interest received	37,393	38,911	449,705
Interest paid	(4,339)	(4,890)	(52,183)
Other, net	(5,135)	(23,446)	(61,756)
Sub-total	122,055	42,058	1,467,889
Income taxes paid	(346)	(230)	(4,161)
Income taxes refunded	125	2,331	1,503
Net cash provided by operating activities	121,834	44,159	1,465,231
Cash flows from investing activities:			
Acquisition of securities	(256,204)	(213,995)	(3,081,227)
Proceeds from sale of securities	74,890	29,856	900,661
Proceeds from redemption of securities	110,280	140,329	1,326,278
Acquisition of money held in trust	(5,000)	—	(60,132)
Acquisition of premises and equipment	(1,020)	(673)	(12,267)
Proceeds from sale of premises and equipment	242	149	2,911
Acquisition of intangible assets	(220)	(213)	(2,646)
Net cash used in investing activities	(77,032)	(44,547)	(926,422)
Cash flows from financing activities:			
Payment for redemption of convertible bond	(1,954)	(753)	(23,500)
Cash dividends paid	(1,110)	(1,108)	(13,349)
Payment for acquisition of shares in treasury	(580)	(168)	(6,975)
Proceeds from sale of shares in treasury	418	1	5,027
Net cash used in financing activities	(3,226)	(2,028)	(38,797)
Effect of exchange rate changes on cash and cash equivalents	17	14	204
Net increase (decrease) in cash and cash equivalents	41,593	(2,402)	500,216
Cash and cash equivalents at beginning of year	29,312	31,714	352,520
Cash and cash equivalents at end of year (Note 3)	¥70,905	¥29,312	\$852,736

See accompanying notes.

## Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2011 and 2010

### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the “Bank”) and its consolidated subsidiary have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan, its related accounting regulations and the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements to International Financial Reporting Standards.

Under Japanese GAAP, consolidated statements of comprehensive income are required from the fiscal year ended 31 March 2011 and have been prepared herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the fiscal year ended 31 March 2010 is disclosed in Note 23. In addition, “Net income before minority interests” is disclosed in the consolidated statement of income from the fiscal year ended 31 March 2011.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing exchange rate at 31 March 2011, which was ¥83.15 to U.S.\$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Reporting entity

The consolidated financial statements include the accounts of the Bank and its significant subsidiary. Japanese GAAP on consolidated financial statements requires consolidation of all significant investees that are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions and account balances are eliminated.

Investments in affiliates over which the Bank has the ability to exercise significant influence in terms of operating and financial policies of the investees are accounted for by the equity method.

#### Trading account securities and Securities

Securities are classified as follows based on purpose: (a) securities held for trading purposes (hereafter, “trading account securities”), (b) debt securities intended to be held to maturity (hereafter, “held-to-maturity debt securities”), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, “available-for-sale securities”).

(a) Trading account securities — National government bonds held for trading purpose are presented as trading account securities. Trading account securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

(b) Held-to-maturity debt securities are stated at amortized cost.

(c) Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets.

Realized gains and losses on sale of such securities are computed using moving average cost.

Securities for which it is extremely difficult to determine the fair market value are stated at moving average cost.

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

Available-for-sale securities with available fair market values are written down when a significant decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss.

#### Money held in trust

Securities that are invested as part of trust assets in an independently managed money trusts that invest primarily in securities are stated at fair value.

#### Derivatives and hedge accounting

The Bank employs forward exchange contracts, currency swaps and interest rate swaps to meet customers’ needs and to mitigate interest rate risks and foreign exchange risks. It also uses credit default swaps incorporated into compound financial instruments. Derivative financial instruments are stated at fair market value.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Bank defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

Transactions to hedge against interest rate risks affecting the financial assets and liabilities of the Bank are accounted for using deferred hedge accounting in accordance with the provisions of JICPA Industry Audit Committee Report No. 24.

Regarding the effectiveness of a hedge, a hedge that is intended to offset the effects of market fluctuations is assessed on a group-by-group comparison of hedged items and hedging instruments. Both hedged items, including deposits and loans, and hedging instruments, including interest rate swaps, are classified into groups by remaining maturity period. The effectiveness of a cash flow hedge is assessed on the basis of the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

As for the hedging transactions against currency exchange risks arising from assets and liabilities in foreign currencies, the Bank applies deferred hedge accounting in accordance with the provisions of ‘Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry’ (JICPA Industry Audit Committee Report No. 25). The Bank assesses the

effectiveness of currency swap and foreign exchange swap transactions executed for offsetting the risks of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

Certain interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair values, but the differential paid or received under the swap contracts are recognized as interest expenses or income.

#### Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. The Bank and its consolidated subsidiary depreciate their premises and equipment under the declining-balance method over their estimated useful lives. Estimated useful lives are as follows:

Buildings: 3~30 years

Equipment and furniture: 3~20 years

Depreciation of buildings acquired by the Bank after 1 April 1998 (excluding installed facilities such as electrical and water facilities) is computed under the straight-line method, in accordance with the revision of corporate tax regulations.

#### Software

Costs of computer software developed or obtained for internal use are amortized using the straight-line method over estimated useful lives of 5 years.

#### Deferred charges

Stock issuance costs, which include disposing cost of treasury stocks, are charged to expenses as incurred.

#### Finance leases

Finance leases entered into prior to 1 April 2008, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

#### Reserve for possible loan losses

The reserve for loans to borrowers which are classified as legally bankrupt or substantially bankrupt is calculated by deducting the estimated disposal value of collateral and the amount deemed collectible from guarantees from the book value.

The Bank also provides specific reserves for potentially bankrupt borrowers based on the amount calculated by deducting the estimated disposal value of collateral and the amount deemed collectible from guarantees from the book value.

For all the other loans, general reserves are provided collectively. The ratio of the general reserves is determined based on the Bank's loan loss experience. The above-mentioned reserve for possible loan losses is made on the basis of the results of a strict assessment of the quality of all the Bank's loan assets, using the Bank's internally established rules for self-assessment.

#### Accrued bonuses for directors and corporate auditors

Accrued bonuses for directors and corporate auditors are provided in the amount of the estimated bonuses which are attributable to each fiscal year.

#### Employees' severance and retirement benefits

Under the terms of the retirement plan of the Bank and its consolidated subsidiary, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, base salary at retirement and reason for retirement. In addition, the Bank has a funded pension plan covering substantially all employees. The liability and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Bank provides a liability for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation at the balance sheet date and the fair value of the plan assets at that date. Prior service costs are charged to income as incurred.

Actuarial gains or losses are recognized as income or expenses commencing from the following year under the straight-line method over 10 years.

#### (Change in Accounting Policies)

Effective from the fiscal year ended 31 March 2010, the Bank and its consolidated subsidiary adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No. 19, issued on 31 July 2008). The new accounting standard requires using the rate of return on long-term government or gilt-edged bonds as of the end of the fiscal year for calculating the projected benefit obligation of a defined-benefit plan. Previously, it was allowed to use a discount rate determined by taking into consideration fluctuations in the yield of long-term government or gilt-edged bonds over a certain period. This change had no material impact on the consolidated financial statements for the fiscal year ended 31 March 2010.

#### Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are provided for the future payments of directors and corporate auditors' retirement benefits attributed to each fiscal year.

#### Provision for losses on reimbursement of dormant deposits

Provision for losses on reimbursement of dormant deposits which were recorded as profit is provided for the future reimbursement based on the historical reimbursement experience.

#### Provision for contingent losses

Provision for contingent losses is provided for the estimated future deposits required due to the implementation of burden charge system of credit guarantee corporations.

#### Provision for disastrous losses

Provision for disastrous losses is provided for the future payments of repairs or abandonments of damaged fixed assets by the Great East Japan Earthquake.

#### Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Bank and its consolidated subsidiary with certain adjustments required for tax purposes.

Deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and tax bases of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

#### Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of each year.

#### Appropriations of retained earnings

Under the Company Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the said financial period. The accounts for that period, therefore, do not reflect such appropriations. See Note 25

#### Amounts per share

Net income per share of common stock is computed based on the weighted average number of shares outstanding, excluding treasury stock, during each year. Diluted net income per share reflects the potential dilution that could occur if stock options to issue common stock were exercised. Cash dividends per share represent the amounts applicable to the respective years and consist of interim dividends for the current year and year-end dividends declared after the end of the year.

#### Changes in accounting policies

##### (1) Equity method

Effective from the fiscal year ended 31 March 2011, the Bank and its consolidated subsidiary adopted “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, issued on 10 March 2008) and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (PITF No. 24, issued on 10 March 2008). The change had no impact on the consolidated financial statements.

##### (2) Disclosure of fair values of financial instruments

Effective from the fiscal year ended 31 March 2010, the Bank adopted the revised Accounting Standard, “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, revised on 10 March 2008) and the “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, revised on 10 March 2008). This change had no material impact on income before

income taxes for the fiscal year ended 31 March 2010.

(3) Presentation of Comprehensive Income

The Bank is applying the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, issued on 30 June 2010) from this fiscal year. However, the amounts for the “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” in the previous fiscal year are reported using the figures of “Valuation and translation adjustments” and “Total valuation and translation adjustments” in the previous consolidated balance sheets and consolidated statements of income.

(4) Asset Retirement Obligations

The Bank is applying the “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18, issued on 31 March 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, issued on 31 March 2008) beginning with the fiscal year ended 31 March 2011. As a result, net income before income taxes decreased ¥39 million (\$469 thousand).

(5) Presentation of Income before Minority Interests

Effective from the fiscal year ended 31 March 2011, the Bank has adopted the separately prescribed forms in “Regulations on Enforcement of Banking Act” (Ordinance of Ministry of Finance No. 10, issued in 1982), corresponding to “Cabinet Office Ordinance for partial amendments of Regulations on Enforcement of Banking Act” (Cabinet Office Ordinance No. 41, issued on 21 September 2010), and prepared consolidated statements of income using an account of income before minority interests.

### 3. CASH AND CASH EQUIVALENTS

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents. As of 31 March 2011 and 2010, the reconciliation of cash and cash equivalents in the consolidated statements of cash flows with cash and due from banks in the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and due from banks	¥71,425	¥29,839	\$858,990
Less deposits in other banks other than the Bank of Japan	(520)	(527)	(6,254)
Cash and cash equivalents	¥70,905	¥29,312	\$852,736

#### 4. SECURITIES

Securities held by the Bank at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
National government bonds	¥348,459	¥293,607	\$4,190,728
Local government bonds	213,367	192,001	2,566,049
Debentures	307,988	314,401	3,704,005
Stock shares	30,976	39,804	372,532
Other securities	102,931	100,016	1,237,895
	<u>¥1,003,721</u>	<u>¥939,829</u>	<u>\$12,071,209</u>

Unsecured loaned securities which borrowers have the right to sell or pledge in the amount of ¥10,000 million (\$120,265 thousand) and ¥15,000 million as of 31 March 2011 and 2010 were included in National government bonds, respectively.

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of 31 March 2011 and 2010:

(a) Trading account securities

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Book Value	¥5	¥—	\$60
Amount of net unrealized losses included in the income statement	(0)	—	(0)

(b) Held-to-maturity debt securities

Millions of yen					
Book value	Fair value	Difference	Gain	Loss	
As of 31 March 2011					
¥56,107	¥56,111	¥4	¥726	¥(722)	
As of 31 March 2010					
¥71,578	¥71,263	¥(315)	¥968	¥(1,283)	

Thousands of U.S. dollars					
Book value	Fair value	Difference	Gain	Loss	
As of 31 March 2011					
\$674,768	\$674,817	\$48	\$8,731	(\$8,683)	

(c) Available-for-sale securities

Securities below include negotiable certificates of deposit classified as cash and due from banks.

	Millions of yen				
	Acquisition cost	Book value	Difference	Gain	Loss
As of 31 March 2011:					
Corporate stocks	¥29,489	¥23,302	¥6,187	¥8,609	¥(2,422)
Bonds	825,759	813,197	12,562	14,296	(1,734)
Other	102,746	107,021	(4,275)	332	(4,607)
	¥957,994	¥943,520	¥14,474	¥23,237	¥(8,763)
As of 31 March 2010:					
Corporate stocks	¥38,218	¥25,224	¥12,994	¥14,632	¥(1,638)
Bonds	746,429	734,564	11,865	13,053	(1,188)
Other	99,938	103,233	(3,295)	285	(3,580)
	¥884,585	¥863,021	¥21,564	¥27,970	¥(6,406)
	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
As of 31 March 2011:					
Corporate stocks	\$354,648	\$280,241	\$74,408	\$103,536	\$(29,128)
Bonds	9,930,956	9,779,880	151,076	171,930	(20,854)
Other	1,235,671	1,287,083	(51,413)	3,993	(55,406)
	\$11,521,275	\$11,347,204	\$174,071	\$279,459	\$(105,388)

B. Total sales of available-for-sale securities sold in the years ended 31 March 2011 and 31 March 2010 amounted to ¥74,890 million (\$900,661 thousand) and ¥28,997 million, respectively. The related gains and losses amounted to ¥2,307 million (\$27,745 thousand) and ¥1,439 million (\$17,306 thousand) in 2011, ¥3,844 million and ¥2,997 million in 2010, respectively.

C. Available-for-sale securities with available market values written down for the fiscal year ended 31 March 2011 and 2010 amounted to ¥1,010 million (\$12,147 thousand) and ¥400 million, respectively, due to a significant decline in fair value below the cost which is deemed to be other than temporary.

## 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

### (1) Overview

#### a. Policy for financial instruments

The Bank and its consolidated subsidiary provide financial services, focusing on banking businesses such as depositing, accommodating, and trading of securities and investing in securities.

Regarding the main operations of the Bank and its consolidated subsidiary, the Bank raise funds through deposits and call money and applies them to loans receivable and investing in securities and so on. So the financial assets and liabilities of the Bank and its consolidated subsidiary are tended to be affected by interest rate fluctuations, and are exposed to risks stemmed from changes in financial market environments (interest rate risks and price fluctuation risks), as well as to risks arising from fund shortage.

The Bank and its consolidated subsidiary manage those risks using the ALM method in order to appropriately control the balance between revenues and risks in consideration of the status of the financial assets and liabilities, trend of financial markets, policies for fund management and investment policies. The Bank and its consolidated subsidiary use derivatives for the purpose of reducing risks and avoid using derivatives for speculative purposes.

#### b. Types of financial instruments and related risks

The financial assets of the Bank and its consolidated subsidiary consist mainly of loans for domestic enterprises and individuals and investment securities.

Loans are exposed to credit risks stemming from defaults of borrower. Total balance of loans as of the current fiscal year end is made up of mainly that of manufacturing industries, and secondly local governments, whole and retail sales industries in terms of industrial categories and we can found that it covers approximately every kind of industries as a whole.

Securities are fundamentally constituted of bonds, stocks and investment trusts, which are held for investing purposes, held-to-maturity purposes and business transaction purposes, while trading securities are held for trading purposes. They are exposed to credit risks of issuers, interest rate risks and risks stemming from fluctuation of market prices.

Liabilities, such as deposits, corporate bonds and call money etc, are exposed to risks arisen from fluctuation of interest rates stemming from mismatching between interests or periods of assets and liabilities. In addition, they are exposed to risks of fund shortage where the Bank and its consolidated subsidiary fail to control cash receipts and disbursement due to unexpected fund outflow and suffer losses from unusual high interest rates imposed on, as well as market liquidity risks where the Bank and its consolidated subsidiary fail to raise funds owing to market shrinkage, and are obliged to enter into unusual unfavorable transactions.

Regarding derivative transactions, the Bank and its consolidated subsidiary enter into interest rate swap contracts in terms of ALM control and adopt hedge accounting to them as hedging instrument and treating interest rate risks on loans and bonds as hedge items.

The Bank and its consolidated subsidiary evaluate effectiveness of the hedge based on accumulated fluctuation of cash flow of hedging instruments and hedged items for the periods beginning from implementation of the hedging to the date of the evaluation and analysis on them.

Furthermore, there are interest rate swap contracts (hedging instruments) and loans and bonds (hedged items), which are treated under qualified method. Some transactions that are not qualified for hedge accounting are exposed to risks stemming from fluctuation of interest rates.

The consolidated subsidiary neither holds financial assets such as securities nor owes borrowings except cash and negotiable deposits.

#### c. Monitoring of credit risks

In accordance with the internal policies of the Bank and its consolidated subsidiary for managing credit risks arising from accommodation procedures, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Bank and its consolidated subsidiary are making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The results of the above monitoring are regularly reported to the Board of Directors and the results of monitoring of internal rating, loan portfolios and quantification of credit risks are reported to the credit risk committee. These monitoring procedures are subjected to austere internal audit.

Credit risks of issuers of securities and counterparty risks of derivative transactions are controlled through periodical review on credit information and fair value of securities at the financial market section.

#### d. Monitoring of market risks

##### (Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using the ALM method at the ALM committee, with reference to the discussion at fund accommodation meeting and interest rate analysis group, through monitoring and analysis of execution of the ALM and the discussion of future actions. Concretely, the results of the above monitoring are reported on a monthly to the ALM committee using gap analysis, interest rate sensitivity analysis, BPV and VaR. Derivative instruments such as interest rate swap contracts for the purposes of hedging the interest rate risks are used in terms of the ALM method.

##### (Foreign currency exchange risks)

Foreign currency swap contracts and foreign currency exchange swap contracts are used in order to control the foreign currency exchange risks.

##### (Price fluctuation risks)

In accordance with the internal policies of the Bank and its consolidated subsidiary on managing market related risks, the risks arising from fluctuation of market price of stocks are controlled through daily measuring VaR based on a certain holding periods and credit sections, confirming whether the quantities of risks exceed a certain portion of equity capital or not. Upper limits on losses on an aggregation basis or on realization basis are defined to control them on a daily basis. These results are reported by the Risk Management Division to the management on a daily basis.

Investing in securities at the financial market section is executed in accordance with invested items and investing guidelines prescribed in the fund and securities operation standards and primary polices on investing, controlled through continuous monitoring of the investments. The information related to market environment and investment status is reported to the management on a regular basis.

##### (Derivative transactions)

In conducting derivative transactions, each division responsible for execution of transactions, evaluation of efficiency of the hedging or related administration are clearly identified, following the hedge transaction guidelines, and the fund and securities operation standards, with setting up segregation of duties and checking systems.

##### (Information on volume of market risk)

#### 1. Financial instruments in market investment division

The Bank employs Variance and covariance method in calculating VaR of bonds and stocks held using following parameters for calculation.

	Holding period	Confidence interval	Observation period
Investments in bond	3 months	99%	1 year
Investments in stock	3 months	99%	1 year
Shares held for policy reasons	6 months	99%	1 year
Investments in trust	3 months	99%	1 year

The risk indicator of market investment departments, which is supposed to describe estimated losses, at the end of the year ended 31 March 2011 is ¥16,852 million (\$202,670 thousand).

The Bank periodically verifies the effectiveness of risk measurement under the VaR method by a back testing protocol that compares the volume under the VaR method with the amount of gains or losses. Furthermore, conducting the back testing protocol with holding period of 1 day the Bank supposes the method undertaken provides a reliable indicator of the market risks for the fiscal year ended 31 March 2011.

The method of variance and covariance the Bank uses to measure the volume under VaR assumes that changes in the market follow a normal distribution. Accordingly, under conditions subject to changes in the market exceeding the assumption, risks may be underestimated.

## 2. Financial instruments such as deposits and loans receivable, etc.

The Bank employs variance and covariance method in calculating VaR of deposits and loans receivable, etc., using such parameters of 6 months as holding period, 99% as confidence interval and 1 year as observation period. The risk indicator on interest rates of deposits and loans receivable, etc., which is supposed to describe estimated losses, at the end of the year ended 31 March 2011 is ¥7,622 million (\$91,666 thousand).

The calculation was conducted using cash flows allocated according to the interest terms of the related financial assets and liabilities and the periodic fluctuations of interest. The method of variance and covariance the Bank undertakes to measure the volume under VaR employs statistically calculated interest rate risks based on the past normal interest rate fluctuations, so if changes in the interest market goes beyond those assumptions, the impact may exceed the calculated amount.

### (Monitoring of liquidity risks)

The Bank and its consolidated subsidiary adequately manage their liquidity risks based on various internal quantitative standards prescribed in fund management regulation, monitoring their liquidity positions on a daily basis with minimum fund reserve established twice a year.

### (Supplementary explanation of the estimated fair value of financial instruments)

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumption and factors could result in different fair value.

## (2) Fair value of financial instruments

The carrying amounts and the estimated fair value of financial instruments as of 31 March 2011 and 2010 are as follows.

	2011		2011	
	Millions of yen		Thousands of U.S. dollars	
	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Assets:</b>				
Cash and due from banks	¥71,425	¥71,425	\$858,990	\$858,990
Call loans and bills bought	5,118	5,118	61,551	61,551
Commercial paper and other debt purchased	12,510	12,406	150,451	149,200
Money held in trust	4,923	4,923	59,206	59,206
Securities				
Held to maturity bonds	44,054	44,163	529,814	531,124
Other securities	957,994	957,994	11,521,275	11,521,275
Loans and bills discounted	1,473,566		17,721,780	
Reserve for possible loan losses	(19,244)		(231,437)	
	1,454,322	1,463,302	17,490,343	17,598,340
<b>Liabilities:</b>				
Deposits	2,387,322	2,388,507	28,711,028	28,725,280
Call money	5,000	5,000	60,132	60,132
Corporate bonds	31,700	31,595	381,239	379,976
<b>Derivative transactions:</b>				
Derivative instruments not adaptable to deferred hedge accounting	(128)	(128)	(1,539)	(1,539)
Derivative instruments adaptable to deferred hedge accounting	765	1,081	9,200	13,001

	2010	
	Millions of yen	
	Carrying amounts	Fair value
<b>Assets:</b>		
Cash and due from banks	¥29,839	¥29,839
Call loans and bills bought	88,326	88,326
Commercial paper and other debt purchased	18,321	17,821
Securities		
Held to maturity bonds	53,581	53,766
Other securities	884,585	884,585
Loans and bills discounted	1,428,560	
Reserve for possible loan losses	(15,410)	
	1,413,150	1,421,324
<b>Liabilities:</b>		
Deposits	2,310,937	2,313,112
Call money	10,000	10,000
Corporate bonds	33,670	32,426
<b>Derivative transactions:</b>		
Derivative instruments not adaptable to deferred hedge accounting	(189)	(189)
Derivative instruments adaptable to deferred hedge accounting	706	1,408

(Note 1) Methods to determine the estimated fair value of financial instruments

a. Cash and due from banks, Call loans and bills bought

All cash and due from banks, call loans and bills bought are short-term in nature, and therefore their carrying amounts approximate fair value.

b. Commercial paper and other debt purchased

As for commercial paper and other debt purchased whose terms are less than one year, their carrying amounts are supposed to approximate fair value, while the fair value of those with long-term is based on either quoted market prices or prices provided by the financial institutions making markets.

c. Money held in trust

For the securities that are invested as part of trust assets in an independently managed money trusts that invest primarily in securities, the fair value of the equity securities is determined using quoted market prices and the fair value of debt securities is determined using the prices provided by the financial institutions that the Bank has been dealing with.

d. Held to maturity bonds and other securities

The fair value of held to maturity bonds and other securities is based on either quoted market prices or prices provided by the financial institutions making markets in these bonds.

The fair value of privately-placed bonds is based on present value of estimated future cash flow.

e. Loans and bills discounted

Fair value of loans and bills discounted is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. As for loans and bills with short-term settlement, their carrying amounts are supposed to approximate fair value.

The fair value of loans to borrowers which are classified as legally bankrupt or substantially bankrupt is based on the estimated disposal value of collateral and the amount deemed collectible from guarantees, and therefore approximate their carrying amounts after deduction of the specific reserves for potentially bankrupt borrowers.

f. Deposits

The fair value of deposits at notice is based on the payment amount that would be required to pay at the end of the year.

The fair value of time deposits is based on the present value of the total of principal and interest discounted by an interest rate to be applied if similar new deposits were entered into. As to time deposits with short-term maturities, their carrying amounts approximate the fair value.

g. Corporate bonds

The fair value of corporate bonds is based on quoted market value.

h. Derivative transactions

Please refer to the following section of the notes to Derivatives.

(Note 2) The following table summarizes book values of securities for which it is extremely difficult to determine the fair market values as of 31 March 2011 and 2010:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
Available-for-sale securities	¥1,673	¥1,323	2011 \$20,120

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2011 and 2010 are as follows:

2011						
Millions of yen						
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Call loans and bills bought	¥5,118	¥—	¥—	¥—	¥—	¥—
Commercial paper and other debt purchased	458	1,268	2,349	—	—	8,435
Securities						
Bonds held for maturity	25,256	12,958	2,230	640	—	2,970
Mainly consists of the followings:						
National bonds	18,002	10,990	—	—	—	1,970
Local government bonds	1,000	—	—	—	—	—
Corporate bonds	6,254	1,969	2,230	640	—	1,000
Other securities	107,949	251,239	174,347	55,677	267,611	53,448
Mainly consists of the followings:						
National bonds	22,904	57,347	50,162	17,308	139,620	30,156
Local government bonds	29,341	47,288	61,352	9,163	51,067	14,156
Corporate bonds	34,728	118,557	43,097	25,473	70,751	3,289
Loans	272,319	314,476	255,235	110,294	120,377	194,091
Deposits	2,202,802	175,329	8,533	425	233	—
Call money and bills sold	5,000	—	—	—	—	—
Corporate bonds	10,000	—	—	10,000	—	—
Corporate bonds with stock acquisition rights	—	—	—	11,700	—	—

2010

	Millions of yen					
	Within one	One to three	Three to five	Five to seven	Seven to ten	Over ten years
	year	years	years	years	years	
Call loans and bills bought	¥88,326	¥—	¥—	¥—	¥—	¥—
Commercial paper and other debt purchased	1,823	956	4,030	1,376	—	10,134
Securities						
Bonds held for maturity	9,042	34,952	4,879	1,740	—	2,968
Mainly consists of the followings:						
National bonds	3,997	25,997	2,999	—	—	1,968
Local government bonds	—	999	—	—	—	—
Corporate bonds	5,045	7,956	1,880	1,740	—	1,000
Other securities	88,839	244,296	240,742	60,818	131,577	57,364
Mainly consists of the followings:						
National bonds	29,553	48,456	61,518	28,656	56,156	34,308
Local government bonds	16,608	65,367	66,504	4,046	22,791	15,686
Corporate bonds	30,708	93,494	99,267	25,724	45,920	1,667
Loans	258,598	283,514	268,214	112,574	120,258	194,657
Deposits	2,119,797	176,630	13,872	388	249	—
Call money and bills sold	10,000	—	—	—	—	—
Corporate bonds	—	10,000	—	10,000	—	—
Corporate bonds with stock acquisition rights	—	—	—	—	13,670	—

2011

	Thousands of U.S. dollars					
	Within one	One to three	Three to five	Five to seven	Seven to ten	
	year	years	years	years	years	Over ten years
Call loans and bills bought	\$61,551	\$—	\$—	\$—	\$—	\$—
Commercial paper and other						
debt purchased	5,508	15,250	28,250	—	—	101,443
Securities						
Bonds held for maturity	303,740	155,839	26,819	7,697	—	35,719
Mainly consists of the						
followings:						
National bonds	216,500	132,171	—	—	—	23,692
Local government bonds	12,026	—	—	—	—	—
Corporate bonds	75,213	23,680	26,819	7,697	—	12,026
Other securities	1,298,244	3,021,515	2,096,777	669,597	3,218,413	642,790
Mainly consists of the						
followings:						
National bonds	275,454	689,681	603,271	208,154	1,679,134	362,670
Local government bonds	352,868	568,707	737,847	110,198	614,155	170,247
Corporate bonds	417,655	1,425,821	518,304	306,350	850,884	39,555
Loans	3,275,033	3,782,032	3,069,573	1,326,446	1,447,709	2,334,227
Deposits	26,491,906	2,108,587	102,622	5,111	2,802	—
Call money and bills sold	60,132	—	—	—	—	—
Corporate bonds	120,265	—	—	120,264	—	—
Corporate bonds with stock						
acquisition rights	—	—	—	140,710	—	—

Derivatives

As stated in significant accounting policies, the Bank deals in interest rate swaps, currency swaps, forward exchange contracts and credit default swaps incorporated into compound financial instruments.

a. Derivative instruments not qualifying for hedge accounting

(Interest rate swap)

Notional amounts, market values, and valuation gains (losses) are as follows:

	2011		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap:			
Receive floating / Pay fixed rate	¥4,962	¥(124)	¥(124)
Receive fixed / Pay floating rate	—	—	—
	2010		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap:			
Receive floating / Pay fixed rate	¥5,102	¥(143)	¥(143)
Receive fixed / Pay floating rate	—	—	—
	2011		
	Thousands of U.S. dollars		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap:			
Receive floating / Pay fixed rate	\$59,675	\$(1,491)	\$(1,491)
Receive fixed / Pay floating rate	—	—	—

Note: Transactions in the above table are revalued at fair market value. Valuation gains (losses) generated from the revaluation are included in the consolidated statements of income.

(Credit default swap)

The Bank entered into credit default swap transactions in 2006 and the balances as of 31 March 2011 and 2010 were as follows:

		2011		
		Millions of yen		
		Notional amounts	Fair value	Valuation gain (loss)
Credit default swap:				
	Sell	¥2,000	¥(4)	¥(4)
	Buy	—	—	—
		2010		
		Millions of yen		
		Notional amounts	Fair value	Valuation gain (loss)
Credit default swap:				
	Sell	¥2,000	¥(46)	¥(46)
	Buy	—	—	—
		2011		
		Thousands of U.S. dollars		
		Notional amounts	Fair value	Valuation gain (loss)
Credit default swap:				
	Sell	\$24,053	\$(48)	\$(48)
	Buy	—	—	—

Note: Transactions in the above table are revalued at fair market value. Valuation gains (losses) generated from revaluation is included in the consolidated statements of income.

b. Derivative instruments qualifying for hedge accounting

(Interest rate swap)

	2011		2011	
	Millions of yen		Thousands of U.S. dollars	
	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:				
Receive floating / Pay fixed rate (Deferral method)	¥34,091	¥8	\$409,994	\$96
Receive floating / Pay fixed rate (Exceptional method)	8,256	315	99,290	3,788
	2010			
	Millions of yen			
	Notional amounts	Fair value		
Interest rate swap:				
Receive floating / Pay fixed rate (Deferral method)	¥36,025	¥415		
Receive floating / Pay fixed rate (Exceptional method)	11,541	703		

(Currency swap)

	2011		2011	
	Millions of yen		Thousands of U.S. dollars	
	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:				
Pay foreign currency / Receive Japanese yen	¥82,000	¥736	\$986,170	\$8,851
Receive foreign currency / Pay Japanese yen	—	—	—	—
	2010			
	Millions of yen			
	Notional amounts	Fair value		
Currency swap:				
Pay foreign currency / Receive Japanese yen	¥45,000	¥266		
Receive foreign currency / Pay Japanese yen	—	—		

(Forward exchange contracts)

	2011		2011	
	Millions of yen		Thousands of U.S. dollars	
	Notional amounts	Fair value	Notional amounts	Fair value
Forward foreign exchange:				
Sell	¥785	¥21	\$9,441	\$253
Buy	—	—	—	—
	2010			
	Millions of yen			
	Notional amounts	Fair value		
Forward foreign exchange:				
Sell	¥643	¥25		
Buy	—	—		

## 6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
			2011
Bills discounted	¥5,500	¥6,306	\$66,146
Loans on notes	121,426	123,164	1,460,325
Loans on deeds	1,147,246	1,119,573	13,797,306
Overdrafts	199,394	179,517	2,398,003
	¥1,473,566	¥1,428,560	\$17,721,780

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Bank has rights to sell or pledge commercial bills discounted and foreign bills of exchanges bought without restrictions. The total face value at 31 March 2011 and 2010 was ¥5,500 million (\$66,146 thousand) and ¥6,306 million, respectively.

The Bank is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
			2011
Loans to borrowers under bankruptcy proceedings	¥1,654	¥7,769	\$19,891
Past due loans	52,633	29,390	632,989
Loans past due three months or more	664	1,258	7,986
Restructured loans, including loans to borrowers financially assisted by the Bank	7,199	7,253	86,578
	¥62,150	¥45,670	\$747,444

## 7. PLEDGED ASSETS

At 31 March 2011, deposits amounting to ¥13,517 million (\$162,562 thousand), call money amounting to ¥5,000 million (\$60,132 thousand) and borrowed money amounting to 4,200 million (\$50,511 thousand) were secured by pledges of securities in the amount of ¥155,969 million (\$1,875,755 thousand) and guarantee money deposits in the amount of ¥72 million (\$866 thousand). In addition to the above-mentioned assets pledged as collateral, the Bank provided securities of ¥80,191 million (\$964,414 thousand) and cash in the amount of ¥3 million (\$36 thousand) as collateral for transactions such as exchange settlement transactions at 31 March 2011.

## 8. COMMITMENT LINE AGREEMENT

Commitment line agreements are agreements to lend to customers when they apply for borrowing, to a prescribed amount, as long as no violation of the condition of the agreement exists. The amount of unused commitment line related to such agreements at 31 March 2011 amounted to ¥615,897 million (\$7,407,060 thousand). The amount of commitment line agreements, having a condition that the original agreement period was less than one year or unconditionally cancelable at any time, was ¥598,897 million (\$7,202,610 thousand). The amount of unused commitment line does not necessarily affect the future cash flows of the Bank and its consolidated subsidiary because most of such agreements were terminated without being used. The majority of these agreements contain provisions which stipulate that the Bank may refuse to make loans or may decrease the commitment line when there are certain changes in financial conditions, security for the loans or other reasons. When entering into loan agreements with the customers, the Bank requests pledges of collateral in the form of premises or securities if necessary. After entering into loan agreements, the Bank periodically checks the financial condition of the customers based on its internal rules and performs certain actions relating to the security of the loans if necessary.

## 9. OTHER ASSETS

Other assets at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Accrual income	¥3,947	¥4,111	\$47,468
Other	3,986	4,424	47,938
	¥7,933	¥8,535	\$95,406

## 10. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Land	¥8,770	¥8,864	\$105,472
Buildings	33,311	34,140	400,613
Equipments	12,076	12,700	145,232
Other	128	593	1,539
	54,285	56,297	652,856
Accumulated depreciation	37,645	38,864	452,736
	¥16,640	¥17,433	\$200,120

To conform with the Corporate Law of Japan, deferred gains on sale of real estate in the amount of ¥1,292 million (\$15,538 thousand) and ¥1,294 million at 31 March 2011 and 2010, respectively, were deducted from the acquisition cost of premises and equipment.

## 11. INTANGIBLE ASSETS

Intangible assets at 31 March 2011 and 2010 consisted of the following:

Intangible assets

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Software	¥950	¥1,183	\$11,425
Other	44	44	529
	¥994	¥1,227	\$11,954

## 12. DEPOSITS

Deposits at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current deposits	¥49,124	¥28,449	\$590,788
Ordinary deposits	1,036,586	985,370	12,466,458
Deposits at notice	1,600	2,935	19,242
Time deposits	1,125,980	1,117,764	13,541,551
Other deposits	105,707	111,955	1,271,281
Negotiable certificates of deposit	68,325	64,464	821,708
	¥2,387,322	¥2,310,937	\$28,711,028

### 13. CORPORATE BONDS

Corporate bonds at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Corporate bonds	¥10,000	¥10,000	\$120,265
Subordinated bonds	10,000	10,000	120,265
Convertible bonds	11,700	13,670	140,709
	¥31,700	¥33,670	\$381,239

Annual maturities of corporate bonds as of 31 March 2011 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
	2011	2011
2012	¥10,000	\$120,265
2013	—	—
2014	—	—
2015	—	—
2016 and thereafter	21,700	260,974
	¥31,700	\$381,239

### 14. OTHER LIABILITIES

Other liabilities at 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Accrual income taxes	¥1,562	¥116	\$18,785
Accrued expenses	4,307	5,455	51,798
Unearned income	761	867	9,152
Other	4,147	10,258	49,874
	¥10,777	¥16,696	\$129,609

### 15. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

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

The amount of guarantee obligation for privately-placed bonds (Financial Instruments and Exchange Law, Article 2, Item 3), out of bonds included in Securities, stands at ¥3,437 million (\$41,335 thousand) in 2011 and ¥4,257 million in 2010.

## 16. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
Projected benefit obligation	¥24,308	¥24,229	\$292,339
Unrecognized actuarial differences	(5,350)	(5,451)	(64,342)
Less fair value of plan assets	(10,664)	(11,409)	(128,250)
	¥8,294	¥7,369	\$99,747

Severance and retirement benefit expenses included in the consolidated statements of operations for the years ended 31 March 2011 and 2010 were comprised of the following:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
Service costs - benefits earned during the year	¥609	¥619	\$7,324
Interest cost on projected benefit obligation	363	361	4,366
Expected return on plan assets	(342)	(315)	(4,113)
Amortization of actuarial differences	998	1,089	12,002
	¥1,628	¥1,754	\$19,579

The discount rate used by the Bank in 2011 and 2010 was 1.5% and the rate of expected return on plan assets used by the Bank in 2011 and 2010 was 3.0%.

## 17. INCOME TAXES

The Bank and its subsidiary are subject to a number of taxes based on income such as corporation tax, inhabitant taxes and enterprise tax, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 40.2% for the years ended 31 March 2011 and 2010, respectively.

Significant components of the Bank's deferred tax assets and liabilities as of 31 March 2011 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Reserve for possible loan losses	¥6,004	¥4,607	\$72,207
Liabilities for severance and retirement benefits	3,334	2,961	40,096
Accumulated depreciation	1,596	1,638	19,194
Securities	886	1,268	10,655
Tax loss carried forward	—	790	—
Other	1,605	1,254	19,303
Subtotal	13,425	12,518	161,455
Allowance to reduce deferred tax assets to expected realizable value	(1,569)	(1,450)	(18,869)
Total deferred tax assets	11,856	11,068	142,586
Deferred tax liabilities:			
Net unrealized holding gains on securities	(5,804)	(8,465)	(69,802)
Deferred gains on sale of real estate	(567)	(547)	(6,819)
Other	(3)	(167)	(36)
Total deferred tax liabilities	(6,374)	(9,179)	(76,657)
Net deferred tax assets	¥5,482	¥1,889	\$65,929

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the fiscal year ended 31 March 2011 and 2010.

	2011	2010
Statutory tax rate	40.2%	40.2%
Non-deductible expenses	2.4	0.5
Non-taxable dividend income	(9.1)	(2.6)
Per capita inhabitant taxes	2.3	0.6
Valuation allowance	6.0	(4.0)
Other, net	2.0	0.7
	43.8%	35.4%

## 18. NET ASSETS

Under the Japanese Corporate Law (the “Law”) and the Banking Law of Japan, the following are provided: The entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law and Banking Law provide that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders’ meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 100% of common stock, they are available for distribution by the resolution of shareholders’ meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Bank can distribute as dividends is calculated based on the non-consolidated financial statements of the Bank in accordance with the Law.

The amount of treasury stock held by the bank and its consolidated subsidiary was 696 thousand shares at 31 March 2011.

## 19. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of
	2011	2010	U.S. dollars
Salaries and allowances	¥11,165	¥11,021	\$134,275
Fringe benefits and welfare	2,397	2,330	28,827
Severance and retirement benefit expenses	1,627	1,754	19,567
Depreciation for premises and equipment	1,840	2,430	22,129
Rental expenses	740	775	8,900
Taxes other than income taxes	1,180	1,263	14,191
Other expenses	8,405	8,362	101,083
	<u>¥27,354</u>	<u>¥27,935</u>	<u>\$328,972</u>

## 20. OTHER OPERATING INCOME AND EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other operating income:			
Gain on trading account securities transactions	¥2	¥2	\$24
Gain on sale of bonds	887	1,206	10,668
Gain on sale of foreign bills of exchange	116	105	1,395
Other	201	610	2,417
	<u>¥1,206</u>	<u>¥1,923</u>	<u>\$14,504</u>
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other operating expenses:			
Loss on sales of bonds	¥1,282	¥2,335	\$15,418
Loss on devaluation of bonds	64	327	770
Other	1	1	12
	<u>¥1,347</u>	<u>¥2,663</u>	<u>\$16,200</u>

## 21. OTHER INCOME AND EXPENSES

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other income:			
Gain on disposal of premises and equipment	¥184	¥138	\$2,213
Gain on sale of stocks and other securities	1,419	2,888	17,065
Other	892	942	10,728
	<u>¥2,495</u>	<u>¥3,968</u>	<u>\$30,006</u>
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Other expenses:			
Provision for possible loan losses	¥1,315	¥3,063	\$15,815
Loss on devaluation of stocks and other securities	661	74	7,949
Loss on sale of stocks and other securities	157	662	1,888
Loss on disposal of premises and equipment	108	172	1,299
Credit cost stemming from the Great East Japan Earthquake	6,075	—	73,061
Earthquake related expenses	808	—	9,717
Other	1,707	1,076	20,529
	<u>¥10,831</u>	<u>¥5,047</u>	<u>\$130,258</u>

## 22. LEASE EXPENSES

### A. Finance leases

Lease payments under certain finance leases, which are accounted for in the same manner as operating leases, for the years ended 31 March 2011 and 2010 were ¥60 million (\$722 thousand) and ¥86 million, respectively.

Future lease payments as of 31 March 2011, inclusive of interest under such leases, were ¥54 million (\$649 thousand) including ¥31 million (\$373 thousand) due within one year.

### B. Operating leases

#### (a) As lessee

Future lease payments under non-cancelable operating leases as of 31 March 2011 were ¥5 million (\$60 thousand) including ¥2 million (\$24 thousand) due within one year.

#### (b) As lessor

Future lease receivables under non-cancelable operating leases as of 31 March 2011 were ¥352 million (\$4,233 thousand) including ¥13 million (\$156 thousand) due within one year.

## 23. COMPREHENSIVE INCOME

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

	Millions of yen
	<u>2010</u>
Other comprehensive income:	
Unrealized loss available-for-sale securities	15,535
Deferred loss on derivatives under hedge accounting	(52)
Share of the other comprehensive income of affiliates accounted for using the equity method	<u>2</u>
Total other comprehensive income	15,485
Total comprehensive income	20,711
Attributable to:	
Owners of the parent	20,711
Minority interests	—

## 24. SEGMENT INFORMATION

For the fiscal year ended 31 March 2011:

(Additional information)

Effective from the fiscal year ended 31 March 2011, the Company and its domestic consolidated subsidiaries have adopted the “Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (ASBJ Statement No. 17, issued on 27 March 2009) and “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (ASBJ Guidance No. 20, issued on 21 March 2008).

(1) Reportable segment information

Reportable segment information has been omitted as the Bank and its consolidated subsidiary have a single segment, commercial banking business.

(2) Other segment related information

a. Information by services

	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥24,222	¥15,108	¥7,505	¥46,835

	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	\$291,305	\$181,696	\$90,258	\$563,259

Note: “Ordinary income” corresponds to net sales of non-banking industries.

b. Information by geographic region

i. Ordinary income

Geographic information as to ordinary income from domestic customers for the fiscal year ended 31 March 2011 was omitted, because the amount of ordinary income from domestic customers was more than 90% of consolidated ordinary income.

ii. Tangible fixed assets as of 31 March 2011

Geographic information as to Tangible fixed assets for the fiscal year ended 31 March 2011 was omitted, because there was no tangible fixed asset located abroad.

c. Major Customers Segment Information

Major customer’s segment information is not shown since there is no customer accounting more than 10% of consolidated ordinary income.

d. Information on Impairment of Fixed Assets for Each Reportable Segment

Information on Impairment of Fixed Assets by reportable segment has been omitted since the Bank and its consolidated subsidiary have a single segment.

e. Segment information on amortization of goodwill and its remaining balance

There is no information to be reported on amortization of goodwill and its remaining balance by reportable segment.

f. Information on Gain in Negative Goodwill for Each Reportable Segment

There is no information to be reported on gain in negative goodwill by reportable segment.

For the fiscal year ended 31 March 2010:

(1) Business segment information

The Bank has other businesses in addition to its principal commercial banking business. Segment information by type of business has been omitted as such other businesses have only an immaterial effect on the accompanying consolidated financial statements of the Bank.

(2) Geographic segment information

Segment information by geographic area has not been presented as the Bank had no overseas subsidiaries.

(3) Ordinary income from international operations

Information as to ordinary income from foreign operations for the fiscal year ended 31 March 2010 was omitted, because the amount of ordinary income from foreign operations was less than 10% of consolidated ordinary income.

## 25. SUBSEQUENT EVENTS

a. Cash dividends

On 24 June 2011, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2011:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 per share for year end)	¥552	\$6,639

## Independent Auditors' Report

To the Board of Directors of The Bank of Iwate., Ltd.:

We have audited the accompanying consolidated balance sheets of The Bank of Iwate., Ltd. and a consolidated subsidiary as of March 31, 2011 and 2010, the related consolidated statements of income and comprehensive income for the year ended March 31, 2011, statement of income for the year ended March 31, 2010, and statements of changes in net assets and cash flows for each of the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Bank of Iwate., Ltd. and a subsidiary as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 24 to the consolidated financial statements, in which the comprehensive income for the year ended March 31, 2010 is disclosed.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

**KPMG ABJA LLC**  
Tokyo, Japan  
24 June, 2011

## Corporate Profile

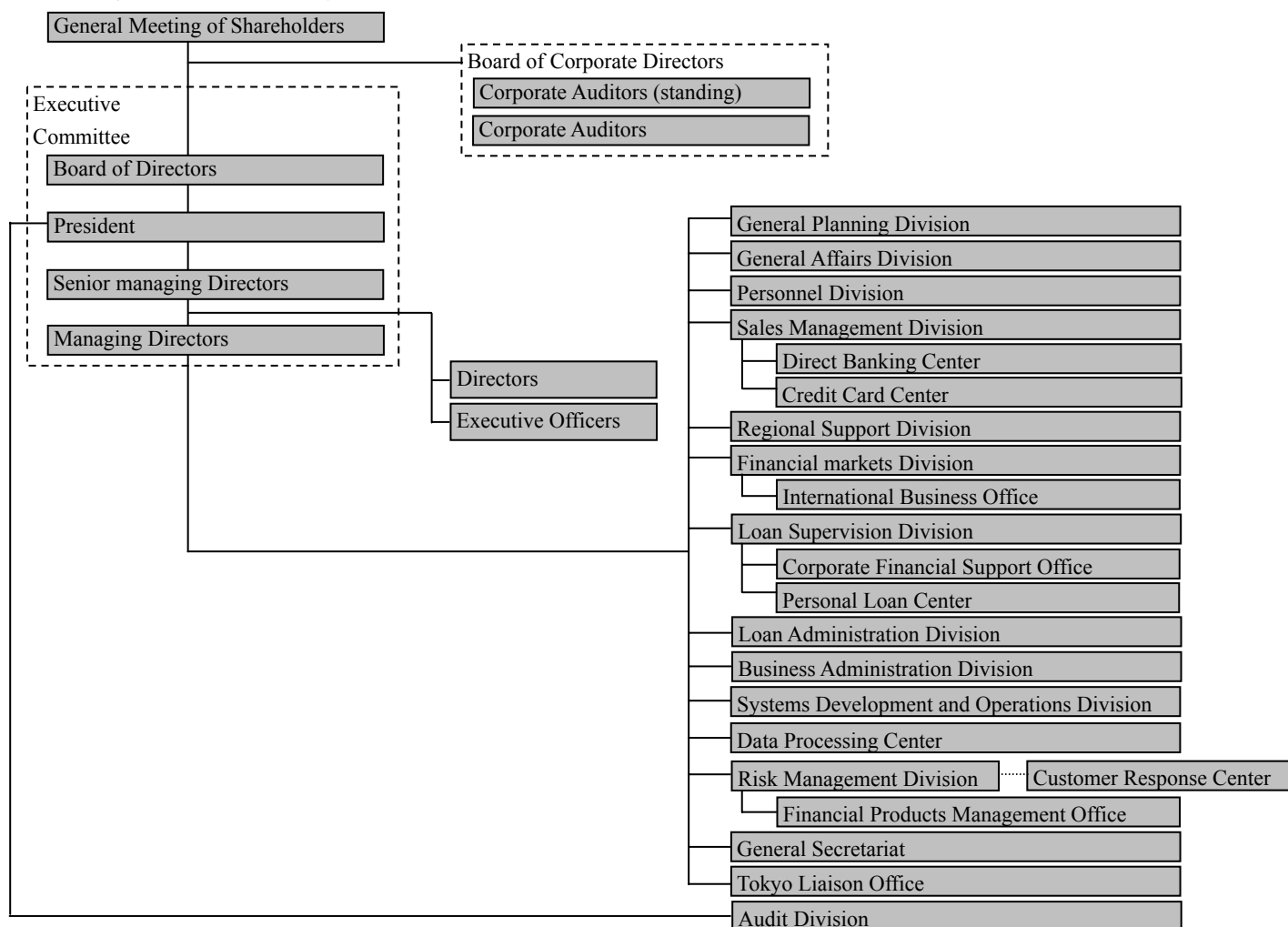
### • Corporate Data (As of March 31, 2011)

Established	May 2, 1932	Employees	1,526
Paid-in Capital	¥12,000 million	Stock Listing	First Section of the Tokyo Stock Exchange
Authorized Shares	49,450,000		
Issued and Outstanding Shares	19,097,786	Branches	109 (Iwate Prefecture 91)
Shareholders	8,182		

### • Board of Directors and Corporate Auditors (As of July 1, 2011)

<i>President</i> Masahiro Takahashi	<i>Directors</i> Yoshiharu Izawa Katsuya Sato Keiji Iwata Zenji Yasuda Hiroshi Miura Atsushi Takahashi	<i>Corporate Auditors</i> Yukio Narita (standing) Shigenori Takeuchi (standing) Syozo Hatayama Koichi Adachi	<i>Executive Officers</i> Yasuyuki Aramichi Yuto Takasawa Yuichi Kato
<i>Senior Managing Director</i> Susumu Kanno			
<i>Senior Managing Director</i> Masahiro Saito	Notes: 1. Zenji Yasuda, Hiroshi Miura and Atsushi Takahashi satisfy the requirements for outside directors as stipulated in Article 2, Item 15 of the Corporation Law.		
<i>Managing Directors</i> Kazuhiko Kudo Sachio Taguchi Osamu Sakamoto	2. Shigenori Takeuchi, Syozo Hatayama and Koichi Adachi are outside auditors as stipulated in Article 2, Item 16 of the Corporation Law.		

### • Organization (As of July 1, 2011)



• The Bank of Iwate Group

Name/Business Lines	Equity
Iwagin Business Service Co., Ltd. Cash Management Services	100%
Iwagin Lease Data Co., Ltd. Computerized Accounting Services, Leasing	5%
Iwagin DC Card Co., Ltd. Credit Cards and Consumer Loans	5%
Iwagin Credit Service Co., Ltd. Credit Cards and Consumer Loans	5%



Head Office

**A message from Iwate Bank concerning reconstruction**

***Let's bring back smiles, hand in hand.***

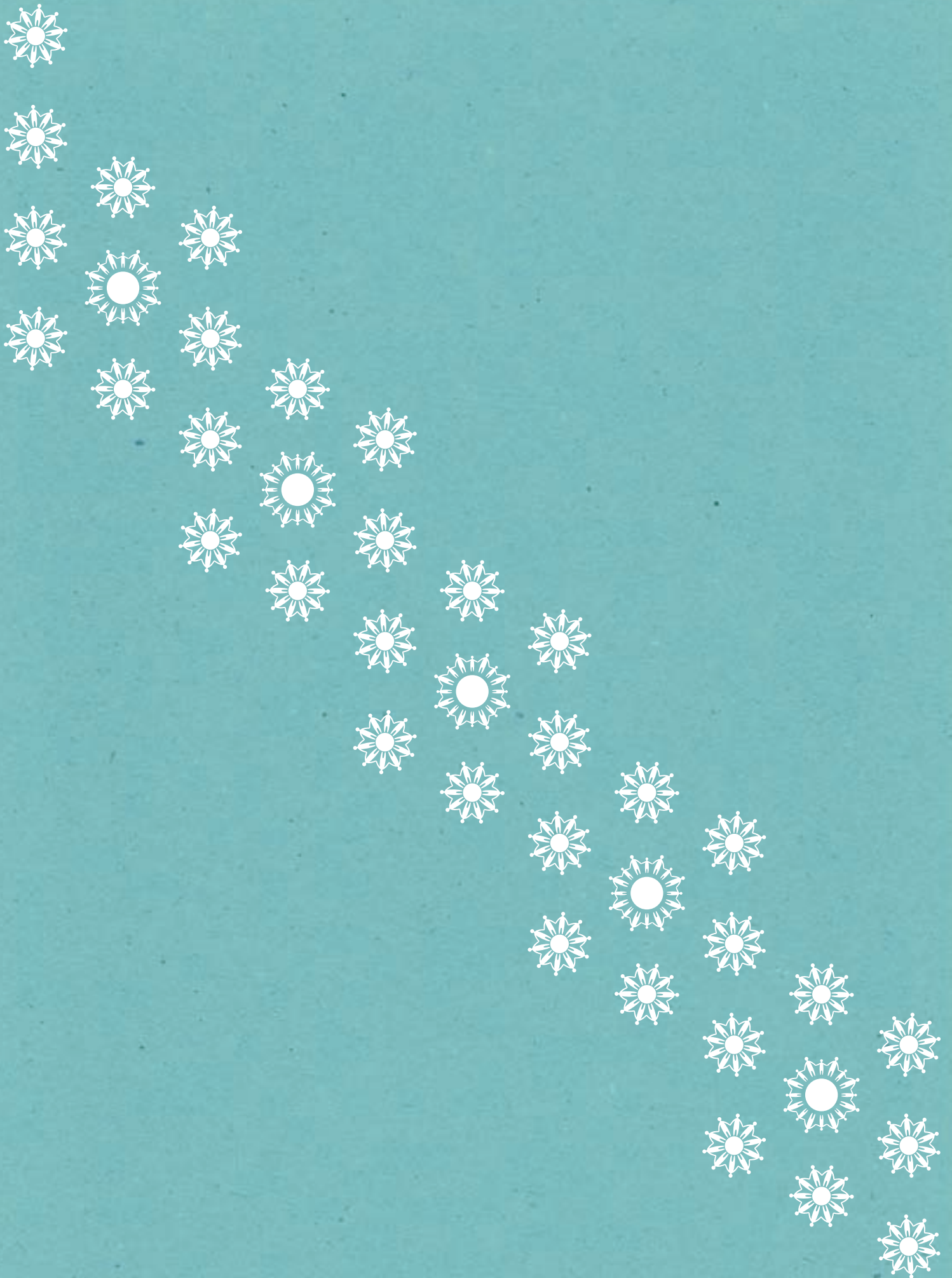
All of our staff are working together, unified in our efforts to contribute to the reconstruction of the regional economy and regional society. This is Iwate Bank's mission as a regional financial institution.

A large earthquake of unprecedented proportions has seriously damaged the regional economy. In these times of hardship, many people are making efforts to get back on their feet. We are confident that we will be able to overcome these hardships and smile again together someday.

Until that day, let's move forward together, hand in hand.

***No limit to our strength.***

In this we have faith.



**The Bank of Iwate, Ltd.**

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