

# ANNUAL REPORT

YEAR ENDED March 31, 2013

2013



The Akita Bank, Ltd.

## Profile

Since its establishment in 1879, The Akita Bank, Ltd., has worked diligently to extend comprehensive financial services geared to the funding requirements of clients in Akita Prefecture. These efforts are underpinned by a philosophy that seeks to contribute to regional prosperity and help the Bank achieve growth as a financial institution in tune with the economic development of the community. The Akita Bank Group, which comprises the Bank and five consolidated subsidiaries, maintains a full line of financial services and provides guarantee and leasing services hinging on the banking business. Several issues that characterize our operating environment are expanding in scope and taking on a greater urgency in terms of management responses. The key priority is well-balanced approach to expand the profitability of the Bank, and to secure common interest of regional clients. Based on the current medium-term management plan, Akigin <Shinka<sup>3</sup>> Project, the Bank will execute its role as a regional bank, which its network covers the area in eastern Honshu, Japan's largest island, and expand our financial services including international operations emphasizing relations with regional clients.

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In this annual report, statements other than historical facts are forward-looking statements that reflect our plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ materially from those anticipated in these statements.

## Consolidated Financial Highlight

The Akita Bank, Ltd. and subsidiaries  
Years ended March 31, 2013 and 2012

For the years ended March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Total income	¥51,668	¥50,909	\$549,371
Total expenses	45,165	43,017	480,227
Income before income taxes and minority interests	6,503	7,892	69,144
Net income	3,758	3,756	39,958

	Yen	U.S. dollars (Note 1)
Net income per share	¥19.88	\$0.211

As of March 31	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Total assets	¥2,602,835	¥2,598,841	\$27,675,009
Trading account securities and securities	873,348	935,917	9,285,991
Loans and bills discounted	1,434,031	1,444,674	15,247,541
Deposits	2,270,389	2,282,939	24,140,238
Total net assets	147,385	135,665	1,567,089

Notes: (1) U.S. dollar amounts are translated, for convenience only, at ¥94.05 = U.S.\$1.00, the exchange rate prevailing as of March 31, 2013.

(2) Capital adequacy ratio stood at 12.39% and 11.96% as of March 31, 2013 and 2012, respectively, in accordance with guidelines established by the Ministry of Finance and the Financial Service Agency.

## Consolidated Five-Year Summary

The Akita Bank, Ltd. and subsidiaries  
For the years ended March 31

	Millions of yen				
	2013	2012	2011	2010	2009
Total income	¥51,668	¥50,909	¥52,641	¥53,645	¥58,056
Net income (loss)	3,758	3,756	2,652	3,513	(2,103)

	Yen				
	2013	2012	2011	2010	2009
Net income (loss) per share	¥19.88	¥19.73	¥13.72	¥18.17	(¥10.87)

	Percent				
	2013	2012	2011	2010	2009
<b>Income ratio</b>					
Net income (loss) to total assets	0.14	0.14	0.11	0.15	(0.09)
Net income (loss) to owned capital	2.75	2.93	2.07	2.92	(1.76)
<b>Capital adequacy ratio</b>					
Domestic guidelines	12.39	11.96	12.27	12.36	11.72

Note The Bank's capital adequacy ratio and net income to owned capital ratio are calculated in accordance with guidelines established by the Ministry of Finance and the Financial Service Agency.

## Consolidated Balance Sheets

The Akita Bank, Ltd. and subsidiaries  
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>ASSETS</b>			
Cash and due from banks (Note 35)	¥ 203,952	¥ 130,718	\$ 2,168,547
Call loans and bills bought	28,898	15,771	307,259
Debt purchased	35,599	40,511	378,509
Trading account securities (Note 4)	38	16	399
Money held in trust	13	258	136
Securities (Notes 5 and 11)	873,310	935,901	9,285,592
Loans and bills discounted (Note 6)	1,434,031	1,444,674	15,247,541
Foreign exchanges (Note 7)	280	256	2,982
Other assets (Notes 8 and 11)	21,647	22,079	230,165
Premises and equipment (Notes 9 and 29)	21,947	21,797	233,354
Intangible fixed Assets (Note 10)	1,753	2,275	18,641
Deferred tax assets (Note 13)	244	2,245	2,593
Customers' liabilities for acceptances and guarantees (Note 12)	7,523	8,599	79,994
Reserve for possible loan losses	(26,389)	(26,247)	(280,586)
Reserve for investment losses	(11)	(12)	(117)
<b>Total assets</b>	<b>¥2,602,835</b>	<b>¥2,598,841</b>	<b>\$27,675,009</b>

See notes to consolidated financial statements.

## Consolidated Balance Sheets

The Akita Bank, Ltd. and subsidiaries  
As of March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>LIABILITIES</b>			
Deposits (Notes 11 and 14)	¥2,270,389	¥2,282,939	\$24,140,238
Negotiable certificates of deposits (Note 14)	122,148	99,024	1,298,757
Call moneys and bills sold	2,821	—	30,000
Payables under securities lending transactions (Note 11)	—	27,919	—
Borrowed money (Notes 11 and 15)	21,576	18,231	229,409
Foreign exchanges (Note 16)	8	42	87
Other liabilities (Note 17)	19,210	16,964	204,250
Accrued bonuses to directors	20	20	212
Reserve for employees' retirement benefits (Note 18)	6,294	6,079	66,918
Reserve for retirement benefits to directors	30	50	314
Reserve for repayments on dormant deposits	556	466	5,912
Reserve for contingent losses	558	593	5,930
Deferred tax liabilities (Note 13)	2,126	—	22,605
Deferred tax liability on land revaluation (Note 19)	2,191	2,250	23,294
Acceptances and guarantees (Note 12)	7,523	8,599	79,994
<b>Total liabilities</b>	<b>2,455,450</b>	<b>2,463,176</b>	<b>26,107,920</b>
<b>NET ASSETS</b>			
Common stock (Note 32)	14,101	14,101	149,929
Capital surplus	6,271	6,271	66,682
Retained earnings (Notes 34 and 39)	97,996	95,341	1,041,949
Treasury stock	(1,315)	(1,304)	(13,983)
Total stockholders' equity	117,053	114,409	1,244,577
Net unrealized holding gain on other securities (Note 20)	22,586	13,695	240,148
Deferred hedge losses	(922)	(907)	(9,802)
Land revaluation excess (Note 19)	3,256	3,295	34,618
Total accumulated other comprehensive income	24,920	16,083	264,964
Stock option rights (Note 33)	45	37	480
Minority interests in consolidated subsidiaries	5,367	5,136	57,068
<b>Total net assets</b>	<b>147,385</b>	<b>135,665</b>	<b>1,567,089</b>
<b>Total liabilities and net assets</b>	<b>¥2,602,835</b>	<b>¥2,598,841</b>	<b>\$27,675,009</b>

See notes to consolidated financial statements.

## Consolidated Statements of Income and Comprehensive Income

The Akita Bank, Ltd. and subsidiaries  
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Income</b>			
Interest income			
Interest on loans and discounts	¥22,381	¥24,042	\$237,970
Interest and dividends on securities	10,478	10,625	111,405
Other interest income (Note 21)	296	265	3,151
Fees and commissions (Note 22)	6,628	6,364	70,473
Other operating income (Note 23)	10,490	7,554	111,537
Other income (Note 24)	1,395	2,059	14,835
<b>Total income</b>	<b>51,668</b>	<b>50,909</b>	<b>549,371</b>
<b>Expenses</b>			
Interest expenses			
Interest on deposits	1,613	2,139	17,149
Interest on borrowings and rediscounts	77	103	819
Other interest expenses (Note 25)	943	848	10,032
Fees and commissions (Note 26)	2,380	2,261	25,301
Other operating expenses (Note 27)	7,673	6,379	81,584
General and administrative expenses	26,014	27,636	276,602
Other expenses (Note 28)	6,465	3,651	68,740
<b>Total expenses</b>	<b>45,165</b>	<b>43,017</b>	<b>480,227</b>
<b>Income before income taxes and minority interests</b>	<b>6,503</b>	<b>7,892</b>	<b>69,144</b>
<b>Income taxes</b> (Note 13)			
Current	3,220	712	34,241
Deferred	(687)	3,120	(7,311)
<b>Income before minority interests</b>	<b>3,970</b>	<b>4,060</b>	<b>42,214</b>
<b>Minority interests in net income</b>	<b>212</b>	<b>304</b>	<b>2,256</b>
<b>Net income</b>	<b>¥ 3,758</b>	<b>¥ 3,756</b>	<b>\$ 39,958</b>
<b>Income before minority interests</b>	<b>¥ 3,970</b>	<b>¥ 4,060</b>	<b>\$ 42,214</b>
<b>Other comprehensive income</b>			
Net unrealized income on other securities	8,919	3,045	94,826
Deferred hedge losses	(15)	(2)	(154)
Land revaluation excess	—	319	—
<b>Total of other comprehensive income</b>	<b>8,904</b>	<b>3,362</b>	<b>94,672</b>
<b>Comprehensive income</b>	<b>12,874</b>	<b>7,422</b>	<b>136,886</b>
<b>Income attributable to:</b>			
Owners of the parent company	¥12,634	¥ 7,101	\$134,332
Minority interests	240	321	2,554
	Yen		U.S. dollars (Note 1)
<b>Net income per share</b> (Note 38)	<b>¥19.88</b>	<b>¥19.73</b>	<b>\$0.211</b>

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Net Assets

The Akita Bank, Ltd. and subsidiaries  
For the years ended March 31, 2013 and 2012

	Millions of yen				
	Stockholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
<b>Balance at March 31, 2011</b>	¥14,101	¥6,271	¥92,762	(¥ 365)	¥112,769
Changes during the fiscal Year					
Dividends from surplus	—	—	(1,149)	—	(1,149)
Increase in deferred capital gain reserve due to income tax rate change	—	—	18	—	18
Net income	—	—	3,756	—	3,756
Acquisition of treasury stock	—	—	—	(1,122)	(1,122)
Disposition of treasury stock	—	—	(6)	183	177
Reversal of land revaluation excess	—	—	(40)	—	(40)
Items other than changes in stockholders' equity (net)	—	—	—	—	—
Net changes during the Fiscal Year	—	—	2,579	(939)	1,640
<b>Balance at March 31, 2012</b>	¥14,101	¥6,271	¥95,341	(¥1,304)	¥114,409
Changes during the fiscal Year					
Dividends from surplus	—	—	(1,134)	—	(1,134)
Net income	—	—	3,758	—	3,758
Acquisition of treasury stock	—	—	—	(245)	(245)
Disposition of treasury stock	—	—	(8)	234	226
Reversal of land revaluation excess	—	—	39	—	39
Items other than changes in stockholders' equity (net)	—	—	—	—	—
Net changes during the Fiscal Year	—	—	2,655	(11)	2,644
<b>Balance at March 31, 2013</b>	¥14,101	¥6,271	¥97,996	(¥1,315)	¥117,053

	Millions of yen						
	Accumulated other comprehensive income				Stock option rights	Minority interests	Total net assets
	Net unrealized holding gain on other securities	Deferred hedge losses	Land revaluation excess	Total			
<b>Balance at March 31, 2011</b>	¥10,667	(¥906)	¥2,936	¥12,697	¥28	¥4,824	¥130,318
Changes during the fiscal year							
Dividends from surplus	—	—	—	—	—	—	(1,149)
Increase in deferred capital gain reserve due to income tax rate change	—	—	—	—	—	—	18
Net income	—	—	—	—	—	—	3,756
Acquisition of treasury stock	—	—	—	—	—	—	(1,122)
Disposition of treasury stock	—	—	—	—	—	—	177
Reversal of land revaluation excess	—	—	—	—	—	—	(40)
Items other than changes in stockholders' equity (net)	3,028	(1)	359	3,386	9	312	3,707
Net changes during the Fiscal Year	3,028	(1)	359	3,386	9	312	5,347
<b>Balance at March 31, 2012</b>	¥13,695	(¥907)	¥3,295	¥16,083	¥37	¥5,136	¥135,665
Changes during the fiscal Year							
Dividends from surplus	—	—	—	—	—	—	(1,134)
Net income	—	—	—	—	—	—	3,758
Acquisition of treasury stock	—	—	—	—	—	—	(245)
Disposition of treasury stock	—	—	—	—	—	—	226
Reversal of land revaluation excess	—	—	—	—	—	—	39
Items other than changes in stockholders' equity (net)	8,891	(15)	(39)	8,837	8	231	9,076
Net changes during the Fiscal Year	8,891	(15)	(39)	8,837	8	231	11,720
<b>Balance at March 31, 2013</b>	¥22,586	(¥922)	¥3,256	¥24,920	¥45	¥5,367	¥147,385



## Consolidated Statements of Changes in Net Assets

The Akita Bank, Ltd. and subsidiaries  
For the years ended March 31, 2013 and 2012

	Thousands of U.S. dollars (Note 1)				
	Stockholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total
<b>Balance at March 31, 2012</b>	\$149,929	\$66,682	\$1,013,731	(\$13,872)	\$1,216,470
Changes during the fiscal Year					
Dividends from surplus	—	—	(12,060)	—	(12,060)
Net income	—	—	39,958	—	39,958
Acquisition of treasury stock	—	—	—	(2,609)	(2,609)
Disposition of treasury stock	—	—	(94)	2,498	2,404
Reversal of land revaluation excess	—	—	414	—	414
Items other than changes in stockholders' equity (net)	—	—	—	—	—
Net changes during the Fiscal Year	—	—	28,218	(111)	28,107
<b>Balance at March 31, 2013</b>	<b>\$149,929</b>	<b>\$66,682</b>	<b>\$1,041,949</b>	<b>(\$13,983)</b>	<b>\$1,244,577</b>

	Thousands of U.S. dollars (Note 1)						
	Accumulated other comprehensive Income				Stock option rights	Minority interests	Total net assets
	Net unrealized holding gain on other securities	Deferred hedge losses	Land revaluation excess	Total			
<b>Balance at March 31, 2012</b>	\$145,620	(\$9,648)	\$35,032	\$171,004	\$396	\$54,606	\$1,442,476
Changes during the fiscal Year							
Dividends from surplus	—	—	—	—	—	—	(12,060)
Net income	—	—	—	—	—	—	39,958
Acquisition of treasury stock	—	—	—	—	—	—	(2,609)
Disposition of treasury stock	—	—	—	—	—	—	2,404
Reversal of land revaluation excess	—	—	—	—	—	—	414
Items other than changes in stockholders' equity (net)	94,528	(154)	(414)	93,960	84	2,462	96,506
Net changes during the Fiscal Year	94,528	(154)	(414)	93,960	84	2,462	124,613
<b>Balance at March 31, 2013</b>	<b>\$240,148</b>	<b>(\$9,802)</b>	<b>\$34,618</b>	<b>\$264,964</b>	<b>\$480</b>	<b>\$57,068</b>	<b>\$1,567,089</b>

## Consolidated Statements of Cash Flows

The Akita Bank, Ltd. and subsidiaries  
For the years ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥ 6,503	¥ 7,892	\$ 69,144
Depreciation and amortization	1,899	2,183	20,188
Losses on impairment of fixed assets	225	209	2,394
Net change in reserve for possible loan losses	143	(5,983)	1,515
Net change in reserve for investment losses	(1)	(86)	(7)
Net change in reserve for employees' retirement benefits	214	83	2,278
Net change in reserve for retirement benefits to directors	(20)	7	(212)
Net change in reserve for repayments on dormant deposits	90	104	957
Net change in reserve for contingent losses	(35)	68	(374)
Interest income	(33,155)	(34,932)	(352,525)
Interest expenses	2,634	3,090	28,000
Net gain related to securities transactions	(837)	1,539	(8,894)
Net income from money held in trust	(0)	(0)	(0)
Net exchange gain	(308)	(252)	(3,279)
Net loss from disposition of premises and equipment	163	130	1,736
Net change in loans and bills discounted	7,413	(55,291)	78,819
Net change in deposits	(12,550)	102,348	(133,440)
Net change in negotiable certificates of deposit	23,124	12,497	245,871
Net change in borrowed money	3,345	9,496	35,567
Net change in due from banks (excluding due from the Bank of Japan)	(59,718)	(439)	(634,955)
Net change in call loans, commercial paper and other debt purchased	(8,206)	(4,618)	(87,251)
Net change in call money and borrowed money	2,822	(748)	30,000
Net change in payable under securities lending transactions	(27,918)	19,234	(296,846)
Net change in foreign exchanges (assets)	(24)	351	(261)
Net change in foreign exchanges (liabilities)	(34)	23	(360)
Interest received	34,343	35,464	365,162
Interest paid	(3,592)	(3,226)	(38,193)
Net change in trading account securities	(21)	(11)	(219)
Other, net	4,564	8,882	48,525
Sub-total	(58,937)	98,014	(626,659)
Income taxes paid	(717)	(2,320)	(7,622)
Net cash provided by operating activities	(59,654)	95,694	(634,281)
<b>Cash flows from investing activities</b>			
Purchases of securities	(758,711)	(539,472)	(8,067,101)
Proceeds from sales of securities	437,615	171,619	4,653,000
Proceeds from maturity of securities	397,099	306,772	4,222,210
Increase in money held in trust	—	(257)	—
Decrease in money held in trust	245	—	2,602
Purchases of premises and equipment	(1,814)	(2,262)	(19,283)
Proceeds from sales of premises and equipment	99	831	1,056
Purchases of intangible fixed assets	(200)	(101)	(2,131)
Net cash used in investing activities	74,333	(62,870)	790,353
<b>Cash flows from financing activities</b>			
Dividends of paid	(1,134)	(1,149)	(12,060)
Dividends paid for minority	(9)	(9)	(92)
Purchases of treasury stock	(245)	(1,122)	(2,609)
Proceeds from sales of treasury stock	220	171	2,342
Net cash used in financing activities	(1,168)	(2,109)	(12,419)
Effect of currency rate exchanges on cash and cash equivalents	6	(1)	59
Net increase in cash and cash equivalents	13,516	30,714	143,712
Cash and cash equivalents at beginning of year	129,138	98,424	1,373,082
<b>Cash and cash equivalents at end of year</b> (Note 35)	<b>¥142,654</b>	<b>¥129,138</b>	<b>\$1,516,793</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

The Akita Bank, Ltd. and consolidated subsidiaries  
March 31, 2013

## 1. Basis of Presentation

The accompanying consolidated financial statements of the Akita Bank, Ltd. (the "Bank") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Bank as required by the Financial Instruments and Exchange Act of Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥94.05 to \$1.00, the rate of exchange prevailing on March 31, 2013. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

In addition, the notes to the consolidated financial statements include information, which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

## 2. Principles of Consolidation

### (a) Consolidated subsidiaries

The consolidated financial statements include the accounts of the Bank and all of its five subsidiaries, except for two subsidiaries which are not consolidated due to its insignificance. One subsidiary was excluded from consolidation due to its dissolution on August 28, 2012. All significant intercompany transactions and accounts are eliminated in consolidation.

### (b) Information on special purpose entities to be reported

The Bank has no special purpose entities to be reported and no their related transactions.

## 3. Summary of Significant Accounting Policies

### (a) Trading account securities

Trading account securities are carried at fair value and the cost of securities sold is determined by the moving average method.

### (b) Securities

Debt securities for which the Bank has ability to hold to maturity are classified as securities being held to maturity and carried at amortized cost. Debt securities that the Bank may not hold to maturity and marketable equity securities, other than those classified as trading account securities, are classified as other securities, and are carried at their fair values of the balance sheet date. The difference between fair value and cost is recognized as other securities revaluation excess, which is reported as 'net unrealized holding gain on other securities' in net assets. Non-marketable securities are carried at moving average cost.

Securities held in the money trusts, of which funds are principally invested in securities and separately managed from other beneficiaries, are carried at fair value with unrealized holding gains and losses included in earnings.

### (c) Derivatives

Derivatives are carried at fair value which is based on market quotation.

### (d) Premises and equipment

Premises and equipment are stated at cost. Depreciation is computed using the declining balance method over the estimated useful lives of respective

assets. The straight-line method is applied to buildings acquired after April 1, 1998.

The estimated useful lives of major items are as follows:

Buildings:	3–50 years
Others:	3–20 years

Depreciation of premises and equipment owned by consolidated subsidiaries is mainly computed using the declining balance method over the estimated useful lives of respective assets.

According to a revise of Japanese corporate tax law, the Bank and consolidated subsidiaries apply the revised depreciation method to premises and equipment acquired after April 1, 2012 without retrospective application, since it is difficult to decide whether the change is a change in an accounting estimate or a change in an accounting policy. An effect of the change to net income was negligible.

### (e) Intangible fixed assets

Intangible fixed assets are depreciated using the straight-line method. Depreciation of the software held for internal-use is computed using the straight-line method over the estimated useful lives (mainly 5 years).

### (f) Leased assets (as lessee)

Leased assets on finance lease transactions that do not transfer ownership are depreciated over the useful life of assets, equal to the lease term, by the straight-line method with zero residual value. The Bank leases mainly peripheral devices and automobiles included in premises and equipment and software included in intangible fixed assets.

### (g) Reserve for possible loan losses

Reserve for possible loan losses is provided as follows, in conformity with the internal policies regarding write-offs and reserves for possible loan losses.

The Bank has established a credit rating system in accordance with the provisions set forth in the Guidelines issued by the Japanese Institute of Certified Public Accountants under which customers are classified into five categories for self assessment purposes such as "Bankrupt Obligors", "Substantially Bankrupt Obligors", "Potential Bankrupt Obligors", "Cautious Obligors" and "Normal Obligors".

The Bank has provided reserve for possible loan losses at amount deemed necessary to cover possible losses which are estimated based on the fair value of collateral and guarantee for the bankrupt obligors' and the substantially bankrupt obligors' loans as well as other factors of solvency including borrower's future cash flows for the potentially bankrupt obligors'. For loans to all other obligors, reserves are maintained at rate derived from default experiences for a certain period in the past.

The quality of all loans is assessed by branches and the credit supervisory division with an internal audit by the asset review and inspection division in accordance with the Bank's policy and rules for self assessment of asset quality.

The consolidated subsidiaries record reserve for possible loan losses at amount deemed necessary to cover possible losses which are estimated based on the loan loss ratio, which is calculated for each ordinary loan using actual loan losses during a specified period in the past in addition to amounts deemed necessary based on estimation of the collectability of specific loans.

### (h) Reserve for investment losses

Reserve for investment losses is provided for possible losses at the estimated amounts based on the financial position of security issuing company.

### (i) Reserve for employees' retirement benefits

Reserve for employees' retirement benefits is calculated at an amount based

on the projected benefit obligation and the fair value of plan assets. Unrecognized net actuarial gain or loss is amortized from the next fiscal year after occurrence using the straight-line method over the average remaining service period of employees (10 years).

#### **(j) Accrued bonuses to directors**

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

#### **(k) Reserve for retirement benefits to directors**

Consolidated subsidiaries of the Bank accrue 100% of obligations for retirement benefits for them based on the internal rules under the assumption that all directors terminate their services at the year end.

#### **(l) Reserve for repayments on dormant deposits**

Dormant deposit accounts, satisfying certain conditions, are credited to income and the Bank provides for future claims at the amount calculated based on the past experience.

#### **(m) Reserve for contingent losses**

Based on the joint responsibility system with credit guarantee corporations, the Bank provides for future payments to the corporations at the amount properly estimated.

#### **(n) Foreign currency transaction**

Foreign currency denominated assets and liabilities are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

#### **(o) Hedge accounting**

##### **(1) Hedge against interest rate risk**

The Bank applies the standard treatment of the Industry Audit Committee Report No. 24, "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" ("Report No. 24") issued by the JICPA. Under the standard treatment of the Report No. 24, the Bank applies the deferred method of hedge accounting for qualifying derivative instruments to mitigate the interest rate risks arising from various financial assets and liabilities. Hedge effectiveness is assessed by specifying hedged items (such as securities and loans) and the corresponding hedging instruments (such as interest rate swaps).

##### **(2) Hedge against foreign exchange risk**

For foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies, the Bank applies the standard treatment prescribed in the Industry Audit Committee Report No. 25, "Accounting and Auditing Treatment relating to Adoption of Accounting Standards for Foreign Currency Transactions for Banks". Under that treatment, the Bank applies the deferred method of hedged accounting. The Bank enters into currency-swaps and foreign exchange swaps to mitigate the foreign exchange risks arising from financial assets and liabilities denominated in foreign currencies, both at the hedge's inception and on an ongoing basis, when these derivatives are highly effective in offsetting changes in cash flows of hedged items (financial assets and liabilities). Hedge effectiveness is assessed for designating currency swaps and foreign exchange swaps, etc., which offset foreign exchange risks of claim and debt in foreign currency as hedging instruments, and testing the existence of foreign position in hedge instruments which are corresponded to claim and debt in foreign currency.

#### **(p) Accounting for leases**

The Bank applies accounting treatments to the finance leases in the similar manner to ordinary sales and purchase transactions, in accordance with "Accounting Standard for Lease Transactions" (ASBJ Statement No.13, March 30, 2007) and "Implementation Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No.16, March 30, 2007).

##### **(1) As lessee**

Finance lease transactions which were contracted before April 1, 2008 were accounted for as operating leases.

##### **(2) As lessor**

Sales and cost of finance lease transactions are recognized with the lapse of lease term.

#### **(q) Consumption taxes**

Transactions are recorded at the amounts not including consumption taxes.

#### **(r) Cash flows**

Cash and cash equivalents in the consolidated statements of cash flows consist of cash and deposit with the Bank of Japan.

#### **(s) Income taxes**

Deferred tax assets and liabilities are recorded based on the temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements using the enacted tax rates in effect for the year in which the temporary differences are expected to be settled. Deferred tax assets are also recognized for the estimated future tax effects attributable to operating loss carry forward. A valuation allowance is recorded to reduce deferred tax assets if it is more likely than not that some or all the deferred tax assets will not be realized.

#### **(t) Adopting revised accounting standard for retirement benefits**

The Accounting Standards Board of Japan issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012). The Standard focuses on (a) how actuarial gains and losses and past service costs should be accounted for, (b) how retirement benefit obligations and current service costs should be determined and (c) enhancement of disclosures.

The Bank intends to adopt the above (a) and (c), effective from March 31, 2014 and to adopt (b), effective from the year starting April 1, 2014.

Effect of the adoption is currently under valuation.

#### 4. Trading Account Securities

Trading account securities as of March 31, 2013 and 2012 consisted of national government bonds and local government bonds as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Amount in the balance sheet	¥ 38	¥16	\$399
Valuation gain (loss) included in income for the year	0	(0)	1

#### 5. Securities

Securities as of March 31, 2013 and 2012 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
National government bonds	¥330,888	¥410,354	\$ 3,518,216
Local government bonds	113,885	143,718	1,210,900
Short term corporate bonds	2,000	3,000	21,262
Corporate bonds	305,633	275,019	3,249,686
Share stocks	43,132	39,284	458,608
Other securities	77,772	64,526	826,920
Total	¥873,310	¥935,901	\$9,285,592

Market value and valuation differences of securities as of March 31, 2013 and 2012 and other related information were as follows:

##### (a) Held-to-maturity marketable bonds

The Bank's and consolidated subsidiaries' investments in held-to-maturity bonds as of March 31, 2013 and 2012 were summarized as follows:

	Millions of yen				
	2013				
	Carrying value	Market value	Differences	Gain	Loss
National government bonds	¥595	¥629	¥34	¥34	¥—

  

	Millions of yen				
	2012				
	Carrying value	Market value	Differences	Gain	Loss
National government bonds	¥595	¥610	¥15	¥15	¥—

  

	Thousands of U.S. dollars (Note 1)				
	2013				
	Carrying value	Market value	Differences	Gain	Loss
National government bonds	\$6,328	\$6,691	\$363	\$363	\$—

##### (b) Other marketable securities

The Bank and consolidated subsidiaries' investments in other securities as of March 31, 2013 and 2012 were summarized as follows:

	Millions of yen		
	2013		
	Carrying value	Cost	Gain (loss)
Carrying value exceeding cost:			
Stocks	¥ 35,366	¥ 22,481	¥12,885
Bonds:			
National government bonds	330,293	322,336	7,957
Local government bonds	113,885	110,355	3,530
Corporate bonds	290,320	284,637	5,683
Bonds total	734,498	717,328	17,170
Other	63,524	57,441	6,083
Subtotal	¥833,388	¥797,250	¥36,138
Carrying value not exceeding cost:			
Stocks	¥ 5,281	¥ 6,150	¥ (869)
Bonds:			
Short-term corporate bonds	2,000	2,000	(0)
Corporate bonds	15,313	15,425	(112)
Bonds total	17,313	17,425	(112)
Other	17,298	17,909	(611)
Subtotal	¥39,892	¥41,484	¥(1,592)
Total	¥873,280	¥838,734	¥34,546

  

	Millions of yen		
	2012		
	Carrying value	Cost	Gain (loss)
Carrying value exceeding cost:			
Stocks	¥ 22,933	¥ 15,699	¥ 7,234
Bonds:			
National government bonds	409,760	402,035	7,725
Local government bonds	143,718	139,345	4,373
Short-term corporate bonds	3,000	2,999	1
Corporate bonds	258,331	253,848	4,483
Bonds total	814,809	798,227	16,582
Other	34,431	33,068	1,363
Subtotal	¥872,173	¥846,994	¥25,179
Carrying value not exceeding cost:			
Stocks	¥ 13,869	¥ 16,187	¥ (2,318)
Bonds:			
Corporate bonds	16,687	16,877	(190)
Bonds total	16,687	16,877	(190)
Other	34,035	35,840	(1,805)
Subtotal	¥ 64,591	¥ 68,904	¥ (4,313)
Total	¥936,764	¥915,898	¥20,866

	Thousands of U.S. dollars (Note 1)		
	2013		
	Carrying value	Cost	Gain (loss)
Carrying value exceeding cost:			
Stocks	\$ 376,029	\$ 239,027	\$ 137,001
Bonds:			
National government bonds	3,511,888	3,427,279	84,609
Local government bonds	1,210,900	1,173,368	37,532
Corporate bonds	3,086,865	3,026,444	60,421
Bonds total	7,809,653	7,627,091	182,562
Other	675,431	610,748	64,683
Subtotal	\$8,861,113	\$8,476,867	\$384,246
Carrying value not exceeding cost:			
Stocks	\$ 56,157	\$ 65,392	\$ (9,235)
Bonds:			
Short-term corporate bonds	21,263	21,264	(1)
Corporate bonds	162,821	164,015	(1,194)
Bonds total	184,084	185,279	(1,195)
Other	183,918	190,423	(6,505)
Subtotal	\$ 424,159	\$ 441,094	\$ (16,935)
Total	\$9,285,272	\$8,917,961	\$367,311

### (c) Other securities sold

Other securities sold and gains and losses of those securities for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Proceeds from sales	¥445,984	¥171,026	\$4,741,993
Gains	4,764	1,750	50,651
Losses	(1,670)	(1,171)	(17,751)

## 6. Loans and Bills Discounted

(a) Loans and bills discounted as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Bills discounted	¥ 7,541	¥ 7,417	\$ 80,180
Loans on notes	57,451	65,943	610,857
Loans on deeds	1,232,632	1,236,477	13,106,134
Overdrafts	136,407	134,837	1,450,370
Total	¥1,434,031	¥1,444,674	\$15,247,541

(b) Loans and bills discounted at March 31, 2013 and 2012 included the following items:

Balances of loans to borrowers under bankruptcy procedures as of March 31, 2013 and 2012 were ¥4,943 million (U.S.\$52,559 thousand) and ¥4,877 million, respectively.

Balances of delinquent loans as of March 31, 2013 and 2012 were ¥55,636 million (U.S.\$ 591,554 thousand) and ¥57,326 million, respectively.

Loans to borrowers under bankruptcy procedures consist of non-accrual loans on which the payment of principal or interest is well past due or there is no prospect of recovery of the principal or interest from the borrower (does not include the written-down portion of the loan). This category also includes the loans cited in Article 96-1-3 and 96-1-4 of the Corporation Tax Law (Government Ordinance No. 97 of 1965).

Delinquent loans are non-accrual loans, which do not fall under the classifications of loans to bankrupt borrowers or financial assistance loans where interest has suspended for the purpose of business rehabilitation or debtor assistance.

(c) Balances of loans past due for 3 months or more as of March 31, 2013 and 2012 were nil and ¥21 million, respectively.

Loans past due for 3 months or more are classified in this category when 3 months or more have elapsed since the due date without the payment of principal or interest. The balance of loans to borrowers under bankruptcy procedures and the balance of delinquent loans are not included in this category.

(d) Balances of restructured loans as of March 31, 2013 and 2012 were ¥2,569 million (U.S.\$27,313 thousand) and ¥327 million, respectively.

Restructured loans include loans which have been restructured to support the rehabilitation of certain borrowers who are encountering financial difficulties, with the intention of ensuring recovery of the loans by providing easier repayment terms for the borrowers (such as by reducing the rate of interest or by providing a grace period for the payment of principal/interest, etc.). Excluded from this balance are the balance of loans to borrowers under bankruptcy procedures, the balance of delinquent loans and the balance of loans past due for 3 months or more.

(e) The total balance of loans to borrowers under bankruptcy procedures, delinquent loans, loans past due for 3 months or more and restructured loans as of March 31, 2013 and 2012 were ¥63,148 million (U.S.\$ 671,426 thousand) and ¥62,552 million, respectively.

(f) Bills discounted are accounted for as financial transactions in accordance with the JICPA Report No. 24. The Bank has rights to sell or pledge bank acceptance bought, commercial bills discounted, foreign exchange bought without restrictions. Their total face value as of March 31, 2013 and 2012 were ¥7,543 million (U.S. \$80,207 thousand) and ¥7,417 million respectively.

Contracts of overdraft facilities and loan commitment limits are the contracts that the Bank lends to customers up to the prescribed limits in response to customers' application of loan as long as there is no violation of any condition in the contracts. The unused amount within the limits was ¥521,722 million (U.S.\$ 5,547,283 thousand) relating to these contracts, including ¥520,451 million (U.S.\$ 5,533,770 thousand) of which the term of contracts is less than one year or revocable at any time as of March 31, 2013.

The respective amounts were ¥ 528,202 million and ¥527,476 million as of March 31, 2012.

Since many of these commitments expire without being utilized, the unused amount does not necessarily represent a future cash requirement. Most of these contracts have conditions that the Bank can refuse customers' application of loan or decrease the contract limits with proper reasons (e.g., changes in financial situation, deterioration in customers' creditworthiness). At the inception of contracts, the Bank obtains real estate, securities, etc. as collateral if considered to be necessary. Subsequently, the Bank performs periodic review of the customers' business results based on initial rules, and takes necessary measures to reconsider conditions in contracts and/or require additional collateral and guarantees.

## 7. Foreign Exchange Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Due from foreign banks	¥278	¥256	\$2,955
Foreign exchange bills bought	2	0	27
<b>Total</b>	<b>¥280</b>	<b>¥256</b>	<b>\$2,982</b>

## 8. Other Assets

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Lease receivables and lease investment assets	¥ 7,587	¥ 7,831	\$ 80,671
Domestic exchange settlement	12	89	126
Prepaid expenses	15	19	165
Accrued income	5,951	5,598	63,270
Derivatives	433	291	4,609
Others	7,649	8,251	81,324
<b>Total</b>	<b>¥21,647</b>	<b>¥22,079</b>	<b>\$230,165</b>

Lease guarantee deposits of ¥300 million (U.S.\$3,191 thousand) and ¥291 million are included in other assets as of March 31, 2013 and 2012, respectively.

## 9. Premises and Equipment

Premises and equipment as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Buildings	¥ 7,167	¥ 7,086	\$ 76,205
Land	12,086	12,140	128,509
Construction in Progress	869	314	9,242
Other	1,825	2,257	19,398
<b>Total</b>	<b>¥21,947</b>	<b>¥21,797</b>	<b>\$233,354</b>

The accumulated depreciation of premises and equipment as of March 31, 2013 and 2012 amounted to ¥34,817 million (U.S.\$370,191 thousand) and ¥35,099 million, respectively.

The Bank has deducted acquisition cost (Asshuku-kicho) to defer recognition of capital gain by ¥2,130 million (U.S.\$22,652 thousand) and ¥2,322 million as of March 31, 2013 and 2012, respectively.

## 10. Intangible Fixed Assets

Intangible fixed assets as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Software	¥1,529	¥2,020	\$16,263
Other	224	255	2,378
<b>Total</b>	<b>¥1,753</b>	<b>¥2,275</b>	<b>\$18,641</b>

## 11. Assets Pledged

Assets pledged as collateral as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Securities	¥89,091	¥112,171	\$947,273
Other assets	552	1,079	5,872
<b>Total</b>	<b>¥89,643</b>	<b>¥113,250</b>	<b>\$953,145</b>

Liabilities related to above pledged assets as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deposits	¥ 7,667	¥ 8,896	\$ 81,521
Payables under securities lending transactions	—	27,918	—
Borrowed money	18,217	14,510	193,695

In addition, the followings were pledged as collateral for settlements of exchange or margins for futures transactions as of March 31, 2013 and 2012, respectively.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Securities	¥54,447	¥78,292	\$578,912

## 12. Acceptances and Guarantees

The Bank provides guarantees for liabilities of its customers for payment of loans from other financial institutions. As a contra account, "Customers' Liabilities for Acceptances and Guarantees" are shown on the assets side, indicating the Bank's right of indemnity from the applicants.

## 13. Income Taxes

Income taxes applicable to the Bank and consolidated subsidiaries include corporate tax, inhabitants' tax and enterprise tax, which, in aggregate, results in a statutory rate of approximately 37.8% and 40.4% for the years ended March 31, 2013 and 2012, respectively.

(a) Significant component of deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Deferred tax assets:			
Reserve for employees' retirement benefits	¥ 3,663	¥ 3,684	\$ 38,949
Reserve for possible loan losses	8,555	8,354	90,957
Securities	1,456	1,051	15,484
Depreciation	604	756	6,418
Others	2,393	2,201	25,443
Total deferred tax assets	16,671	16,046	177,251
Valuation allowance	(4,881)	(4,780)	(51,899)
Total deferred tax assets, net	11,790	11,266	125,352
Deferred tax liabilities:			
Profit from establishment of the trust for employees' retirement benefits	(1,629)	(1,690)	(17,316)
Net unrealized holding gain on other securities	(11,908)	(7,146)	(126,610)
Reserve for deduction of acquisition cost of fixed assets to defer recognition of capital gain	(131)	(134)	(1,394)
Other	(4)	(51)	(44)
Total deferred tax liabilities	(13,672)	(9,021)	(145,364)
Net deferred tax assets(liabilities)	¥ (1,882)	¥ 2,245	\$ (20,012)

(b) A reconciliation between the effective income tax rate applied to the consolidated financial statements and the statutory tax rate for the year ended March 31, 2012 was as follows:

	2012
Statutory tax rate	40.4 %
Expenses not deductible for income tax purposes	0.5
Dividend income deductible for income tax purpose	(2.7)
Inhabitant tax on per capital basis	0.5
Decrease in deferred tax assets due to income tax rate change	8.8
Change in valuation allowance	1.3
Others	(0.2)
Actual effective tax rate	48.6 %

Presentation of reconciliation for the year ended March 31, 2013 is omitted as the difference between statutory tax rate and actual effective tax rate was less than 5 percent of statutory tax rate.

## 14. Deposits

An analysis of deposits as of March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current deposits	¥ 125,381	¥ 137,790	\$ 1,333,127
Ordinary deposits	1,013,609	974,095	10,777,349
Savings deposits	42,271	43,010	449,454
Time deposits	1,052,245	1,090,696	11,188,146
Other deposits	36,883	37,348	392,162
Sub-total	2,270,389	2,282,939	24,140,238
Negotiable certificates	122,148	99,024	1,298,757
Total	¥2,392,537	¥2,381,963	\$25,438,995

## 15. Borrowed Money

Borrowed money as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Loans from banks	¥21,576	¥18,231	\$229,409

The average interest rate of the loans was 0.262% as of March 31, 2013. The aggregate annual maturities of the loans from banks subsequent to March 31, 2013 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 1)
2014	¥19,290	\$205,104
2015	1,103	11,728
2016	683	7,261
2017	395	4,200
2018	105	1,116

## 16. Foreign Exchanges Liabilities

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Foreign exchange bills sold	¥8	¥41	\$83
Foreign exchange bills payable	0	1	4
Total	¥8	¥42	\$87



## 17. Other Liabilities

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Domestic exchange settlement	¥ 13	¥ —	\$ 139
Income tax payable	2,738	234	29,112
Accrued expenses	2,739	3,781	29,121
Unearned income	3,238	3,526	34,425
Derivatives	2,836	2,158	30,152
Lease obligations	594	602	6,321
Others	7,052	6,663	74,980
Total	¥19,210	¥16,964	\$204,250

## 18. Reserve for Employees' Retirement Benefits

The Bank and consolidated subsidiaries have defined benefit pension plans, i.e., Employees' Pension Fund plans ("EPFs"), and lump-sum retirement plans. Under these defined benefit pension plans, employees are generally entitled to lump-sum payments and/or pension payments, the amounts of which are determined by reference to their basic salary, length of service, and the conditions under which termination occurs.

### (a) Retirement benefits obligation

The following table sets forth the funded status of the defined benefit plans, and the amounts recognized in the consolidated balance sheets at March 31, 2013 and 2012 for the Bank and consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Projected benefit obligation	¥(26,466)	¥(22,821)	\$(281,402)
Plan assets at fair value	17,189	14,302	182,769
Unfunded retirement benefit obligation	(9,277)	(8,519)	(98,633)
Unrecognized actuarial loss	5,979	5,282	63,575
Net retirement benefit	(3,298)	(3,237)	(35,058)
Prepaid pension cost	2,996	2,842	31,860
Reserve for employees' retirement benefits	¥ (6,294)	¥ (6,079)	\$ (66,918)

### (b) Retirement benefit cost

The components of employees' retirement benefit cost for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Service cost	¥ 727	¥ 715	\$ 7,735
Interest cost	455	452	4,843
Expected return on plan assets	(341)	(322)	(3,628)
Amortization of actuarial loss	795	858	8,448
Net periodic retirement benefit cost	¥1,636	¥1,703	\$17,398

### (c) Actuarial Assumptions used to determine retirement benefit cost and obligation for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
a. Discount rate	1.0%	2.0%
b. Expected rate of return on plan assets	2.5%	2.5%
Expected rate of return on retirement provision trust	2.2%	2.1%
c. Term allocation method of expected retirement benefits	Straight line method over the period	Straight line method over the period
d. Amortization period of actuarial gain/loss	10 years	10 years

## 19. Land Revaluation Excess

Pursuant to the Law Concerning Land Revaluation (Law No.34, promulgated on March 31, 1998), the Bank recorded their owned land at the fair value and related unrealized gain, net of applicable income tax effect were reported as "Land revaluation excess" in net assets.

Revaluation date: March 31, 2000

Revaluation method stated in Article 3, Section 3 of the Law Concerning Land Revaluation:

The value of land is based on the official notice prices calculated as directed by the public notification of the Commissioner of the National Tax Administration and as provided for in the Law Concerning Public Notification of Land Prices, as stipulated in Article 2, Section 4 of the Ordinance Implementing the Law Concerning Land Revaluation (Government Ordinance No. 119, promulgated on March 31, 1998), after making reasonable adjustments, such as for location and quality of sites.

Difference between the fair value and the carrying value were: ¥5,987 million (U.S.\$63,658 thousand) and ¥5,826 million as of March 31, 2013 and 2012, respectively.

## 20. Net Unrealized Holding Gains on Other Securities

The components of net unrealized holding gain on other securities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Valuation differences of other securities	¥34,546	¥20,865	\$367,311
Deferred tax liabilities	(11,908)	(7,146)	(126,610)
Minority interests	(52)	(24)	(553)
Net unrealized holding gains on securities	¥22,586	¥13,695	\$240,148

## 21. Other Interest Income

The composition of other interest income for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Securities under repurchase agreements	¥ 17	¥ 6	\$ 188
Interest on deposits with banks	80	9	849
Interest on interest swap	15	8	158
Others	184	242	1,956
Total	¥296	¥265	\$3,151

## 22. Fees and Commissions—Income

The composition of fees and commission income for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Domestic and foreign exchange	¥1,866	¥1,881	\$19,840
Others	4,762	4,483	50,633
Total	¥6,628	¥6,364	\$70,473

## 23. Other Operating Income

The composition of other operating income for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Gains on trading account securities	¥ 1	¥ 2	\$ 14
Gains on sales and redemption of bonds	4,749	1,615	50,489
Gains on foreign exchange transactions	303	253	3,221
Others	5,437	5,684	57,813
Total	¥10,490	¥7,554	\$111,537

## 24. Other Income

The composition of other income for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Reversal of reserve for possible loan losses	¥ —	¥1,320	\$ —
Gains on sales of stocks and other securities	754	157	8,013
Gains on disposition of fixed assets	14	10	155
Others	627	572	6,667
Total	¥1,395	¥2,059	\$14,835

## 25. Other Interest Expenses

The composition of other interest expenses for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Interest swap	¥893	¥ 591	\$ 9,497
Others	50	257	535
Total	¥943	¥848	\$10,032

## 26. Fees and Commissions—Expenses

The composition of fees and commissions expenses for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Domestic and foreign exchange	¥ 310	¥ 314	\$ 3,291
Others	2,070	1,947	22,010
Total	¥2,380	¥2,261	\$25,301

## 27. Other Operating Expenses

The composition of other operating expenses for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Losses on redemption of bonds	¥ 580	¥1,549	\$ 6,170
Losses on sales of bonds	951	20	10,110
Losses on valuation of bonds	1,453	—	15,453
Others	4,689	4,810	49,851
Total	¥7,673	¥6,379	\$81,584

## 28. Other Expenses

The composition of other expenses for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Provision of reserve for possible loan losses	¥3,335	¥ —	\$35,463
Written-off claims	194	707	2,065
Losses on sales of stocks and other securities	1,113	1,151	11,830
Losses on devaluation of stocks and other securities	569	592	6,045
Losses on dispositions of fixed assets	178	139	1,892
Impairment losses	225	209	2,394
Others	851	853	9,051
Total	¥6,465	¥3,651	\$68,740

## 29. Losses on Impairment of Fixed Assets

The Bank recognized losses on impairment of the following fixed assets, included in "other expenses", for the years ended March 31, 2013 and 2012.

For the year ended March 31, 2013

Area	Main purpose	Variety	(Millions of yen)	Thousands of U.S. dollars (Note 1)
Akita Prefecture	Idle Assets	Land and Buildings; four places	¥221	\$2,352
Out of Akita Prefecture	Branch Buildings	Land and Buildings; one place	4	42
Total			¥225	\$2,394
Components of impairment losses				
Building			¥ 58	\$ 614
Land			167	1,780

For the year ended March 31, 2012

Area	Main purpose	Variety	(Millions of yen)
Akita Prefecture	Branch Buildings	Land and Buildings; two places	¥ 18
	Idle Assets	Land and Buildings; thirteen places	183
Out of Akita Prefecture	Branch Buildings	Land and Buildings; two places	6
	Idle Assets	Land and Buildings; one place	2
Total			¥209
Components of impairment losses			
Building			¥101
Land			108

For the purpose of identifying impaired assets, the assets of individual branch are grouped as a unit.

The recoverable amounts of such assets are measured at their net realizable selling prices which are determined by quotation standards for real estate appraisal issued by the Ministry of Lands, Infrastructure and Transport, less estimated costs to dispose.

## 30. Financial Instruments

### 1. STATUS

#### (1) Policy on Financial Instruments

The Bank's financial services hinge on its banking business but also include guarantee and leasing services. To execute these services, the Bank utilizes funds acquired primarily from deposits and applies funds mainly to extend loans and purchase securities. To ensure sound and appropriate banking operations without succumbing to pursuit of excessive profit or risk aversion, the Bank conducts suitable risk management and seeks to maintain the right balance between profits and risks in fund-raising and -application activities. The Bank also utilizes derivative transactions to hedge potential risks.

#### (2) Financial Instruments and Associated Risks

Financial assets held by the Bank and its subsidiaries are primarily loans and investment securities.

Loans are exposed to credit risk, which could lead to losses if the financial status of certain borrowers were to deteriorate, causing the asset value of collateral to decrease or disappear altogether.

Securities held by the Bank are mainly bonds, stocks, investment trusts, and investments in partnerships through capital contributions. The Bank holds these securities to secure profit, primarily from interest and dividends, for strategic purposes, such as business alliances, or as held-to-maturity bonds in consolidated subsidiaries. These securities are exposed to the credit risk of the respective issuers as well as market risk that could lead to losses caused by fluctuations, particularly in interest rates, exchange rates and market prices, that erode the value of held assets.

Financial liabilities held by the Bank and its consolidated subsidiaries are mainly deposits. Deposits are exposed to liquidity risk, which could lead to losses if an unexpected outflow of cash, for example, forces the Bank to acquire funds at significantly higher interest rates than usual, or changes in the market environment force the Bank into transactions at prices that are more disadvantageous than usual.

The Bank engages in derivative transactions, including interest rate swaps, forward exchange contracts and currency options. Interest rate swaps serve to hedge against interest rate fluctuations affecting on-balance-sheet transactions. Forward exchange contracts and currency options serve to hedge foreign exchange fluctuations. (Please refer to "3. Summary of Significant Accounting Policies, (o) Hedge accounting", regarding hedging instruments, hedged items, the Bank's accounting standards and qualifying method.)

Some transactions that do not meet hedge accounting criteria are exposed to interest rate risk and foreign exchange risk.

#### (3) Risk Management for Financial Instruments

To ensure the quality and appropriateness of its banking operations, the Bank undertakes integrated risk management, a self-administered process whereby inherent risks evaluated according to category, such as credit risk and market risk, are viewed in total and compared against operating capacity, that is, net worth. Risk management for financial instruments also falls within the scope of this process.

Integrated risk management entails risk capital allocation by division and risk category within net worth on a yearly basis, monitoring risk volume quantified by such methods as Value at Risk (VaR) and the status of allocated risk capital, and sufficient verification of business soundness and capital adequacy. In addition, corporate structures, such as the Board of Directors, are provided with regular updates on risk status and risk volume is capped when conditions require such action.

In setting caps on risk volume, the Bank considers profitability and efficiency, including a suitable assessment of risk and return, to underpin efforts that will enhance operations and results.

#### (a) Credit Risk Management

Applying a credit policy that outlines the Bank's basic lending policy and screening criteria, and a credit risk management standard that sets forth specific lending rules, the Bank has established an administration policy for consolidated subsidiaries and strategic investments to prevent excessive loan volume to a specific industry or group with the aim of making risk management as accurate as possible.

In addition, the Bank maintains a credit rating system for corporate clients to quantify credit risks and is improving loan pricing. Furthermore, for loans and bills discounted, which account for the majority of credit risk, the Bank separated the screening and administration division from the sales promotion division and set up a screening and administration system that is not influenced by the sales promotion division. Through a specialized screening and loan management and recovery structure, the Bank is able to ensure asset quality and improve asset value.

#### (b) Market Risk Management

The Bank's risk volume control structure is supported by regular reports to the ALM Committee on interest rate risk volume associated with the Bank's assets and liabilities, and interest rate, exchange rate and stock price risk volume associated with market transactions.

In its market transactions, the Bank strives for efficient application of funds and optimum risk and return, within the limits of allocated risk capital determined through integrated risk management and the predetermined annual capital budget. The Bank also maintains a structure with middle offices specializing in risk management that are independent of both front offices, which engage in market transactions, and back offices, which handle administrative tasks. This structure reinforces the system of mutual checks and balances and helps to prevent unlikely but possible processing mistakes and unauthorized transactions.

#### (c) Liquidity Risk Management

The Bank maintains an appropriate financial position with regard to liquidity risk by improving the accuracy of methods to estimate and verify fund utilization and acquisition balances. In addition, the Bank strives to prevent liquidity risk through assessment and analysis of conditions in financial markets and society at large that could affect cash flow. To respond quickly to fund-impacting situations that arise, the Bank has established classifications for cash flow conditions, ranging from "normal" to "cause for concern" and "critical," and procedures are in place for dealing with situations that fall into the "cause for concern" and "critical" categories.

#### (d) Risk Management Relating to Derivative Transactions

To manage risks relating to interest rate swaps, the necessity of hedging transactions and the status of derivative transactions are continuously monitored at managing directors' meetings. Regarding forward exchange contracts and currency options, it is vital to manage total balances including on-balance-sheet and off-balance-sheet transactions, in addition to the assessment of individual transactions.

#### (e) Quantitative Information on Market Risk

For the Akita Bank Group ("the Group"), key financial instruments influenced by interest rate risk—a major risk variable—are loans, bonds classified as other investment securities under investment securities, deposits, negotiable certificates of deposit, and interest rate swaps under derivative transactions. The Group uses the measure VaR to calculate changes in the economic value of these financial assets and financial liabilities, which facilitates quantitative analysis for controlling the risk of interest rate fluctuations.

To calculate the associated value impact of interest rate risk on revenues using VaR, the Group divides risk-prone financial assets and financial liabilities into fixed interest rate and floating interest rate groups, breaks down the balances into appropriate periods corresponding to respective interest due dates, and applies the variance-covariance method reflecting the correlation effect among risk factors (holding period: 40 days; confidence interval: 99%; observation period: 5 years) based on interest rate margins—the spread between lending and borrowing rates—for each period. As of March 31, 2013 and 2012, the Group's interest rate risk volume (estimated decrease in economic value) was ¥2,177 million (U.S.\$ 23,147 thousand) and ¥3,179 million, respectively.

Interest due dates on demand deposits subject to VaR measurement are sorted according to set periods, based on effective due dates estimated using internal models.

The Group also back test financial instruments with market value to compare actual losses at the end of the time horizon with model-derived VaR estimates in an effort to verify that the measurement models used to identify interest rate risk are suitably accurate. However, VaR measures interest rate risk at a certain degree of probability determined statistically based on past market movements, so the technique may be unable to identify risk when market conditions are uncharacteristically volatile.

#### (4) Supplemental Information Relating to Fair Market Values

Fair market values include prices at market as well as values reasonably estimated in case of no available quoted market price. Certain assumptions are used for the calculation of such amounts. Accordingly, the result of such calculations may vary if different assumptions are used.

## 2. FAIR MARKET VALUE OF FINANCIAL INSTRUMENTS

The amounts on the consolidated balance sheet, fair market values and differences as of March 31, 2013, are shown below. The securities for which market value is not calculable are excluded from the table.

As of March 31, 2013

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	Balance sheet	Fair market value	Difference	Balance sheet	Fair market value	Difference
(1) Cash and due from banks	¥ 203,952	¥ 203,952	¥ —	\$ 2,168,547	\$ 2,168,547	\$ —
(2) Call loans and bills bought	28,898	28,898	—	307,259	307,259	—
(3) Debt purchased	35,599	35,599	—	378,509	378,509	—
(4) Securities*1						
Held-to-maturity marketable bonds	595	629	34	6,329	6,692	363
Other securities	870,187	870,187	—	9,252,388	9,252,388	—
(5) Loans and bills discounted	1,434,031			15,247,541		
Allowance for doubtful accounts*1	(24,456)			(260,031)		
	1,409,575	1,441,286	31,711	14,987,510	15,324,684	337,174
Total assets	¥2,548,806	¥2,580,551	¥31,745	\$27,100,542	\$27,438,079	\$337,537
(1) Deposits	¥2,270,389	¥2,270,686	¥ 297	\$24,140,238	\$24,143,396	\$ 3,158
(2) Negotiable certificates of deposits	122,148	122,164	16	1,298,757	1,298,923	166
(3) Call moneys and bills sold	2,822	2,822	—	30,000	30,000	—
(4) Borrowed money	21,576	21,576	—	229,409	229,409	—
Total liabilities	¥2,416,935	¥2,417,248	¥ 313	\$25,698,404	\$25,701,728	\$ 3,324
Derivative transactions*2						
Not applying hedge accounting	¥ (215)	¥ (215)	¥ —	\$ (2,293)	\$ (2,293)	\$ —
Applying hedge accounting	(2,146)	(2,146)	—	(22,813)	(22,813)	—
Total derivative transactions	¥ (2,361)	¥ (2,361)	¥ —	\$ (25,106)	\$ (25,106)	\$ —

1 General reserve for possible loan losses, and allowances provided for the individual receivables are deducted. Reserve for investment losses relating to securities is deducted directly from balance amount because its amount is not significant.

2 Amounts include all derivative transactions that are included in Other assets and Other liabilities on balance sheets. Figures are net amounts and figures in parenthesis indicate negative amounts.

### Computation of fair market values of financial instruments, securities and derivative transactions

#### Assets

##### (1) Cash and due from banks

For deposits without maturity, the book values are deemed fair market value as the fair value amounts approximate such carrying amounts. The Bank does not hold deposits with maturity.

##### (2) Call loans and bills bought

Book values of call loans and bills bought are deemed fair market values as the majority of transactions have short contract terms (within three months).

##### (3) Debt purchased

With regard to commercial paper and other debt purchased, the value of beneficiary rights of housing loan credit trusts is determined based on the price quoted by the financial institutions from which these products are purchased. For other portion excluding beneficiary rights of housing loan credit trusts, book values are deemed fair market values as the majority of transactions are short contract terms (within three months).

##### (4) Securities

The fair value of equity securities is determined based on the price quoted by the relevant stock exchange and the fair value of bonds is determined based on the price quoted by the relevant stock exchange or the financial institutions from which they are purchased. The fair value of investment trusts is determined based on the publicly available price.

For privately placed guaranteed bonds which are categorized by internal credit rating and maturity, the fair value is calculated based on the future cash flows discounted by the market interest rate, after the deduction of credit risk equivalents. For privately placed guaranteed bonds from potentially bankrupt borrowers, the fair value is deemed to be an amount from which a certain allowance is deducted from the book value.

The market price of variable-rate Japanese government bonds cannot be regarded as the fair value because actual transactions are very few and because of the significant price gap between sell and buy sides during the fiscal year under review. The Bank has calculated the fair value at discretion of the management. Compared to the calculation by which market values are deemed fair values, both government bonds under "Securities," "Deferred tax liabilities" and "Net unrealized holding gain on other securities" increased by ¥314 million (U.S.\$3,340 thousand), ¥111million (U.S.\$1,182 thousand), and ¥202 million (U.S.\$2,158) thousand, respectively, as of March 31, 2013. There are no effects of the accounting on net income.

Please refer to Note 5 "Securities" as to notes regarding securities by objects held.

(5) Loans and bills discounted

For loans and bills discounted with floating interest rates, the book values are deemed fair values as the fair values approximate such carrying amounts because the market interest rate is reflected in the interest rate set within a short time period for such floating-rate loans and bills discounted.

Of loans and bills discounted with fixed interest rates, for normal borrowers and borrowers requiring caution, current value is calculated based on the future cash flows discounted by the market interest rate, after each loans is categorized by item, internal credit rating and maturity.

Future possible loan losses from potentially bankrupt, effectively bankrupt and bankrupt borrowers are estimated based on the collectible amounts from security and guarantees. And fair values are the amounts on the consolidated balance sheets at the fiscal-year end, from which estimated future possible loan losses have been deducted.

For loans and bills discounted without repayment term, which are within the limit of collateral, the book values are deemed fair values as the fair values approximate such carrying amounts based on the repayment period and interest rate terms, unless there are no changes on their credit condition.

### Liabilities

(1) Deposits and (2) negotiable certificates of deposits

For demand deposits, the amount payable on demand as of the consolidated balance sheet date (i.e., the book value) is considered to be the fair value. For time deposits and negotiable certificates of deposits, the fair value is calculated based on the future cash flows discounted by the interest rate applied on new deposits, after each deposits are categorized by product, and maturity.

(3) Call money and bills sold

Book values of call money and bills sold are deemed fair market values as the majority of transactions have short contract terms (within three months).

(4) Borrowed money

For floating-rate borrowings, the book values are deemed fair values as the fair values approximate such carrying amounts because the market interest rate is reflected in the interest rate set within a short time period for such floating-rate borrowings and because there has been no significant change in the Bank's or its consolidated subsidiaries' creditworthiness before and after such borrowings were made.

The book values of fixed rate borrowings are deemed fair values as there are no significant differences between consolidated balance sheet amounts and the fair values.

### Derivative transactions

Derivative products include interest rate transactions such as interest rate swaps, and currency transactions such as forward exchange contracts and currency options. The fair values are calculated based on the price posted by the relevant stock exchanges, the discounted present value or an amount calculated under the option price calculation model.

The following securities for which market value is not calculable are excluded from "2. Fair Market Value of Financial Instruments, (4) Other securities". Their book values as of March 31, 2013 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Non-listed stocks (*1, *2)	¥2,485	\$26,422
Other (*3)	32	336
Total	¥ 2,517	\$26,758

\*1. Non-listed stocks are not disclosed in the fair market value information in the above table (2. Fair Market Value of Financial Instruments ), because the market value is not calculable.

\*2. During the current consolidated fiscal year, impairment losses of unlisted shares amounted ¥1 million (U.S.\$6 thousand).

\*3. Other includes non-listed foreign stocks, and is not disclosed in the above table (2. Fair Market Value of Financial Instruments), because it is extremely difficult to estimate the fair value.

**Redemption schedules for monetary claims and securities with maturity dates as of March 31, 2013 were as follows:**

	Millions of yen					
	2013					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	¥169,385	¥ —	¥ —	¥ —	¥ —	¥ —
Call loans and bills bought	28,898	—	—	—	—	—
Debt purchased	32,189	—	—	—	—	3,410
Securities						
Securities held-to-maturity	—	—	—	—	595	—
Including:						
National government bonds	—	—	—	—	595	—
Other securities with maturity dates	93,789	202,652	254,688	81,637	159,721	14,597
Including:						
National government bonds	22,010	100,304	84,142	8,829	104,433	10,574
Local government bonds	35,187	25,416	44,908	5,324	—	3,049
Short-term corporate bonds	2,000	—	—	—	—	—
Corporate bonds	27,397	57,326	109,196	60,826	50,887	—
Loans and bills discounted (*1)	159,085	217,374	173,690	93,670	209,922	387,339
<b>Total</b>	<b>¥483,346</b>	<b>¥420,026</b>	<b>¥428,378</b>	<b>¥175,307</b>	<b>¥370,238</b>	<b>¥405,346</b>

\*1. The above loans and bills discounted excluded ¥56,543 million (U.S.\$601,205 thousand) of which the redemption is not expected such as loans for "Potentially Bankrupt", "Effectively Bankrupt" and "Bankrupt" borrowers, and ¥136,407 million (U.S.\$1,450,370 thousand) of which matured date is not determined.

	Thousands of U.S. dollars (Note 1)					
	2013					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due from 5 years to 7 years	Due from 7 years to 10 years	Due after 10 years
Due from banks	\$1,801,017	\$ —	\$ —	\$ —	\$ —	\$ —
Call loans and bills bought	307,259	—	—	—	—	—
Debt purchased	342,251	—	—	—	—	36,258
Securities						
Securities held-to-maturity	—	—	—	—	6,328	—
Including:						
National government bonds	—	—	—	—	6,328	—
Other securities with maturity dates	997,222	2,154,720	2,708,003	868,020	1,698,251	155,202
Including:						
National government bonds	234,020	1,066,502	894,657	93,877	1,110,404	112,430
Local government bonds	374,127	270,244	477,495	56,611	—	32,423
Short-term corporate bonds	21,263	—	—	—	—	—
Corporate bonds	291,306	609,532	1,161,047	646,736	541,066	—
Loans and bills discounted (*1)	1,691,495	2,311,264	1,846,786	995,957	2,232,026	4,118,438
<b>Total</b>	<b>\$5,139,244</b>	<b>\$4,465,984</b>	<b>\$4,554,789</b>	<b>\$1,863,977</b>	<b>\$3,936,605</b>	<b>\$4,309,898</b>

**Redemption schedules for borrowed money and interest-bearing debts as of March 31, 2013 were as follows:**

	Millions of yen			Thousands of U.S. dollars (Note 1)		
	2013					
	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years	Due in 1 year or less	Due from 1 year to 3 years	Due from 3 years to 5 years
Deposits (*1)	¥2,082,229	¥63,950	¥15,587	\$22,139,600	\$679,956	\$165,732
Negotiable certificates of deposits	122,148	—	—	1,298,757	—	—
Call moneys and bills sold	2,822	—	—	30,000	—	—
Borrowed money	19,290	1,786	500	205,104	18,989	5,316
<b>Total</b>	<b>¥2,226,489</b>	<b>¥65,736</b>	<b>¥16,087</b>	<b>\$23,673,461</b>	<b>\$698,945</b>	<b>\$171,048</b>

\*1. Of deposits, demand deposits are included in the "1 year or less". Cumulative time deposits of ¥108,623 million (U.S.\$1,154,951 thousand) are not included in the above table.

### 31. Derivative Financial Instruments Transaction

#### (a) Derivative Transactions Which Do Not Apply Hedge Accounting

Contract amounts, fair value and valuation gains/losses of derivatives outstanding as of March 31, 2013 and 2012 were as follow:

##### (1) Interest Rate Related Transactions (over the counter)

As of March 31	Millions of yen			
	2013			
	Contract amounts	Due after one year	Fair value	Gain/losses
Interest rate swaps				
Receipts floating				
payment fixed	¥10,000	¥5,000	¥(71)	¥(71)
Total	—	—	¥(71)	¥(71)

As of March 31	Millions of yen			
	2012			
	Contract amounts	Due after one year	Fair value	Gain/losses
Interest rate swaps				
Receipts floating				
payment fixed	¥15,000	¥10,000	¥(158)	¥(158)
Total	—	—	¥(158)	¥(158)

As of March 31	Thousands of U.S. dollars (Note 1)			
	2013			
	Contract amounts	Due after one year	Fair value	Gain/losses
Interest rate swaps				
Receipts floating				
payment fixed	\$106,326	\$53,163	\$(754)	\$(754)
Total	—	—	\$(754)	\$(754)

Changes in fair value of the above interest related derivatives are recognized through the consolidated statements of income. Fair value over the counter is calculated at discounted present value.

##### (2) Foreign Exchange Related Transactions (over the counter)

As of March 31	Millions of yen			
	2013			
	Contract amounts total	Due after one year	Fair value	Gain/losses
Forward exchange contracts:				
Sold	¥344	¥—	¥ (57)	¥ (57)
Purchased	212	—	32	32
Currency options:				
Sold	¥252	¥—	¥(168)	¥(168)
Purchased	210	—	48	48
Total	—	—	¥(145)	¥(145)

As of March 31	Millions of yen			
	2012			
	Contract amounts total	Due after one year	Fair value	Gain/losses
Forward exchange contracts:				
Sold	¥482	¥—	¥(11)	¥(11)
Purchased	381	—	10	10
Currency options:				
Sold	¥229	¥—	¥(42)	¥(42)
Purchased	199	—	18	18
Total	—	—	¥(25)	¥(25)

As of March 31	Thousands of U.S. dollar (Note 1)			
	2013			
	Contract amounts total	Due after one year	Fair value	Gain/losses
Forward exchange contracts:				
Sold	\$3,659	\$—	\$ (601)	\$ (601)
Purchased	2,252	—	345	345
Currency options:				
Sold	\$2,675	\$—	\$(1,790)	\$(1,790)
Purchased	2,238	—	507	507
Total	—	—	\$(1,539)	\$(1,539)

Changes in fair value of the above foreign exchange related derivatives are recognized through the consolidated statements of income. Fair value is calculated at discounted present value or by option price computation model.



## (b) Derivative Transactions Which Apply Hedge Accounting

Contract amounts, and fair value of derivatives outstanding as of March 31, 2013 and 2012 were as follow:

### (1) Interest Rate Related Transactions

As of March 31	Millions of yen			
	2013			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Interest rate swaps	Loans and bills			
Receipts floating	discounted	¥31,000	¥31,000	¥(1,470)
payment fixed	and securities			
<b>Total</b>		—	—	¥(1,470)

As of March 31	Millions of yen			
	2012			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Interest rate swaps	Loans and			
Receipts floating	bills dis-	¥28,000	¥21,000	¥(1,454)
payment fixed	counted			
<b>Total</b>		—	—	¥(1,454)

As of March 31	Thousands of U.S. dollars (Note 1)			
	2013			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Interest rate swaps	Loans and bills			
Receipts floating	discounted	\$329,612	\$329,612	\$(15,628)
payment fixed	and securities			
<b>Total</b>		—	—	\$(15,628)

Fair value is calculated at discounted present value or by other method.

### (2) Foreign Exchange Related Transactions

As of March 31	Millions of yen			
	2013			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Currency swap	Foreign exchange	¥33,369	¥19,826	¥ 48
Forward exchange contracts	Call loans	21,489	—	(724)
<b>Total</b>		—	—	¥(676)

As of March 31	Millions of yen			
	2012			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Currency swap	Foreign exchange	¥29,161	¥29,161	¥ 63
Forward exchange contracts	Call loans	3,852	—	(263)
<b>Total</b>		—	—	¥(200)

As of March 31	Thousands of U.S. dollars (Note 1)			
	2013			
	Hedging Targets	Contract amounts	Due after one year	Fair value
Currency swap	Foreign exchange	\$354,800	\$210,800	\$ 514
Forward exchange contracts	Call loans	228,487	—	(7,700)
<b>Total</b>		—	—	\$(7,186)

Fair value is calculated at discounted present value or by other method.

## 32. Common Stock

The number of the Bank's authorized shares was 687,455,000 both as of March 31, 2013 and 2012.

The number of shares in issue was 193,936,439 both as of March 31, 2013 and 2012.

The number of treasury shares held by the Bank, not including shares held by the trust of Employee Stock Ownership Plan was 2,657 thousand and 1,662 thousand as of March 31, 2013 and 2012, respectively.

### 33. Stock Option Rights

#### (a) Expenses on stock option plan

Expenses on stock option plan amounted to ¥14 million (U.S.\$ 146 thousand) and ¥15 million, included in general and administrative expenses for the years ended March 31, 2013 and 2012, respectively.

#### (b) Details of stock option

The details of stock option plan adopted in 2012, 2011, 2010 and 2009 are as follows:

	2009	2010	2011	2012
Title and number of recipients	Full-time nine directors	Full-time ten directors	Full-time nine directors	Full-time eight directors
Number of stock options	42,200 shares of common stock	52,300 shares of common stock	68,500 shares of common stock	65,600 shares of common stock
Grant date	July 31, 2009	July 30, 2010	July 29, 2011	July 31, 2012
Conditions of exercise	None	None	None	None
Defined working period	None	None	None	None
Exercise period	August 1, 2009 to July 31, 2039	July 31, 2010 to July 30, 2040	July 30, 2011 to July 29, 2041	August 1, 2012 to July 31, 2042
Remaining stock option	26,500 shares	35,000 shares	59,300 shares	65,600 shares
Stock issue price	¥1 per share	¥1 per share	¥1 per share	¥1 per share
Fair value at grant date*	¥334 per share	¥268 per share	¥222 per share	¥209 per share

\* Fair value at grant date was measured based on dividend-adjusting type of Black-Scholes Option Pricing Model.

### 34. Retained Earnings

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

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

### 35. Cash and Cash Equivalents

Reconciliation between cash and due from banks in the consolidated balance sheets, and cash and cash equivalents in the statements of cash flows at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash and due from banks	¥203,952	¥130,718	\$2,168,547
Due from banks without interest	(100)	(137)	(1,060)
Ordinary due from banks	(309)	(517)	(3,288)
Due from banks with term	(60,000)	—	(637,959)
Other	(889)	(926)	(9,447)
Cash and cash equivalents	¥142,654	¥129,138	\$1,516,793

### 36. Segment Information

#### (a) Outline of reportable segment

A reportable segment is a component of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance.

The Group offers total financial services mainly through operating branches with a philosophy that seeks to contribute to regional prosperity. Reportable segments are composed of banking business, leasing business and other businesses including guarantee and credit card.

#### (b) Computation of net sales, income (or loss), assets, liabilities and other items by reporting segment

Accounting procedures applied to operating segments are equal to those applied to preparation of consolidated financial statements. As described in Note 3 (d), the Bank and consolidated subsidiaries apply the revised depreciation method to premises and equipment acquired after April 1, 2012. An effect of the change to net income was negligible.

Ordinary income from intersegment transactions is measured on the assumption of arm's length transaction.

Ordinary income and ordinary profit of reportable segments do not include extraordinary income (or losses).

**(c) Ordinary income, ordinary profit, assets, liabilities and other items by reportable segment for the years ended March 31, 2013 and 2012**

Year ended March 31, 2013	Millions of yen					
	Reportable segment				Adjustment	Consolidated financial statements
	Banking	Leasing	Other	Total		
Ordinary income						
External customers	¥ 45,445	¥ 5,097	¥1,112	¥ 51,654	¥ —	¥ 51,654
Intersegment	119	187	891	1,197	(1,197)	—
Total	45,564	5,284	2,003	52,851	(1,197)	51,654
Ordinary profit	6,119	203	618	6,940	(49)	6,891
Segment assets	2,594,332	12,844	8,645	2,615,821	(12,986)	2,602,835
Segment liabilities	2,454,206	9,368	3,931	2,467,505	(12,055)	2,455,450
Other items:						
Depreciation and amortization	1,870	21	8	1,899	—	1,899
Interest income	33,035	6	206	33,247	(92)	33,155
Interest expenses	2,594	80	3	2,677	(44)	2,633
Extraordinary income	15	0	—	15	—	15
(Gain on disposition of premises and equipment)	15	0	—	15	—	15
Extraordinary losses	403	0	0	403	—	403
(Impairment losses)	225	—	—	225	—	225
Income taxes	2,301	80	152	2,533	—	2,533
Increase in premises & equipment and intangibles	1,995	9	12	2,016	(2)	2,014

Year ended March 31, 2012	Millions of yen					
	Reportable segment				Adjustment	Consolidated financial statements
	Banking	Leasing	Other	Total		
Ordinary income						
External customers	¥ 43,764	¥ 5,528	¥1,608	¥ 50,900	¥ —	¥ 50,900
Intersegment	95	185	660	940	(940)	—
Total	43,859	5,713	2,268	51,840	(940)	50,900
Ordinary profit	7,088	513	643	8,244	(13)	8,231
Segment assets	2,589,639	12,282	8,788	2,610,709	(11,868)	2,598,841
Segment liabilities	2,460,586	9,000	4,517	2,474,103	(10,927)	2,463,176
Other items:						
Depreciation and amortization	2,144	30	9	2,183	—	2,183
Interest income	34,718	8	265	34,991	(59)	34,932
Interest expenses	3,041	92	10	3,143	(53)	3,090
Extraordinary income	10	—	—	10	—	10
(Gain on disposition of premises and equipment)	10	—	—	10	—	10
Extraordinary losses	347	0	1	348	—	348
(Impairment losses)	209	—	—	209	—	209
Income taxes	3,403	219	213	3,835	(3)	3,832
Increase in premises & equipment and intangibles	2,349	10	2	2,361	2	2,363

Thousands of U.S.dollars (Note 1)

Year ended March 31, 2013	Reportable segment				Adjustment	Consolidated financial statements
	Banking	Leasing	Other	Total		
Ordinary income						
External customers	\$ 483,198	\$ 54,193	\$ 11,825	\$ 549,216	\$ —	\$ 549,216
Intersegment	1,262	1,993	9,471	12,726	(12,726)	—
Total	484,460	56,186	21,296	561,942	(12,726)	549,216
Ordinary profit	65,057	2,157	6,571	73,786	(512)	73,274
Segment assets	27,584,601	136,569	91,924	27,813,094	(138,085)	27,675,009
Segment liabilities	26,094,691	99,611	41,799	26,236,101	(128,181)	26,107,920
Other items:						
Depreciation and amortization	19,883	219	86	20,188	—	20,188
Interest income	351,247	66	2,193	353,506	(981)	352,525
Interest expenses	27,578	851	39	28,468	(468)	28,000
Extraordinary income	155	1	—	155	—	155
(Gain on disposition of premises and equipment)	155	1	—	155	—	155
Extraordinary losses	4,285	0	1	4,286	—	4,286
(Impairment losses)	2,394	—	—	2,394	—	2,394
Income taxes	24,460	854	1,616	26,930	—	26,930
Increase in premises & equipment and intangibles	21,210	90	132	21,432	(17)	21,415

### 37. Related Party Transactions

Related party transactions for the years ended March 31, 2013 and 2012 and related information were as follows:

Related party	Category	Account Classification	Amounts of the transactions			Balance at end of year		
			Millions of yen		Thousands of U.S. dollars (Note 1)	Millions of yen		Thousands of U.S. dollars (Note 1)
			2013	2012	2013	2013	2012	2013
Yasuhiko Watanabe	Director	Loan	¥—	¥—	\$—	¥26	¥29	\$274
Kiichiro Nishimura	Statutory Auditor	Loan	¥—	¥—	\$—	¥34	¥—	\$360
Yukihiko Nishimura	Executive Director	Loan	¥—	¥—	\$—	¥53	¥—	\$558

The conditions of the above transactions were same as arm-length transactions.

### 38. Per Share Information

Consolidated net assets and income per share and related information for the years ended March 31, 2013 and 2012 were as follows:

	Yen		U.S. dollars (Note 1)
	2013	2012	2013
Net assets per share	¥750.12	¥689.39	\$7.976
Net income per share	19.88	19.73	0.211

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net income	¥ 3,758	¥ 3,756	\$39,958
Net income not attributable to common stock holders	—	—	—
Net income attributable to common stockholders	3,758	3,756	39,958
Average number of common stock (thousand shares)	189,005	190,317	—

### 39. Subsequent Event

The following appropriation of retained earnings applicable to the year ended March 31, 2013 was approved at the stockholders' meeting of the Bank held on June 27, 2013.

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends (Three yen per share)	¥568	\$6,037

# ANNUAL REPORT

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