



Annual Report 2006

Year ended March 31, 2006



Profile

Established in 1934, the Nanto Bank is based in Nara Prefecture, a region rich in tradition and culture dating back to its emergence as Japan's first capital. The Bank has achieved steady growth in step with its region and continues to maintain a sound financial structure. At the end of March 2006, it had deposits of ¥3,907.1 billion, loans of ¥2,557.1 billion and total assets of ¥4,682.1 billion.

In addition to Nara Prefecture, the Nanto Bank's domestic network of 126 branches also covers the neighboring prefectures of Osaka, Kyoto, Mie and Wakayama, as well as the Kinki Region and Tokyo. The Bank has earned the trust and support of regional communities through its commitment to regionally focused services crafted to meet the needs of local customers. The Nanto Bank actively contributes to regional economic development by maintaining a comprehensive range of financial capabilities. It has strengthened its ability to provide overseas services by opening representative offices in Hong Kong and Shanghai.



Contents

- 1 Consolidated Financial Highlights
- 2 Message from the President
- 4 Sustained Progress under the Medium-term Management Plan
- 8 Maintaining and Enhancing Our Sound Management Structure
- 15 Board of Directors and Corporate Auditors
- 16 Consolidated Financial Review
- 18 Consolidated Financial Statements
- 32 Independent Auditors' Report
- 33 Capital Management
- 34 Organization, Group Network
- 35 Affiliates and Subsidiaries, Bank Data



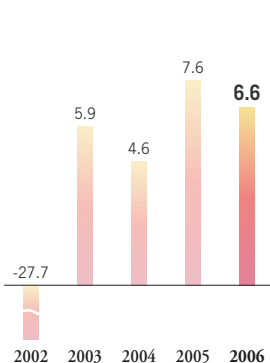
Consolidated Financial Highlights



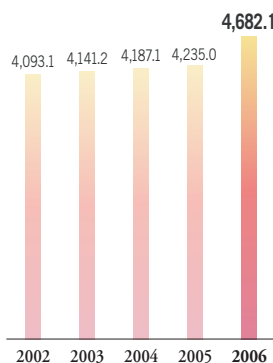
	Millions of yen					Thousands of U.S. dollars
	2006	2005	2004	2003	2002	2006
For the year:						
Total income	¥ 113,469	¥ 102,044	¥ 97,254	¥ 112,769	¥ 96,293	\$ 965,940
Total expenses	100,047	86,673	82,815	98,854	142,937	851,681
Income (loss) before income taxes	13,421	15,370	14,439	13,915	(46,644)	114,250
Net income (loss)	6,603	7,635	4,652	5,906	(27,709)	56,210
At year-end:						
Total assets	4,682,120	4,235,045	4,187,141	4,141,238	4,093,107	39,858,006
Loans and bills discounted	2,557,111	2,477,252	2,434,690	2,390,489	2,344,783	21,768,204
Securities	1,841,584	1,470,078	1,389,656	1,349,011	1,349,295	15,677,057
Deposits and negotiable certificates of deposit	3,907,132	3,801,923	3,770,888	3,770,886	3,667,841	33,260,679
Total liabilities	4,481,239	4,041,167	3,996,081	3,968,507	3,925,710	38,147,944
Minority interests	4,784	4,621	4,196	4,322	4,255	40,725
Total stockholders' equity	196,096	189,256	186,863	168,407	163,141	1,669,328
Common stock	29,249	29,249	29,249	29,249	27,586	248,991
Per share data:						
	Yen					U.S. dollars
Net income (loss)	¥ 23.80	¥ 27.36	¥ 16.65	¥ 21.67	¥(102.76)	\$0.20
Stockholders' equity	706.99	682.00	669.12	602.89	597.99	6.01
Capital adequacy ratio (%)	10.02	9.48	9.51	9.41	9.04	

Note: U.S.dollar amounts are included solely for the convenience of readers and are calculated at the exchange rate of ¥117.47 to US\$1.00, the rate prevailing on March 31, 2006.

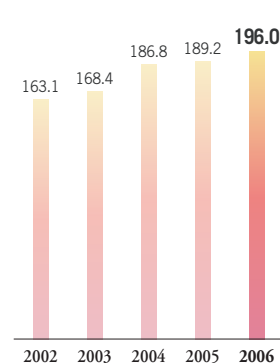
Net Income
(Billions of yen)



Total Assets
(Billions of yen)



Total Stockholders' Equity
(Billions of yen)



Message from the President



We have further strengthened our business strategies as we work toward the goals set down in our medium-term management plan. We are also determined to fulfill our social responsibilities and public mission through a wide array of regionally focused activities.

Hironune Nishiguchi
President

OUR BUSINESS ENVIRONMENT

The Japanese economy continued to recover in the year ended March 2006. There were also encouraging signs for the economy of the region centered on Nara Prefecture, including an upward trend in consumer spending, though the earnings of regional industries remained under pressure from rising prices for crude oil and raw materials. Other trends with the potential to stimulate regional economic activity included increases in housing construction and the establishment of commercial facilities.

A key event that influenced business conditions for financial institutions was the Bank of Japan's decision, in March 2006, to lift its policy of quantitative easing for the first time in five years. This change was the first step toward the normalization of financial policy in Japan. Another feature of our business environment was the continuing escalation of competition among financial institutions in different industry segments as a result of deregulation.

In April 2005, we launched a new medium-term management plan defining our business strategies for the next three years. Our entire organization is working to achieve the basic goal of this plan, which is to raise our corporate value through growth in partnership with our customers.

We made good progress under this plan in fiscal 2005 (the year ended March 31, 2006). There was sustained growth in both deposits and loans, and our sales of investment trusts and personal pension insurance were above target. In fiscal 2006, the second year of the plan, we will continue to implement

measures and build infrastructure to support our progress toward the achievement of our targets.

PROGRESSING TOWARD OUR TARGETS UNDER THE MEDIUM-TERM MANAGEMENT PLAN

The Nanto Bank is currently implementing a range of measures based on our medium-term management plan, which has as its goal the improvement of corporate value through growth in partnership with our customers. As competition among financial institutions intensifies, we aim to maximize our corporate value and achieve growth in partnership with our customers by implementing new business strategies designed from customer perspectives, and by building relationships of trust with all stakeholders including regional communities, customers and stockholders.

Our basic policy goals under the medium-term management plan are to strengthen our earning power, raise customer satisfaction, strengthen segment marketing systems, enhance internal management systems and develop specialized, dynamic human resources with solution skills.

We are working to strengthen our earning power by increasing our assets on deposit and enhancing the investment capabilities of our treasury units. Our policies on loans and assets on deposit reflect the market characteristics of our business area. In Nara Prefecture, where we have a solid business base and a market share of around 50% for both deposits and loans, we are focusing on assets on deposit and personal

loans. In other prefectures, especially Osaka, our growth scenario emphasizes business finance as well as personal loans.

A top priority in relation to the enhancement of internal management systems is the development of information management systems. This was an early focus of our efforts, and in April 2005, we established a specialist unit, the Information Management Coordination Office, within the General Planning Division. In June, we made further changes to our headquarters' organization, including the restructuring of the General Planning Division and the establishment of the Compliance and Risk Management Division. By separating planning from management in this way, we have created a structure that will allow greater specialization in both areas.

We also strengthened our housing loan promotion systems by moving the Housing Loan Center from the Credit Analysis Division to the General Business Division. As a result of this change, the Housing Loan Center is now more clearly positioned as a promotional unit, and we have created a more effective base for the expansion of our housing loan business.

REGION-FOCUSED RELATIONSHIP BANKING PROMOTION PLAN

In 2005, the Financial Services Agency (FSA) announced the Action Program to Promote Further Enhancement of Region-Based Relationship Banking Functions. The Nanto Bank responded to this measure by formulating its own two-year plan to promote region-focused relationship banking. We have already implemented a range of dynamic initiatives to contribute to the regional community as the leading regional bank under a previous program (fiscal 2003–2004) designed to strengthen our relationship banking functions. Our current Region-Focused Relationship Banking Promotion Plan reflects our perception that we can contribute to regional economic revitalization and development, as a regional financial institution, by continuing initiatives based on our medium-term management plan. Based on this perception, we have adopted numerical targets that we regard as especially important in relation to regional economic development. We aim to achieve these targets by the end of March 2007. One of those targets is

the maintenance of a 50% share of lending in Nara Prefecture. This reflects our traditional commitment to region-focused relationship banking. As the leading bank in our region, we are determined to contribute to regional revitalization.

Our other priority initiatives are the facilitation of business restructuring finance and lending to small and medium enterprises, the improvement of management skills and an increase in convenience for regional customers. We have set specific numerical targets and policies for each of these items, and we are working actively to reach these targets.

CORPORATE SOCIAL RESPONSIBILITY

In recent years, there has been growing interest in the concept of corporate social responsibility (CSR). We believe that we are fulfilling our social responsibilities as a regional financial institution through our efforts to supply funds to our region and through our support for the development and restructuring of regional businesses. Compliance is also an essential facet of CSR, and we are building robust systems to ensure full compliance with all laws and regulations. As a corporate citizen, we are working to achieve harmonious coexistence and shared prosperity with regional communities through environmental initiatives and wide-ranging regional contribution activities.

Our fundamental aim in all of these activities is to build good relationships with all stakeholders. Throughout its history, the Nanto Bank has worked to earn a reputation for reliability. We are determined to maintain and strengthen this reputation as a trusted bank with strong growth potential.



Hironune Nishiguchi
President



Sustained Progress under the Medium-term Management Plan

Value Up NANTO

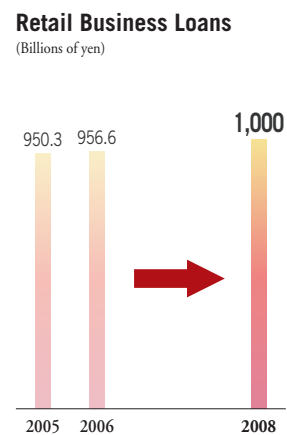
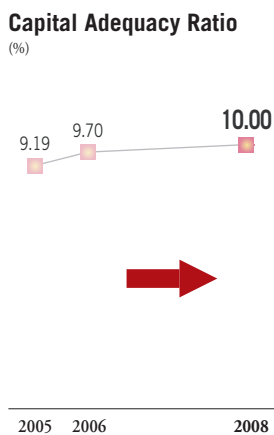
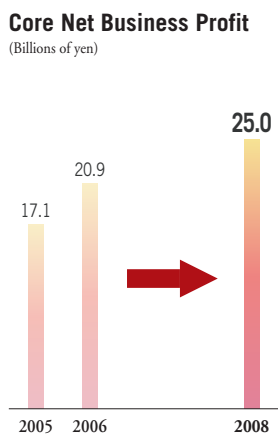
CORPORATE PHILOSOPHY

1. Pursuing sound and efficient management
2. Providing superior comprehensive financial services
3. Contributing to regional prosperity
4. Striving to become a highly reliable, friendly and attractive bank

THE MEDIUM-TERM MANAGEMENT PLAN (April 2005 to March 2008)

THEME	<h2>Value Up NANTO</h2> <p>New Growth Together with Customers</p>	PRIORITY STRATEGY	<ol style="list-style-type: none"> 1. Increase marketing power at the business unit level 2. Enhance and upgrade internal control systems 3. Develop personnel with solution skills, specialized expertise and the ability to act
BASIC POLICY	<ol style="list-style-type: none"> 1. Increase profitability 2. Enhance customer satisfaction 		
AWARENESS OF THE BUSINESS ENVIRONMENT	<ul style="list-style-type: none"> • Financial reform program (Fiscal 2005 to 2006) • Complete abolition of the full guarantee on bank deposits (April 2005) • Advancement of deregulation • Response to institutional reform <ul style="list-style-type: none"> • Adoption of fixed asset impairment accounting (Fiscal 2005) • Application of the new BIS regulation (March 2007) • Full-scale enforcement of the Personal Information Protection Law (April 2005) 		

TARGETS OF THE MEDIUM-TERM MANAGEMENT PLAN (NON-CONSOLIDATED)



Overview

STRATEGIC AREA DEVELOPMENT

The vast markets of Osaka Prefecture and Kyoto Prefecture, which are adjacent to Nara Prefecture, are a strategic focus for the Nanto Bank. Since 2000, we have actively invested strategic resources in these markets, including the establishment of Corporate Banking Offices and Personal Loan Promotion Teams. In fiscal 2005, we created the Shin-Osaka Corporate Banking Office as a focus for continuing efforts to attract corporate business. The highly successful Sakai Corporate Banking Office was upgraded as the Sakai Branch. The Shin-Osaka Corporate Banking Office will also become a full branch in August 2006. We have also strengthened our promotional activities in the area of personal lending. In February 2006, we established the Osaka Housing Loan Center and brought the existing Personal Loan Promotion Team within its organization.

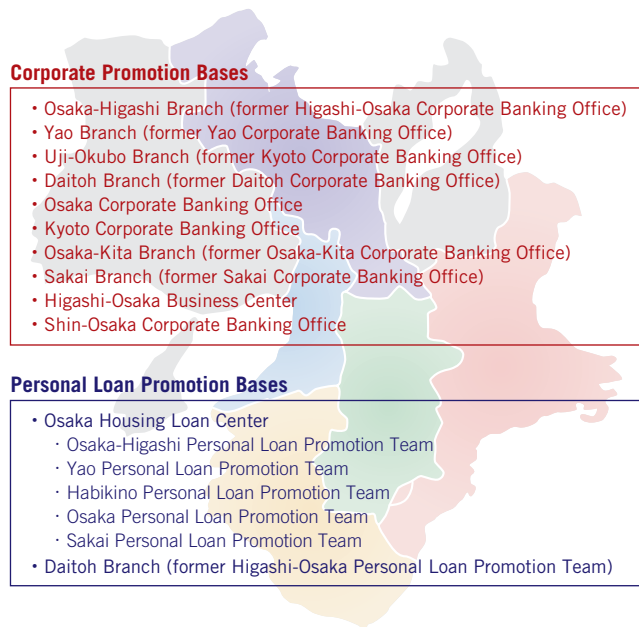
In addition to the deployment of strategic resources outside of Nara Prefecture, the attainment of the targets set down in our medium-term management plan will require the maintenance of high market shares within Nara Prefecture. For this reason, we are strengthening our marketing resources and restructuring our marketing organization in Nara Prefecture.

We have strengthened our activities in the area of business lending by linking headquarters and branch operations to create a structure capable of monitoring the increasingly

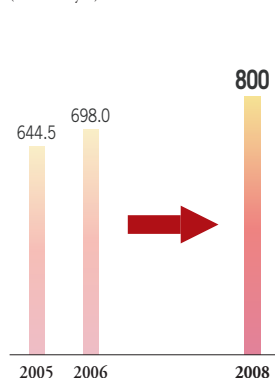
diverse financial needs of our customers and offering effective solutions to those needs.

In the personal loan category, we have increased the number of Housing Loan Centers in Nara Prefecture from four to seven. To make access to our services quicker and more convenient, we have also introduced Saturday opening at all Housing Loan Centers.

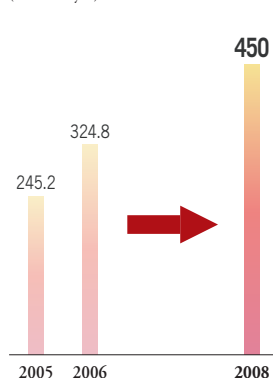
Workforce Placement in Osaka and Kyoto



Personal Loans
(Billions of yen)



Assets on Deposit
(Billions of yen)



Comprehensive Support for Local Customers

REGION-FOCUSED RELATIONSHIP BANKING PROMOTION PLAN

The Nanto Bank formulated a two-year plan to promote regionally focused relationship banking in fiscal 2005 and 2006. Under this plan, we have adopted numerical targets that we regard as especially important to regional economic development, and we are working to attain these targets by the end of March 2007. The commitment to maintaining a 50% share of lending in Nara Prefecture reflects our traditional commitment as a financial institution with strong regional links. It also signals our determination to make a continuing contribution to regional revitalization as the leading bank in the region. Measures based on this plan were implemented on schedule in fiscal 2005, and we were able to achieve our targets for the year. By the end of March 2006, we had achieved our March 2007 targets for both our share of lending in Nara Prefecture and for the percentage of borrowers classified as “requiring caution,” who had been upgraded to an improved status, and there was a sustained improvement in our capital adequacy ratio and Tier I ratio. We will further strengthen our efforts to promote regionally focused relationship banking in the current year by implementing measures designed to contribute to regional revitalization.

STRENGTHENING CORPORATE SUPPORT SYSTEMS

We believe that we can contribute to regional revitalization by

helping regional businesses to overcome their problems and achieve new growth and progress. For this reason, we are further strengthening our support systems.

The Venture Business Support Office actively helps to foster businesses, and this includes support for the establishment of new venture businesses. Other initiatives to expand business opportunities for customers include business matching fairs.

The Asia Business Support Team helps local businesses to expand into overseas markets. In December 2005, the Nanto Bank opened the Shanghai Representative Office. Together with the Hong Kong Representative Office, this new unit will further enhance our ability to provide support to our customers.

The Corporate Solution Team responds to the needs of customers with highly sophisticated financial requirements. It uses advanced financing schemes, such as syndicated loans and derivatives.

The Corporate Finance Support Office was established to assist corporate customers whose financial position has been adversely affected by the prolonged stagnation of the regional economy. It helps companies in this position improve their business structures by working with them to strengthen their financial positions. Services include the drafting of business

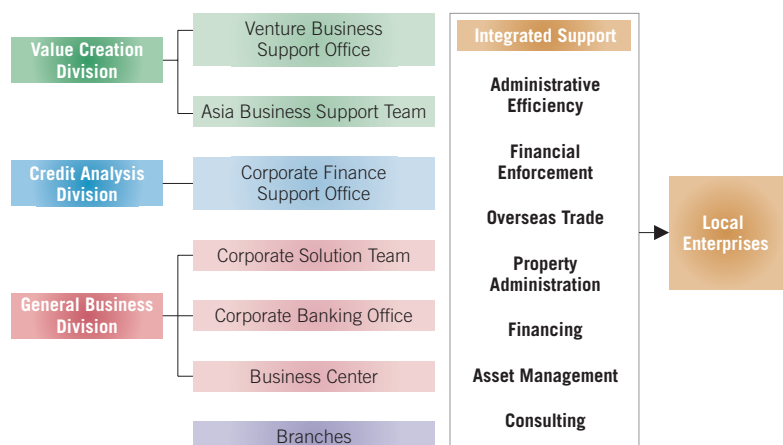
Progress toward Numerical Targets

(%)

	Target (Year Ending March 2007)	Actual (Year Ending March 2006)
Share of lending in Nara Prefecture*	50	50.26
Percentage of caution-required borrowers upgraded	20	20.50
Capital adequacy ratio	10	9.70
Tier I ratio	8.5	8.16

* This is the share of lending by banks and by shinkin banks based in Nara Prefecture (excluding agricultural cooperatives and workers' credit unions, etc.)

Corporate Support Organization



improvement plans, and the proposal of financing methods based on innovative schemes.

SUPPORT FOR TOURISM DEVELOPMENT

Nara Prefecture, where the Nanto Bank has its headquarters, boasts three World Heritage sites and is one of Japan's leading tourist destinations. Established in 2004, the Nanto Bank's Tourism Planning Center organizes a wide range of activities, including tourism seminars and information sharing with the municipal tourism-related organizations in Nara Prefecture. In 2010, Nara Prefecture will celebrate the 1,300th anniversary of the transfer of Japan's capital to Nara (then known as Heijokyo). Interest in tourism is intensifying in the run-up to this historical milestone. The Nanto Bank is supporting tourism development activities by coordinating the efforts of the government, businesses and other organizations.

EXPANDING ASSETS ON DEPOSIT

The Nanto Bank's dynamic marketing response to the changing asset management needs of its customers has included the enhancement and expansion of its range of investment trust products. Sales of investment trusts and personal annuity insurance exceeded our forecasts in fiscal 2005, and we will continue to intensify our efforts to market these products as a key source of fee income.

INTRODUCTION OF IC CASH CARDS

In December 2005, we introduced ATMs equipped with palm vein authentication systems. We also began to process transactions using smart cards. These new technologies are designed to prevent fraudulent use of forged or stolen cash cards. The customer response has been very positive. By July 1, 2006, we had installed a total of 167 smart card-specified ATMs. These machines are located in all branches and at key non-branch locations.

OUR GROWING ATM NETWORK

The Nanto Bank has installed ATMs in major railway stations in Nara Prefecture, Osaka Prefecture and Kyoto Prefecture. As of July 2006, ATMs are available in a total of 21 stations. In addition to ATMs in stations, Nanto Bank customers also have access at convenience stores through E-net ATMs, of which there are 47 in Nara Prefecture and over 6,200 nationwide. Under a new arrangement with Seven Bank, Ltd., Nanto Bank customers will also be able to use that bank's nationwide network of approximately 11,300 ATMs from October 2006. The Nanto Bank will continue to enhance its customer services by installing more ATMs in stations, commercial facilities and other non-branch locations.

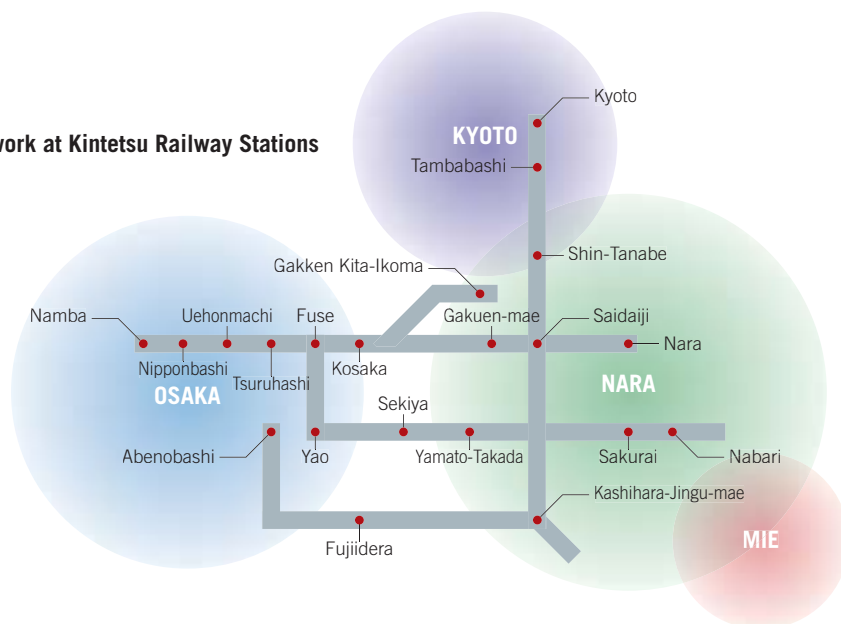


ATM equipped with a palm vein authentication system



A cash card adapted to the new palm vein authentication system

ATM Network at Kintetsu Railway Stations



Maintaining and Enhancing Our Sound Management Structure

CORPORATE GOVERNANCE

Our most important management priorities are to earn and maintain the trust of all stakeholders, including our customers and stockholders, by further raising our standards of management transparency and efficiency to strengthen our corporate governance and to justify the trust and expectations of stakeholders by continually improving our corporate value.

Policies Concerning Business Operations

In addition to its regular meetings, the Nanto Bank's 15-member Board of Directors also holds special meetings to discuss important management matters. This flexible approach ensures that management is able to make important business-related decisions promptly and appropriately. Several committees have been established to support management in the appropriate performance of the Bank's increasingly diverse and sophisticated business operations.

Policies Concerning Corporate Auditors and the Board of Corporate Auditors

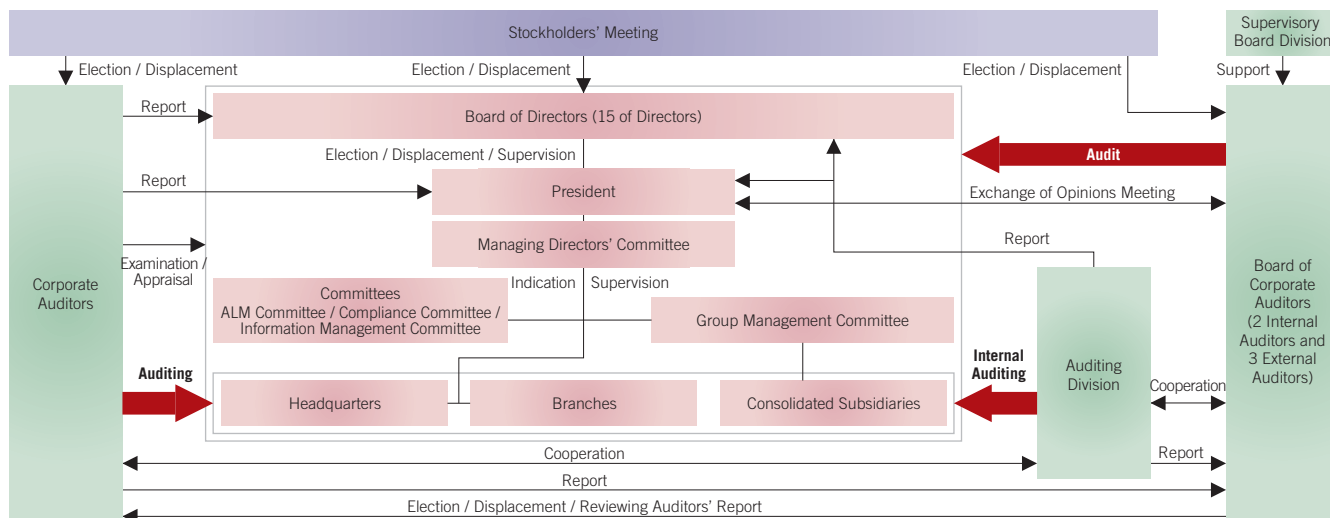
The Nanto Bank is structured as a company with corporate auditors. To ensure a high standard of independence, there

are three external corporate auditors in addition to the two internal corporate auditors, who are full-time officers with a detailed knowledge of the Bank's operations. The five auditors combine their respective abilities to maximize the effectiveness of audits conducted by the corporate auditors and the Board of Corporate Auditors. The corporate auditors also effectively monitor and supervise the activities of the Board of Directors by exchanging views with directors and representative directors, by attending meetings of senior directors and various committees and putting forward their views. Through these activities, the corporate auditors help to ensure that management decisions are made fairly and in accordance with the law. The external corporate auditors have no personal, capital or business relationships with the Nanto Bank.

Development of Internal Control Systems

The Nanto Bank's basic policies on the development of internal control systems are based on resolutions made by the Board of Directors in accordance with the Corporation Law and the Corporation Law Enforcement Regulations. The following systems have been established to ensure that operations are conducted appropriately.

Corporate Governance Structure (As of July 1, 2006)



COMPLIANCE STRUCTURE

Compliance is a fundamental management priority for the Nanto Bank. We have earned the trust of our customers, stockholders and regional communities, and we are working to consolidate our reputation for dependability through the following initiatives.

Reinforcement of Compliance Structure

Basic compliance policies and programs are formulated by the Compliance Committee, which is chaired by the President. The Compliance Committee deliberates and makes decisions on important matters relating to the development and reinforcement of the Bank's compliance structure. Compliance-related activities are coordinated by the Compliance and Risk Management Division. In addition, a compliance officer is appointed to each unit of the Bank's organization to maintain a high standard of compliance.

Compliance Training

In addition to specialized training for compliance officers, compliance-related content is also included in group training for employees at each level of seniority. All units of the Nanto

Bank's organization also hold regular compliance seminars to raise employees' awareness.

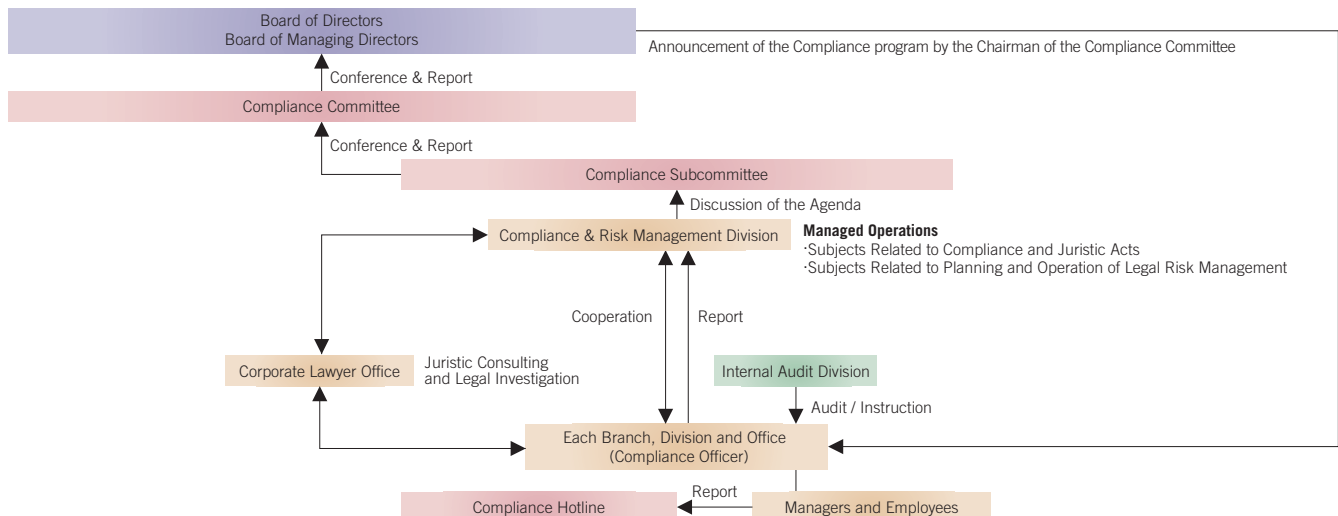
Compliance Handbook

The Compliance Handbook contains the Nanto Bank Code of Conduct, which stipulates the required standard of behavior for all members of the Bank's organization. It also provides detailed information about the various laws and regulations that govern banking operations. The Compliance Handbook was recently updated to reflect changes in the legislative environment for financial institutions. The revised version was distributed to all employees and executives in April 2005 and is now being used to raise awareness of the importance of compliance.

Legal Risk Management

Legal risk is the possibility of incurring loss in the course of business operations as a result of violations of the law or inadequate knowledge of legal requirements. The Nanto Bank works to prevent or reduce legal risks by means of legal checks carried out by its managers or outside professionals, such as legal advisors.

Compliance Structure (As of July 1, 2006)



RISK MANAGEMENT SYSTEM

The deregulation and internationalization of the banking sector and the development of derivatives and other forms of sophisticated financial technology have been accompanied by a broadening of the scope of banking services and activities and by an increase in the complexity and diversity of the risks that confront banks. The Nanto Bank regards risk management as a fundamental management priority in this environment and is working to strengthen its systems in this area.

From an organizational perspective, we have assigned responsibility for each type of risk to a specific organizational unit. Overall management of the risk factors facing the Nanto Bank is the responsibility of the Compliance and Risk Management Division. We have further strengthened our systems by formulating Risk Management Coordination Regulations, which stipulate basic risk management procedures and requirements.

Credit Risk Management

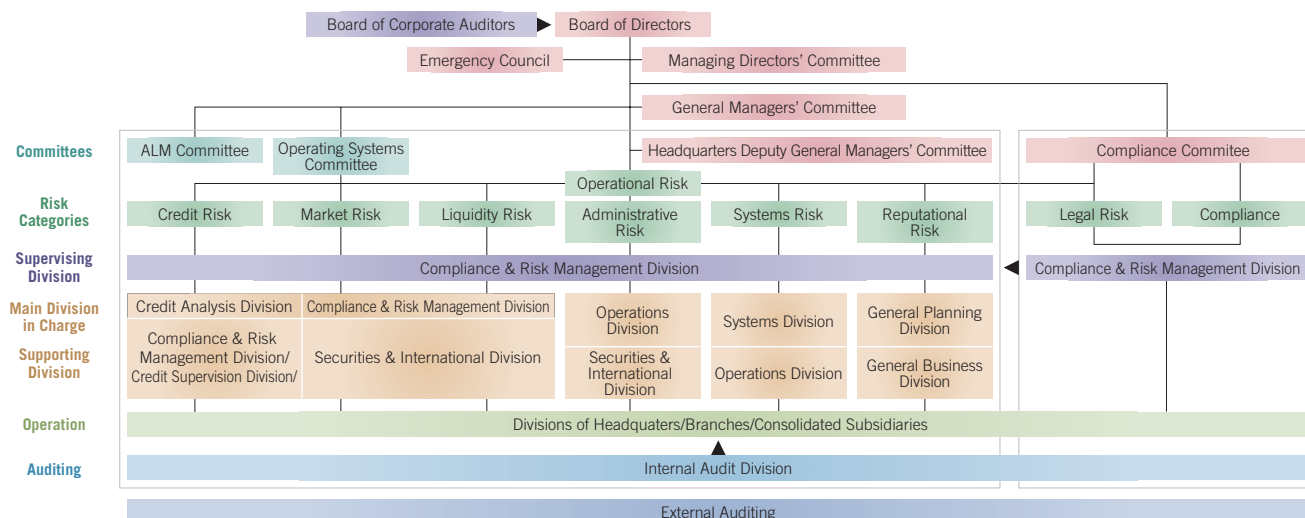
The Nanto Bank maintains and ensures the soundness of its assets by managing credit risk under a credit screening

structure that operates independently of marketing operations. The units responsible for risk management are the Credit Analysis Division, which checks the credit standing of borrowers and assesses loan applications, and the Credit Supervision Division, which manages and recovers assets. In addition to including a group that handles credit analysis for general customers, the Credit Analysis Division encompasses units that specialize in industry-specific analyses, as well as special analysis units that provide intensive supervision of major loan transactions and borrowers whose business performance has deteriorated. There is also the Corporate Finance Support Office, which assists borrowers with activities targeted toward business restructuring and recovery. In sum, the Bank's credit screening structure allows flexible risk management geared toward the specific circumstances of its customers.

Market Risk Management

Market operations are controlled by a system of reciprocal checks and balances based on the clear separation between front office units, which implement transactions, and back office

Compliance and Risk Management Structure





units, which process transactions. As the “middle office” unit responsible for risk management, the Compliance and Risk Management Division develops risk management systems, checks compliance with risk management regulations and other requirements and monitors the positions and profit or loss performance of market units. The Compliance and Risk Management Division also carries out wide-ranging analyses to quantify the risk levels of assets and liabilities, including deposits, loans and securities, using the value at risk (VaR) and basis point value (BPV) methods, interest rate fluctuation simulations and other types of analysis. The findings from this research are used to provide timely information to management.

Liquidity Risk Management

The Nanto Bank’s cash flow position is carefully managed on a day-to-day basis by the Securities and International Division in accordance with monthly fund supply plans formulated by the ALM Committee. Overall cash flow monitoring management is provided by the ALM Committee, which monitors the amount of assets available for liquidation, and the amount of funds that the Bank can procure. The cash flow situation is classified into one of three levels: normal, alert and crisis. Appropriate management systems can be flexibly implemented according to the prevailing situation.

Administrative Risk Management

The Nanto Bank offers a range of administrative training programs for branch personnel as part of its continuing efforts to strengthen branch administration and maintain the confidence of its customers by ensuring that all administrative processes are carried out accurately and rigorously. In addition, advisors make regular visits to branches to provide on-site guidance to staff. Mechanization and systemization are also playing an important role in the Nanto Bank’s efforts to maintain rigorous standards of accuracy and efficiency in administrative processes.

Systems Risk Management

The Nanto Bank uses redundancy to guard against equipment and network failures in its on-line systems. Preparations for major disasters include the formulation of contingency plans, the use of distributed data storage and the establishment of a backup center. These precautions ensure that services can be resumed promptly in the unlikely event of a systems failure or network breakdown.

To prevent information leaks and unauthorized access to computer systems, the Nanto Bank rigorously controls customer data and other information under its information handling regulations. Precautions include the encryption of personal identification numbers and other sensitive information, as well as information on personal computers.

Reputational Risk Management

The Nanto Bank recognizes the importance of reputational risk because of the potential impact on its business performance and the regional community, and it has established systems to prevent such situations. In the unlikely event of a reputational contingency, such as the spread of damaging rumors, these systems will ensure that appropriate steps can be taken to restore calm and bring the situation under control.

PROTECTION AND MANAGEMENT OF CUSTOMER INFORMATION

Effective protection and stringent management of customer information are absolutely essential to compliance, risk management

and the maintenance of customer confidence. The Nanto Bank recognizes these tasks as fundamental management priorities and has put in place the following protection and control systems.

Development of Regulatory Structure

Basic Policies

Personal information is received in confidence from customers and must be protected as an entrusted asset. The Nanto Bank has established the Personal Information Protection Policy and the Basic Policy on Information Management to guide efforts by its entire organization to ensure effective protection and management of customer information.

Development of Organizational Structures

The Nanto Bank has appointed officers responsible for organizational, human and technical safety measures, as well as information safety officers for each unit of its organization. These people work under the leadership of the Chief Information Management Officer, who has overall responsibility for information protection and management. Other organizational measures designed to ensure effective protection and stringent management of information in accordance with the basic policies and regulatory system include the establishment of the Compliance and Risk Management Division as the unit responsible for the coordination of information management.

Regulations

The Nanto Bank has formulated a regulatory structure based on its two basic policies. These are the Basic Information Management Regulations, which provide a basic framework for information protection and management, and the Information Safety Management Regulations, which define safety management procedures. There are also guidelines covering specific aspects of administrative processing and other areas. These regulations cover all information handled by the Nanto Bank.

Continuing Improvement of Systems

Regular internal audits are conducted to assess the effectiveness of information management systems. The Information Management Committee then discusses and adopts information protection and management plans containing any improvements that are deemed necessary on the basis of these audits, together with priorities for the next fiscal year. This process ensures continuing improvement of the Nanto Bank's information protection and management systems.

PERSONAL INFORMATION PROTECTION POLICIES

The Nanto Bank, Ltd. (hereinafter the "Bank") regards personal information obtained from customers as an important management resource essential to the execution of the Bank's business. The Bank has established the following policies concerning the appropriate protection of personal information in accordance with the Personal Information Protection Law (hereinafter the "Protection Law"):

1. Compliance with the Law

The Bank endeavors to appropriately protect customers' personal information on the basis of compliance with the Protection Law, other related laws and ordinances, and matters established in this policy and will continuously improve its personal information protection and information security management system.

2. Purposes of Use of Personal Information

- 1) The Bank handles customers' personal information by fair and legal means for the purpose of providing appropriate and smooth customer transactions and high-quality financial products and services.
- 2) The Bank specifies purposes of use of customers' personal information in its custody and uses the information within the scope necessary to achieve those purposes of use, except in cases provided by the Protection Law.
- 3) The Bank posts and continuously publishes the purposes of use of customers' personal information at branches and on the Bank's website and indicates the purposes of use to customers by means of pamphlets, posters, and the like when personal information is obtained directly from individuals in connection with contracts and other business. At the time of entering into contracts for loans or engaging in other business involving credit, the Bank obtains the consent of customers to the indicated purpose of use.

3. Provision of Personal Information to Third Parties

The Bank does not supply customers' personal information to third parties without the prior consent of the individual concerned, except in cases provided by the Protection Law.

4. Measures for the Secure Control of Personal Information

The Bank implements appropriate measures for the secure control of personal information obtained from customers to prevent any loss, alteration, leakage or unauthorized access. These measures include assigning responsible personnel and organizational measures, the education of managers and employees, and the strengthening of information systems security.

5. Disclosure Request Procedures

Customers who desire notification of purpose of use, disclosure of the content, correction, or cessation of use of personal information should submit requests at the service window of their branch.

The Bank appropriately and rapidly complies with such requests in accordance with separately established procedures.

6. Inquiries

To appropriately respond to inquiries or complaints from customers concerning the handling of personal information or measures for the secure control of personal information, the Bank has established the following point of contact:

Compliance & Risk Management Division

ENVIRONMENTAL PROTECTION INITIATIVES

Certification under Environmental Standards

In 2002, the Nanto Bank achieved certification under ISO 14001, the international standard for environmental protection, for its head office and administrative center. All organizational units within these sites are implementing activities based on the ISO 14001 standard.

Since July 1, 2005, all units of the Nanto Bank Group have been participating in the “Ecostyle” campaign, which was established as part of an effort to prevent global warming. Participants set their office temperatures at 28°C.

Environmental Activities in the Workplace

In 2005, Nanto Bank Group personnel participated in environmental activities in their workplaces, including branches and offices of affiliated companies. All employees were issued environmental check cards for use in various initiatives, such as energy conservation, the reduction of paper use, and waste sorting. The Nanto Bank took the opportunity to link these efforts with initiatives based on the Kansai Council’s “Eco

Office” declaration, including the reduction of envelope use, the adjustment of air conditioning temperatures to 28°C and heating temperatures to 20°C and green purchasing. In recognition of its environmental efforts, the Nanto Bank received Nara City’s Global Environment Award in October 2002 and an Eco-Office commendation from the Kansai Council in June 2005.

Participation in Environment Festival

The Nanto Bank has been a participant in and sponsor of Nara Prefecture’s Lifestyle and Environment Festival since its inception in 2004. A popular display in 2006 was based on the use of a giant dice game to foster environmental knowledge.

Environmental Conservation Award

In June 2006, the Nanto Bank received the Nara Prefecture Environmental Conservation Award. The award was in recognition of the Bank’s initiatives against global warming, including its promotion of paperless working and participation in the “Ecostyle” campaign.

ENVIRONMENTAL POLICY

The Nanto Bank has its headquarters in historic Nara, ancient capital of Japan and a spiritual hometown to the Japanese people. To preserve for future generations the splendid natural features of Nara that have been protected from time immemorial, the Bank recognizes the impact its business activities have on the natural environment, assumes a position of regional leadership and works to protect the environment and promote the creation of a recycling society.

1. The Bank will construct environmental management systems for the purpose of promoting due consideration of preservation of the natural environment and features of the region and promoting action based on recognition that reducing environmental impact is the proper basis for business activities.
2. The Bank observes all laws, regulations and other requirements related to the environment and engages in environmental protection activities.
3. To implement these policies, the Bank will establish specific environmental objectives and targets and review them periodically.
4. The bank will continuously improve its environmental management systems and strive to prevent pollution of the environment.
5. The bank will thoroughly publicize its environmental policies to all officers and staff and promote behavior grounded in consideration of the regional environment.

We hereby proclaim this environmental policy within the Bank and to the community at large.

October 1, 2001
Hiromune Nishiguchi President
The Nanto Bank, Ltd.

CODE OF CONDUCT

Nanto Bank will engage in environmental activities based on the following policies.

1. We will support customers who engage in environmental protection through the development and provision of environmentally sound financial products and services.
2. We will promote resource and energy conservation and waste reduction by considering environmental impact in the day-to-day conduct of business.

SUPPORTING OUR REGION

Nanto Bank Field Hockey Team

Our women's field hockey team has scored some notable successes since its establishment in 1982, including victories in national and inter-company championships and the selection of members for the Olympic team. The Nanto Bank will continue to contribute to the promotion of sports in Nara, which is nationally renowned for its strength in hockey.



The Nanto Bank Women's Field Hockey Team has amassed a strong record of success in various competitions.

Nanto Manyo Charity Walk

This popular event has been held each spring and fall since 1988. It attracts large numbers of participants, who enjoy walking through historical sites associated with the Manyoshu, a collection of ancient Japanese poems. It became a charity event in the fall of 2004. Since then, the Nanto Bank has made donations to the Nara Prefecture Social Welfare Council, the amount of which is linked to the number of participants.



The Nanto Manyo Charity Walk is a popular charity event and many participants attend every year.



Many students have received support from the Nanto Scholarship Foundation.

Nanto Scholarship Foundation

Established in 1964 to contribute to regional human resource development, the Nanto Scholarship Foundation provides scholarships to high school and university students who live in Nara Prefecture. Recipients must be of good character and have demonstrated academic excellence. As of April 2006, 62 students were receiving support under this program. A total of 1,163 scholarship recipients have graduated since the establishment of the Nanto Scholarship Foundation.

The Small Kindness Society

The Nanto Bank Small Kindness Society is helping to build a better society through a wide array of service activities, including clean-up campaigns and blood drives. Every year since 1987, it has also run the "Book from the Heart" campaign, through which books donated by Nanto Bank employees are given to the Nara Juvenile Prison for use in the cultural education of detainees.



An activity of the Small Kindness Society, the Clean Campaign, has been carried out by the Bank's employees

Contributing to Financial and Economic Education

Nanto Bank staff members visit local junior high schools as instructors for general studies classes focusing on the mechanisms of banking and finance. As a regional financial institution, the Nanto Bank also disseminates financial and economic information to local communities.

Board of Directors and Corporate Auditors

(As of July 1, 2006)



Hiramune Nishiguchi
President



Takahiko Sakamoto
Deputy President



Yasuo Ueno
Senior Managing Director



Tadashi Kasei
Managing Director



Yasuo Horiuchi
Managing Director



Takaji Okumura
Managing Director



Etsuji Kusuda
Managing Director



Yasuo Shimakawa
Managing Director



Michitaka Sakamoto
Director and Senior Advisor

President

Hiramune Nishiguchi

Deputy President

Takahiko Sakamoto

Senior Managing Director

Yasuo Ueno

Managing Directors

Tadashi Kasei

Yasuo Horiuchi

Takaji Okumura

(Osaka Branch)

Etsuji Kusuda

(Credit Analysis Division)

Yasuo Shimakawa

Director and Senior Advisor

Michitaka Sakamoto

Directors and General Managers

Akira Uchida

(Systems Division)

Tadashi Issaki

(Head Office)

Masaaki Hashimoto

(Tokyo Branch and Tokyo Liaison Office)

Hiroki Matsuoka

(General Planning Division)

Shozo Tanabe

(General Business Division)

Taro Hayama

(Credit Supervision Division)

Standing Corporate Auditor

Takashi Nakanishi

Corporate Auditors

Yoshifumi Nakai

Syuzo Ogura

Junichi Minegishi

Hiroyuki Sakai

Consolidated Financial Review

As a result of efforts to promote regional development and improve business performance while successfully increasing operating efficiency, the business performance of the Nanto Bank Group in fiscal 2005 (the year ended March 31, 2006) showed good improvement with long-term implications, but mixed results for the year under review, as described below.

Deposits and Loans

Due to steady growth of corporate and individual deposits, deposits increased by ¥66.5 billion from the previous year. The balance of deposits at the fiscal year-end was ¥3,865.8 billion. Negotiable certificates of deposit also increased by ¥38.6 billion to ¥41.2 billion.

Loans increased by ¥79.8 billion during the year as a result of efforts to expand loans to local businesses and individuals. The balance of loans at the fiscal year-end was ¥2,577.1 billion.

Securities

The Bank has designated securities investment as a key area for improving the Bank's profitability. And, the Bank strengthened its market investment operations during the year under review. Securities held increased by ¥371.5 billion during the year under review to ¥1,841.5 billion at the fiscal year-end. Latent return at the fiscal year-end was ¥40.1 billion.

Profit and Loss

Total income increased by ¥11.4 billion year on year to ¥113.4

billion, owing to factors including growth of interest and dividends on securities and higher fees and commissions.

However, losses on sales and redemption of bonds to raise funds for increased securities investment combined with other operational expenses resulting in an increase of ¥13.3 billion in total expenses to ¥100.0 billion. As a result, income before income taxes decreased by ¥1.9 billion to ¥13.4 billion. Net income decreased by ¥1.0 billion from the previous year to ¥6.6 billion.

Net income per share decreased by ¥3.56 to ¥23.80. The Bank reduced the dividend per share by ¥1.0 to ¥5.0.

Cash Flows

The balance of cash and cash equivalents (hereinafter "cash") at the fiscal year-end was ¥83.1 billion, a decrease of ¥4.5 billion from the previous year.

Cash Flows from Operating Activities

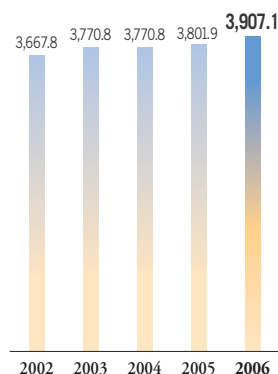
Net cash provided by operating activities during the fiscal year under review was ¥305.6 billion, an increase of ¥243.7 billion from the previous year. The increase is attributable to factors including an increase in negotiable certificates of deposit, call money and bills sold and in payables under securities lending transactions.

Cash Flows from Investing Activities

Net cash used in investing activities was ¥328.6 billion, an

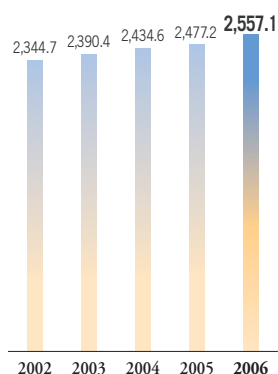
Deposits

(Billions of yen)



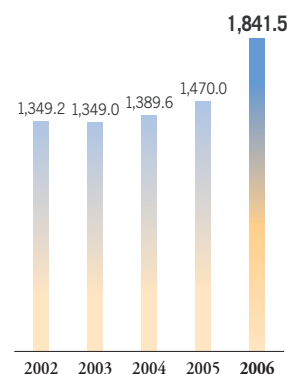
Loans and Bills Discounted

(Billions of yen)



Securities

(Billions of yen)



increase of ¥245.1 billion from the previous year. This result reflected a marked increase of payments for purchases of securities using cash from operating activities.

Cash Flows from Financing Activities

Net cash from financing activities was ¥18.3 billion. This reflected an increase in cash as proceeds from the issuance of subordinated bonds.

Assets and Capital

Total assets at the fiscal year-end increased by ¥447.0 billion from the previous year to ¥4,682.1 billion. Net assets increased by ¥6.8 billion to ¥196.0 billion.

Capital Adequacy Ratio

The capital ratio at the fiscal year-end was 10.02% on a consolidated basis, according to domestic criteria (compared to 9.48% for the previous year). This ratio exceeds the 4% requirement for banks under domestic criteria.

Disposal of Bad Debt (Non-consolidated)

To maintain and increase asset soundness, the Bank undertakes rigorous self-assessment of the loans in its portfolio based on customers' management and financial conditions and implements appropriate provisions and write-offs.

Self-assessment results and loan categories according to the

disclosure criteria set forth in the Financial Reconstruction Law are shown in the table below.

Classification under Self-Assessment (Non-consolidated)

(As of March 31, 2006)	Billions of yen
Bankrupt Debtors/Assets	¥ 4.3
Effectively Bankrupt Debtors/Assets	¥ 11.2
Potentially Bankrupt Debtors/Assets	¥ 66.4
Debtors/Assets Requiring Caution	
Substandard Debtors /Assets	¥ 43.1
Other Debtors/Assets Requiring Caution	¥ 144.2
Normal Debtors/Assets	¥2,342.6
Total	¥2,612.1

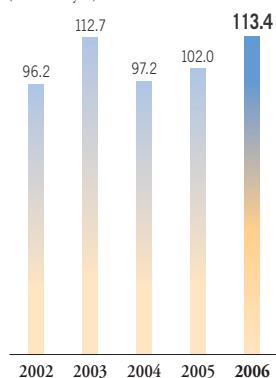
Loans Disclosed under the Financial Reconstruction Law (Non-consolidated)

The Bank assesses assets and discloses the assessment results on the basis of a borrower's financial position and management conditions in compliance with the Financial Reconstruction Law.

According to the standards set forth in the Financial Reconstruction Law, the Bank's balance of bad debts as of March 31, 2006 was ¥113.5 billion, a reduction of ¥25.3 billion from the previous year. Bad debt accounted for 4.34% of loans, a decrease of 1.12 points from the previous year.

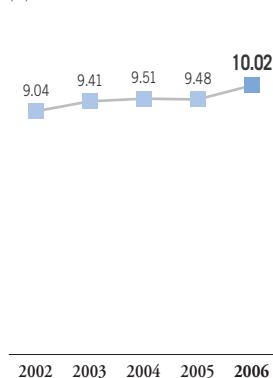
Total Income

(Billions of yen)



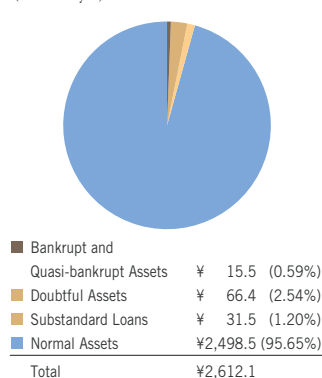
Capital Adequacy Ratio

(%)



Loans Disclosed under the Financial Reconstruction Law

(Billions of yen)



Consolidated Financial Statements

Consolidated Balance Sheets

The Nanto Bank, Ltd. and Consolidated Subsidiaries as of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Assets:			
Cash and due from banks (Note 4)	¥ 92,790	¥ 92,213	\$ 789,903
Call loans and bills bought	3,438	15,031	29,267
Commercial paper and other debt purchased	7,669	4,092	65,284
Trading account securities	2,068	852	17,604
Money held in trust (Note 5)	46,000	45,000	391,589
Securities (Notes 5, 17)	1,841,584	1,470,078	15,677,057
Loans and bills discounted (Note 6)	2,557,111	2,477,252	21,768,204
Foreign exchanges	1,481	1,668	12,607
Other assets (Note 7)	32,038	34,509	272,733
Premises and equipment (Note 8)	60,274	63,904	513,101
Deferred tax assets (Note 10)	32,481	39,675	276,504
Customers' liabilities for acceptances and guarantees (Note 15)	37,244	42,592	317,051
Reserve for possible loan losses (Note 11)	(32,063)	(51,824)	(272,946)
Total assets	¥4,682,120	¥4,235,045	\$39,858,006
Liabilities, minority interests and stockholders' equity			
Liabilities:			
Deposits and negotiable certificates of deposit (Notes 12, 17)	¥3,907,132	¥3,801,923	\$33,260,679
Call money and bills sold	177,671	10,738	1,512,479
Payables under repurchase agreements	4,485	—	38,179
Payables under securities lending transactions (Note 17)	274,991	139,928	2,340,946
Borrowed money (Note 17)	5,970	6,296	50,821
Foreign exchanges	373	123	3,175
Bonds / Subordinated bonds, payable in yen	20,000	—	170,256
Other liabilities (Note 13)	48,820	36,372	415,595
Liabilities for severance and retirement benefits (Note 14)	4,548	3,193	38,716
Acceptances and guarantees (Note 15)	37,244	42,592	317,051
Total liabilities	4,481,239	4,041,167	38,147,944
Minority interests	4,784	4,621	40,725
Stockholders' equity: (Note 16)			
Common stock: Authorized 640,000 thousand shares and issued 281,756 thousand shares	29,249	29,249	248,991
Capital surplus	18,817	18,816	160,185
Retained earnings	126,104	120,888	1,073,499
Net unrealized gains on available-for-sale securities, net of taxes	23,908	22,196	203,524
Less treasury stock: Issued 4,389 thousand shares in 2006 and 4,258 thousand shares in 2005	(1,982)	(1,894)	(16,872)
Total stockholders' equity	196,096	189,256	1,669,328
Total liabilities, minority interest and stockholders' equity	¥4,682,120	¥4,235,045	\$39,858,006

See notes to consolidated financial statements.

Consolidated Statements of Operations

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Income:			
Interest income:			
Interest on loans and discounts	¥ 43,278	¥ 44,216	\$368,417
Interest and dividends on securities	32,192	21,245	274,044
Other interest income	277	210	2,358
Fees and commissions	18,254	17,618	155,392
Gains on sales and redemption of bonds	5,809	6,089	49,450
Other income	13,656	12,662	116,250
Total income	113,469	102,044	965,940
Expenses:			
Interest expense:			
Interest on deposits	1,744	1,897	14,846
Interest on borrowing and rediscounts	7,100	2,982	60,440
Interest on subordinated bonds	135	—	1,149
Other interest expense	1,281	1,803	10,904
Fees and commissions	9,439	8,682	80,352
Losses on sales and redemption of bonds	11,652	4,232	99,191
General and administrative expenses	47,312	47,679	402,758
Other expenses (Note 19)	21,379	19,395	181,995
Total expenses	100,047	86,673	\$851,681
Income before income taxes	13,421	15,370	114,250
Income taxes—current	584	1,040	4,971
Income taxes—deferred	6,091	6,264	51,851
Minority interests	142	431	1,208
Net income	¥ 6,603	¥ 7,635	\$ 56,210
		Yen	U.S. dollars
Per share of common stock:			
Net income—basic	¥23.80	¥27.36	\$0.20
Dividends	5.00	6.00	0.04

Consolidated Statements of Stockholders' Equity

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2006 and 2005

	Millions of yen						Thousands of U.S. dollars				
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities, net of taxes	Treasury stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on available-for-sale securities, net of taxes	Treasury stock
Balance at March 31, 2004	281,756	29,249	18,814	114,928	24,804	(933)					
Increase in capital surplus	—	—	2	—	—	—					
Cash dividends	—	—	—	(1,675)	—	—					
Net income	—	—	—	7,635	—	—					
Decrease in net unrealized gains on securities available for sale, net of taxes	—	—	—	—	(2,608)	—					
Treasury stock	—	—	—	—	—	(961)					
Balance at March 31, 2005	281,756	¥29,249	¥18,816	¥120,888	¥22,196	¥(1,894)	\$248,991	\$160,177	\$1,029,096	\$188,950	\$(16,123)
Increase in capital surplus	—	—	1	—	—	—		8	—	—	—
Cash dividends	—	—	—	(1,387)	—	—		—	(11,807)	—	—
Net income	—	—	—	6,603	—	—		—	56,210	—	—
Increase in net unrealized gains on securities available for sale, net of taxes	—	—	—	—	1,711	—		—	—	14,565	—
Treasury stock	—	—	—	—	—	(88)		—	—	—	(749)
Balance at March 31, 2006	281,756	¥29,249	¥18,817	¥126,104	¥23,908	¥(1,982)	\$248,991	\$160,185	\$1,073,499	\$203,524	\$(16,872)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

The Nanto Bank, Ltd. and Consolidated Subsidiaries for the Years Ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes	¥ 13,421	¥ 15,370	\$ 114,250
Depreciation	7,943	8,772	67,617
Loss on impairment of fixed assets (Note 9)	3,325	—	28,305
Decrease in reserve for possible loan losses	(19,760)	(9,080)	(168,213)
Increase (decrease) in liabilities for severance and retirement benefits	1,355	334	11,534
Interest income	(75,748)	(65,674)	(644,828)
Interest expense	10,262	6,683	87,358
Investment securities gains	(11,002)	(12,742)	(93,657)
Gains on money held in trust	(484)	(795)	(4,120)
Foreign exchanges losses (gains)	(32,313)	(11,120)	(275,074)
Losses on sales of premises and equipment.....	1,181	615	10,053
Land appraisal losses	—	2,659	—
Net decrease (increase) in due from banks	(5,160)	(2,126)	(43,926)
Net (increase) in loans and bills discounted	(79,859)	(42,561)	(679,824)
Net increase (decrease) in deposits	66,545	62,655	566,485
Net increase (decrease) in negotiable certificates of deposit	38,663	(31,619)	329,130
Net decrease in call loans and bills bought	8,014	49,562	68,221
Net increase (decrease) in call money and bills sold	171,418	10,738	1,459,249
Net decrease in borrowed money	(325)	(1,195)	(2,766)
Net decrease (increase) in foreign exchanges (assets)	187	(844)	1,591
Net increase in foreign exchanges (liabilities)	250	5	2,128
Net increase in payables under securities lending transactions.....	135,063	9,086	1,149,765
Interest received	77,600	71,871	660,594
Interest paid	(10,575)	(8,242)	(90,022)
Other	6,413	10,419	54,592
Subtotal	306,417	62,771	2,608,470
Income taxes paid	(747)	(812)	(6,359)
Net cash provided by operating activities	305,670	61,959	2,602,111
Cash flows from investing activities:			
Purchases of securities	(1,199,339)	(971,717)	(10,209,747)
Proceeds from sales of securities	649,552	491,295	5,529,513
Proceeds from maturities of securities.....	232,771	406,197	1,981,535
Increase in money held in trust	(1,084)	(1,021)	(9,227)
Decrease in money held in trust.....	569	816	4,843
Purchases of premises and equipment	(9,231)	(8,703)	(78,581)
Proceeds from sales of premises and equipment	372	2,146	3,166
Purchases of software	(2,274)	(2,490)	(19,358)
Net cash used in investing activities.....	(328,664)	(83,477)	(2,797,854)
Cash flows from financing activities:			
Proceeds from issuance of subordinated bonds	19,876	—	169,200
Dividends paid	(1,389)	(1,671)	(11,824)
Purchases of treasury stock	(90)	(965)	(766)
Other	3	5	25
Net cash used in financing activities	18,399	(2,631)	156,627
Effect of exchange rate changes on cash and cash equivalents	12	2	102
Net decrease in cash and cash equivalents.....	(4,582)	(24,146)	(39,005)
Cash and cash equivalents at beginning of year	87,723	111,870	746,769
Cash and cash equivalents at end of year (Note 4)	¥ 83,141	¥ 87,723	\$ 707,763

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

The Nanto Bank, Ltd. and Consolidated Subsidiaries

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements of the Nanto Bank, Ltd. (“the Bank”) and its consolidated subsidiaries (together, “the Companies”) have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects from application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders’ equity) 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 Securities 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.

As permitted by the Securities and Exchange Law of Japan, amounts less than one million yen have been omitted. As a result, the totals shown in the financial statements do not necessarily agree with the sum of the individual amounts.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to US\$1.00. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of consolidation

The consolidated financial statements include the accounts of the Bank and all ten of its subsidiaries. The Bank has no affiliates, over which it has the ability to exercise significant influence over operating and financial policies.

All consolidated subsidiaries have fiscal years ending on March 31.

All significant intercompany accounts, transactions and unrealized profits on transactions are eliminated.

b) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents represent cash and deposits with the Bank of Japan.

c) Finance leases

Finance leases which do not transfer ownership are accounted for in the same manner as operating leases under Japanese GAAP.

d) Trading account securities and securities

Trading 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. Held-to-maturity debt securities are stated at amortized cost, net of the amount considered not collectible. 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 stockholders’ equity.

Other securities with no available fair market value are stated at moving-average cost.

If the market value of held-to-maturity debt securities and available-for-sale securities declines significantly such securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. In these cases, such fair market value will be the carrying amount of the securities at the beginning of the next fiscal year.

Money held in trust for trading purposes is reported at fair market value.

e) Derivatives and hedge accounting

As for the hedge accounting method applied to hedging transactions for interest rate risk arising from financial assets and liabilities, the Bank applies the deferred hedge accounting method stipulated in “Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No.24). The Bank assesses the effectiveness of such hedges in offsetting movement of the fair value by the changes in interest rates, by classifying the hedged items (such as deposits and loans) and the hedging instruments (such as interest rate swaps) by their maturity. As to cash flow hedges, the Bank assesses the effectiveness of such hedges in fixing cash flows by verifying the correlation between the hedged items and the hedging instruments.

A portion of the deferred hedge losses and gains that was previously under the “macro hedge method,” which had been applied in order to manage interest rate risk arising from large-volume transactions in loans, deposits and other interest-earning assets and interest-bearing liabilities as a whole using derivatives pursuant to “Temporary Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry” (JICPA Industry Audit Committee Report No.15), is no longer subject to hedge accounting. The deferred hedge losses and gains are being charged to “Interest income” or “Interest expenses” over a 15-year period (maximum) from March 31, 2004 according to their maturity and notional principal amount. At March 31, 2006, gross amounts of deferred hedge losses under the “macro hedge method” were ¥1,150 million (\$9,789 thousand).

f) Premises and equipment

Depreciation for premises and equipment of the Bank is computed by the declining-balance method.

The estimated useful lives of major items are as follows:

Buildings	6 to 50 years
Equipment	3 to 20 years

For leased assets of consolidated subsidiaries, the straight-line method is applied for the duration of the lease term.

Depreciation of other assets is principally provided on the declining balance method over the estimated useful lives of the respective assets.

g) Reserve for possible loan losses

The reserve for possible loan losses is provided according to pre-determined standards for write-offs and provisions, as follows:

For loans to insolvent customers who are undergoing bankruptcy or other special liquidation or who are in a similar financial condition, the reserve for possible loan losses is provided based on the amount of the claims net of the amount expected to be recovered from collateral and guarantees and net of the deducted amount mentioned below.

For the unsecured and unguaranteed portions of loans to customers not presently in the above circumstances, but for whom there is a high probability of so becoming, the reserve for possible loan losses is provided for estimated unrecoverable amounts determined after an evaluation of the customer's overall financial condition.

For other loans, the reserve for possible loan losses is provided based on the Bank's actual rate of loan losses in the past.

For claims against "bankrupt borrowers" and "effectively bankrupt borrowers," the amount exceeding the estimated value of collateral and guarantees is deemed uncollectible and deducted directly from those claims. At March 31, 2006 and 2005, the deducted amounts were ¥60,901 million (\$518,438 thousand) and ¥65,229 million, respectively.

Reserve for possible loan losses of the consolidated subsidiaries is provided for general claims by the amount deemed necessary based on the historical loan-loss ratio and for doubtful claims by the amount deemed uncollectible based on respective assessments.

h) Severance and retirement benefits

Liabilities for severance and retirement benefits, which are provided for future pension payments to employees, are recorded based on the projected benefit obligation and the estimated pension plan assets at the end of the year. Prior service costs and actuarial gains or losses are amortized mainly as follows:

Prior service costs are charged to profit/loss at the time of occurrence and actuarial gains and losses are recognized in expenses in equal amounts from the following fiscal year on the straight-line method over ten years, which is within the average remaining service period of the current employees.

Employees of Japanese companies are compulsorily included in the Welfare Pension Insurance Scheme operated by the government. Employers are legally required to deduct employees' welfare pension insurance contributions from their payroll and to pay them to the government together with the employers' own contributions. For companies that have established their own Employees' Pension Fund which meets certain legal requirements, it is possible to transfer a part of their welfare pension insurance contributions (referred to as the "substitutional portion" of the government's Welfare Pension Insurance Scheme) to their own Employees' Pension Fund with the government's permission and under its supervision.

i) Income taxes

Deferred income taxes are recorded to reflect tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting purposes.

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 for income tax purposes.

j) Software

Capitalized software for internal use owned by the Bank and its consolidated subsidiaries is depreciated using the straight-line method over its estimated useful life (basically five years).

k) Translation of foreign currencies

Foreign currency assets and liabilities are translated at year-end exchange rates.

l) Reclassifications

Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

m) Adoption of new accounting standard for impairment of fixed assets

In the year ended March 31, 2006, the Bank adopted the new accounting standard for impairment of fixed assets (Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No.6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result, operating profits increased by ¥18 million (\$153 thousand) and income before income taxes decreased by ¥3,306 million (\$28,143 thousand). In the banking industry, fixed assets

are stated at cost less accumulated depreciation pursuant to the Enforcement Ordinance of the Banking Law and the accumulated

impairment loss is also deducted from the book value of each asset.

3. SEGMENT INFORMATION

(1) Segment information by type of business

The business segment information for the years ended March 31, 2006 and 2005 is summarized as follows:

	Millions of yen				Consolidated
	Banking	Other	Eliminations/Corporate	2006	
Ordinary income:					
Outside customers	¥ 104,396	¥ 7,743	¥ 112,140	¥ —	¥ 112,140
Intersegment income	474	5,685	6,159	6,159	—
Total	104,870	13,428	118,299	6,159	112,140
Ordinary expenses	89,698	12,838	102,536	5,870	96,666
Ordinary income	¥ 15,172	¥ 590	¥ 15,762	¥ 288	¥ 15,474

Assets, depreciation, impairment losses and capital expenditures:

	Banking	Other	Eliminations/Corporate	Consolidated	
Assets	¥ 4,669,560	¥ 37,849	¥ 4,707,410	¥ 25,290	¥ 4,682,120
Depreciation	1,107	6,835	7,943	—	7,943
Loss on impairment of fixed assets	3,324	1	3,325	—	3,325
Capital expenditures	¥ 3,552	¥ 7,712	¥ 11,264	¥ —	¥ 11,264

	Millions of yen				Consolidated
	Banking	Other	Eliminations/Corporate	2005	
Ordinary income:					
Outside customers	¥ 92,579	¥ 7,838	¥ 100,417	¥ —	¥ 100,417
Intersegment income	467	5,877	6,344	6,344	—
Total	93,046	13,716	106,762	6,344	100,417
Ordinary expenses	77,320	12,354	89,675	6,101	83,573
Ordinary income	¥ 15,725	¥ 1,361	¥ 17,087	¥ 242	¥ 16,844

Assets, depreciation and capital expenditures:

	Banking	Other	Eliminations/Corporate	Consolidated	
Assets	¥ 4,223,180	¥ 36,547	¥ 4,259,727	¥ 24,681	¥ 4,235,045
Depreciation	1,126	7,645	8,772	—	8,772
Capital expenditures	4,302	6,277	10,579	—	10,579

	Thousands of U.S. dollars				Consolidated
	Banking	Other	Eliminations/Corporate	2006	
Ordinary income:					
Outside customers	\$ 888,703	\$ 65,914	\$ 954,626	\$ —	\$ 954,626
Intersegment income	4,035	48,395	52,430	52,430	—
Total	892,738	114,310	1,007,057	52,430	954,626
Ordinary expenses	763,582	109,287	872,869	49,970	822,899
Ordinary income	\$ 129,156	\$ 5,022	\$ 134,178	\$ 2,451	\$ 131,727

Assets, depreciation, impairment losses and capital expenditures:

	Banking	Other	Eliminations/Corporate	Consolidated	
Assets	\$39,751,085	\$ 322,201	\$ 40,073,295	\$ 215,289	\$39,858,006
Depreciation	9,423	58,185	67,617	—	67,617
Loss on impairment of fixed assets	28,296	8	28,305	—	28,305
Capital expenditures	\$ 30,237	\$ 65,650	\$ 95,888	\$ —	\$ 95,888

- Notes: 1. The business segmentation is classified based on the Bank's internal administrative purposes. Ordinary income represents total income excluding bad debts recovered and gains on dispositions of premises and equipment. Ordinary expenses represent total expenses excluding losses on dispositions of premises and equipment and land appraisal losses.
2. "Other" includes credit guarantees, leasing and credit cards.

(2) Segment information by geographical area

Since the Bank has no overseas branches or subsidiaries, no segment information by geographical area is required to be disclosed.

(3) Ordinary income from international operations

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Ordinary income from international operations (A)	¥ 23,589	¥ 14,610	\$200,808
Consolidated ordinary income (B)	112,140	100,417	954,626
(A) / (B)	21.03%	14.55%	21.03%

Ordinary income from international operations consists of ordinary income on foreign currency-denominated transactions in Japan, yen-denominated trade-related transactions, non-resident transactions and Japan off-shore market account transactions.

4. STATEMENTS OF CASH FLOWS

The reconciliations of cash and due from banks in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and due from banks on the consolidated balance sheets	¥92,790	¥92,213	\$789,903
Current deposits due from banks	(1,592)	(1,838)	(13,552)
Negotiable certificates of deposit due from banks	(5,000)	—	(42,564)
Time deposits due from banks	(2,550)	(2,550)	(21,707)
Other due from banks	(506)	(100)	(4,307)
Cash and cash equivalents on the consolidated statements of cash flows	¥83,141	¥87,723	\$707,763

5. SECURITIES AND MONEY HELD IN TRUST

(1) At March 31, 2006 and 2005, information on trading account securities and securities with available market prices, was as follows:

(a) Trading securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Book value (fair market value)	¥ 2,068	¥ 852	\$ 17,604
Amount of net unrealized gains (losses) included in the statements of income	0	2	0

(b) Held-to-maturity debt securities

Not applicable

(c) Available-for-sale securities with available fair market values

At March 31, 2006	Millions of yen				
	Acquisition cost	Book value	Difference	Unrealized gains	Unrealized losses
Stocks	¥ 74,033	¥ 149,608	¥ 75,574	¥ 75,632	¥ 58
Bonds	916,796	891,894	(24,901)	298	25,200
Japanese government bonds	629,519	609,831	(19,687)	30	19,718
Japanese local government bonds	191,997	187,471	(4,526)	78	4,605
Japanese corporate bonds	95,279	94,591	(687)	189	877
Other	805,436	794,594	(10,841)	3,782	14,624
Foreign securities	736,868	724,031	(12,836)	1,258	14,094
Total	¥ 1,796,267	¥ 1,836,097	¥ 39,830	¥ 79,713	¥ 39,883

At March 31, 2005	Millions of yen				
	Acquisition cost	Book value	Difference	Unrealized gains	Unrealized losses
Stocks	¥ 67,950	¥ 96,723	¥28,773	¥29,177	¥ 403
Bonds	869,079	879,153	10,074	10,479	404
Japanese government bonds	560,333	567,545	7,211	7,212	0
Japanese local government bonds	163,397	164,965	1,567	1,844	276
Japanese corporate bonds	145,348	146,643	1,295	1,422	127
Other	491,800	490,196	(1,603)	4,707	6,311
Total	¥1,428,829	¥1,466,074	¥37,244	¥44,364	¥7,120

At March 31, 2006	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Unrealized gains	Unrealized losses
Stocks	\$ 630,228	\$ 1,273,584	\$ 643,347	\$ 643,840	\$ 493
Bonds	7,804,511	7,592,525	(211,977)	2,536	214,522
Japanese government bonds	5,358,976	5,191,376	(167,591)	255	167,855
Japanese local government bonds	1,634,434	1,595,905	(38,528)	663	39,201
Japanese corporate bonds	811,092	805,235	(5,848)	1,608	7,465
Other	6,856,525	6,764,229	(92,287)	32,195	124,491
Foreign securities	6,272,818	6,163,539	(109,270)	10,709	119,979
Total	\$15,291,282	\$15,630,348	\$ 339,065	\$ 678,581	\$ 339,516

Notes: 1. Market value is calculated using market prices at the fiscal year end.

2. Unrealized gains (losses) represent differences between book values and acquisition costs.

(2) The following tables summarize book values of securities with no available fair values as of March 31, 2006 and 2005:

(a) Held-to-maturity debt securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-listed domestic debt securities	¥4,770	¥5,549	\$40,606

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Non-listed stocks	¥1,639	¥1,202	\$13,952
Commercial paper	—	999	—
Other	2,796	0	23,801

(3) Available-for-sale securities with maturities and held-to-maturity debt securities mature as follows:

As of March 31, 2006	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥ 37,108	¥ 338,067	¥ 252,585	¥ 268,903
Japanese government bonds	11,143	190,981	138,803	268,903
Japanese local government bonds	8,983	68,375	110,112	—
Japanese corporate bonds	16,981	78,711	3,668	—
Other	11,237	231,366	343,581	167,477
Foreign securities	11,187	221,135	325,222	166,486
Total	¥ 48,346	¥ 569,434	¥ 596,166	¥ 436,380

As of March 31, 2005	Millions of yen			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	¥39,063	¥354,078	¥264,781	¥226,780
Japanese government bonds	6,884	168,377	172,119	220,163
Japanese local government bonds	6,713	80,874	71,003	6,373
Japanese corporate bonds	25,464	104,825	21,658	244
Other	8,060	261,347	144,089	35,505
Total	¥47,124	¥615,425	¥408,870	¥262,285

As of March 31, 2006	Thousands of U.S. dollars			
	1 year or less	1 to 5 years	5 to 10 years	Over 10 years
Bonds	\$315,893	\$2,877,900	\$2,150,208	\$2,289,120
Japanese government bonds	94,858	1,625,785	1,181,603	2,289,120
Japanese local government bonds	76,470	582,063	937,362	—
Japanese corporate bonds	144,556	670,051	31,224	—
Other	95,658	1,969,575	2,924,840	1,425,700
Foreign securities	95,232	1,882,480	2,768,553	1,417,263
Total	\$411,560	\$4,847,484	\$5,075,048	\$3,714,820

(4) Held-to-maturity debt securities sold in the years ended March 31, 2006 and 2005:

Not applicable

(5) Available-for-sale securities sold during the years ended March 31, 2006 and 2005:

	Millions of yen			Thousands of U.S. dollars					
	2006			2005			2006		
	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales	Sales amount	Gains on sales	Losses on sales
Available-for-sale securities	¥631,045	¥16,164	¥5,096	¥496,306	¥14,727	¥1,231	\$5,371,967	\$137,601	\$43,381

(6) At March 31, 2006 and 2005, information on money held in trust was as follows:

Money held in trust

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Book value (fair market value)	¥46,000	¥45,000	\$391,589
Amount of net unrealized gains included in the statements of income	180	295	1,532

6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans on bills	¥ 197,562	¥ 213,117	\$ 1,681,808
Loans on deeds	1,936,892	1,860,702	16,488,397
Overdrafts	380,879	358,257	3,242,351
Bills discounted	41,777	45,174	355,639
Total	¥2,557,111	¥2,477,252	\$21,768,204

Bills discounted are accounted for as financial transactions in accordance with 'Treatment for Accounting and Auditing of Application of Accounting Standard for Financial Instruments in Banking Industry' (JICPA Industry Audit Committee Report No.24). The Companies have rights to sell or pledge bank acceptances bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The total face values of these instruments were ¥42,178 million (\$359,053 thousand) at March 31, 2006 and ¥45,648 million at March 31, 2005.

7. OTHER ASSETS

Other assets at March 31, 2006 and 2005 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accrued income	¥13,071	¥ 9,853	\$111,270
Derivatives	2,082	5,382	17,723
Deferred unrealized losses on hedges	611	2,105	5,201
Other	16,273	17,168	138,528
Total	¥32,038	¥34,509	\$272,733

8. PREMISES AND EQUIPMENT

Premises and equipment at March 31, 2006 and 2005 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Land	¥ 23,943	¥ 27,018	\$ 203,822
Buildings	34,250	34,491	291,563
Furniture and equipment	62,162	65,174	529,173
Construction in progress	598	—	5,090
Guarantee money	2,091	2,044	17,800
Total	123,047	128,728	1,047,475
Less:			
Accumulated depreciation	62,772	64,822	534,366
Net book value	¥ 60,274	¥ 63,904	\$ 513,101

9. IMPAIRMENT LOSSES

Because of the continuous fall in land values, the change in its use and the associated decrease in cash flow and operating profit, book values were reduced to recoverable amounts. Impairment losses of ¥3,325 million (\$28,305 thousand) for land and buildings were recognized. The losses were included in other expenses.

Recoverable amounts are in principle determined by net realizable value calculated based on real estate appraisal values less estimated disposal costs. Some of the recoverable amounts of the assets by branch were measured at use value and calculated by future cash flow with a discount rate of 6.1%.

The Bank recognized impairment losses in the year ended March 31, 2006 as follows:

	2006	
	Millions of yen	Thousands of U.S. dollars
Operating assets		
Nara Prefecture	¥1,492	\$12,701
Other	1,690	14,386
Idle assets		
Nara Prefecture	126	1,072
Other	15	127
Total	¥3,325	\$28,305

10. INCOME TAXES

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.3% for the year ended March 31, 2006 and 2005.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rates for financial statement purposes for the years ended March 31, 2006 and 2005.

	2006	2005
Statutory tax rate	40.3%	40.3%
Valuation allowance	9.9%	6.9%
Other	(0.5%)	0.3%
Effective tax rate	49.7%	47.5%

Significant components of the Companies' deferred tax assets

and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Excess bad debt expenses	¥31,858	¥38,629	\$271,201
Retirement benefits	4,501	3,668	38,316
Depreciation	1,092	1,174	9,295
Write-down of land	4,673	4,673	39,780
Loss on impairment of fixed assets	1,340	—	11,407
Valuation loss on securities	6,133	9,004	52,209
Deficit brought forward for taxation purposes	2,907	—	24,746
Other	2,166	2,207	18,438
Total deferred tax assets	54,675	59,359	465,437
Valuation allowance	(6,015)	(4,673)	(51,204)
Deferred tax liabilities:			
Net unrealized gains on securities available for sale	16,177	15,009	137,711
Net deferred tax assets	¥32,481	¥39,675	\$276,504

11. LOAN LOSS PROVISIONS

Loan loss provisions at March 31, 2006 and 2005, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
General provision	¥13,430	14,329	\$114,327
Specific provision	18,633	37,494	158,619
Total	¥32,063	51,824	\$272,946

12. DEPOSITS

Deposits outstanding at March 31, 2006 and 2005, were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Current deposits	¥ 129,735	¥ 100,827	\$ 1,104,409
Ordinary deposits	1,700,415	1,571,194	14,475,312
Liquid savings deposits	43,144	44,986	367,276
Deposits at notice	4,499	10,150	38,299
Time deposits	1,905,431	1,990,667	16,220,575
Negotiable certificates of deposits	41,243	2,580	351,093
Other deposits	82,662	81,517	703,686
Total	¥3,907,132	¥3,801,923	\$33,260,679

13. OTHER LIABILITIES

Other liabilities at March 31, 2006 and 2005, were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Accrued income taxes	¥ 701	¥ 830	\$ 5,967
Accrued expenses	5,098	5,397	43,398
Other payables	16,207	6,801	137,967
Derivatives	12,592	7,579	107,193
Deferred unrealized gains on hedges	1,478	668	12,581
Other	12,742	15,094	108,470
Total	¥48,820	¥36,372	\$415,595

14. LIABILITIES FOR SEVERANCE AND RETIREMENT BENEFITS

(1) The liabilities for severance and retirement benefits at March 31, 2006 and 2005 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligation	¥(43,599)	¥(42,101)	\$(371,150)
Pension assets	31,154	26,687	265,208
Unfunded projected benefit obligation	(12,445)	(15,413)	(105,941)
Unrecognized actuarial differences	7,896	12,220	67,217
Net amount recorded on the consolidated balance sheet	¥ (4,548)	¥ (3,193)	\$ (38,716)

Notes: 1. The principal assumptions used in determining benefit obligation and pension expenses at and for the years ended March 31, 2006 and 2005 were as follows:

- (a) Discount rate: 2.0% in 2006 and 2005 .
- (b) Expected rate of return on plan assets: 4.0% in 2006 and 2005.

(2) Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 were severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service costs-benefits earned during the year	¥1,640	¥1,530	\$13,961
Interest cost on projected benefit obligation	839	979	7,142
Expected return on plan assets	(794)	(757)	(6,759)
Amortization of actuarial differences	1,616	1,327	13,756
Other	56	27	476
Severance and retirement benefit expenses (expense recoveries)	3,359	3,108	28,594
The release from the substitutional portion of the Welfare Pension Insurance Scheme	—	(117)	—
Total	¥3,359	¥2,991	\$28,594

15. ACCEPTANCES AND GUARANTEES

Acceptances and guarantees at March 31, 2006 and 2005 were comprised as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Acceptances	¥ 19	¥ 1	\$ 161
Letters of credit	815	676	6,937
Guarantees	36,409	41,913	309,942
Total	¥37,244	¥42,592	\$317,051

16. STOCKHOLDERS' EQUITY

Under the Banking Law of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although the Bank 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 Banking Law provides that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The total amount of legal earnings reserve and additional paid-in capital of the Bank has reached 100% of common stock, and therefore the Bank is not required to provide any more legal earnings reserve.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' 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 more than 100% of common stock, they are available for distribution by resolution of the stockholders' 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 Commercial Code.

17. PLEDGED ASSETS

Securities of ¥603,198 million (\$5,134,911 thousand) and ¥240,893 million were pledged as collateral for deposits and negotiable certificates of deposit of ¥51,211 million (\$435,949 thousand) and ¥36,806 million, bills sold of ¥142,400 million (\$1,212,224 thousand) and ¥0 million, payables under repurchase agreements of ¥4,485 million (\$38,179 thousand) and ¥0 million and payables under securities lending transactions of ¥274,991 million (\$2,340,946 thousand) and ¥139,928 million at March 31, 2006 and 2005, respectively.

Unexpected lease contract claims of ¥4,071 million (\$34,655 thousand) and ¥3,855 million were pledged as collateral for borrowed money of ¥5,970 million (\$50,821 thousand) and ¥6,296 million at March 31, 2006 and 2005, respectively.

Other securities of ¥63,905 million (\$544,011 thousand) and

¥66,042 million were pledged for transaction guarantees at March 31, 2006 and 2005, respectively.

18. LOAN COMMITMENTS

Commitment line contracts on overdrafts and loans are agreements to lend to customers when they apply for borrowing up to a prescribed amount, as long as there is no violation of any condition established in the contracts.

The amount of unused commitments at March 31, 2006 and 2005 were ¥896,174 million (\$7,628,960 thousand) and ¥916,372 million, respectively. The amount of unused commitments with original contract terms within one year or that were unconditionally cancellable at any time were ¥881,792 million (\$7,506,529 thousand) and ¥907,282 million at March 31, 2006 and 2005, respectively.

Since many of these commitments are expected to expire without being drawn upon, the total amount of unused commitments does not necessarily represent actual future cash flow requirements.

Many of these commitments have clauses that allow the Bank and its consolidated subsidiaries to reject applications from customers or reduce the contract amounts if economic conditions change. In addition, the Bank and its consolidated subsidiaries may request customers to pledge collateral such as premises and securities and take necessary measures such as scrutinizing customers' financial positions, revising contracts when the need arises and securing claims.

19. OTHER EXPENSES

At March 31, 2006 and 2005, other expenses were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Provision for possible losses on loans	¥ 3,090	¥ 3,519	\$ 26,304
Losses on devaluation of stocks and other securities	66	1,005	561
Write-off of loans	14,137	9,688	120,345
Other	4,085	5,182	34,774
Total	¥21,379	¥19,395	\$181,995

20. FINANCE LEASES

At March 31, 2006 and 2005, finance leases, as lessor, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Equipment	¥42,741	¥41,587	\$363,846
Less: Accumulated depreciation	26,242	26,613	223,393
Net	¥16,499	¥14,973	\$140,452

The above depreciation is calculated on a straight-line method over the terms of the leases.

Lease receipts, excluding financing changes, under finance leases for the years ended March 31, 2006 and 2005 were ¥5,772 million (\$49,135 thousand) and ¥5,828 million, respectively.

Depreciation was ¥4,621 million (\$39,337 thousand) and ¥4,591 million and interest was ¥810 million (\$6,895 thousand) and ¥949 million for the years ended March 31, 2006 and 2005, respectively.

Future lease receipts under finance leases, excluding the imputed interest portion, at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 5,246	¥ 5,083	\$ 44,658
Due after one year	12,282	11,021	104,554
Total	¥17,528	¥16,104	\$149,212

21. NON-PERFORMING LOANS

Non-performing loans at March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans to bankrupt companies	¥ 4,479	¥ 5,609	\$ 38,128
Past due loans	77,740	105,680	661,785
Loans past due three months or more	2,568	1,912	21,860
Loans with altered lending conditions	29,018	26,064	247,024
Total	¥113,806	¥139,266	\$968,809

22. DERIVATIVE TRANSACTIONS

At March 31, 2006 and 2005, information on derivative transactions was as follows:

(a) Interest rate-related transactions

	Millions of yen			Thousands of U.S. dollars
	Contract value or notional principal amount			Unrealized gain (loss)
	Total	Maturities over one year	Unrealized gain (loss)	
At March 31, 2006				
Over-the-counter transactions				
Interest rate swaps:				
Receive fixed rate/pay floating rate	¥1,904	¥1,174	¥28	\$238

	Millions of yen		
	Contract value or notional principal amount		
	Total	Maturities over one year	Unrealized gain (loss)
At March 31, 2005			
Over-the-counter transactions			
Interest rate swaps:			
Receive fixed rate/pay floating rate	¥8,191	¥1,783	¥316

Notes: 1. Unrealized gains (losses) are recognized in the consolidated statements of income. Derivatives which qualify for hedge accounting are not included in the above table.

2. Market values of over-the-counter transactions are based on the discounted cash flow method, option pricing models, etc.

Notes:

- Loans to bankrupt companies refers to loans for which there is judged to be a strong possibility that the principal is unrecoverable and for which the Bank has received approval not to record accrued interest as income in accordance with the individual notification stipulations of the Corporation Tax Law, specifically to borrowers in the following categories:
 - Borrowers that have begun legal reorganization procedures under the Stock Company Rehabilitation and Reorganization Act
 - Borrowers that have declared bankruptcy under the Bankruptcy Act
 - Borrowers that have entered legal negotiations under the Composition Act
 - Borrowers that have begun clearance proceedings or liquidation proceedings under the Commercial Code of Japan
 - Borrowers that have had their transactions with the Promissory Note Clearinghouse suspended
 - Borrowers that have begun liquidation proceedings equivalent to those described in the preceding items under the laws and regulations of foreign countries
- Past due loans refers to loans for which the Bank has received approval not to record accrued interest as income in accordance with the individual notifications stipulations of the Corporation Tax Law, with the following two exceptions:
 - Loans to bankrupt companies as described in Note 1, above
 - Loans for which interest is not accruing due to the suspension of interest payments
- Loans past due more than three months are defined as loans on which interest or principal payments are past due three months or more from the day after the contracted payment date and are not included in loans to bankrupt companies or past due loans.
- Loans with altered lending conditions are those loans for which the Bank has made certain concessions to borrowers in financial difficulties with the objective of restoring the soundness of their operations and thus the recovery of such credit exposure. Concessions include reduced interest rates, the deferral of interest payments, the deferral of principal payments, the forgiveness of debt, the provision of liquid funds and the acceptance of non-monetary assets in the settlement of claims. Loans with altered lending conditions include the categories "Restructured loans" and "Loans to borrowers receiving special restructuring assistance."

(b) Currency-related transactions

	Millions of yen			Thousands of U.S. dollars
	Contract value or notional principal amount		Unrealized gain (loss)	Unrealized gain (loss)
	Total	Maturities over one year		
At March 31, 2006				
Over-the-counter transactions				
Currency swaps	¥179,246	¥82,240	¥(1,897)	\$(16,148)
Forward foreign exchange contracts:				
Sold	1,177	—	(5)	(42)
Bought	2,496	—	3	25
Total			¥(1,899)	\$(16,165)

	Millions of yen		
	Contract value or notional principal amount		Unrealized gain (loss)
	Total	Maturities over one year	
At March 31, 2005			
Over-the-counter transactions			
Currency swaps	¥210,717	¥140,932	¥(1,308)

Notes: 1. Unrealized gains (losses) are recognized in the consolidated statements of income. Derivatives which qualify for hedge accounting are not included in the above table.

The following types of forward foreign exchange and currency options are not included in the above amounts.

(a) Derivative transactions to which hedge accounting is applied

(b) Those that are allotted to financial assets/liabilities denominated in foreign currency and whose market values are already reflected in the amount of the financial assets/liabilities on the consolidated balance sheet.

2. Market values are based on the discounted cash flow method.

3. The forward foreign exchange and currency options that were formerly revaluated are included in the amounts from 2004. In accordance with JICPA Industry Audit Committee Report No.25., the currency swaps, which qualify for hedge accounting, are excluded from the above tables.

(c) Stock-related transactions

None

(d) Bond derivatives

None

(e) Commodity derivatives

None

(f) Credit derivative transaction

	Millions of yen			Thousands of U.S. dollars
	Contract value or notional principal amount		Unrealized gain (loss)	Unrealized gain (loss)
	Total	Maturities over one year		
At March 31, 2006				
Over-the-counter transactions				
Credit default swaps				
Sold	¥37,500	¥37,500	¥(129)	\$(1,098)

	Millions of yen		
	Contract value or notional principal amount		Unrealized gain (loss)
	Total	Maturities over one year	
At March 31, 2005			
Over-the-counter transactions			
Credit default swaps			
Sold	¥15,500	¥15,500	¥(31)

Notes: 1. Unrealized gains (losses) are recognized in the consolidated statements of income. Derivatives which qualify for hedge accounting are not included in the above table.

2. Market values are calculated using market prices at security corporations, etc.

3. 'Sold' means the underwriting of credit risk and 'Bought' means the transferring of credit risk.

Independent Auditors' Report

To the Shareholders and Board of Directors of
The Nanto Bank Co., Ltd.:

We have audited the accompanying consolidated balance sheets of The Nanto Bank Co., Ltd. and its consolidated subsidiaries as of March 31, 2006 and 2005 and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank'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 consolidated financial position of The Nanto Bank Co., Ltd. and its consolidated subsidiaries as of March 31, 2006 and 2005 and the consolidated 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 the following.

As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, The Nanto Bank Co., Ltd. and its consolidated subsidiaries adopted the new accounting standard for impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 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 AZSA & Co.

(KPMG AZSA & Co.)

Osaka, Japan

June 29, 2006

Capital Management

As of March 31, 2006

CONSOLIDATED CAPITAL ADEQUACY RATIO

	Millions of yen				
	2006	2005	2004	2003	2002
Tier I:					
Capital	¥ 176,221	¥ 170,949	¥ 165,514	¥ 162,446	¥ 155,424
Tax effect amount	—	—	—	—	—
Tier I total (A)	176,221	170,949	165,514	162,446	155,424
Tier II:					
General provision	13,046	12,054	11,626	11,546	11,536
Qualifying subordinated debt.....	20,000	—	—	—	—
Tier II total	33,046	12,054	11,626	11,546	11,536
Of which, added to capital (B).....	33,046	12,054	11,626	11,546	11,536
Deductions from capital (Internal holdings for other financial institutions' fund-raising purposes) (C)	50	50	50	50	50
Total capital [(A)+(B)-(C)] (D)	¥ 209,217	¥ 182,953	¥ 177,090	¥ 173,942	¥ 166,910
Risk-weighted assets					
On-balance sheet risk weighted assets	¥2,067,016	¥1,908,653	¥1,837,497	¥1,827,752	¥1,830,249
Off-balance sheet risk weighted assets	20,395	20,013	22,805	19,701	15,652
Total (E)	¥2,087,412	¥1,928,666	¥1,860,303	¥1,847,453	¥1,845,902
Capital adequacy ratio (Based on domestic standards) (D)/(E)X100%	10.02%	9.48%	9.51%	9.41%	9.04%

Note: The capital adequacy ratio was calculated based on the formula announced by the Ministry of Finance under Provision 14, Clause 2 of the Banking Law.

NON-CONSOLIDATED CAPITAL ADEQUACY RATIO

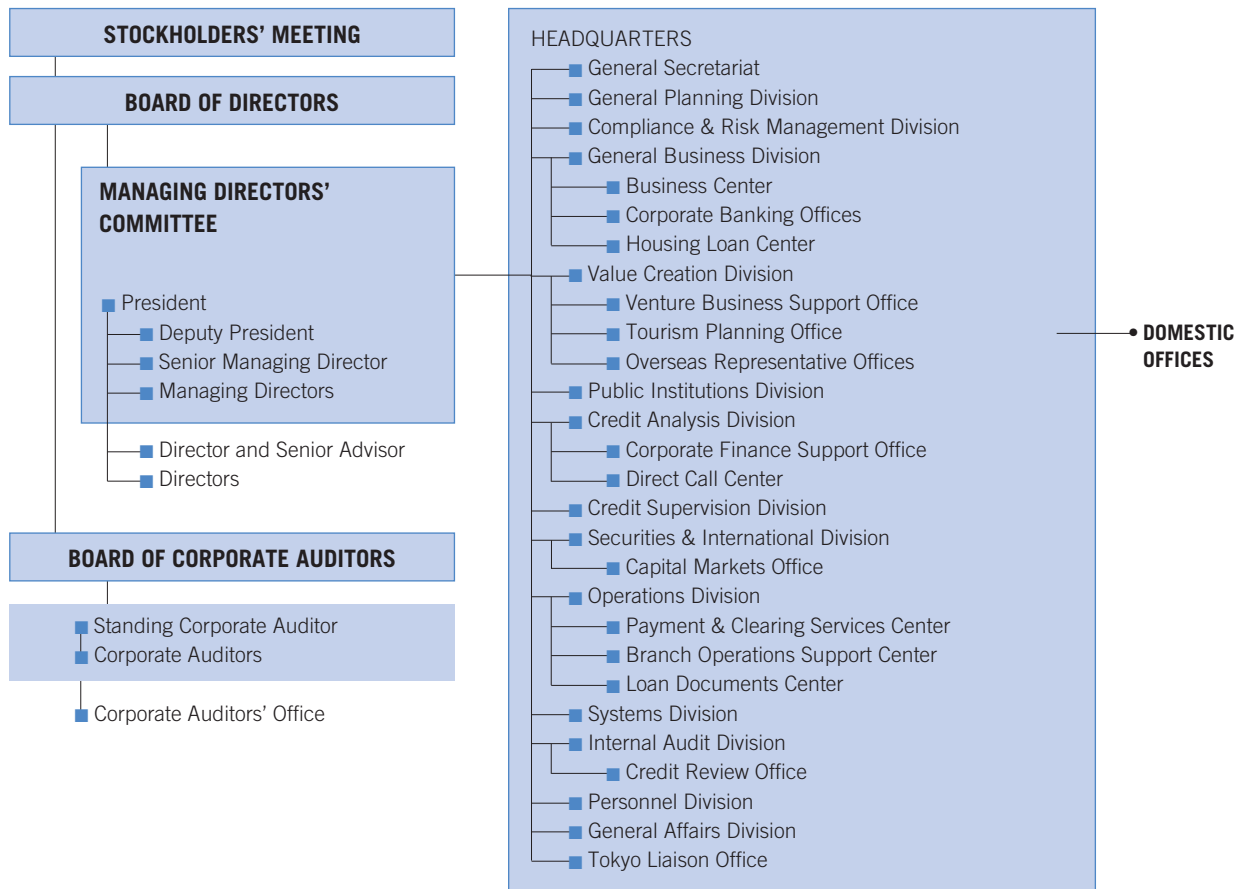
	Millions of yen				
	2006	2005	2004	2003	2002
Tier I:					
Capital	¥ 169,228	¥ 164,263	¥ 159,459	¥ 156,206	¥ 149,285
Tax effect amount	—	—	—	—	—
Tier I total (A)	169,228	164,263	159,459	156,206	149,285
Tier II:					
General provision	12,112	11,972	11,533	11,469	11,467
Qualifying subordinated debt.....	20,000	—	—	—	—
Tier II total	32,112	11,972	11,533	11,469	11,467
Of which, added to capital (B).....	32,112	11,972	11,533	11,469	11,467
Deductions from capital (Internal holdings for other financial institutions' fund-raising purposes) (C)	50	50	50	50	50
Total capital [(A)+(B)-(C)] (D)	¥ 201,290	¥ 176,185	¥ 170,942	¥ 167,625	¥ 160,702
Risk-weighted assets					
On-balance sheet risk weighted assets	2,053,262	¥1,895,634	¥1,822,617	¥1,815,373	¥1,819,136
Off-balance sheet risk weighted assets	20,392	20,011	22,804	19,701	15,652
Total (E)	¥2,073,655	¥1,915,646	¥1,845,421	¥1,835,074	¥1,834,788
Capital adequacy ratio (Based on domestic standards) (D)/(E)X100%	9.70%	9.19%	9.26%	9.13%	8.75%

Note: The capital adequacy ratio was calculated based on the formula announced by the Ministry of Finance under Provision 14, Clause 2 of the Banking Law.

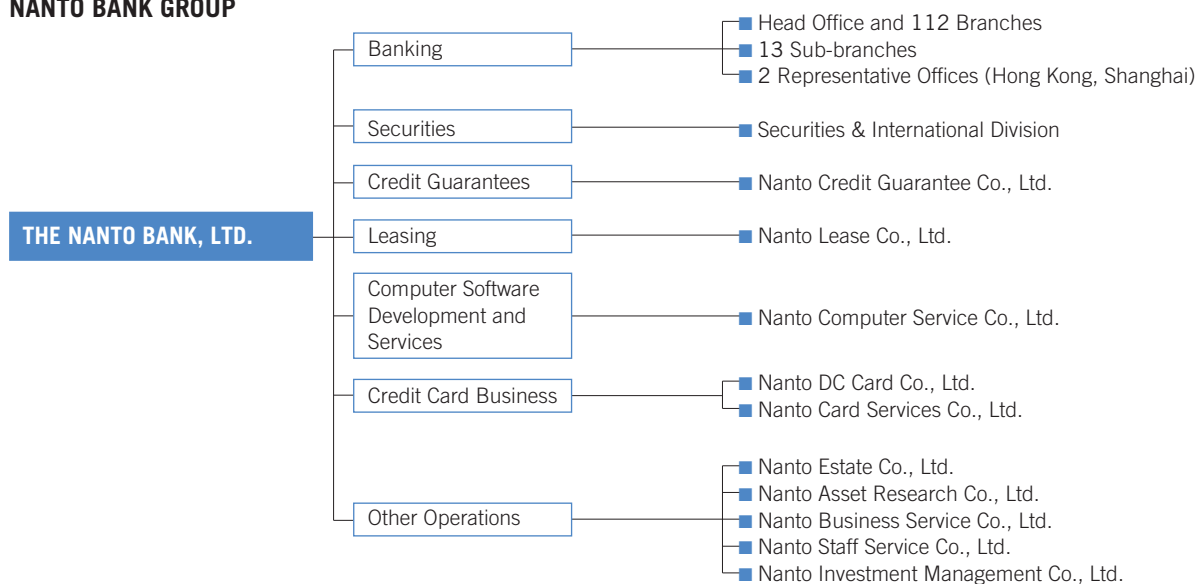
Organization, Group Network

As of July 1, 2006

ORGANIZATION



NANTO BANK GROUP



Affiliates and Subsidiaries, Bank Data

As of March 1, 2006

OUTLINE OF CONSOLIDATED SUBSIDIARIES

Subsidiaries	Address	Established	Capital (Millions of yen)	Direct holdings of the Bank (%)	Indirect holdings through subsidiaries (%)	Business line
Nanto Credit Guarantee Co., Ltd.	2-1, Omiya-cho 6-chome Nara City, Nara, Japan	October 9, 1984	¥10	3%	69%	Credit guarantee
Nanto Lease Co., Ltd.	52-1, Omori-cho Nara City, Nara, Japan	December 22, 1984	50	5	65	Leasing
Nanto Computer Service Co., Ltd.	93-2, Minami-kyobate-cho 1-chome, Nara City, Nara, Japan	July 1, 1986	10	5	69	Computer software development and services
Nanto DC Card Co., Ltd.	2-1, Omiya-cho 6-chome Nara City, Nara, Japan	October 12, 1990	50	5	71	Credit card business
Nanto Card Services Co., Ltd.	2-1, Omiya-cho 6-chome Nara City, Nara, Japan	December 10, 1990	50	5	71	Credit card business
Nanto Estate Co., Ltd.	16, Hashimoto-cho Nara City, Nara, Japan	November 8, 1969	30	100	—	Leasing and management of real estate
Nanto Asset Research Co., Ltd.	16, Hashimoto-cho Nara City, Nara, Japan	July 4, 2005	20	100	—	Research and appraisal of real estate
Nanto Business Service Co., Ltd.	93-2, Minami-kyobate-cho 1-chome, Nara City, Nara Japan	June 1, 1984	10	100	—	Centralized processing of clerical operations for the Bank
Nanto Staff Service Co., Ltd.	2-1, Omiya-cho 6-chome Nara City, Nara, Japan	March 18, 1991	20	100	—	Dispatch of temporary staff
Nanto Investment Management Co., Ltd.	28, Tsunofuri-cho Nara City, Nara, Japan	November 21, 1986	120	5	68	Investment advisory service

HEAD OFFICE

16, Hashimoto-cho
Nara City, Nara 630-8677, Japan
Phone: (0742) 22-1131
URL: <http://www.nantobank.co.jp/>

SECURITIES & INTERNATIONAL DIVISION

16, Hashimoto-cho
Nara City, Nara 630-8677, Japan
Phone: (0742) 27-1560
Fax: (0742) 26-1734
SWIFT address: NANT JP JT
E-mail address: JDA00653@nifty.com

CAPITAL MARKETS DIVISION

12-5, Kyobashi 1-chome
Chuo-ku, Tokyo 104-0031, Japan
Phone: (03) 3535-8824
Fax: (03) 3535-1245

HONG KONG REPRESENTATIVE OFFICE

Suite 3008, 30/F.
Two Exchange Square
8 Connaught Place
Central, Hong Kong, China
Phone: 852-2868-9932
Fax: 852-2530-1583
E-mail address: nantohk@hk.ntt.net

SHANGHAI REPRESENTATIVE OFFICE

16F, HSBC Tower 1000 Lujiazui Ring Road,
Pudong New Area, Shanghai 200120, China
Phone: 86-21-6841-2771
Fax: 86-21-6841-2871

CORPORATE DATA

Authorized shares: 640,000,000
Outstanding shares: 281,756 thousand
Stated capital: 29,249 million
Number of stockholders: 13,090
Date of incorporation: June 1934
Domestic network: 126 offices
Overseas network: 2 representative offices
Number of employees: 2,788
Ordinary stockholders' meeting: June 29, 2006
Stock listings: Tokyo Stock Exchange,
Osaka Securities Exchange

MAJOR STOCKHOLDERS

	Number of shares (Thousands)	Percentage (%)
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	12,854	4.56
The Nanto Bank Employees' Shareholders Association	9,584	3.40
Meiji Yasuda Life Insurance Co.	8,430	2.99
Japan Trustee Services Bank, Ltd.	8,325	2.95
Sumitomo Life Insurance Co.	5,420	1.92
Tokio Marine and Nichido Fire Insurance Co., Ltd.	5,407	1.91
Nippon Life Insurance Co.	4,931	1.75
Mori Seiki Co., Ltd.	4,766	1.69
The Master Trust Bank of Japan, Ltd.	4,108	1.45
Kitamura Ringyo Co., Ltd.	4,063	1.44
Total	67,891	24.09



THE NANTO BANK, LTD.

16, Hashimoto-cho, Nara City, Nara 630-8677, Japan
Phone : (0742) 22-1131