

KANTO TSUKUBA BANK

Annual Report 2009

Year Ended March 31, 2009



The Kanto Tsukuba Bank, Limited

Profile

The Kanto Tsukuba Bank is a regional financial institution operating mainly in Ibaraki Prefecture. The Bank offers high-quality financial products and services with the twin aims of achieving an excellent level of customer satisfaction and playing a valuable role in the development of the economy and society of its home region.

We aim to grow together with the community in which we operate by providing services carefully tailored to the specific needs of local customers, and by earning their trust through consistent reliability. In parallel, we will fulfill our responsibility to our shareholders by providing adequate returns, and aim to make the Kanto Tsukuba Bank an indispensable element in the socioeconomic life of Ibaraki Prefecture and surrounding areas.

As of the end of March 2009 the Bank had 76 offices, including both its head office and branches, in addition to 9 sub-branch offices, and our network of ATMs numbered 251.

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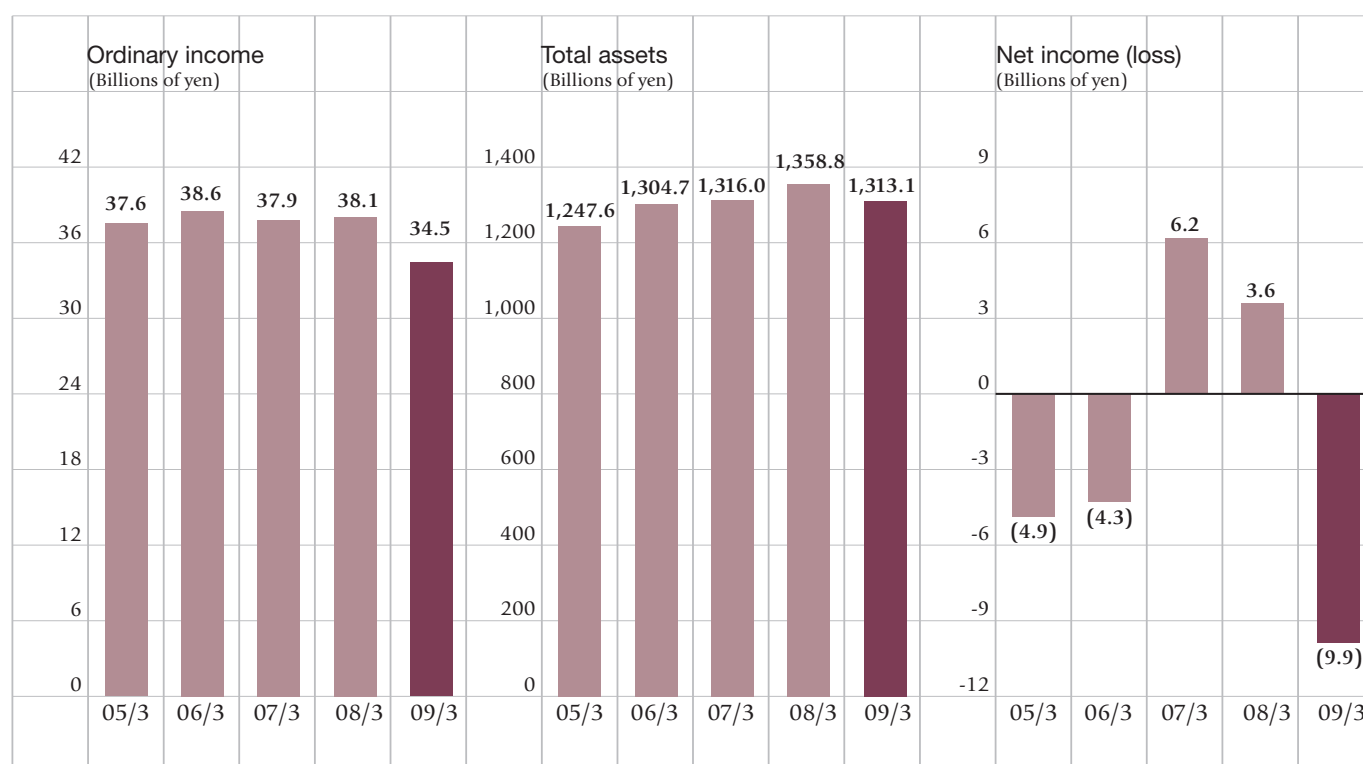
Forward-looking statements

Statements contained in this report regarding the Bank's future performance do not constitute statements of historical fact, and are thus subject to a number of risks and uncertainties. Readers are therefore cautioned not to place undue reliance on forward-looking statements, as factors beyond the Bank's control and outside its ability to predict, including general economic conditions and market fluctuations, could cause results to diverge materially from the Company's projections.

Consolidated Financial Highlights

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
Years Ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
For the year:		
Ordinary income	¥ 38,165	¥ 34,591
Ordinary expenses	34,402	42,841
Income (loss) before income taxes and minority interests.....	3,622	(8,152)
Net income (loss)	3,668	(9,984)
At year-end:		
Deposits.....	¥1,207,483	¥1,193,557
Loans and bills discounted	919,055	937,591
Securities	260,439	234,848
Total assets	1,358,812	1,313,111
Net assets.....	48,783	30,328



Message from the President



The slogan of Kanto Tsukuba Bank is: “A Bank with Heart, prospering together with the local community.” In line with this, we follow the basic policies of providing a working environment where our employees can realize their full potential, working to improve satisfaction for both our shareholders and our customers, and contributing to the development of the regional economy. The basic strategies currently being implemented by the Bank include creating a more rigorous corporate governance system, expanding our operational base, and promoting greater collaboration with other members of the local community under the relationship banking concept. Finally, the concrete implementation of these strategies is being pursued under our third medium-term management plan, named New Stage 2011.

Creating a more rigorous corporate governance system

At Kanto Tsukuba Bank, we are currently working to establish our risk management system on a more rigorous basis. We are introducing more advanced risk management methods, and to verify the appropriateness of our management of risk we have introduced a monthly risk amount quantification system. This enables us to simultaneously manage risk while achieving more effective earnings management.

Legal compliance is the bedrock on which a company's management rests, and we believe that our customers' trust in the Bank is our greatest asset. To that end, we position legal compliance as our top-priority management issue. Within the broader category

of compliance, we are focusing efforts particularly on strengthening protection of customer information. In line with this emphasis, we are drawing up regulations to reinforce customer information protection and improve the convenience of our services in a number of areas. These include providing adequate explanations to customers of financial products and services prior to sale; offering consultation services to customers and providing channels through which their complaints can be carefully listened to; managing confidential customer information to ensure that there is no improper usage; and laying down strict rules for companies to which we outsource administrative work.

Expanding our operational base

The Bank at present has 85 branches, and we are continuing to open branches in new areas, carefully tailoring the size of the branch to estimated demand in its marketing area, so as to realize efficient operations.

We are pinpointing districts that appear to have particularly good growth prospects for the opening of new stores. To promote efficiency, where appropriate we integrate the marketing operations of existing branches with these new branches, and the old branches are then closed. In line with this store-opening policy, we opened the Miraidaira Branch in front of Miraidaira Station, and the Tsukuba Fukutoshin Branch and Kenkyu Gakuen Station Sub-Branch in front of Kenkyu Gakuen Station, both on the Tsukuba Express Line. Meanwhile, the operations of the Tsuchiura Station Sub-Branch were integrated with our head office marketing unit, the operations of the Ishige-Nishi Sub-Branch with those of Ishige Branch, and the operations of Shimozuma-Higashi Branch with those of Shimozuma Marketing Department.

We appoint staff members thoroughly versed in the details of our investment products to ensure that adequate explanations are offered to customers and that they are helped to choose products that precisely meet their needs. We also have a total of ten new-type offices open on days when the Bank's branches are closed. Our Personal Plazas, where we offer consultation services via video-phones connected with our Head Office, offer consulting services relating to personal loans and asset management, as well as advice on pensions and taxation issues, while our Loan Plazas offer consultations relating to personal loans only. These are some of the ways in which we are expanding our customer support functions to realize greater customer satisfaction.

Promoting greater collaboration with other members of the local community under the relationship banking concept

No optimism is warranted with regard to the regional economy, which is dependent on the state of the national economy. In these circumstances, we hope to play a valuable role in the local community by forging close relationship with our corporate customers in which we supply them with accurate industry-specific and

economy-wide analysis and forecasts, and they supply us with detailed information about their business conditions. To put this idea into practice, since the second half of fiscal 2008 our marketing staff have been visiting corporate customers to propose such a close information-sharing relationship. We continue to send staff on frequent visits to our customers, as we believe this is the most effective way of obtaining useful information. We hope to then use the information gleaned to offer our customers timely and effective advice.

We also believe it is one of our important roles as a regional financial institution to provide management improvement support services and corporate rehabilitation support services to our customers. We intend to continue proposing effective solutions to all our customers' management problems as a way of revitalizing the local economy.

Recent initiatives by the Bank

At Kanto Tsukuba Bank, we treat the concept of corporate social responsibility (CSR) as incorporating the continuous creation of deeper relationships with our customers, shareholders, and employees as well as the local community as a whole. We also believe that CSR entails taking measures to help realize sustainable growth for both business enterprises and the community, and that to enable the Bank to fulfill its social responsibilities we must strengthen our legal compliance and risk management systems and take other steps to advance the interests of our stakeholders.

Kanto Tsukuba Bank is a regional financial institution based in Ibaraki Prefecture, which is noted for its rich natural environment, centered notably on Lake Kasumigaura. Given our location, we naturally place great importance on environmental issues in our CSR programs, and actively undertake environmental preservation activities on an ongoing basis.

Specific measures taken recently include energy conservation initiatives, conservation of natural resources, and "green" procurement, with the aim of lowering the environmental burden of the local community's activities. With respect to the Bank's contribution to the community, we offer financial products and services that assist in environmental preservation. We also contribute to environmental preservation by lowering the environmental burden created by our office operations through close compliance with environmental legislation, including steps to promote energy conservation, conservation of natural resources, and the greater use of recycling. We make sure that all Bank staff are fully aware of environmental issues, and encourage them to take an active part in environmental protection activities.

Kanto Tsukuba Bank has commenced a business collaboration agreement involving mutual user access through ATMs with four other regional banks — Chiba, Tokyo Tomin, Musashino, and Yokohama. Under this agreement, the same ATM fee will be charged to customers of all the participating banks when they withdraw cash or make money transfers using their ATM cards. This is designed to provide customers over an even wider area with access to convenient services.

Future prospects for Kanto Tsukuba Bank

Ibaraki Prefecture, which constitutes the Bank's central operating area, is very close to Tokyo. It consists mainly of a fertile coastal plain, and is renowned for an extensive unspoiled natural environment. Ibaraki is blessed with a relatively low incidence of serious earthquakes, and is also largely free from flooding or other damage from typhoons.

The prefecture is already directly linked with the Tohoku Expressway via the North Kanto Expressway. In addition, work is proceeding smoothly on the Metropolitan Inter-City Expressway, the East Kanto Expressway, and Ibaraki Airport. When completed, these new projects will greatly improve the region's transportation infrastructure.

During fiscal 2008 the Tsukuba Express, a high-speed train service linking Tsukuba City with Tokyo's Akihabara Station, carried an average of 257,000 passengers per day, for an increase of 10% over the previous year. The number of passengers embarking at stations within Ibaraki Prefecture rose by 12%, indicating that more residents of southern Ibaraki were commuting to Tokyo.

These statistics imply that the Bank's home region is achieving steady development in spite of the severe economic environment. At Kanto Tsukuba Bank we see this developmental trend as a golden opportunity, and are therefore responding with an aggressive marketing strategy, which we hope will lead to an improved business performance.

Regarding the Bank's branch-opening strategy, we intend to expand our branch network by opening new offices at each station on the Tsukuba Express Line within Ibaraki Prefecture. Our head Office will be moving from its present location of Tsuchiura to Tsukuba City before the end of fiscal 2009, and we aim to achieve further growth by gathering and analyzing data on the local region's economic development, as well as leveraging the advantages offered by the relative proximity of Tokyo.

On March 1, 2010 the Bank is scheduled to merge with Ibaraki Bank. The legal surviving entity will be Kanto Tsukuba Bank, and the post-merger entity will operate under the name of Tsukuba Bank. We will work to realize the benefits of synergy arising from the merger to provide satisfaction for our customers, shareholders, and employees, as well as for the local community as a whole. The management and staff of the Bank are committed to working together to contribute to the further development and prosperity of the regional economy.

I hope that you will continue to favor us with your support in these endeavors.



Kozo Kimura
President

Planned Merger with Ibaraki Bank



Kanto Tsukuba Bank and Ibaraki Bank have signed a basic merger agreement under which the two banks are scheduled to merge their operations within fiscal 2009, culminating in the establishment of a new bank on March 1, 2010. Preparations for this merger are currently underway.

1. Objectives of proposed merger

Since the start of the worldwide financial crisis in 2008 the business environment has changed dramatically. The Bank, in common with all other regional financial institutions, is now faced with the necessity of responding precisely and speedily to changes in customer needs while also helping support the healthy development of the regional economy.

At the same time, financial institutions are being required to further strengthen their corporate governance, including internal controls, risk management, and compliance, while adapting to mandatory changes in accounting standards.

Up to now, Kanto Tsukuba Bank and Ibaraki Bank have both operated throughout the whole of Ibaraki Prefecture and in certain areas of surrounding prefectures, with the former bank being headquartered in Tsuchiura and the latter in Mito. The managements of both banks now recognize the overriding importance of crafting an effective response to the changing business environment in order to achieve growth and contribute to the healthy development of the regional economy. To this end, the two banks must strengthen their business base within Ibaraki Prefecture. Further, the managements of the two banks have reached the decision that the most effective way to strengthen their business base would be to implement a management integration that would remove the duplications of branches and marketing staff that exist at present, and realize various synergistic effects. After a series of talks between the top management members of the banks, they reached a mutual understanding that Kanto

Tsukuba Bank and Ibaraki Bank would be the ideal business partners for one another, and it was on the basis of this understanding that a basic merger agreement was drawn up.

The merger is anticipated to realize cost benefits by enabling the removal of duplications resulting from the overlapping of the marketing operations of the two banks' branch networks, as well as making it possible to create a stronger organizations through the combination of the two partners' human resources. In these ways, it is believed, the goal of strengthening the business base will be achieved.

For the two banks' customers — both local small companies and individuals — the merger will open the way for the banks to pool their expertise to develop and offer even higher-quality financial services. The new bank that emerges from the merger will aim to grow hand-in-hand with its local customers so as to become truly indispensable to the economic life of Ibaraki Prefecture.

2. Details of the proposed merger

(1) Merger procedures timeline

April 28, 2009:

- * Two boards of directors approve basic merger agreement
- * Signing of basic merger agreement

June 2009:

- * Basic merger agreement approved by extraordinary general meetings of shareholders of the two banks

August 2009:

- * Approval of official merger agreement by boards of directors of the two banks
- * Signing of official merger agreement

September 2009:

- * Official merger agreement scheduled for approval by extraordinary general meetings of shareholders of the two banks

March 1, 2010 (plan):

- * Date of effect of merger

In the event that, during the course of preparations for the merger, a serious obstacle to the consummation of the merger should arise, the managements of the two banks have agreed to consult together, and such consultations could lead to a significant change in the merger schedule, the procedures, and/or the terms of the merger agreement.



(2) Form of merger

The banks have agreed to management integration on the understanding that the staff of the two banks will be treated equally. The legal surviving entity will be Kanto Tsukuba Bank, and Ibaraki Bank will be dissolved.

(3) Stock allotment ratio

Name	Kanto Tsukuba Bank	Ibaraki Bank
Merger ratio	1	0.18

Notes:

1. Stock allotment ratio

Holders of stock in Ibaraki Bank will receive 0.18 of a share of common stock in Kanto Tsukuba Bank in exchange for each

share of common stock of Ibaraki Bank. No allotment of shares will be made with respect to the 48,863 shares of own stock held in treasury by Ibaraki Bank as of December 31, 2008.

2. Shares to be issued upon merger

25,308,693 shares

Kanto Tsukuba Bank will utilize the 190,356 shares of treasury stock that it holds (as of December 31, 2008) for the share exchange described in 1. above. The figure of 190,356 shares is an estimate based on the number of treasury shares as of December 31, 2008, and the figure may change as a result of fluctuations in the number of treasury shares held by Kanto Tsukuba and Ibaraki banks

(4) Basis of calculation of share exchange ratio

1. Calculation criteria and process

To ensure that the share exchange ratio to be employed for the merger was rationally arrived at in a fair and transparent manner, Kanto Tsukuba Bank and Ibaraki Bank entrusted the calculation to the Masters Trust Inc., which serves as an advisor to both banks. The managements of both banks then subjected the calculation results presented by Masters Trust to close examination from a variety of perspectives, following which they decided to adopt the ratio shown above.

Masters Trust Inc. applied an evaluation procedure to both Kanto Tsukuba Bank and Ibaraki Bank involving a combination of comparison with similar companies, the discounted cash flow (DCF) method, and the adjusted net asset method. By these means, it was determined that the most appropriate range of the merger ratios was 0.176-0.204 for Ibaraki Bank compared with 1 for Kanto Tsukuba Bank. This merger ratio was factored in to amendments of fiscal 2008 business performance forecasts included in the press releases dated April 28, 2009 by the two banks.

Kanto Tsukuba Bank received an evaluation of this merger ratio from Nikko Cordial Securities to the effect that the ratio had been calculated fairly, taking the financial position of the Bank into account and allowing for certain pre-conditions. Ibaraki Bank received an essentially identical evaluation from Mizuho Securities.

2. Relationship of the banks with the companies to which the calculation and evaluations were entrusted

Neither Masters Trust, Nikko Cordial, nor Mizuho Securities have any material interests in either Kanto Tsukuba Bank or Ibaraki Bank.

Consolidated Balance Sheets

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
As of March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Assets		
Cash and due from banks	¥ 56,202	¥ 53,156
Call loans and bills bought	65,000	30,000
Monetary claims bought	1,511	1,119
Trading securities	165	162
Money held in trust	1,959	1,934
Securities	260,439	234,848
Loans and bills discounted	919,055	937,591
Foreign exchanges	1,039	1,208
Lease receivables and lease investment assets		4,502
Other assets	5,622	12,485
Tangible fixed assets	7,893	8,683
Buildings	2,211	2,221
Land	4,645	4,668
Construction in progress	10	2
Other tangible fixed assets	1,026	1,790
Intangible fixed assets	3,154	2,916
Software	2,509	2,321
Other intangible fixed assets	645	595
Lease assets	5,966	—
Deferred tax assets	13,929	9,537
Customers' liabilities for acceptances and guarantees	42,046	37,428
Reserve for possible loan losses	(25,173)	(22,464)
Total assets	¥1,358,812	¥1,313,111
Liabilities		
Deposits	¥1,207,483	¥1,193,557
Payables under securities lending transactions	20,000	20,000
Borrowed money	18,235	12,027
Foreign exchanges	18	5
Bonds	—	2,700
Other liabilities	17,228	12,165
Reserve for employees' bonuses	507	472
Reserve for employees' retirement benefits	3,261	2,840
Reserve for executives' retirement benefits	179	149
Reserve for reimbursement of dormant deposits	124	248
Reserve for contingent losses	185	460
Deferred tax liabilities for land revaluation	756	728
Negative goodwill	1	—
Acceptances and guarantees	42,046	37,428
Total liabilities	1,310,029	1,282,783
Net assets		
Common stock	31,368	31,368
Capital surplus	10,758	10,758
Retained earnings (accumulated deficit)	9,802	(829)
Treasury stock	(259)	(260)
Total shareholders' equity	51,669	41,037
Net unrealized losses on available-for-sale securities	(3,311)	(11,019)
Net deferred losses on hedging instruments, net of taxes	(174)	(300)
Land revaluation excess	361	378
Total valuation and translation adjustments	(3,124)	(10,941)
Minority interests	237	232
Total net assets	48,783	30,328
Total liabilities and net assets	¥1,358,812	¥1,313,111

Consolidated Statements of Operations

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Ordinary income.....	¥38,165	¥34,591
Interest income	26,846	25,377
Interest on loans and discounts	21,939	21,551
Interest and dividends on securities	3,238	2,306
Interest on call loans and bills bought	340	203
Interest on receivables under securities borrowing transactions	28	14
Interest on deposits with banks	361	375
Other interest income.....	938	926
Fees and commissions.....	5,780	4,862
Other operating income.....	1,591	355
Other ordinary income	3,946	3,995
Ordinary expenses.....	34,402	42,841
Interest expenses	4,157	5,025
Interest on deposits	3,463	3,810
Interest on call money and bills sold	0	—
Interest on payables under securities lending transactions	54	496
Interest on borrowings and rediscounts	558	542
Interest on bonds.....	—	70
Other interest expenses.....	80	105
Fees and commissions	1,541	1,780
Other operating expenses.....	1,310	5,658
General and administrative expenses.....	19,344	20,479
Other ordinary expenses	8,047	9,898
Provision for reserve for possible loan losses	3,275	2,770
Other ordinary expenses.....	4,771	7,127
Ordinary profit (loss)	3,763	(8,250)
Extraordinary income	756	783
Gain on recovery of write-off claims	756	519
Gain on securities contributed to retirement benefits trust	—	263
Extraordinary losses	897	685
Loss on disposal of fixed assets.....	37	31
Loss on impairment of fixed assets	111	215
Merger expenses.....	—	438
Other extraordinary losses	748	—
Income (loss) before income taxes and minority interests	3,622	(8,152)
Income taxes - current.....	121	78
Income taxes - deferred.....	(163)	1,758
Total income taxes		1,837
Minority interests in net loss.....	(4)	(5)
Net income (loss)	¥ 3,668	¥(9,984)

Consolidated Statements of Changes in Net Assets

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Shareholders' equity		
Common stock		
Balance at end of previous year	¥31,368	¥31,368
Changes during year	—	—
Balance at end of year	¥31,368	¥31,368
Capital surplus		
Balance at end of previous year.....	¥10,758	¥10,758
Changes during year	—	—
Balance at end of year	¥10,758	¥10,758
Retained earnings (accumulated deficit)		
Balance at end of previous year.....	¥ 6,454	¥ 9,802
Changes during year:		
Cash dividends	(631)	(627)
Changes in equity stakes due to capital increase	377	—
Net income (loss)	3,668	(9,984)
Disposal of treasury stock	(0)	(2)
Reversal of land revaluation excess	(67)	(16)
Total changes during year	3,347	(10,631)
Balance at end of year	¥ 9,802	¥ (829)
Treasury stock		
Balance at end of previous year.....	¥ (252)	¥ (259)
Changes during year:		
Purchase of treasury stock	(9)	(5)
Disposal of treasury stock	1	4
Total changes during year	(7)	(0)
Balance at end of year	¥ (259)	¥ (260)
Total Shareholders' equity		
Balance at end of previous year.....	¥48,330	¥51,669
Changes during year:		
Cash dividends	(631)	(627)
Changes in equity stakes due to capital increase	377	—
Net income (loss)	3,668	(9,984)
Purchase of treasury stock	(9)	(5)
Disposal of treasury stock	0	1
Reversal of land revaluation excess	(67)	(16)
Total changes during year	3,339	(10,632)
Balance at end of year	¥51,669	¥41,037

Millions of yen

2008 2009

Valuation and translation adjustments

Net unrealized losses on available-for-sale securities

Balance at end of previous year.....	¥ 3,115	¥ (3,311)
Changes during year:		
Net changes in items other than shareholders' equity	(6,427)	(7,707)
Total changes during year	(6,427)	(7,707)
Balance at end of year	¥ (3,311)	¥ (11,019)

Net deferred losses on hedging instruments, net of taxes

Balance at end of previous year.....	¥ (20)	¥ (174)
Changes during year:		
Net changes in items other than shareholders' equity	(154)	(126)
Total changes during year	(154)	(126)
Balance at end of year	¥ (174)	¥ (300)

Land revaluation excess

Balance at end of previous year.....	¥ 294	¥ 361
Changes during year:		
Net changes in items other than shareholders' equity	67	16
Total changes during year	67	16
Balance at end of year	¥ 361	¥ 378

Total valuation and translation adjustments

Balance at end of previous year.....	¥ 3,390	¥ (3,124)
Changes during year:		
Net changes in items other than shareholders' equity	(6,514)	(7,816)
Total changes during year	(6,514)	(7,816)
Balance at end of year	¥ (3,124)	¥ (10,941)

Minority interests

Balance at end of previous year.....	¥ 280	¥ 237
Changes during year:		
Net changes in items other than shareholders' equity	(42)	(5)
Total changes during year	(42)	(5)
Balance at end of year	¥ 237	¥ 232

Total net assets

Balance at end of previous year.....	¥52,000	¥ 48,783
Changes during year:		
Cash dividends	(631)	(627)
Changes in equity stakes due to capital increase	377	—
Net income (loss)	3,668	(9,984)
Purchase of treasury stock	(9)	(5)
Disposal of treasury stock	0	1
Reversal of land revaluation excess	(67)	(16)
Net changes in items other than shareholders' equity	(6,557)	(7,822)
Total changes during year	(3,217)	(18,455)
Balance at end of year	¥48,783	¥ 30,328

Consolidated Statements of Cash Flows

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
For the Years Ended March 31, 2008 and 2009

	Millions of yen	
	2008	2009
Cash flows from operating activities		
Income (loss) before income taxes and minority interests	¥ 3,622	¥ (8,152)
Depreciation	3,477	1,603
Loss on impairment of fixed assets	111	215
Amortization of goodwill.....	468	—
Amortization of negative goodwill	(1)	(1)
Decrease in reserve for possible loan losses	(446)	(2,709)
Increase (decrease) in reserve for employees' bonuses	33	(34)
Increase in reserve for employees' retirement benefits	181	61
Increase (decrease) in executives' retirement benefits	179	(30)
Increase in reserve for reimbursement of dormant deposits	124	123
Increase in reserve for contingent losses	185	275
Interest and dividend income	(26,846)	(25,377)
Interest expenses	4,157	5,025
Losses (gains) on securities transactions	(1,223)	8,339
Losses on money held in trust	36	21
Foreign exchange losses (gains)	2,487	(144)
Losses on disposal of fixed assets	37	31
Net increase in loans and bills discounted	(16,033)	(18,536)
Net increase (decrease) in deposits	24,281	(13,926)
Net decrease in borrowed money excluding subordinated debt	(140)	(508)
Net decrease in due from banks excluding cash equivalents	1,888	10,686
Net decrease (increase) in call loans and others	(64,688)	35,394
Net increase in payables under securities lending transactions	20,000	—
Net increase in foreign exchange, assets	(533)	(169)
Net decrease in foreign exchange, liabilities	(19)	(12)
Net increase in lease assets	(1,640)	—
Net decrease in lease receivables and lease investment assets.....		553
Net increase in trading securities	(52)	(37)
Interest and dividends received.....	27,310	25,247
Interest paid.....	(2,883)	(3,802)
Others, net.....	(753)	(7,675)
Subtotal	(26,678)	6,460
Income taxes paid	(183)	(23)
Net cash provided by (used in) operating activities	(26,861)	6,437
Cash flows from investing activities		
Purchases of securities	(312,645)	(174,230)
Proceeds from sale of securities	40,804	44,419
Proceeds from redemption of securities	239,620	136,216
Purchases of tangible fixed assets.....	(688)	(1,081)
Purchases of intangible fixed assets	(1,585)	(442)
Proceeds from sale of tangible fixed assets.....	3	31
Proceeds from sale of intangible fixed assets	136	1
Net cash provided by (used in) investing activities	(34,354)	4,914
Cash flows from financing activities		
Proceeds from issuance of subordinated debt	3,000	296
Repayment of subordinated debt.....	(1,100)	(6,000)
Proceeds from issuance of subordinated bonds	—	2,619
Cash dividends paid	(631)	(627)
Purchase of treasury stock	(9)	(5)
Proceeds from sale of treasury stock.....	0	1
Net cash provided by (used in) financing activities	1,260	(3,715)
Translation adjustment for cash and cash equivalents.....	0	3
Net increase (decrease) in cash and cash equivalents.....	(59,955)	7,640
Cash and cash equivalents at beginning of year.....	83,144	23,189
Cash and cash equivalents at end of year.....	¥ 23,189	¥ 30,829

Notes to Consolidated Financial Statements

The Kanto Tsukuba Bank, Limited and Consolidated Subsidiaries
Year Ended March 31, 2009

Significant accounting policies

1. Scope of consolidation

- (1) Consolidated subsidiaries: 6
Please refer to page 21, "Subsidiaries and Affiliated Companies."
- (2) Non-consolidated subsidiaries: Not applicable

2. Application of equity method

- (1) Non-consolidated subsidiaries subject to the equity method: Not applicable
- (2) Affiliated companies subject to the equity method: Not applicable
- (3) Non-consolidated subsidiaries not subject to the equity method: Not applicable
- (4) Affiliated companies not subject to the equity method: Not applicable

3. Balance-sheet date of consolidated subsidiaries

The balance-sheet date of six consolidated subsidiaries is March 31.

4. Accounting standards

- (1) Trading securities
Trading securities are valued at fair market value. (Cost of trading securities sold is principally determined using the moving-average method.)
- (2) Securities
 - a) Marketable debt securities held to maturity are stated at amortized cost using the moving-average method. Available-for-sale securities outside the scope of held-to-maturity securities of which market prices are available are stated at fair value based principally on the market prices prevailing on the balance-sheet date and cost of securities sold is principally determined using the moving-average method. Those of which fair value is not available are stated at cost or amortized cost determined by the moving-average cost method.
Unrealized gain or loss on available-for-sale securities (net of the applicable tax amounts) has been reported as a component of net assets.
 - b) Investments in securities held in money trusts whose investment is operated solely by the Bank on behalf of the trustors, are stated at fair value.
- (3) Derivatives
Derivatives transactions are recorded at market value.
- (4) Depreciation of fixed assets
 - a) Tangible fixed assets (excluding lease assets)
Depreciation of tangible fixed assets held by the Bank is calculated by the declining-balance method, except for buildings acquired on or after April 1, 1998 of which depreciation is calculated by the straight-line method.
The estimated useful lives are as follows:
Buildings: 15 to 47 years
Equipment: 3 to 15 years
 - b) Intangible fixed assets (excluding lease assets)
Intangible fixed assets are amortized on a straight-line

basis. Software for internal use is amortized on a straight-line basis over the useful lives (5 years).

- (5) Accounting for deferred assets
The issuance expenses of corporate bonds are fully charged to income at the time they are incurred.
- (6) Reserve for possible loan losses
The reserve for possible loan losses of the Bank is provided as detailed below, in accordance with the internal rules for providing reserves for possible loan losses:
For claims to debtors who are legally bankrupt (as a result of bankruptcy, special liquidation, etc.) or who are substantially bankrupt, a provision is made based on the amount of the claims, net of the amounts expected to be collected by the disposal of collateral or as a result of the execution of guarantees. For claims to debtors who are not currently bankrupt, but are likely to become bankrupt, a provision is made based on the amount deemed necessary based on an overall solvency assessment of the borrowers and the amount of claims net of the amounts expected to be collected by the disposal of collateral or as a result of the execution of guarantees.
For other claims, a reserve is provided based on the Bank's historical loan-loss records.
All claims are assessed by the Business Section (at the branches and the related head office divisions) based on the Bank's internal rules for the self-assessment of asset quality. The Corporate Audit Department, which is independent of the Business Section, subsequently conducts audits of such assessments, and a provision is made based on the audit results.
For collateralized or guaranteed claims from debtors who are legally or substantially bankrupt, the amounts of the claims deemed uncollectible in excess of the estimated value of the collateral or guarantees have been written off in aggregate amounts of ¥26,458 million as of March 31, 2009.
Regarding consolidated subsidiaries, provisions are made for non-specific claims at an amount based on the actual historical loan loss rates and for specific claims (basically on potentially bankrupt borrowers) at an estimate of the amounts deemed uncollectible based on the individual assessments.
- (7) Reserve for employees' bonuses
A provision is made for the accrued bonus payment based on estimates of bonuses payable to employees as of the balance-sheet date.
- (8) Reserve for employees' retirement benefits
A provision is made for the preparation of retirement of employees in an amount attributable to the reporting period, based on estimated balance of retirement benefits obligations and plan assets at the fiscal year end, to cover required retirement benefits for eligible employees.
The method for the recognition of gains and losses generating from changes in actuarial assumptions is as follows.
Unrealized actuarial losses are deferred and amortized on a straight-line basis over a ten-year period commencing with the following year when recognized, which is shorter than the average remaining service

period of the eligible employees.

The translation obligations, that is, difference arising from changes in accounting standards of ¥6,429 million, after deduction of the amount associated with termination of pension fund operations for the Government, are recognized and charged to income on an equal amount basis over ten years.

(9) Reserve for executives' retirement benefits

A provision is made for retirement benefits for directors, corporate auditors and executive officers in an amount accrued at the end of the reporting period based on internal regulations.

(10) Reserve for reimbursement of dormant deposits

Provision is made for losses on claims on dormant accounts in the future in an amount deemed necessary taking into account the Bank's historical refund record.

(11) Reserve for contingent losses

Provision is made in an amount deemed necessary to cover possible losses resulting from the default of loans under the system for loan-loss sharing with credit guarantee associations, primarily on the basis of historical default rates.

(12) Translation of foreign currencies

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

(13) Lease transactions

As Lessee:

Finance lease transactions in which ownership of the lease assets is not transferred to the lessee and for which leasing contracts commenced prior to April 1, 2008 are treated in the same manner as applied to ordinary operating lease transactions.

As Lessor:

With regard to finance transactions in which ownership of the lease assets is not transferred to the lessee and for which leasing contracts commenced prior to April 1, 2008, in line with stipulations in Article 81 of the ASBJ Guidance on accounting procedures for leasing transactions, the theoretical value of assets (after deduction of accumulated depreciation expenses) as of the previous term-end is utilized for the determination of balance-sheet amounts of lease investment assets at the beginning of the reporting period.

This change in accounting standards caused loss before income taxes and minority interests to increase by ¥306 million over the amount calculated by the previous standards.

(14) Finance leases

Revenues and cost of revenues are recognized when lease payments are made.

(15) Hedging

The deferred hedge accounting is applied to interest risks on financial assets and liabilities of the Bank. When carrying out hedging transactions, the Bank employs interest swaps and other derivatives, implementing hedge transactions on an individual basis to hedge interest risks on loans and other financial assets and liabilities. In accordance with the risk management policies of the

Bank, the Bank specifies hedged items and corresponding hedge instruments and the hedge effectiveness is assessed by examining whether interest risks of the relevant hedged items are offset by the relevant hedging transactions or not.

(16) Consumption tax

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

However, non-deductible consumption taxes on tangible fixed assets are charged to income as incurred.

5. Amortization of negative goodwill

Negative goodwill recognized for the operations of Kanto Leasing Co., Ltd. and Kangin Computer Service Co., Ltd. is reversed on an equal-amount basis over ten years.

6. The scope of cash and cash equivalents posted under consolidated statements of cash flows

Cash and cash equivalents recorded under the consolidated statements of cash flows consist of cash on hand, deposits with the Bank of Japan, current deposits and ordinary deposits, which are included in "cash and due from banks" in the consolidated balance sheets.

Application of new accounting standards

1. Accounting standards for leasing transactions

Finance lease transactions in which there is no transfer of ownership were formerly accounted for by a method corresponding to that used for ordinary operating lease contracts. However, for financial statements relating to periods commencing on or after April 1, 2008, it is permitted to apply the Accounting Standard for Lease Transactions (ASBJ Statement No. 13, issued on March 30, 2007) and the related ASBJ Guidance No. 16 issued on the same date. Accordingly, they are being duly applied as of the year ended March 31, 2009 in accordance with accounting relating to ordinary buying and selling transactions.

As a result of this change, lease receivables and lease investment assets were posted in the amount of ¥4,502 million and tangible fixed assets were posted in the amount of ¥512 million. The caused a decrease of ¥5,041 in lease property compared with the application of the previous standards. General and administrative expenses, and ordinary loss, and loss before income taxes all increased by ¥26 million compared with the application of the previous standards.

2. Presentation of merger expenses in the statements of operations

Expenses relating to merger, which were posted as an extraordinary loss under "other" for the previous business year on a consolidated basis, has been posted as a separate item for the reporting period, in view of the fact that the said merger expenses accounted for more than ten percent of the total extraordinary loss figure.

Merger expenses included in "other" for the previous business year, on a consolidated basis, came to ¥32 million.

3. Changes in standards for application of impairment accounting to "available-for-sale securities"

Previously, the Bank applied impairment accounting to available-for-sale securities whose market value has declined by 30% or more from the acquisition cost. Beginning with the reporting term, the Bank changed the criteria for the application of impairment accounting taking into account recent wide price fluctuations of equity securities. Securities whose market value has declined by 50% or more are unconditionally subject to the application of impairment accounting. Regarding securities whose market value has declined by 30% or more but by less than 50%, impairment accounting is applied taking into consideration the price movements and business performance of the issuing companies. In the event of application, the amount of the acquisition cost in excess of the market value is posted under impairment loss. Due to this change in accounting standards, amounts posted under impairment loss decreased by ¥6,401 million for the reporting term, compared with the amount that would have resulted from application of the previous standards.

4. Changes in method of valuation of fair value of "available-for-sale securities"

Regarding the fair value of Japanese Government Bonds (JGBs) with variable interest rates, this has hitherto been stated in the consolidated balance sheets calculated by reference to current market prices. After consideration of the recent market environment, in the case of securities where the asking price of buyer and seller diverges markedly, and where it is judged that the current market prices cannot be regarded as the fair value, with effect from the reporting fiscal year the Bank has decided to adopt a system of estimation based on a "theoretical price." As a result of this change, the total value of securities and unrealized gains and losses on available-for-sale securities increased by ¥395 million compared with the application of the previous method.

The "theoretical price" used to estimate the value of variable-interest JGBs employs estimations of present value of future cash flows, which are obtained using the yield on JGBs as well as the discount rate based on the yield. The principal variables used in determining the JGB price are the JGB yield and the implied volatility of swaptions.

Balance sheets

1. Loans to bankrupt borrowers amounted to ¥3,252 million, and delinquent loans came to ¥48,734 million.

Loans to bankrupt borrowers represented loans (excluding charged-off amounts) stipulated in Article 96, Paragraph 1, Item 3 (a) to (e) or Item 4 of the Enforcement Regulation to Corporation Tax Law (1965 Cabinet Order No. 97) to which accrued interest receivables are not recognized as accruals for accounting purposes as no repayment of principal or payment of interest have been made for a considerable period.

Delinquent loans represent loans with respect to which accrued interest receivables are not recognized as accruals

for accounting purposes, excluding loans falling into the category of restructured loans.

2. Loans past due for 3 months or more amounted to ¥124 million.

Loans past due for 3 months or more represent loans with respect to which repayment of principal or payment of interest are past due three months or more, excluding loans falling into the categories of loans in bankruptcy and dishonored bills or delinquent loans.

3. Restructured loans amounted to ¥1,943 million.

Restructured loans represent loans to borrowers to whom financial support is given in the form of reduction in interest, waiver of repayment of the principal or payment of interest, or debt forgiveness with the aim of corporate rehabilitation, excluding loans falling into loan categories mentioned above.

4. Loans to bankrupt borrowers, delinquent loans, loans past due for 3 months or more, and restructured loans totaled to ¥54,055 million.

The above amounts are stated before the provision of specific loan loss reserves.

5. Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Bank has the rights to sell or pledge bank acceptances bought, commercial bills discounted, documentary bills and foreign exchanges bought without restrictions. The face value at March 31, 2009 totaled ¥10,141 million.
6. The outstanding balance of the principal of loans that are entrusted through the Residential Mortgage Backed Securities (RMBS) was ¥56,254 million as of March 31, 2009. As of March 31, 2009, the Bank maintains subordinated beneficiary rights of the RMBS for ¥26,941 million, ¥24,067 million of which is included in loans and bills discounted, and ¥2,873 million of which is included in cash and due from banks as cash reserves.
7. Assets pledged as collateral at March 31, 2009 were as follows:

Pledged assets:

Securities: ¥72,350 million

Liabilities covered by pledged assets:

Deposits: ¥2,367 million

Payables under securities lending transactions: ¥20,000 million

Borrowed money: ¥1,007 million

In addition to the above, securities amounting to ¥33,066 million at book value were pledged as collateral for domestic exchange or call money transactions as of March 31, 2009.

Guarantee money amounted to ¥2,883 million as of March 31, 2009.

8. Overdraft facilities and line-of-credit contracts are agreements under which, subject to compliance with the contractual conditions, the Bank or consolidated subsidiaries pledge to provide clients with funds up to a fixed limit upon submission of a loan application to the Bank. The unused amount related to such facilities/contracts stood at ¥260,873 million on March 31, 2009. The portion whose due being within one year amounted to ¥21,843 million as

of March 31, 2009.

These agreements will expire without the clients' having utilized the financial resources available to them, and the amount of the non-executed financing will not necessarily impact on the Bank's future cash flows. Most of these facilities/contracts contain a clause which allows the Bank to reject a loan application or to reduce the upper limit requested in view of changing financial conditions, credit maintenance and other reasonable concerns. When necessary, the Bank will demand collateral such as real estate or marketable securities at the date on which an agreement is entered into. In addition, after facilities/contracts are set forth the Bank will regularly assess the business status of the clients, based on predetermined internal procedures and, when prudent, will revise the agreements or reformulate their policies to maintain creditworthiness.

9. Pursuant to stipulations in the Law concerning the Revaluation of Land issued on March 31, 1998, the Bank revalued the land held for its operations. The net unrealized gain is presented in net assets, net of the applicable income taxes as "land revaluation excess." The amounts equivalent to income taxes are recorded under "deferred tax liabilities for land revaluation."

Date of land revaluation: March 31, 1998

The difference between the total market value of land held for operations, which was revalued in accordance with the provisions stipulated in Article 10 of the above Law, as at the end of the reporting period, and the total book value of the relevant land after revaluation: (¥1,830 million than the latter)

10. Accumulated depreciation of tangible fixed assets: ¥10,569 million
11. Accumulated advanced depreciation of tangible fixed assets: ¥396 million
(Accumulated advanced depreciation of tangible fixed assets for the reporting term: —)
12. Borrowed money at March 31, 2009 included subordinated debt of ¥11,020 million.
13. Corporate bonds consist solely of subordinated bonds.
14. Guarantee obligations on securities issued through private placements (pursuant to Article 2, Clause 3 of the Financial Instruments and Exchange Act) amounted to ¥2,882 million.

Statements of operations

1. Other ordinary expenses include loss on loans write-off of ¥1,471 million, loss on devaluation of stock of ¥1,427 million and loss on sale of stock of ¥1,226 million.
2. The Bank recorded impairment losses of ¥215 million as extraordinary losses. The above amount was the difference between the book value of the following assets, investments in which are unlikely to be recovered following the deterioration in expected cash flows from operating activities and a fall in land value, and the recoverable amount of the relevant assets.

		Millions of yen	
Region	Major use	Impairment losses	
Inside Ibaraki Prefecture	Branches: 10	Land	¥105
		Buildings	24
		Total	¥130
Outside Ibaraki Prefecture	Idle assets: 4	Land	¥ 70
	Branche: 1	Buildings	¥ 2
		Other	12
		Total	¥ 14
	Idle assets: 2	Buildings	¥ 0

Method of grouping

The Bank's branches are regarded as a unit of banking operations, which is the smallest unit for the accounting purpose. (Sub-branches are included in their parent branches.)

Valuations of idle assets are made on an individual basis. Each consolidated subsidiary is regarded as an independent unit for the accounting purpose.

Recoverable amount

Recoverable amounts which are used to measure impairment losses, are net selling prices. Net selling prices are calculated on the basis of appraisal values of real estate after deduction of the estimated cost of disposal.

Statements of changes in net assets

1. Types and total number of shares outstanding, and types and total number of outstanding shares in treasury

	Thousand shares			
	As of March 31, 2008	Increase	Decrease	As of March 31, 2009
Outstanding shares				
Ordinary shares (Note 1)	56,055	527	—	56,583
Preferred shares (Note 2)	1,167	—	208	958
Total	57,222	527	208	57,541
Treasury stock				
Ordinary shares (Notes 3 and 4) ..	182	12	3	192
Preferred shares (Notes 5 and 6) ..	17	193	208	2
Total	200	206	211	194

- Notes: 1. An increase in the total number of ordinary shares issued is attributable to an increase of 527 thousand shares as a result of the conversion of preferred shares to ordinary shares.
2. A decrease in the total number of preferred shares issued is attributable to retirement and cancellation of 208 thousand preferred shares.
3. An increase in the number of ordinary shares in treasury is attributable to purchases of the Bank's own shares in an amount less than one trading unit from shareholders.
4. A decrease in the number of ordinary shares in treasury is attributable to selling shares in an amount less than one trading unit upon request of shareholders.
5. An increase in the number of preferred shares in treasury is attributable to an increase of 193 thousand shares upon request for conversion of preferred shares to ordinary shares.
6. A decrease in the number of preferred shares in treasury is attributable to retirement and cancellation of preferred shares purchased.

2. Dividends

Resolution	Type of shares	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 27, 2008	Ordinary shares	¥558	¥10	March 31, 2008	June 30, 2008
	Preferred shares	68	60	March 31, 2008	June 30, 2008

Statements of cash flows

Reconciliation for "cash and cash equivalents" and "cash and due from banks" in the consolidated balance sheets

As of March 31, 2009	Millions of yen
Cash and due from banks	¥53,156
Deposits at notice	(17)
Time deposits	(18,003)
Other deposits	(4,306)
Cash and cash equivalents	¥30,829

Securities holdings

The amounts below include trust beneficiary rights included in "monetary claims bought," in addition to securities and trading securities posted under the balance sheets.

1. Securities held for trading purposes

As of March 31, 2009	Millions of yen	
	Balance-sheet amount	Net valuation gain (loss)
Securities held for trading purposes	¥162	¥2

2. Marketable debt securities held to maturity

As of March 31, 2009	Millions of yen				
	Balance-sheet amount	Market value	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Japanese government bonds	¥ 503	¥ 512	¥ 8	¥8	¥ —
Japanese local government bonds...	—	—	—	—	—
Short-term corporate bonds.....	—	—	—	—	—
Corporate bonds.....	—	—	—	—	—
Other	2,982	2,366	(615)	—	615
Foreign bonds	2,982	2,366	(615)	—	615
Total.....	¥3,486	¥2,879	¥(607)	¥8	¥615

Note: Market value is determined based on the market prices prevailing on the balance-sheet date.

3. Marketable available-for-sale securities

As of March 31, 2009	Millions of yen				
	Cost	Balance-sheet amount	Net unrealized gain (loss)	Unrealized gain	Unrealized loss
Equity securities	¥ 10,057	¥ 7,668	¥ (2,388)	¥157	¥ 2,546
Debt securities.....	172,213	170,684	(1,529)	304	1,834
Japanese government bonds	81,570	81,683	113	184	70
Japanese local government bonds ..	3,612	3,607	(5)	7	13
Short-term corporate bonds.....	—	—	—	—	—
Corporate bonds	87,030	85,393	(1,637)	112	1,749
Other	55,479	48,378	(7,101)	110	7,211
Foreign bonds	27,981	26,877	(1,103)	41	1,144
Other.....	27,498	21,501	(5,997)	69	6,066
Total.....	¥237,750	¥226,731	¥(11,019)	¥573	¥11,592

Notes: 1. Book value is determined based on the market prices prevailing on the balance-sheet date.

2. Available-for-sale securities with market value are considered as impaired if the market value decreases materially below the acquisition cost and such decline is not considered recoverable. The market value is employed for the balance-sheet amount and the amount of write-down is accounted for as an impairment loss for the fiscal year.

Impairment loss for the fiscal year was ¥4,652 million (¥1,236 million for equity shares and ¥3,415 million for others).

The market value is deemed to have decreased materially when it has fallen by 50% or more from the acquisition cost. In such cases, impairment accounting is applied uniformly. In cases where the market value has fallen by 30% or more but less than 50%, historical price trends over a specific period and the recent business performance of the issuing company are taken into account in determining whether or not there is a likelihood of the acquisition cost being recoverable. Securities whose acquisition costs are deemed not to be recoverable are written down to the current market value.

3. Previously, the criteria for classification of current market prices as having decreased materially was a decrease of 30% or more from the acquisition cost. However, as a result of the recent worldwide capital market crisis, the market prices of equities and other securities have fallen sharply, and it has therefore been deemed necessary to change the criteria. As a result of this change, the impairment loss amount has decreased by ¥6,401 million compared with the previous fiscal year.

4. Regarding the fair value of Japanese Government Bonds (JGBs) with variable interest rates, this has hitherto been stated in the consolidated balance sheets calculated by reference to current market prices. In the case of securities where the asking price of buyer and seller diverges markedly, and where it is judged that the current market prices cannot be regarded as the fair value, with effect from the reporting fiscal year the Bank has adopted a system of estimation based on a "theoretical price." As a result of this change, the total value of securities and unrealized gains and losses on available-for-sale securities increased by ¥395 million compared with the application of the previous method.

The "theoretical price" used to estimate the value of variable-interest JGBs employs estimations of present value of future cash flows, which are obtained using the yield on JGBs as well as the discount rate based on the yield. The principal variables used in determining the JGB price are the JGB yield and the implied volatility of swaptions.

4. Marketable available-for-sale securities sold

Year ended March 31, 2009	Millions of yen		
	Amount	Gains	Losses
Proceeds from sale of marketable available-for-sale securities	¥44,807	¥1,323	¥2,083

5. Major components and balance sheet amounts of non-marketable securities

As of March 31, 2009	Millions of yen
Non-marketable available-for-sale securities:	
Unlisted equity securities.....	¥1,895
Bonds issued through private placements ...	2,882
Other	745

6. Schedule of redemption of available-for-sale securities with maturity dates and debt securities being held to maturity

As of March 31, 2009	Millions of yen			
	Due within one year	One to five years	Five to ten years	Over ten years
Debt securities.....	¥103,115	¥53,926	¥11,094	¥5,934
Japanese government bonds.....	53,064	18,631	4,557	5,934
Japanese local government bonds.....	104	3,091	411	—
Short-term corporate bonds	—	—	—	—
Corporate bonds	49,946	32,203	6,125	—
Other.....	2,005	23,968	8,244	2,892
Foreign bonds.....	2,005	22,674	3,179	2,000
Other	—	1,293	5,064	892
Total	¥105,120	¥77,894	¥19,338	¥8,826

Unrealized gain on available-for-sale securities

The breakdown of unrealized gains (losses) on available-for-sale securities included in the consolidated balance sheets are as follows:

As of March 31, 2009	Millions of yen
Unrealized gains (losses)	¥(11,019)
Available-for-sale securities.....	(11,019)
Other money held in trust.....	—
Deferred tax assets.....	—
Net unrealized gains (losses) on available-for-sale securities (prior to application of the equity method)	(11,019)
Minority interests	—
Bank's interest in net unrealized gains on available-for-sale securities held by affiliates accounted for by the equity method	—
Unrealized gains (losses) on available-for-sale securities	¥(11,019)

Money held in trust

As of March 31, 2009	Millions of yen	
	Balance-sheet amount	Net valuation gain (loss)
Money held in trust for investment.....	¥1,934	¥(21)

Derivative

1. Derivative transactions

(1) Details of derivative transactions

The Bank primarily engages in exchange contract transactions and interest swap transactions. In addition, under certain circumstances, it carries out other transactions, such as bond futures transactions and stock index futures transactions.

(2) Policies and purposes of derivative transactions

The Bank carries out derivatives transactions to hedge market risks associated with transactions with customers, assets and debts.

The Bank also carries out exchange contract transactions to hedge risks of exchange fluctuations, and interest swap transactions to hedge interest risks associated with financial assets and liabilities, including loans.

The Bank assesses the effectiveness of interest swap transactions that are used to hedge interest risks by examining whether interest risks associated with financial assets and liabilities, such as loans, which are the subject of hedging transactions, have been reduced by the relevant hedging transactions.

(3) Details of risks associated with derivative transactions

The principal risks associated with derivative transactions include the incurrence of losses from fluctuations in the relevant market prices (market risk), and the incurrence of losses arising from defaults by the counterparty to derivatives contracts (credit risk).

Because most of the Bank's derivatives transactions are implemented to hedge risks, valuation losses incurred from market risk are offset by valuation profits made on the relevant on-balance-sheet transactions. In addition, as counterparties are selected in accordance with preset standards, the Bank believes that it is unlikely to experience losses from credit risk.

(4) Risk control structure

Derivatives transactions are carried out in accordance with operation standards for the purpose and volume of transactions, maximum loss allowance, and reporting, all of which were established by the Bank.

The Bank has clearly separated the department that carries out transactions from the department that implement administrative operations to ensure the mutual supervision of the two departments. Furthermore, the Bank has developed a structure in which the status of transactions is reported on a daily and monthly basis.

(5) Supplementary explanation about quantitative information Contract amounts as described in the "Market value of transactions" represent the nominal amount of derivatives transactions, but they do not represent the level of market risk or credit risk.

2. Market value of transactions

(1) Interest-rate derivatives

As of March 31, 2009	Millions of yen			
	Nominal principal or contract amount	Over 1 year	Market value	Valuation gain (loss)
Listed:				
Interest-rate futures				
Sold	—	—	—	—
Bought.....	—	—	—	—
Interest-rate options				
Sold	—	—	—	—
Bought.....	—	—	—	—
Over-the-counter transactions:				
Interest-rate forward contacts				
Sold	—	—	—	—
Bought.....	—	—	—	—
Interest-rate swaps				
Receive fixed rate and pay floating rate.....	—	—	—	—
Receive floating rate and pay fixed rate	¥2,000	¥2,000	¥(43)	¥(43)
Receive floating rate and pay floating rate.....	—	—	—	—
Interest-rate options				
Sold	—	—	—	—
Bought.....	—	—	—	—
Others				
Sold	—	—	—	—
Bought.....	—	—	—	—
Total	/	/	¥(43)	¥(43)

Notes: 1. The above derivatives are valued at market and valuation gain (loss) is accounted for in the consolidated statements of operations. Derivatives under hedge accounting are excluded from the above tables.

2. Calculation of market value

Market value of transactions listed on exchanges has been calculated primarily on the basis of the closing prices on the Tokyo International Financial Futures Exchange. Market value of over-the-counter transactions has been calculated at their discounted current value or by utilizing calculation models for options prices.

(2) Currency derivatives

As of March 31, 2009	Millions of yen			
	Nominal principal or contract amount	Over 1 year	Market value	Valuation gain (loss)
Listed:				
Currency futures				
Sold	—	—	—	—
Bought.....	—	—	—	—
Currency options				
Sold	—	—	—	—
Bought.....	—	—	—	—
Over-the-counter transactions:				
Currency swaps				
Forward foreign exchange contracts				
Sold	¥4,533	—	¥(138)	¥(138)
Bought.....	—	—	—	—
Currency options				
Sold	—	—	—	—
Bought.....	—	—	—	—
Other				
Sold	—	—	—	—
Bought.....	—	—	—	—
Total	/	/	¥(138)	¥(138)

Notes: 1. The above derivatives are valued at market and valuation gain (loss) is accounted for in the consolidated statements of operations.

2. Calculation of market value

Market value is determined principally by the discounted cash flow methods.

- (3) Stock derivatives Not applicable
 (4) Bond derivatives Not applicable
 (5) Commodity derivatives Not applicable
 (6) Credit derivatives Not applicable

Employees' retirement benefits

1. Outline of current retirement benefit system

The Bank has adopted defined benefit pension plans (based on the cash balance plan) and lump-sum retirement payment systems.

The Bank's consolidated subsidiaries have adopted lump-sum retirement payment systems.

2. Retirement benefit obligation

As of March 31, 2009	Millions of yen
Retirement benefit obligation (A)	¥(11,185)
Fair value of plan assets (B).....	4,606
Unfunded retirement benefit obligation (C)	
= (A) + (B).....	(6,579)
Unrecognized net retirement benefit obligation at transition (D).....	352
Unrecognized actuarial loss (E)	3,386
Unrecognized prior service cost (F)	—
Net retirement benefit obligation (G)	
= (C) + (D) + (E) + (F).....	(2,840)
Reserve for employees' retirement benefits (H)	
= (G)	¥ (2,840)

Note: The consolidated subsidiaries have adopted a simplified method for the calculation of their retirement benefit obligation.

3. Retirement benefit cost

Year ended March 31, 2009	Millions of yen
Service cost	¥ 295
Interest cost	217
Expected return on plan assets	(185)
Amortization of prior service cost.....	—
Amortization of unrecognized actuarial loss	323
Unrecognized net retirement benefit obligation at transition	352
Other (including additional payments under early retirement plans).....	10
Total retirement benefit cost	¥1,014

Note: Retirement benefit cost of consolidated subsidiaries which is calculated by simplified method has been included in "service cost" referred to above.

4. Basis for calculation of retirement benefit obligations

- (1) Discount rate: 2.0%
 (2) Expected rate of return on plan assets: 3.5%
 (3) Periodical allocation of estimated retirement benefits: Straight-line method
 (4) Amortization period of prior service cost: 1 year
 (5) Amortization period of actuarial gain/loss: 10 years (unrealized actuarial losses are deferred and amortized)

using the straight-line method over a ten-year period commencing with the following year, which is shorter than the average remaining service period of the eligible employees.)

- (6) Period for amortization of unrecognized retirement obligations at transition: 10 years

Tax-effect accounting

1. Deferred tax assets

Year ended March 31, 2009	Millions of yen
Deferred tax assets:	
Reserve for possible loan losses.....	¥19,232
Operating loss carry forwards.....	3,710
Write-offs of securities.....	3,330
Reserve for employees' retirement benefits.....	1,525
Unrealized gains on available-for-sale securities.....	4,675
Depreciation.....	438
Reserve for employees' bonuses.....	191
Unrecorded accrued interest receivable.....	122
Other.....	1,048
Subtotal.....	<u>34,275</u>
Valuation allowance.....	<u>(24,407)</u>
Total deferred tax assets.....	<u>9,867</u>
Deferred tax liabilities:	
Gain on securities contributed to retirement benefits trust.....	(106)
Unrealized gain on available-for-sale securities.....	<u>(223)</u>
Total deferred tax liabilities.....	<u>(330)</u>
Net deferred tax assets.....	<u>¥ 9,537</u>

2. The following table shows the major items responsible for the difference between the statutory tax rate and the effective tax rate after application of tax-effect accounting.

For the year ended March 31, 2009, description was omitted due to the fact that the Bank posted a loss before income taxes and minority interests.

3. The Bank has recorded deferred tax assets in an amount deemed appropriate based on the Bank's long-term earnings projection over five years as of the balance-sheet date.

Per-share data

Year ended March 31, 2009	Yen
Net assets per share.....	¥482.82
Net loss per share (basic).....	(177.88)
Net loss per share (diluted).....	<u>—</u>

Notes: 1. Bases for calculation of net assets per share are as follows:

As of March 31, 2009	Millions of yen
Total net assets.....	¥30,328
Exclusion from net assets.....	3,101
of which, Payments for the acquisition of preferred shares.....	2,869
of which, Minority interests.....	232
of which, Dividends on preferred shares.....	—
Net assets available to common shareholders at year-end.....	27,226
Number of common shares outstanding at year-end (in thousands).....	<u>56,390</u>

2. Bases for calculation of net loss per share (basic) are as follows:

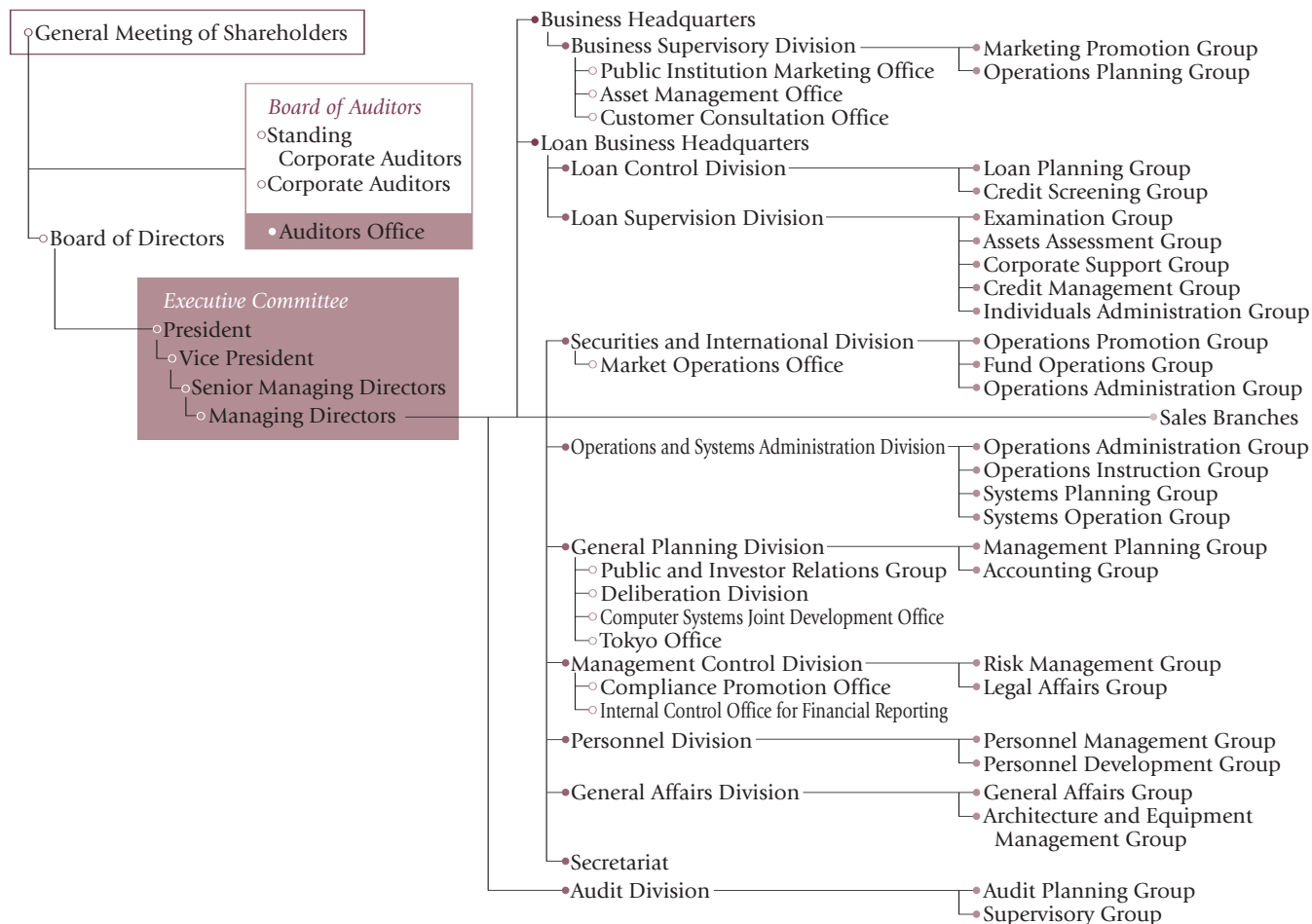
Year ended March 31, 2009	Millions of yen
Net loss per share (basic)	
Net loss.....	¥(9,984)
Earnings not available to common shareholders.....	—
of which, Dividends on preferred shares.....	—
Net loss after deduction of the portion described above.....	(9,984)
Weighted average number of common shares for the fiscal year (in thousands).....	<u>56,127</u>

3. For the year ended March 31, 2009 no calculation of diluted net income per share was made due to the fact that the Bank posted a net loss figure.

Directory

(As of July 1, 2009)

Organization Chart



Board of Directors, Corporate Auditors and Executive Officers

President

Kozo Kimura

Vice-president

Mitsuhiro Sasanuma

Senior Managing Director

Masami Fujikawa

Managing Directors

Kazuo Hayashi
Shinji Takano
Yoshio Saku
Nobuyuki Takahashi

Director

Masami Kurosawa

Corporate Auditors

Akira Ichiba (standing)
Kazuro Kawamata (standing)
Osamu Matsumoto
Masao Kanazawa
Tsuneo Ando

Senior Managing Executive Officer

Takao Kasajima

Managing Executive Officers

Yasushi Yanai
Masao Osawa

Senior Executive Officers

Toshio Ogura
Ken Morita
Hiroshi Kishiro
Yasuyuki Kinoshita

Executive Officer

Isao Otsuka

Subsidiaries and Affiliated Companies

Name	Line of Business
Kangin Business Service Co., Ltd.	Cash handling; cash collection and delivery; printing and binding; management of equipment
Kangin Real Estate Survey Co., Ltd.	Appraisal of collateral real estate; management of documents on claims
Kangin Office Service Co., Ltd.	Centralized operations for public money, utility fees, and bills exchange; staff dispatching
Kanto Credit Guarantee Co., Ltd.	Guarantee provisions (mortgage loans, consumer loans, credit card-based loans and so on)
Kangin Computer Service Co., Ltd.	Software and computer systems development; management of ATMs
Kanto Leasing Co., Ltd.	Leasing of machinery used in a wide range of industries; pollution prevention facilities; commercial and office equipment; and medical equipment



The Kanto Tsukuba Bank, Limited

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