

THE SHIZUOKA BANK, LTD.



# Shizuoka Bank Group

Annual Report 2006



# Shizuoka Bank Group at a Glance

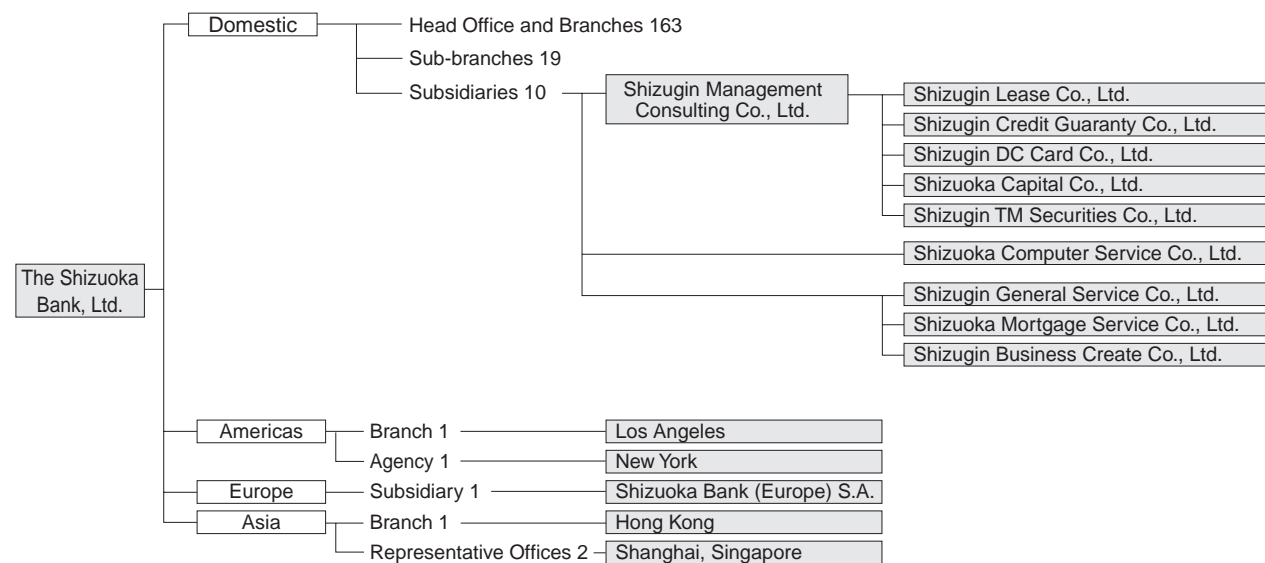
## NURTURING THE VISION OF A PROSPEROUS COMMUNITY

True to a corporate philosophy whose aim is to "expand dreams and affluence with our community," the Shizuoka Bank Group makes an ongoing contribution to the development of Shizuoka Prefecture, which forms the core of its business base. This corporate philosophy incorporates not only an economic dimension but also a cultural one: living in harmony with the local communities and the people we serve, and sharing prosperity with them as a home-grown local banking group and a member of the regional community, and also helping local people to live more fulfilling lives.

## A FIRST-CLASS REGIONAL BANK GROUP

The Shizuoka Bank Group comprises Shizuoka Bank and 11 Group companies, and is one of Japan's largest regional banking groups. Centered on Shizuoka Bank, with its 163 branches and 19 sub-branches, the Group serves the needs of customers not only within Shizuoka Prefecture, its home region, but also in Japan's three major economic centers, namely Tokyo, Osaka and Nagoya, all of which are comparatively nearby. Overseas, the Bank operates in New York, Los Angeles, Brussels, Hong Kong, Shanghai, and Singapore.

### The Structure of the Shizuoka Bank Group (As of July 1, 2006)



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## A SOLID FINANCIAL STRUCTURE

As of March 31, 2006, Shizuoka Bank's total assets stood at ¥8,691.6 billion (US\$73,990 million) on a consolidated basis, together with loans and bills discounted of ¥5,341.2 billion (US\$45,469 million), and deposits of ¥6,973.8 billion (US\$59,367 million). The Bank's capital adequacy ratio was 13.64% on a consolidated basis, one of the highest ratios among Japanese banks, and its Tier I ratio was 10.69%, substantially higher than the BIS standard of 8% for banks engaging in international operations.

## Consolidated Financial Highlights

THE SHIZUOKA BANK, LTD. and Subsidiaries

Years ended March 31	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Income before income taxes and minority interests	<b>¥57,376</b>	¥61,762	<b>\$488,435</b>
Net income	<b>33,060</b>	35,470	<b>281,441</b>

	Yen	U.S. Dollars
Net income per share	<b>¥46.60</b>	¥49.99
PER (Times, Non-consolidated)	<b>26.85</b>	21.92
PBR (Times, Non-consolidated)	<b>1.16</b>	1.23

March 31	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Total assets	<b>¥8,691,612</b>	¥8,412,069	<b>\$73,990,060</b>
Deposits	<b>6,973,847</b>	6,937,309	<b>59,367,048</b>
Loans and bills discounted	<b>5,341,282</b>	5,032,335	<b>45,469,336</b>
Securities	<b>2,388,746</b>	2,229,815	<b>20,334,947</b>
Common stock	<b>90,845</b>	90,845	<b>773,353</b>
Total stockholders' equity	<b>725,685</b>	622,606	<b>6,177,626</b>
ROE (%)	<b>4.90</b>	5.84	
Capital adequacy ratio (BIS) (%)	<b>13.64</b>	13.53	
Tier I ratio (%)	<b>10.69</b>	11.38	

Notes: 1. Translation into U.S. dollars has been made solely for the convenience of readers outside Japan at the exchange rate of ¥117.47 to \$1, the approximate rate of exchange at March 31, 2006.  
2. In this annual report, dollar figures are rounded off, but Japanese yen figures have been truncated in the process of calculation.

## INTERNATIONAL CONFIDENCE

Shizuoka Bank, the core company of the Group, stands in the foremost rank of Japanese banks in terms of financial soundness. This is reflected in the fact that the Bank has received among the highest credit ratings received by any Japanese financial institution from four major credit rating agencies: three overseas and one Japanese.

(As of July 1, 2006)

	Long-Term	Short-Term	Financial Strength
Standard & Poor's	A+	A-1	B+*
Moody's	A1	P-1	C+
Fitch Ratings	—	F1	B
Rating and Investment Information, Inc.	AA	—	—

\* Bank Fundamental Strength Rating

### Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this annual report with respect to the current plans, estimates, strategies and beliefs, and other statements of the Shizuoka Bank Group that are not historical facts, are forward-looking statements about the future performance of the Group. These statements are based on management's assumptions and beliefs in light of the information currently available to it, and therefore readers should not place undue

reliance on them. Shizuoka Bank Group cautions readers that a number of important factors could cause actual results to differ materially from those discussed in the forward-looking statements. Such factors include, but are not limited to, (1) general economic conditions in Shizuoka Bank Group's market (particularly Shizuoka Prefecture) and (2) fluctuations in market interest rates and exchange rates.

# To Our Stakeholders



Yasuo Matsuura,  
Chairman

Katsunori Nakanishi,  
President & Chief Executive Officer

The economy of Japan as a whole is following a steady recovery path, and this is being paralleled by the Bank's operating region. The Bank of Japan has discontinued its quantitative monetary easing policy, as well as its de facto zero-interest policy, for the first time in five years. This shows the BOJ's recognition that the nation's financial sector has taken the first steps toward normalization. Financial institutions across the board are changing course and adopting aggressive growth strategies, and existing financial players face competition from non-financial companies in the traditional banking field as a result of recent deregulation. Last but not least, the impending step-by-step privatization of the Japanese postal system (scheduled to begin in October 2007) presents the banking industry with the eventual prospect of severe competition from a financial institution of unprecedentedly colossal scale.

Against the backdrop of rapid changes in the operating environment, banks are faced with a number of issues that must be addressed. These include compliance with the Basel II capital adequacy requirements and the establishment of internal control systems, as mandated by the Financial Instruments and Exchange Law (Japan's version of the Sarbanes-Oxley Act), among others.

The Shizuoka Bank Group will deploy precise solutions to this raft of management issues by mobilizing the comprehensive strengths of the whole Group and quickly tackling the issues head-on. Through the implementation of a range of measures that effectively contribute to the development of the regional economy, most notably the provision of financial services specifically tailored to the needs of customers in our home region, we plan to raise stakeholder satisfaction and ensure sustainable, long-term growth.

The management and staff of the Shizuoka Bank Group will continue to work together to maintain our reputation as a comprehensive financial group providing the most reliable and efficient services in our home region. We hope that our stakeholders will continue to support us in our ongoing efforts.

Yasuo Matsuura  
Chairman

Katsunori Nakanishi  
President & Chief Executive Officer

# Message from the President

The region's most reliable and respected comprehensive financial services group

The Japanese economy emerged from its protracted stagnation in fiscal 2005, as a favorable trend in private-sector business performance had a beneficial effect on the household sector through improvement in the employment and income situation. Economic activity continued to pick up speed throughout the reporting period, driven mainly by the private sector.

In response to this economic recovery, the Bank of Japan discontinued its quantitative monetary easing policy, as well as its de facto zero interest rate policy, both of which it had maintained for five years. The financial system is thus starting to return to its proper state of dependence on free market mechanisms. Moreover, the financial authorities are increasingly stressing the importance of the fundamental role of each financial institution. As part of their plan to turn Japan's financial sector into an even more competitive provider of reliable and cutting-edge services in the global market, the Financial Services Agency has released the "Program for Financial Revival," with the goal of taking the Japanese financial sector to the logical next stage of development.

Against this background, regional financial institutions are being called on to more proactively fulfill their corporate social responsibilities by: assisting in the revitalization of financially troubled companies (particularly by providing a smooth flow of funds to SMEs: small and medium-sized enterprises); strengthening their corporate governance, particularly their internal control systems for financial reporting; and taking numerous steps to improve the convenience of their services for regional customers.

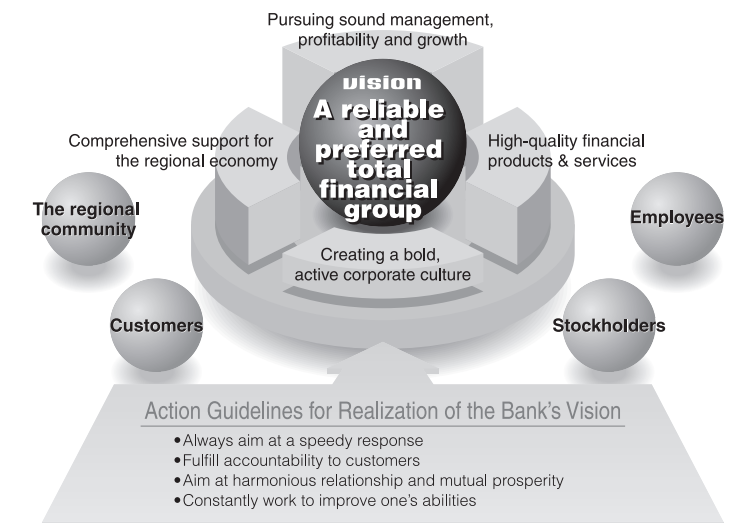
## Corporate Social Responsibility (CSR) is Our Management Philosophy

Right from the beginnings of the Shizuoka Bank Group, our corporate philosophy has been summed up in the motto: "To Expand Dreams and Affluence with our Community." In line with this ambition, our policy is to fulfill our responsibilities – both as a regional provider of comprehensive financial services and as a good corporate citizen – to seek an appropriate margin on day-to-day business operations, and to plow back some of those profits into the energization of the regional economy and support for the local cultural scene. By carefully balancing our various responsibilities, we will open the way to more successful business operations and a more affluent life

for all our stakeholders. We believe that the pursuit of these objectives is the core of our corporate social responsibility (CSR).

Under the Shizuoka Bank Group's current medium-term management plan (for the three-year period from fiscal 2005 to fiscal 2007), whose operating motto is "Challenge to Creation and Change," we will further clarify our stance on achieving co-prosperity with the regional community and making contributions to the community. To do this, we have firmly positioned CSR as an integral and crucial element in this process. We have also systematically revised the various activities undertaken hitherto from the CSR perspective, and we endeavor to put our management philosophy into practice through the pursuit of the kind of business operations that society expects of a banking group.

We have also positioned the integration of management of the entire Shizuoka Bank Group as one of our fundamental strategic aims. This will enable us to offer all our customers, through one marketing outlet, the whole spectrum of financial products and services possessed by the parent bank and its subsidiaries, ranging from securities investment through management consulting, venture capital functions, leasing and so on. In this way, we can look forward to enjoying maximal synergy among the members of the Group, enabling us to provide each of our customers with the optimal solution to any business or personal financial issue, and thereby making an invaluable contribution to the prosperity of our home region.





In line with our action program for enhancing relationship banking, released in August 2005, we are making efforts to create a vibrant regional economy after careful reexamination of the targets stated in the current medium-term plan. We are tackling on a priority basis the authorities' calls for enhanced support for the revitalization of failing companies, the smooth

supply of funds to SMEs, and the improvement of service convenience. In the following section, we discuss in more detail the current business environment in Shizuoka Prefecture, which is the Group's central operational base, and our efforts to become an even more integral and essential part of the local economic infrastructure.

### Shizuoka Prefecture — Our Operational Base

Shizuoka Prefecture, on the Pacific coast of Japan's main island of Honshu, is situated midway between the two major consumer markets and industrial centers of Japan – the Nagoya region plus the Kobe-Osaka-Kyoto region to the west, and the Yokohama-Kawasaki-Tokyo region to the northeast. Because of this location at a busy "crossroads" of the nation, it has historically developed into a significant center of manufacturing industry. The prefecture contains a large number of thriving enterprises, and capital investments focused on increasing production capacity by companies in Shizuoka registered a year-on-year increase in fiscal 2005, while employment and income conditions also improved, and consumer spending trended steadily upward. The economy of the prefecture as a whole gives clear signs of having performed a turnaround to recovery.

In terms of population and gross domestic product, among a large number of other economic indicators, Shizuoka Prefecture has a share of the national economy amounting to roughly 3%, putting it at around 10th place among the country's 47 prefectures. For this reason, it is sometimes called "the 3% economy." As a result of the heavy concentration of industry in the prefecture, recent years have seen considerable growth in the amount of research into new products and services being jointly conducted by private enterprises in corporation with universities and other research institutions,

with support from government. These efforts are likely to lead to still further growth and development in Shizuoka's economy.

### Land and Population

With a total land area of 7,779 km<sup>2</sup>, Shizuoka Prefecture ranks 13th in size among Japan's 47 prefectures, and its population of 3.79 million (as of October 2005) makes it the 10th most populous. The population has increased by 0.7% over the past five years.

### Economic Scale

With a nominal annual economic output of ¥15.7 trillion (US\$133.65 billion; GDP basis) in fiscal 2003, Shizuoka Prefecture would rank 36th in economic scale if it were compared with the countries of the world. Its gross domestic product comes after GDP of Portugal, Thailand and Iran. This comparison highlights the considerable economic importance of the prefecture.

There were approximately 189 thousand private-sector business premises in Shizuoka as of June 2004. Wholesaling and retailing, including eating and drinking establishments, accounted for 41.1% of the total number of business premises, followed by other services and manufacturing. Taken together, these three categories account for 72.2% of all business premises.

### Main Economic and Business Indicators for Shizuoka Prefecture

Item	Figure	Share of National Total	Nationwide Rank	Date of Survey
Area	7,779 km <sup>2</sup>	2.1%	13th	October 2004
Population	3.79 million	3.0%	10th	October 2005
Households	1.35 million	2.7%	10th	October 2005
Gross product (nominal)	¥15,747.5 billion	3.2%	10th	FY2003
Business premises	189 thousand	3.3%	9th	June 2004
Value of farm output	¥260.5 billion	2.9%	12th	2004
Fishery catch	210 thousand tons	3.7%	7th	2004
Manufactured goods shipments (by factories with four employees or more)	¥16,699.7 billion	5.9%	3rd	2004
Annual revenue of wholesaling industry	¥6,790.0 billion	1.7%	11th	2004
New housing starts	35,827	2.9%	10th	2005
Information service sales	¥110.5 billion	0.8%	14th	2004

### Industrial Characteristics

The three main areas into which Shizuoka Prefecture is divided – Eastern, Central, and Western – have all achieved economic development in different ways.

In recent years, projects have been initiated to promote the concentration of specific industries in particular areas. These include the Shizuoka Triangle Research Cluster Promotion Project, conducted by a mixed industry-academia group. This program aims to make the most of the business know-how and technical expertise possessed by existing companies to concentrate leading-edge research and development facilities in all of these three parts of the prefecture.

### Shipments of Manufactured Products in which Shizuoka Holds 1st Place (2003)

Item	Value of Shipments (¥ billion) Shizuoka Pref.	Share of Nationwide Total	Nationwide Rank
Pulp & paper	595.9	28.4%	1st
Cell phones and PHSs	378.7	17.4%	1st
Air conditioners	121.7	34.8%	1st
Green tea	197.6	63.2%	1st
Tea beverages	144.3	32.8%	1st
Piano	45.4	100.0%	1st
Motorcycles (in kit form)	105.6	49.8%	1st
Canned tuna	40.6	91.7%	1st
Aluminum foil	30.4	35.3%	1st

### Features of Industry in Shizuoka Prefecture

#### Industry-concentration projects

#### Central Shizuoka

The central part of the prefecture is dominated by the prefectural capital, Shizuoka City, which attained the status of a specially designated city (with an expanded range of autonomous powers from the prefectural government) in April 2005. The city holds a large concentration of commercial facilities and service sector companies. It is also known for traditional handicraft-making industries, including traditional furniture, as well as plastic models, tea-making, and food canning. The port towns of Yaizu and Shimizu have facilities for handling international cargo transport vessels, and are also renowned as fishing ports.

The "Food-Science Hills" project aims to gather together a large number of companies in the foodstuffs, pharmaceuticals, and chemical industries.

#### Western Shizuoka

The western part of the prefecture has a high concentration of manufacturing companies, such as makers of motorcycles and musical instruments, among which are many world-renowned companies. This is one of the main reasons why Shizuoka Prefecture ranks third among Japan's 47 prefectures in terms of the value of manufactured goods shipments, accounting for 5.9% of the value of nation's total manufacturing output in 2004. It is to this area that Shizuoka Prefecture owes its reputation as a heavily industrialized prefecture with a high proportion of export-oriented companies.

The "Photon Valley" project aims to gather together companies engaged in the optical technology and electronics industries.

### An Outline of Shizuoka Prefecture

Total land area 7,779 km<sup>2</sup>  
23 cities  
19 towns



#### Eastern Shizuoka

This part of the prefecture is characterized by the traditional paper and pulp industry, which developed to take advantage of the abundant underground water resources near Mt. Fuji, as well as a number of plants and research facilities that have more recently relocated to the area from Tokyo and its vicinity. The Izu Peninsula boasts wonderful natural scenery that is magically transformed with the changing seasons, as well as a wealth of hot springs. For these reasons, it is one of the most popular year-round holiday resort areas in Japan.

The "Pharma Valley" project aims to gather together companies engaged in the production of pharmaceuticals and other health-related activities.

Local governments throughout Shizuoka Prefecture are pursuing initiatives aimed at revitalizing their tourism-based economies, or at invigorating the local multimedia contents creation sector by nurturing talented creators. Work is also

underway on major infrastructure projects, including the Mt. Fuji Shizuoka Airport (scheduled to open in 2009) and the No. 2 Tokyo-Nagoya Expressway. These projects are expected to exert major ripple effects on the prefectural economy.

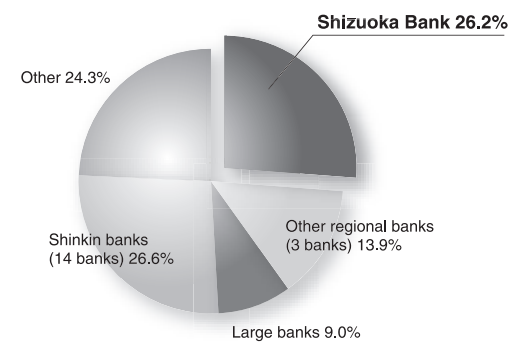
## Financial Institutions in Shizuoka Prefecture

Japan's megabanks and other money-center banks operating on a nationwide scale are now active in the principal cities of Shizuoka Prefecture. Moreover, in addition to Shizuoka Bank, there are three other regional banks operating in the prefecture, as well as 14 shinkin banks (large-scale credit unions) and various government-run financial institutions and agricultural cooperatives. Shizuoka Prefecture is thus one of the most hotly contested financial markets in Japan.

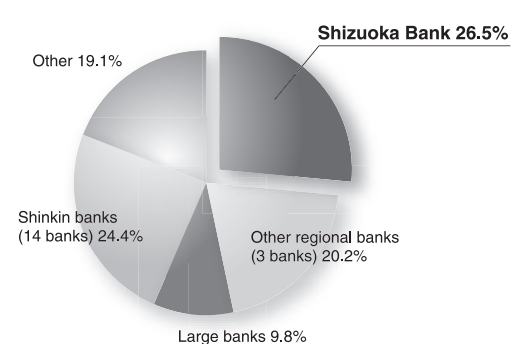
Over the sixty years since its establishment, Shizuoka Bank has built up a solid base of loyal customers. Approximately 80% of the population of Shizuoka Prefecture over the age of 20 (i.e., about three million persons), have accounts with the Bank. For this reason, we are confident of retaining our firm position as the prefecture's leading bank even amid a fiercely competitive business environment.

The Bank operates approximately 160 branches within the prefecture, in addition to more than 3,800 ATMs in our branches, outside branches, and at other financial institutions with which we have concluded business tie-ups, some of which customers can use at no extra charge. Against this backdrop, during the reporting period, ended March 2006, the Bank not only maintained its No. 1 position in the prefecture in terms of the market shares of deposits and loans, we actually registered an increase in the deposit and loan balance over the previous fiscal year.

### Shares of Deposits in Shizuoka



### Shares of Loans in Shizuoka



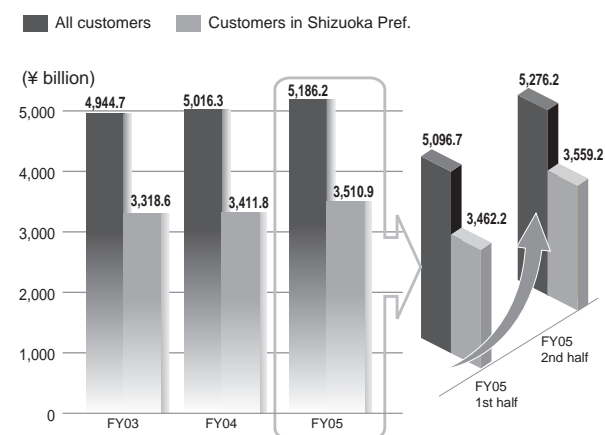
## Achievement in Services for Corporate Customers

### Loans

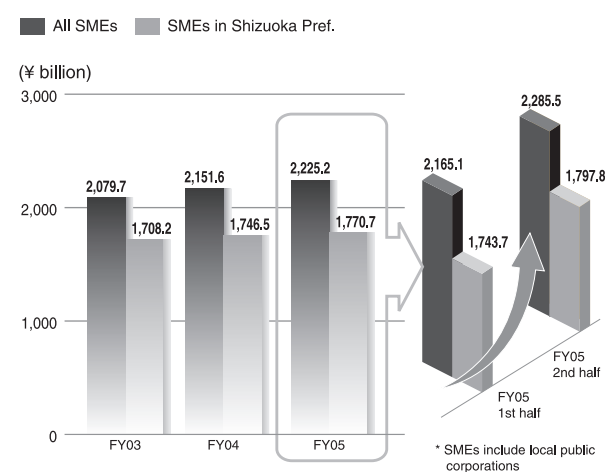
During the reporting period, we introduced a small-lot financial product without requirement for collateral or a third-party guarantee. This product has been made possible by the use of a new credit screening method that utilizes a credit scoring system. For corporate customers, especially those classified as "middle-risk," we actively marketed our loan products on a case-by-case basis, taking careful account of the business performance and financial position of each individual company. This is just one of the ways in which the Bank has sought to fulfill its social obligation to ensure a smooth supply of funds to the regional economy.

As a result, the average balance of total loans during the fiscal 2005 term was ¥5,186.2 billion (US\$44,149 million), while the average balance of loans to SMEs was ¥2,225.2 billion (US\$18,942 million). Both these figures represented increases for the third consecutive year. Loans to customers in Shizuoka Prefecture, our home region, also recorded steady growth in line with our projections.

### Balance of Total Loans (average; non-consolidated)



### Balance of Loans to SMEs (average; non-consolidated)



## Strengthening Our Capabilities in Management Consultancy and Corporate Support Services

To contribute to the revitalization of the economy of our home region and ensure its ability to realize sustainable growth, we offer each of our corporate customers a service that follows their progress through the various stages of the company's "life," from start-up through growth, as well as the company's revitalization where that is necessary. This service encompasses not merely the provision of funds, but also comprehensive support including management consulting and technological assistance.

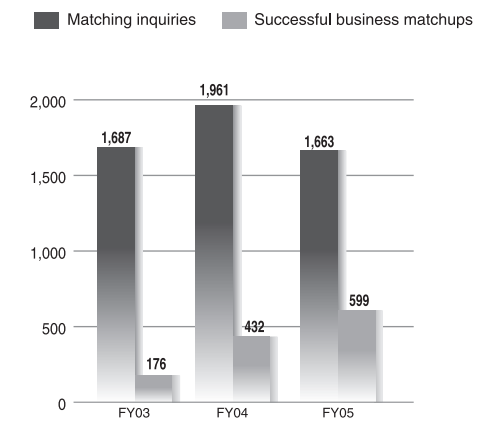
The New Business Support Team, set up within the Corporate Banking Department, takes the lead in directing these support services, while the front-line marketing responsibility rests with designated staff members at each of the Bank's branches. These members liaise with each other, as well as with other companies in the Shizuoka Bank Group, to provide a total customer service.

Currently, efforts are being particularly directed at building an extensive database to support a business matching service. For example, the Shizuoka Bank and its customer companies recently opened a joint booth at the Tokyo Business Summit, furthermore, in response to the recent upsurge in interest in the business potential of farming ventures, we have also been holding business conferences to support business matching service between representatives of agricultural distributors and farmers. This is just one of the ways in which we have been providing support for our customer companies in the conclusion of business deals. As a result of these efforts, we successfully supported 599 cases of business matching during the reporting period.

We have been widening our range of financial products and services, including support for M&As and IPOs, to meet all the conceivable needs of our corporate customers. In this, we make full use of the consulting expertise of Group companies to facilitate the design of optimal solutions to customers' business issues.

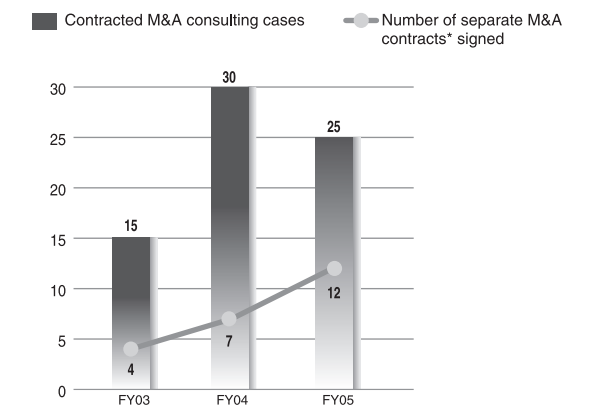
Regarding corporate rehabilitation and management improvements, we provide individually tailored support services for corporate customers' issues, such as advice on the improvement of management systems and procedures, or financial support for business revitalization. In addition, we are working to assist for each companies, in corporation with regional society, and this effort is leading to vitalizing entire communities.

## Business Matching Performance



## M&A Consulting Performance

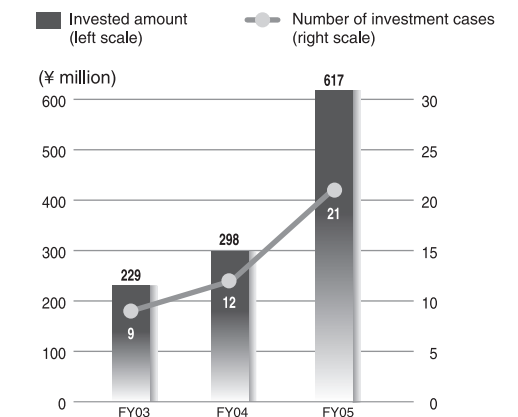
Collaboration with Shizugin Management Consulting Co., Ltd.



\* In the "number of separate M&A contracts signed," where separate contracts are concluded with both the acquiring company or the company being acquired, these are counted as two separate contracts.

## Support for (investment in capital) IPOs

Collaboration with Shizuoka Capital Co., Ltd.



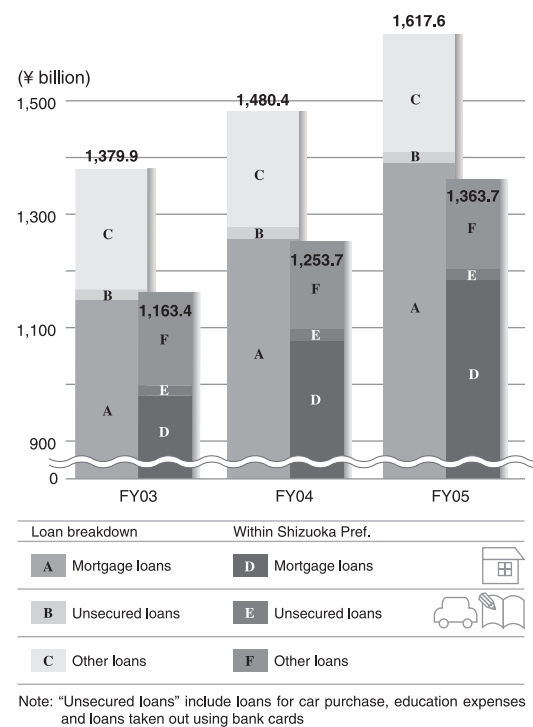
## Achievement in Services for Individual Customers

### Deposits

The corporate mission of Shizuoka Bank is to contribute to the economic development of its home region, primarily through lending, which it finances from the funds deposited with it by its customers. Under the Bank's current medium-term plan for the three-year period from fiscal 2005 to fiscal 2007, we have identified our customers' deposits with us as the major source of funding for loans, as well as for the management of customers' assets in custody. As securing a sufficient level of deposits is thus a crucial issue, we are tackling this task on a priority basis.

In June 2006 we began handling callable term deposits, which allow the Bank to cancel the deposit arrangement once a certain specified period has elapsed from the deposit date, and prior to maturity. In return, the Bank is able to set higher interest rates than for conventional term deposits.

### Balance of Individual Loans (at term-end; non-consolidated)



### Retail Banking Loans (loans to individuals)

During the reporting period, we put considerable effort into expanding our business volume in the field of mortgages and other housing-related loans, such as by encouraging customers to refinance their loans from other banks by using our strategic products such as unsecured mortgage loans, and by stationing dedicated marketing staff at branches of strategic importance outside our home prefecture in major markets such as

neighboring Aichi and Kanagawa prefectures. We employed state-of-the-art marketing techniques in vigorous sales promotion campaigns for our unsecured loans.

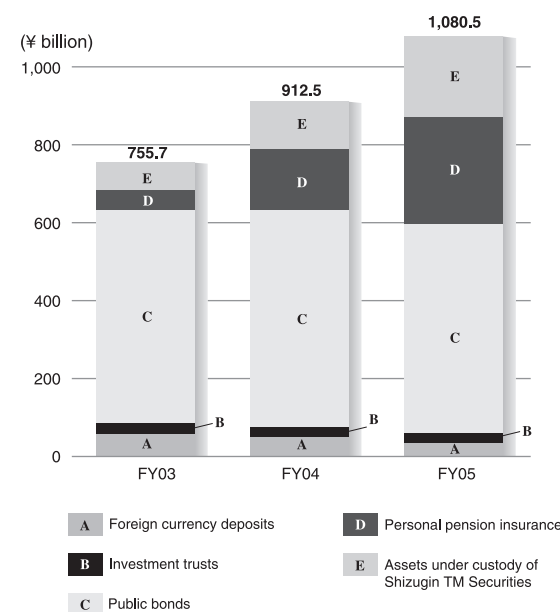
As a result of these efforts, the balance of loans to individuals at the end of fiscal 2005 by the whole Bank increased to ¥1,617.6 billion (US\$13,771 million), of which loans within Shizuoka Prefecture rose by ¥110.0 billion year-on-year, to ¥1,363.7 billion (US\$11,608 million).

### Assets in Custody

Shizuoka Bank, together with its subsidiary Shizugin TM Securities, offers customers a wide range of attractive financial products selected according to the customer's specified level of risk tolerance. These include deposits denominated in foreign currencies, public bonds, investment trust products, and personal pension insurance products. Our staff design personally customized asset portfolios that provide the optimal solution to the particular needs of each customer.

In line with the "financial one-stop-shop" concept for enhancing customer convenience, the Bank and Shizugin TM Securities are redesigning their branch offices into combined-use branches. The Bank also engages in securities intermediary services at six of its own branches, enabling its customers to access Shizugin TM Securities' products and services at these outlets, too.

### Balance of Individual Assets under Custody (at term-end; Shizuoka Bank and Shizugin TM Securities)



### Credit Card Business

At Shizuoka Bank, we place great importance on the role of credit cards as a valuable additional marketing channel enabling us to attract new customers who have not hitherto banked with us. Issuance of credit card can also lead to an increased chance of providing other services, and forming new relationship between the Bank and the customers.

In line with this, we commenced credit card operations directly by the Bank itself in March 2006. Our new card functions both as a credit card and as a security-enhanced ATM card, thanks to its embedded IC chip, and the customer is awarded points according to the value of transactions via the card. Apart from this card, we have also issued a credit card jointly with a railway company headquartered in Shizuoka Prefecture. This is the first case in Japan of issuance of a credit card by a bank itself in collaboration with a non-financial company.

Additionally, by enhancing our settlement capabilities within the region, to raise the Shizuoka Bank Group's general brand profile in our home region, we are discussing the joint development and issuance of a new card with a major credit card company.

### Contributing to Building Prosperous Community

As one way of fulfilling its corporate social responsibility (CSR), the Shizuoka Bank Group conducts activities aimed at assisting the economic and cultural development of its local region. In addition to sponsoring and hosting cultural and sporting events, we also offer lectures on financial matters, and conduct environmental preservation initiatives.

### Cultural Events and Sports Promotion

The Bank sponsors regular concerts and talks by leading cultural figures. In addition, as our home prefecture is one of the leading parts of Japan in terms of the popularity of soccer, we provide financial and other support for junior soccer league competitions.

### Education on Financial Matters

As the focus of Japan's financial strategy shifts from savings to investment, it becomes increasingly necessary for the average person to have an accurate grasp of financial fundamentals. There is thus a growing public demand for more education regarding financial matters. To meet this need, the Shizuoka Bank Group responds to invitations from local schools and other institutions by sending staff members to give talks on financial themes. We also hold guided tours of our facilities for small groups of students.

### Environmental Preservation Initiatives

At the Shizuoka Bank Group, we not only regard measures to address environmental preservation issues as part of

our corporate social responsibility and of our public mission, we view such initiatives as a prerequisite for the long-term sustained existence of the Group. We have obtained the ISO14001 certification of conformity with the international standards of environmental management systems for the annex of the Bank's headquarters.

The staff of all Group companies are playing their part in helping preserve the environment on a day-to-day level by making their utmost efforts to cut down on the use of paper, electricity, and water. From fiscal 2005, in line with the government's "Cool Biz" campaign, aimed at contributing to the amelioration of global warming through energy conservation, we have been urging staff at our headquarters and at Group companies to wear lighter clothing suited to Japan's hot summer climate (no neckties or jackets, even when meeting customers, for example), and have set the air-conditioning in our offices at 28 degrees Celsius (compared with the usual Japanese office setting of 25-26 degrees).

Through the marketing of environment-friendly financial products and the activities of the Shizugin Furusato Environmental Preservation Fund, a public trust, we are providing support for corporate customers and organizations that engage in environmental preservation activities.

### In Closing

In line with the current medium-term management plan (from fiscal 2005 to fiscal 2007), the Shizuoka Bank Group will continue leveraging its close relationships with its many customers and business partners in the home region to assist in the development of the communities in which it is based, and through these activities, to achieve growth on a groupwide scale.

Under the banner of our slogan "Challenge to Creation and Change," we will endeavor to design and establish a unique new business model that meets the needs of the new financial environment that is coming into being around us. While our core function will continue to be that of a regional financial institution, we aim to open up new possibilities so that whatever further changes the passage of time may bring, we will maintain our reputation as a comprehensive financial group providing the most reliable and efficient services in our home region.

I look forward to the continued support and encouragement of our shareholders and all other stakeholders as we work toward the achievement of a brighter and more prosperous future.

Katsunori Nakanishi

President & Chief Executive Officer



# Management Systems

Having always prioritized corporate ethics at the management level, the Shizuoka Bank Group has taken steps to strengthen its corporate governance and compliance structure through establishment of an Ethical Charter and related policies.

We will continue to tirelessly strengthen our management structure, the cornerstone of our efforts to fulfil our corporate social responsibilities, and increase Group enterprise value.

## Corporate Governance System

Based on our corporate philosophy, the Board of Directors is the Shizuoka Bank's main organization responsible for management-level decision-making and supervision. As such, it decides on important management strategy and basic policies relating to risk management and compliance, and monitors the conduct of operations.

Shizuoka Bank has adopted the corporate auditor-led system of governance, and an outside executive, a lawyer and a university professor serve as outside auditors to ensure greater management transparency and strengthen monitoring functions.

Management of everyday operations is carried out by the President, the Senior Vice Presidents, and executive officers appointed by the Bank's Board of Directors. Decisions on important matters that arise in the course of these day-to-day operations are taken by Major Committees, including the Executive Committee, dedicated to particular fields of operation and specially appointed by the Board of Directors. This approach is aimed at creating a system that can respond with precision and flexibility to changes in the management environment, while clearly delineating authority and responsibility.

We have also established an Office of the Chairman headed by the chairman and deputy chairmen, to conduct audits into executive functions, enabling us to clearly distinguish the monitoring and executive roles of management, thereby strengthening our governance framework.

In addition, we have also established a Compensation Committee and a Nominating Committee as advisory bodies to the President, both consisting mainly of executives from outside the Company, to enable involvement of outside viewpoints. The Compensation Committee decides executive compensation and the Nominating Committee offers outside opinions on the candidate selection process for executive positions.

## Creation of an Internal Monitoring System

The Bank has classified the organization into three arms, based on function – the Banking Division, handling front office business operations; the Corporate Center, with managers for corporate planning, administration and risk management; and the Internal Audit Division, conducting internal auditing. It has also strengthened cross-checking among these three arms.

We are also strengthening internal controls based on our “Basic Policy relating to Establishment of Internal Control Systems,” established at a Board of Directors meeting in May 2006. In June 2006, we further strengthened our mechanisms for assuring the appropriateness of business operations as a Group, through measures such as having our standing corporate auditors serve simultaneously as non-standing auditors for Group companies.

### Banking Division

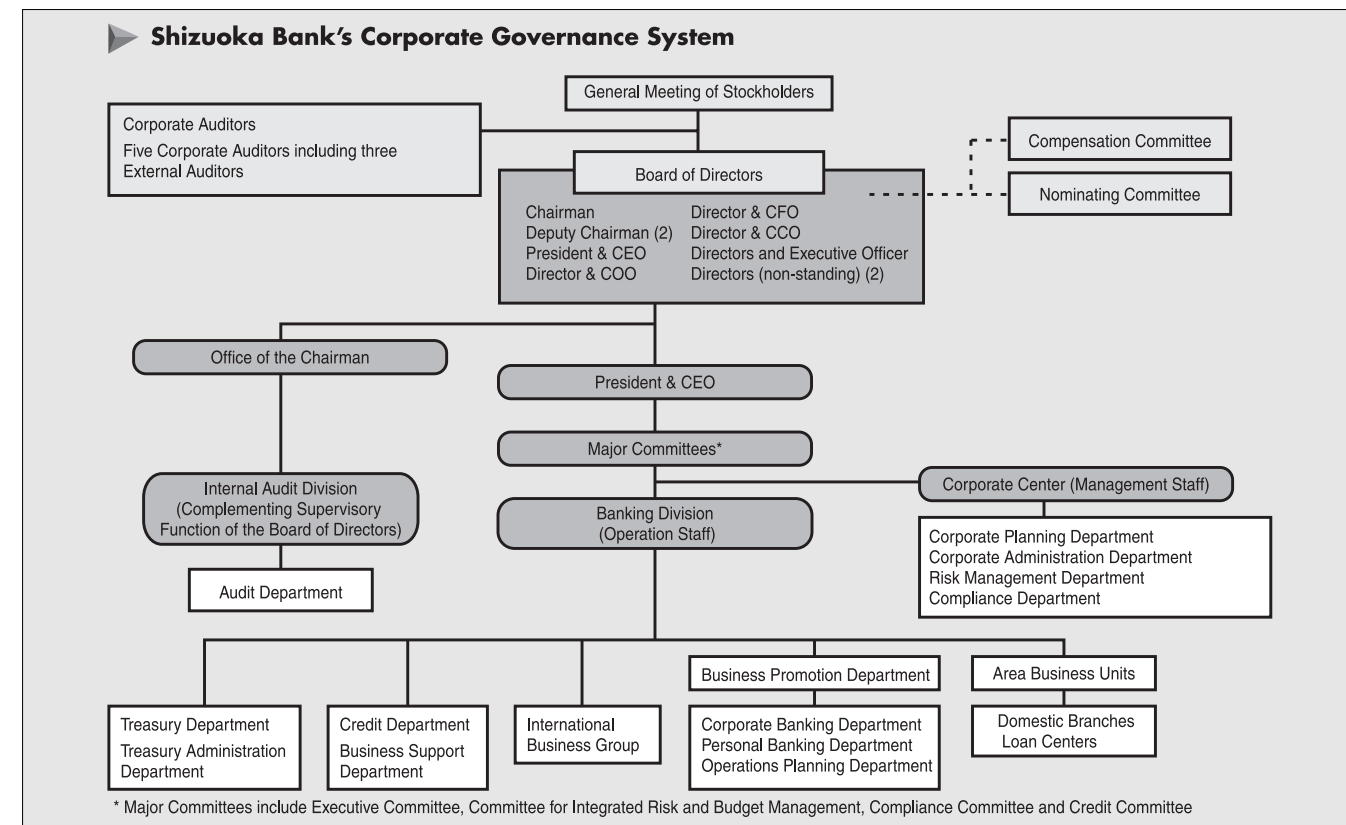
Carries out branch-based transactions and financial market transactions, based on management strategy, and is responsible for meeting performance targets (profit targets)

### Corporate Center

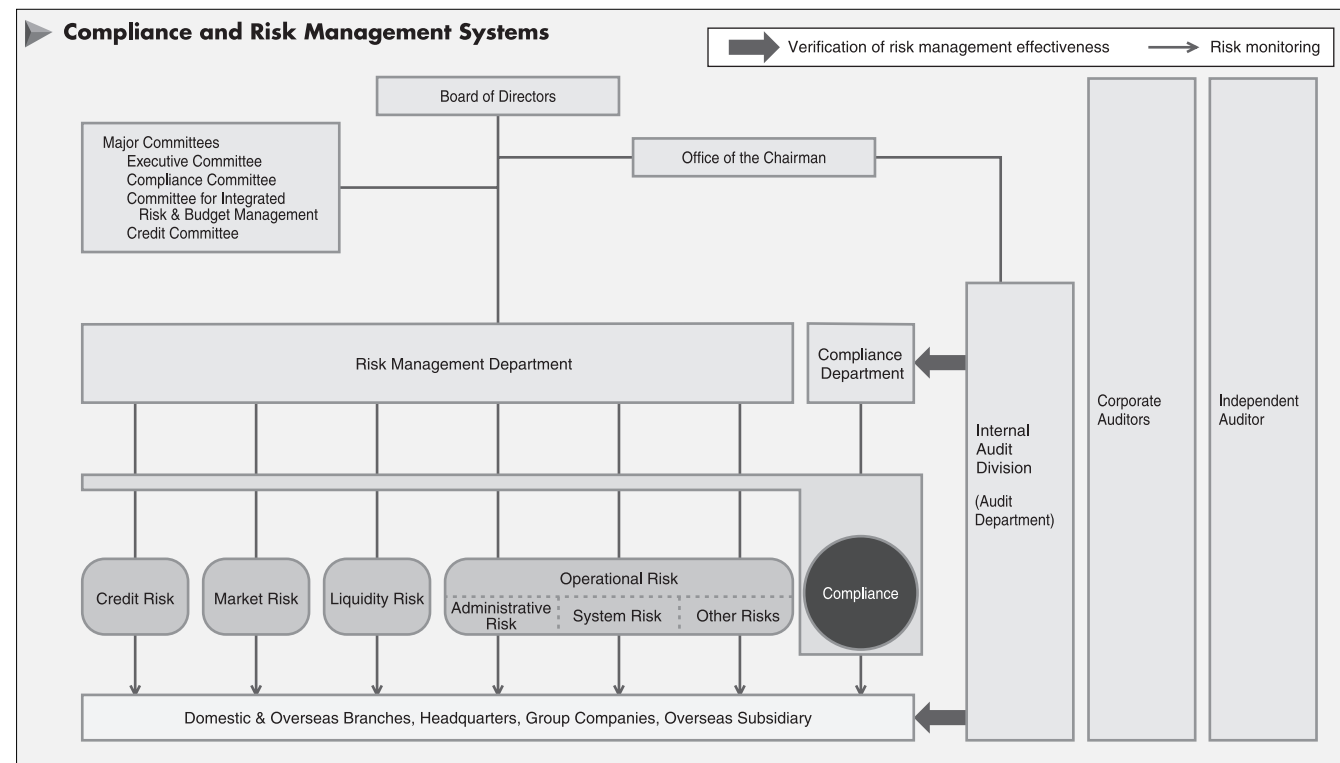
Functions as management corps, and helps to realize the management's corporate mission by optimizing enterprise value through setting of management strategy and monitoring of the conduct of business

### Internal Audit Division

Has been made completely independent of all other departments subject to its audits, and placed under the direct control of the Office of the Chairman, ensuring more objective and effective internal auditing



# Compliance and Risk Management Systems



## Basic Compliance Policy and Organizational Structure

Shizuoka Bank Group has always regarded compliance as a priority issue for management, and takes measures to consolidate and strengthen its compliance structure under the Ethical Charter, which sets out the Bank's basic policy. The Compliance Department is the overall supervisory body in this area, and, at monthly Compliance Committee meetings, exercises overall compliance control by carrying out and assessing specific measures. It also deliberates important business matters.

In addition to maximizing in-house awareness of the Ethical Charter and standards of conduct, the Compliance Group of the Compliance Department carries out and

coordinates annual compliance programs under the Board of Directors. It brings compliance-related information under unified management and monitors the compliance record of the Group, as well as taking measures to preempt compliance violations and improve the Bank's ability to deal with violations. In June 2005, we assigned compliance officers to conduct on-site compliance checkups at our branches, to strengthen our monitoring systems at the branch level.

In addition, the Compliance Department carries out unified management of compliance-related complaints through a Customer Consultation Office and also has set up a Data Security Management Office. In this way we have built up supervisory and management systems for information held by the Group.

## Fostering Greater Awareness of the Importance of Compliance

The Shizuoka Bank is taking measures to foster greater awareness of compliance issues from the executive level down. In addition to distributing the Shizuoka Bank Compliance Manual, which explains laws and business ethics, we have appointed managers with responsibility for compliance (and their assistant staff) at head office and branches in Japan and abroad, headquarters departments, Group companies in Japan, and overseas subsidiaries. We check that laws are rigidly observed in daily operations, based on study sessions held at branches and a completion of compliance checklists for daily operations. We have also set up a whistleblower function enabling all employees of the Bank group to inform executives in charge, Compliance Group, or The Legal Office of legal violations occurring within the Bank group.

## Basic Risk Management Policy and Organizational Structure

Increases in the categories of banking, the emergence of new kinds of banking business and other changes in our operating environment against the backdrop of ongoing financial deregulation are making our sector more diversified and complex. This means that strengthening risk management systems has become a management priority if we are to maintain financial soundness and simultaneously continue to generate stable profit.

In light of these changes, Shizuoka Bank has laid down rules for various kinds of risk management, and has established a unified Risk Management Department, which is independent from the business execution departments. This department includes Risk Management Group, a single supervisory section, and other groups responsible for management of each category of risk. This Groupwide system enables cross-sectional monitoring and management of risk. The Risk Management Group will quantify each category of risk to the maximum possible extent, enabling us to create an integrated risk management system to keep risk within the scope of our operational capabilities and enhancing profitability and efficiency of operations based on sound management of risk information.

In addition, the Audit Department, which is independent from departments being audited, creates a system of verification for checking the appropriateness and effectiveness of internal management through audits of all the core operations of head office and branches in Japan and abroad, each department of the headquarters, Group companies in Japan, and overseas subsidiaries. By increasing the sophistication of risk-based audits, corresponding to the nature and extent of risks involved, the Audit Department assures the effectiveness and feasibility of internal auditing.

## Integrated Risk Management System

The Bank has introduced a system of risk management through appropriate allocation of risk capital. Risk capital is core capital (Tier I minus an amount equivalent to net deferred tax assets) apportioned to cover market, credit and other risks.

Risk capital is allocated to operating divisions on the basis of value-at-risk (VaR) for market and credit risk after evaluation of business plans and market trends.

The Bank's operating divisions are responsible for keeping the level of risk within the allocated risk capital limits while simultaneously working to achieve earnings targets. The risk management sections monitor performance in uniform standards and manage risk capital utilization.

Each month, a high-level committee for integrated risk and budget management sets risk management and operational strategy based on risk-return analysis of the whole Bank. This allows appropriate control of risk levels and ensures a steady stream of earnings.

## Credit Risk Management

Shizuoka Bank manages credit risk across the full range of its operations, to enhance the soundness of its loan asset portfolio. In April 2006, we set up the Credit Risk Management Group under the Risk Management Department as a credit risk management office functioning separately from the Credit Department. In this way, we strengthened our credit risk management system.



The Credit Risk Management Group uses statistical methods to quantify latent credit risk across the Bank's entire loan portfolio. In this way, the Bank accurately assesses the scale of potential risk, and has in place risk control mechanisms to eliminate excessive credit risk. The Credit Risk Management Group is also engaged in the development of more sophisticated methods of assigning credit ratings to borrowers, as well as asset self-assessment techniques.

In addition we established an Asset Audit Group under the Audit Department, separately from front-line banking sections, credit screening and provision sections, and risk management sections. Through this organization, we check whether credit risk management is undertaken in line with rules and regulations, by verifying implementation processes for asset self-assessment.

### Borrowers' Credit Rating System

The Bank employs a borrowers' credit rating system to form an accurate picture of the creditworthiness of corporate borrowers and ensure meticulous credit risk management. Borrowers are rated on a scale of 1 to 12 according to financial indicators, including the asset portfolio and cash flows. To make the ratings objective, quantitative information is given more weight in this system.

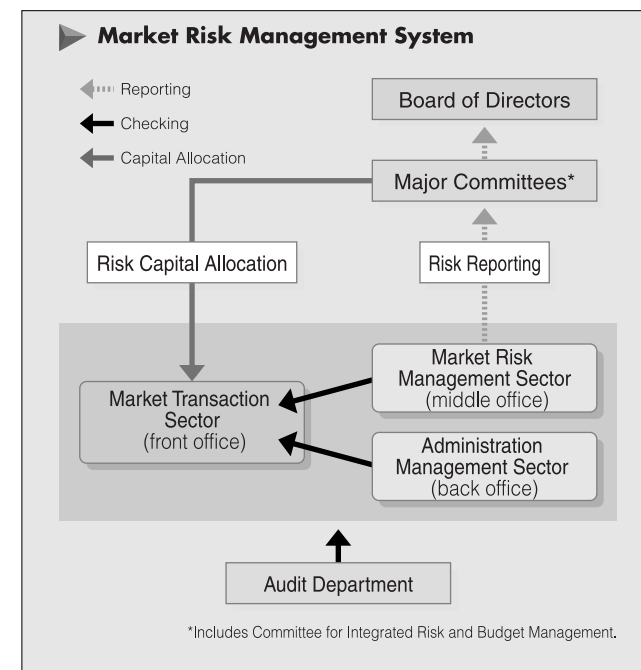
Borrowers' credit ratings form the basis of self-assessment, which is preparatory to the calculation of capital ratios. They are also used in calculating the general reserve for possible loan losses, and are widely used as criteria for determining credit-approval limits and management of problem credits. They are thus fundamental to credit risk management.

### Market Risk Management

At Shizuoka Bank, the amount of market risk (including the market risk of Shizuoka Bank Europe S.A.) is kept within a fixed range as a percentage of risk capital, and we ensure that an appropriate level of profitability is maintained, with due consideration to degree of risk. Regarding the market risk faced by our other major subsidiaries, we are also taking a unified approach to market risk management.

To ensure an effective system of checks and balances at Shizuoka Bank, market risk management (middle office) departments and administrative (back office) departments are kept strictly separate from departments involved in market transactions (front office). In addition, the Audit Department monitors the system of mutual checking among the front, middle, and back offices.

Earnings performance and risk level data assessed by middle offices are used in management evaluations through an intranet which enables monitoring at all times.



### Liquidity Risk Management

Staff are assigned to the management of cash flow risk on a daily, weekly, and monthly basis, and cash flow risk is controlled across the whole Bank, including overseas branches. Four levels of emergency scenario have been established to help us formulate rapid and appropriate responses to unforeseeable events, and we have in place for each contingency the officials, offices, and measures needed to ensure immediate remedial action.

Position limits are set for each financial product and maturity period to control market liquidity risk.

### Operational Risk Management

Operational risk refers to risks related to the Bank's operations other than credit, market and liquidity risk. Shizuoka Bank aims to apply the most appropriate management methods to each kind of operational risk, particularly administrative risk and system risk, by putting the Operational Risk Group of the Risk Management Department in charge of operational risk management. We are also pushing ahead with research into ways of quantifying operational risk to promote comprehensive risk management.

To deal appropriately with the increasing diversification of our business and rising transaction volumes, and address possible administrative risk, we are rationalizing operations through business process re-engineering tools such as automation and computerization, and concentrating branch back-office work at business centers.

To further enhance the quality of administrative work at branches we are posting administrative rules on our website for internal use and simplifying workflow, as well as upgrading employees' skill levels through administrative guidance sessions with visiting experts from the headquarters. At the same time, we ensure a high standard of administrative management and take measures to prevent accidents by having branches carry out internal cross-checking once a month and arranging on-site examination by the Audit Department, our internal auditing mechanism.

To counter system risk, we have established a security policy incorporating approaches to system risk, based on the designation of computing systems themselves as an information asset, and have taken a wide range of safety measures based on our security standards. In this way, we ensure safe and error-free operation of our computer systems. We are pursuing greater sophistication and standardization of our system risk management, based on trial monitoring of overall system risk for the Group by the Operational Risk Group.

### Basel II: Our Response to the Basel II Capital Adequacy Framework

Shizuoka Bank Group is upgrading its risk management system ahead of the introduction of Basel II, a revised version of the international bank capital regulatory framework stipulating the minimum capital adequacy effective from the term ending March 2007.

We have already established a Basel II preparatory committee to be headed by the director in charge of the Corporate Planning Department and comprising all department and office heads. The committee's task is to harmonize the Bank's response to the new regime in an integrated fashion. The Bank is building an internal control system in conformity with the Basel II standards by setting up credit risk and operational risk groups under the Risk Management Department.

The Shizuoka Bank Group will further upgrade risk management systems, including screening systems and regulatory procedures, aiming to apply the Foundation Internal Ratings Based (FIRB) Approach for credit risk and the Standardized Approach for operational risk.

### Business Continuity Plan

Japan is one of the countries most vulnerable to earthquakes. Shizuoka Bank Group has drawn up a contingency plan in the event of a large-scale earthquake in the Tokai region or under metropolitan area, since it is said that there is a significant likelihood of such an earthquake in the near future. We have strengthened our ability to deal with such disasters through a contingency plan, so that we can continue our operations even during emergencies or re-open operations at an early date after such events.

In addition to quakeproofing Bank structures, firmly attaching safe-deposit boxes, ATMs and other equipment to walls/floors, establishing backup computing systems, and using more earthquake resistant materials at each branch, including for emergency communications equipment, we also undertake twice-yearly earthquake training sessions based on our emergency procedures.

# Soundness of Financial Position

The Shizuoka Bank Group is always conscious of the strong public-service character and corporate social responsibility (CSR) inherent in its business of taking custody of the important assets of its numerous customers and providing companies and individuals with funds and financial services, thereby contributing to the sound development of the regional community. For this reason, sound management has always been our fundamental policy. In the future, too, we will continue to enhance our financial position in a way that enables it to fulfill our mission of contributing to the invigoration of the regional economy, serving as a reliable and preferred total financial group.

## Capital Ratios

As of the end of March 2006, the Bank's capital ratio according to the BIS standard was 13.64% on a consolidated basis. The fundamental Tier I capital ratio stood at 10.69%, and the core capital ratio (Tier I capital minus an amount equivalent to net deferred tax assets) was 9.78%, which was substantially higher than the 8% level generally expected of banks engaging in international business overseas.

## Credit Ratings

A credit rating is an indicator of a bank's ability to repay the principal of and interest on deposits. Credit ratings are widely accepted as reliable indicators of a bank's creditworthiness and financial safety. Shizuoka Bank has been rated by one Japanese and three overseas ratings agencies, and these ratings are in each case among the highest of any Japanese financial institution.

## Non-Performing Loans

The balance of risk-managed loans, under the Banking Law, totaled ¥223.5 billion (US\$1,903 million) on a consolidated basis, representing 4.18% of the total balance of loans outstanding at the end of the term. This figure reflects our

success in curbing new occurrence of bad debt by supporting business rehabilitation at struggling customers, and our efforts to shift bad debt off the balance sheet.

With regard to non-performing loans on which payments of principle or interest are in arrears, Shizuoka Bank aims to remove them from its balance sheets by such means as the rapid disposal of collateral or sale of receivables. However, not all loans, that are classified as risk-managed loans are treated in the same way, because the greater part of the Bank's risk-managed loans are performing loans, with keeping up with their payments of principal and interest. For such loans working in collaboration with Group companies and others, the Bank endeavors to bring about the revitalization of the debtor companies and their business activities, even if it takes some time to do so, and in that way seeks to maintain the soundness of its assets and at the same time energize the regional economy.

The Shizuoka Bank's total credit costs also continue to be held at a low level, thanks to the Bank's high coverage ratio on its risk-managed loans. (The term coverage ratio, as used here, refers to the ratio of the value of collateral and guaranteed amounts combined to the value of the loans in question.)

# Business Performance in Fiscal 2005 (Consolidated)

## Earnings

Total income of the Shizuoka Bank Group increased ¥6.1 billion from the previous term to ¥203.8 billion (US\$1,735 million), attributable mainly to higher interest income from increases in interest on loans and discounts and interest and dividends on securities.

Total expenses increased ¥10.4 billion year-on-year to ¥146.4 billion (US\$1,246 million), owing principally to an increase in losses on sales of bonds including Japanese government bonds in Other operating expenses.

As a result, net income decreased ¥2.4 billion from the previous term to ¥33.0 billion (US\$281 million). This figure would be a record high if special factors are excluded such as the return of the substitutional portion of the governmental pension program in the previous term and reversal of the reserve for possible loan losses.

## Loans

As our prosperity depends on the economic health of our home region, we focused on providing loans to meet the diverse funding needs of our customers. Mortgage and other loans to individual customers, and loans to SMEs both showed steady increases, with the result that the balance of loans and bills discounted at the end of the term rose by ¥308.9 billion to ¥5,341.2 billion (US\$45,469 million).

## Deposits

Total deposits increased ¥36.5 billion at the end of the term to ¥6,973.8 billion (US\$59,367 million), thanks to increases mainly in savings deposits and negotiable certificates of deposit.

To meet customers' increasingly diverse asset management needs, the Bank put an effort into sales, and increased its balance of assets in custody such as public bonds, investment trusts, foreign-currency deposits, and personal pension insurance, mainly held by individuals. As a result, the total of such personal assets under custody (including yen deposits and NCDs) increased by ¥234.7 billion to ¥5,824.9 billion (US\$49,586 million).

## Securities

The Bank endeavored to construct a portfolio yielding sound and steady earnings by tailoring its position flexibly to market trends. As a result, the total balance of securities at the end of the term increased by ¥158.9 billion from the previous term end to ¥2,388.7 billion (US\$20,334 million).

## Cash Flows (on a consolidated basis)

Net cash provided by operating activities amounted to ¥148.2 billion (US\$1,262 million) due mainly to a decrease in due from banks. Net cash used in investing activities totaled ¥7.0 billion (US\$59.8 million), reflecting acquisition of securities for investment purposes. Net cash used in financing activities totaled ¥6.7 billion (US\$57.2 million), the principal factor being dividend payments. As a result, total cash and cash equivalents increased by ¥134.5 billion at the term-end to ¥246.9 billion (US\$2,102 million).

## INDEPENDENT AUDITORS' REPORT

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

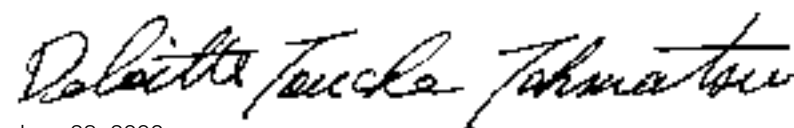
We have audited the accompanying consolidated balance sheets of The Shizuoka Bank, Ltd. (the "Bank") and subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to 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 Shizuoka Bank, Ltd. and 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.

As discussed in Note 31 to the consolidated financial statements, effective from April 1, 2006, the Bank revised its defined benefit pension plans to establish the cash balance plan and implement a defined contribution pension plan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



June 28, 2006

## Consolidated Balance Sheets

THE SHIZUOKA BANK, LTD. and Subsidiaries March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	2006
<b>Assets:</b>			
Cash and due from banks (Note 11)	¥ 385,348	¥ 473,922	\$ 3,280,402
Call loans and bills bought	3,061	36,512	26,063
Monetary claims bought	253,923	317,571	2,161,604
Trading assets (Notes 4, 5)	86,043	119,020	732,471
Securities (Notes 5, 11)	2,388,746	2,229,815	20,334,947
Loans and bills discounted (Notes 6, 11, 12)	5,341,282	5,032,335	45,469,336
Foreign exchanges (Note 7)	5,077	4,730	43,225
Other assets (Note 8)	65,177	59,375	554,841
Premises and equipment (Notes 9, 11)	99,313	99,792	845,440
Deferred tax assets (Note 24)	3,012	3,236	25,642
Customers' liabilities for acceptances and guarantees (Note 10)	130,750	115,151	1,113,053
Reserve for possible loan losses	(69,986)	(78,668)	(595,782)
Reserve for possible investment losses	(138)	(724)	(1,182)
<b>Total Assets</b>	<b>¥8,691,612</b>	<b>¥8,412,069</b>	<b>\$73,990,060</b>
<b>Liabilities, Minority Interests and Stockholders' Equity:</b>			
<b>Liabilities:</b>			
Deposits (Notes 11, 13)	¥6,973,847	¥6,937,309	\$59,367,048
Call money and bills sold (Note 11)	310,512	213,720	2,643,331
Collateral money for securities lending / borrowing transactions (Note 11)	106,253	161,916	904,514
Trading liabilities (Note 4)	32,672	5,652	278,136
Borrowed money (Notes 11, 14)	18,105	25,154	154,127
Foreign exchanges (Note 7)	124	188	1,063
Corporate bonds (Note 15)	200,482	204,434	1,706,666
Other liabilities (Notes 11, 16)	83,366	73,545	709,685
Reserve for employees' retirement benefits (Note 17)	24,138	24,026	205,485
Reserve under specific law	8	5	69
Deferred tax liabilities (Note 24)	72,321	17,001	615,662
Acceptances and guarantees (Note 10)	130,750	115,151	1,113,053
<b>Total Liabilities</b>	<b>7,952,582</b>	<b>7,778,106</b>	<b>67,698,839</b>
<b>Minority Interests</b>	<b>13,344</b>	<b>11,356</b>	<b>113,595</b>
<b>Stockholders' Equity</b> (Notes 18, 19, 31)			
Common stock			
Authorized, 2,414,596 thousand shares:			
issued, 720,129 thousand shares in 2006 and 2005	90,845	90,845	773,353
Capital surplus	54,898	54,892	467,345
Retained earnings	413,951	387,491	3,523,890
Net unrealized gain on available-for-sale securities	175,996	99,353	1,498,228
Foreign currency translation adjustments	(589)	(727)	(5,021)
Treasury stock—at cost			
11,885 thousand shares in 2006 and			
11,738 thousand shares in 2005	(9,417)	(9,248)	(80,169)
<b>Total Stockholders' Equity</b>	<b>725,685</b>	<b>622,606</b>	<b>6,177,626</b>
<b>Total Liabilities, Minority Interests and Stockholders' Equity</b>	<b>¥8,691,612</b>	<b>¥8,412,069</b>	<b>\$73,990,060</b>

See notes to consolidated financial statements.



# Consolidated Statements of Income

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	2006
<b>Income:</b>			
<b>Interest Income:</b>			
Interest on loans and discounts	¥ 95,328	¥ 93,304	\$ 811,513
Interest and dividends on securities	37,909	24,786	322,716
Other interest income	2,861	3,471	24,359
Subtotal	136,099	121,562	1,158,588
<b>Fees and Commissions</b>	48,032	45,042	408,895
<b>Trading Income</b>	2,002	2,577	17,047
<b>Other Operating Income</b> (Note 20)	2,282	2,317	19,432
<b>Other Income</b> (Note 21)	15,442	26,260	131,461
Total Income	203,860	197,760	1,735,423
<b>Expenses:</b>			
<b>Interest Expenses:</b>			
Interest on deposits	13,701	7,970	116,635
Interest on borrowings and rediscounts	2,013	1,189	17,143
Other interest expenses	11,417	6,957	97,196
Subtotal	27,132	16,117	230,974
<b>Fees and Commissions</b>	20,739	20,199	176,554
<b>Trading Expenses</b>	422		3,599
<b>Other Operating Expenses</b> (Note 22)	5,731	3,063	48,788
<b>General and Administrative Expenses</b>	81,076	80,141	690,190
<b>Other Expenses</b> (Note 23)	11,380	16,476	96,883
Total Expenses	146,483	135,997	1,246,988
<b>Income before Income Taxes and Minority Interests</b>	57,376	61,762	488,435
<b>Income Taxes:</b> (Note 24)			
Current	17,193	14,513	146,366
Deferred	5,041	10,633	42,917
<b>Minority Interests in Net Income of Consolidated Subsidiaries</b>	2,080	1,144	17,711
Net Income	¥ 33,060	¥ 35,470	\$ 281,441

	Yen		U.S. Dollars (Note 2)
	2006	2005	2006
<b>Per Share:</b> (Note 30)			
Net income	¥ 46.60	¥ 49.99	\$ 0.40
Cash dividends applicable to the year	10.00	8.50	0.09

See notes to consolidated financial statements.

# Consolidated Statements of Stockholders' Equity

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2006 and 2005

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
<b>Balance, April 1, 2004</b>	720,129	¥90,845	¥54,884	¥357,383	¥ 97,558	¥(1,063)	¥(8,974)
Net income				35,470			
Cash dividends, ¥7.50 per share				(5,314)			
Bonuses to directors and corporate auditors				(48)			
Repurchase of treasury stock (346 thousand shares)							(326)
Disposal of treasury stock (65 thousand shares)			7				51
Net increase in net unrealized gain on available-for-sale securities					1,795		
Net decrease in foreign currency translation adjustments						335	
<b>Balance, March 31, 2005</b>	720,129	¥90,845	¥54,892	¥387,491	¥ 99,353	¥ (727)	¥(9,248)
Net income				33,060			
Cash dividends, ¥9.25 per share				(6,552)			
Bonuses to directors and corporate auditors				(49)			
Repurchase of treasury stock (178 thousand shares)							(193)
Disposal of treasury stock (31 thousand shares)			6				24
Net increase in net unrealized gain on available-for-sale securities					76,643		
Net decrease in foreign currency translation adjustments						138	
<b>Balance, March 31, 2006</b>	720,129	¥90,845	¥54,898	¥413,951	¥175,996	¥ (589)	¥(9,417)

	Thousands of U.S. Dollars (Note 2)						
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	
<b>Balance, March 31, 2005</b>	\$773,353	\$467,286	\$3,298,642	\$ 845,779	\$(6,196)	\$(78,735)	
Net income			281,441				
Cash dividends, \$0.079 per share			(55,776)				
Bonuses to directors and corporate auditors			(417)				
Repurchase of treasury stock						(1,644)	
Disposal of treasury stock		59				210	
Net increase in net unrealized gain on available-for-sale securities				652,449			
Net decrease in foreign currency translation adjustments					1,175		
<b>Balance, March 31, 2006</b>	\$773,353	\$467,345	\$3,523,890	\$1,498,228	\$(5,021)	\$(80,169)	

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	2006
<b>I. Operating Activities:</b>			
Income before income taxes and minority interests	¥ 57,376	¥ 61,762	\$ 488,435
Adjustments for:			
Income taxes-paid	(15,870)	(16,426)	(135,098)
Depreciation and amortization	19,669	19,815	167,441
Loss on impairment of fixed assets	322	2,085	2,745
Decrease in reserve for possible loan losses	(8,681)	(15,436)	(73,906)
Decrease (increase) in reserve for possible investment losses	(20)	382	(172)
Increase (decrease) in reserve for employees' retirement benefits	111	(2,768)	949
Bonuses to directors and corporate auditors	(65)	(65)	(555)
Gains on securities	(6,382)	(3,857)	(54,331)
Losses on sale of premises and equipment	469	813	3,997
Changes in assets and liabilities			
Decrease in trading assets	32,976	17,937	280,726
Increase in trading liabilities	27,019	2,621	230,015
Increase in loans and bills discounted	(293,821)	(70,026)	(2,501,251)
Increase (decrease) in deposits	518	(1,791)	4,411
Decrease in borrowed money	(7,049)	(4,000)	(60,008)
Decrease (increase) in due from banks (excluding demand deposits with the Bank of Japan)	234,532	(56,438)	1,996,534
Decrease in call loans	36,878	49,184	313,936
Decrease (increase) in monetary claims bought	63,647	(73,147)	541,823
Increase in call money	93,626	118,609	797,025
(Decrease) increase in Collateral money for securities lending / borrowing transactions	(69,724)	109,001	(593,555)
Increase in foreign exchanges (assets)	(347)	(1,365)	(2,955)
Decrease in foreign exchanges (liabilities)	(64)	(91)	(546)
(Decrease) increase in corporate bonds	(10,000)	30,000	(85,128)
Decrease in interest and dividends receivable	2,184	2,371	18,597
Increase in interest payable	387	586	3,301
Other net	(9,400)	(17,828)	(80,024)
Total Adjustments	90,918	90,165	773,971
Net Cash Provided by Operating Activities	148,294	151,928	1,262,406
<b>II. Investing Activities:</b>			
Purchase of securities	(876,859)	(880,971)	(7,464,536)
Proceeds from sale of securities	491,164	392,603	4,181,189
Proceeds from redemption of securities	395,046	349,359	3,362,960
Purchase of premises and equipment	(17,354)	(16,290)	(147,735)
Proceeds from sale of premises and equipment	976	2,344	8,311
Net Cash Used in Investing Activities	(7,025)	(152,954)	(59,811)
<b>III. Financing Activities:</b>			
Dividends paid	(6,544)	(5,314)	(55,710)
Dividends paid to minority interests	(21)	(23)	(185)
Repurchases of treasury stock	(193)	(326)	(1,645)
Proceeds from sales of treasury stock	36	59	307
Net Cash Used in Financing Activities	(6,723)	(5,604)	(57,233)
<b>IV. Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	53	10	458
<b>V. Net Increase (Decrease) in Cash and Cash Equivalents</b>	134,599	(6,620)	1,145,820
<b>VI. Cash and Cash Equivalents, Beginning of Year</b>	112,327	118,948	956,221
<b>VII. Cash and Cash Equivalents, End of Year (1)</b>	¥246,926	¥ 112,327	\$ 2,102,041

See notes to consolidated financial statements.

Note (1): For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and demand deposits with the Bank of Japan. Cash and due from banks on the consolidated balance sheets at March 31, 2006 and 2005 are reconciled with cash and cash equivalents on the consolidated statements of cash flows as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2006	2005	2006
Cash and Cash due from banks	¥385,348	¥473,922	\$3,280,402
Other due from banks	(138,422)	(361,594)	(1,178,361)
Cash and cash equivalents, end of year	¥246,926	¥112,327	\$2,102,041

# Notes to Consolidated Financial Statements

THE SHIZUOKA BANK, LTD. and Subsidiaries Years ended March 31, 2006 and 2005

## 1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared from the accounts maintained by The Shizuoka Bank, Ltd. (the "Bank") and its subsidiaries (the "Group") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code"), the Securities and Exchange Law of Japan, the Bank Law of Japan and the Uniform Accounting Standards for Banks in Japan stated by the Japanese Bankers' Association and accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In order to facilitate an understanding by readers outside Japan, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically.

In addition, certain reclassifications and rearrangements have been made in the 2005 financial statements to conform to classifications and presentations used in 2006.

## 2. YEN AND U.S. DOLLAR AMOUNTS

In accordance with the Bank Law of Japan and the Uniform Accounting Standards for Banks in Japan, yen amounts less than one million have been omitted. As a result, the totals in yen shown in the accompanying consolidated financial statements and the notes thereto do not necessarily agree with the sum of the individual account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Bank is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and have been made at the rate of ¥117.47 to \$1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation that Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Consolidation:

The accompanying consolidated financial statements as of March 31, 2006 and 2005 include the accounts of the Bank and 12 subsidiaries.

Under the control or influence concept, those companies in which the Bank, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of an acquisition over the fair value of net assets of the acquired subsidiary at the date of acquisition is charged to income when incurred.

All significant intercompany accounts and transactions have been eliminated in consolidation. All material unrealized profits resulting from intercompany transactions are eliminated.

### Trading purpose transactions:

"Transactions for trading purposes" (the purpose of seeking to capture gains arising from short-term fluctuations in interest rates, currency exchange rates or market prices of securities and other market-related indices or from gaps among markets) are included in "Trading assets" and "Trading liabilities" on a trade-date basis. Trading securities and monetary claims purchased for trading purposes recorded in these accounts are stated at market value, and trading-related financial derivatives are stated at the amounts that would be settled if they were terminated at the end of the fiscal year.

Profits and losses on transactions for trading purposes are shown as "Trading income (losses)" on a trade-date basis.

### Securities:

Held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are stated at amortized cost computed by straight-line method and available-for-sale securities, which are not classified as either trading account securities or held-to-maturity debt securities, are stated at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of stockholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

### Premises and equipment:

Premises and equipment are stated at cost less accumulated depreciation. Depreciation of premises and equipment owned by the Bank is computed using the declining-balance method over the estimated useful lives.

The range of useful lives is principally from 3 to 38 years for buildings, and from 2 to 20 years for equipment.

Depreciation of premises and equipment owned by consolidated subsidiaries is principally computed using the declining-balance method over the estimated useful lives of the assets. Depreciation of leased property and equipment is provided on the straight-line method over lease periods.

### Fixed-lived assets:

In August 2002, the Business Accounting Council issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

In our banking operations, amounts equivalent to accumulated impairment losses are directly charged to assets employed for the operations in accordance with the relevant regulations (Enforcement Regulations to the Banking Law (1982, Ministry of Finance Order No. 10).

The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2004. The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

### Software:

The Bank and its subsidiaries in Japan amortize internal-use software development costs by the straight-line method over the useful life (principally five years).

### Reserve for possible loan losses:

The amount of the reserve for possible loan losses is determined based on management's judgement and assessment of future losses based on the self-assessment system. This system reflects past experience of credit losses, possible credit losses, business and economic conditions, the character, quality and performance of the portfolio and other pertinent indicators.



The Bank implemented a self-assessment system for its asset quality. The quality of all loans is assessed by branches and the Credit Supervision Department with a subsequent audit by the Credit Examination Department, in accordance with the Bank's policy and rules for self-assessment of asset quality.

The Bank has established a credit rating system under which its customers are classified into five categories. The credit rating system is used for self-assessment of asset quality. All loans are classified into five categories for self-assessment purposes — "normal," "caution," "possible bankruptcy," "virtual bankruptcy" and "legal bankruptcy."

The reserve for possible loan losses is calculated based on the specific past actual loss ratio for normal and caution categories, and the fair value of collateral for collateral-dependent loans and other factors of solvency, including the value of future cash flows for other self-assessment categories.

The consolidated subsidiaries provide the "Reserve for possible loan losses" at the amount deemed necessary to cover such losses, principally based on past experience.

In the previous years, the Bank calculated the allowance for doubtful accounts, based on the Bank's past three-years credit loss experience. In this year, the Bank changed its calculation period from 3 years to 5 years, because more reliable credit loss data for 5 years became available under the current rating system. Due to this change, it became possible to estimate future credit losses without being influenced by economic fluctuations or other exceptional factors.

The effect of this change was to decrease income before income tax and minority interests for the year ended March 31, 2006 by ¥2,498 million.

#### Reserve for possible investment losses:

The reserve for possible investment losses is provided at a necessary amount based on the estimated possible losses on investments.

#### Reserve for employees' retirement benefits:

The Bank and domestic consolidated subsidiaries have lump-sum retirement benefit plans, a contributory funded pension plan and a non-contributory funded pension plan.

The Bank and its subsidiaries accounted for the liability for employees' retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

#### Leases:

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee are permitted to be accounted for as rental transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

#### Translation of foreign currencies:

Assets and liabilities which are payable or receivable in foreign currencies are converted into Japanese yen at the rates prevailing at each balance sheet date.

The financial statements of the consolidated subsidiaries outside Japan are translated into Japanese yen at the current exchange rate at each balance sheet date, except for stockholders' equity, which is translated at the historical exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of stockholders' equity.

#### Income taxes:

The Bank and its subsidiaries in Japan allocate income taxes based on the asset and liability method.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

#### Derivatives and hedging activities:

(a) Transactions to hedge against interest rate risk  
Transactions to hedge against interest rate risk affecting the financial assets and liabilities of the Bank are accounted for using deferral hedge accounting as stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Japanese Institute of Certified Public Accountant Industry Audit Committee Report No.24). Regarding the effectiveness of a hedging relationship under fair value hedging, a portfolio of hedged items such as deposits or loans with common maturities is matched with a group of hedging instruments such as interest rate swaps which offset the effect of fair value fluctuations of the hedged items by identified maturities, and are designated as a hedge of the portfolio. The effectiveness of the fair value hedge is assessed by each group. Also, the effectiveness of a cash flow hedge is assessed on the basis of the correlation between the base interest rate index of the hedged cash flow and that of the hedging instrument.

In the previous years ended March 31, 2003, as stipulated in "Accounting and Auditing Treatment of Accounting Standards for Financial Instruments in the Banking Industry" (Japanese Institute of Certified Public Accountant Industry Audit Committee Report No. 15), the Bank applied a "macro-hedge methodology" which was permitted for Japanese banks as a temporary treatment where overall interest rate risks inherent in loans, deposits and other instruments were controlled on a macro basis using derivatives. The temporary treatment was abolished in the fiscal year ended March 31, 2003.

Deferred hedge gains/losses recognized in previous years under the macro-hedge method are being amortized as interest income or interest expenses over four years from fiscal 2003 based on the average remaining maturity of the hedging instruments. The unamortized amount of net deferred hedge losses under the macro-hedge method at the end of the reporting fiscal year was ¥67 million.

Special hedging treatment is applied for interest rate swaps. Methods similar to that utilized by the Bank are applied to hedge transactions conducted by the subsidiaries of the Bank.

(b) Transactions to hedge against foreign exchange fluctuation risk  
Deferral hedge accounting is applied to hedges against foreign exchange fluctuation risks associated with foreign currency denominated monetary assets and liabilities, stipulated in JICPA Industry Audit Committee Report No. 25.

The effectiveness of currency-swap transactions, exchange swap transactions and similar transactions hedging foreign exchange risks of monetary assets and liabilities denominated in foreign currencies is assessed by comparison of the foreign currency position of the hedged monetary assets and liabilities and the hedging instruments.

In order to hedge the foreign exchange risk of foreign-currency-denominated Available-for-sale securities (except bonds), the Bank applies the "general method" using market-value hedges in accordance with certain conditions, namely the stipulation in advance of which foreign-currency-denominated securities are to be hedged, and the existence in foreign currency of a spot-forward liability in excess of the acquisition cost of the relevant foreign-currency-denominated securities.

The method of hedge accounting for consolidated subsidiaries corresponds with the Bank's method.

#### Statement of cash flows:

For the purpose of the consolidated statement of cash flows, cash and cash equivalents represent cash and due from the Bank of Japan.

#### Per share information:

Basic net income per share is computed by dividing net income available to common stockholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The average number of common shares used in the computation was 708,323,018 shares for 2006 and 708,567,765 shares for 2005.

Diluted net income per share reflects the potential dilution that could occur if the outstanding stock options were exercised. Diluted net

income per share assumes full exercise of the outstanding stock options at the beginning of the year (or at the time of grant). However, diluted net income per share is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

#### New Accounting Pronouncements

(a) Business Combination and Business Separation  
In October 2003, the Business Accounting Council (BAC) issued a Statement of Opinion, *Accounting for Business Combinations*, and on December 27, 2005 the Accounting Standards Board of Japan (ASBJ) issued *Accounting Standard for Business Separations* and ASBJ Guidance No.10, *Guidance for Accounting Standard for Business Combination and Business Separations*. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests.

These specific criteria are as follows:

- the consideration for the business combination consists solely of common shares with voting rights,
- the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 year or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

#### (b) Stock options

On December 27, 2005, the ASBJ issued *Accounting Standard for Stock Options and related guidance*. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the data of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of stockholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

#### (c) Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general stockholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, *Accounting treatment for bonuses to directors and corporate auditors*, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to

income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

#### 4. TRADING ASSETS AND LIABILITIES

Trading assets and liabilities at March 31, 2006 and 2005 consisted of the following:

##### (a) Trading assets

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Trading securities:			
National government bonds	¥ 8,902	¥ 5,559	\$ 75,785
Local government bonds	638	318	5,433
Foreign securities	130		1,107
Subtotal	9,670	5,878	82,325
Bond futures			
Subtotal			
Financial derivatives:			
Option premium			
Other (Note)	35,298	7,585	300,493
Subtotal	35,298	7,585	300,493
Other trading assets:			
Commercial paper	41,060	105,550	349,543
Other (Note)	12	5	110
Subtotal	41,073	105,556	349,653
Total	¥86,043	¥119,020	\$732,471

##### (b) Trading liabilities

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Financial derivatives:			
Other (Note)	¥32,672	¥5,652	\$278,136
Total	¥32,672	¥5,652	\$278,136

Note: Other in assets and liabilities represents unrealized gains and losses, respectively.

#### 5. SECURITIES

Securities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
National government bonds	¥ 728,069	¥ 888,578	\$ 6,197,922
Local government bonds	176,314	143,056	1,500,934
Corporate debentures	460,400	386,862	3,919,300
Corporate stocks	442,259	292,663	3,764,873
Other securities	581,701	518,654	4,951,918
Total	¥2,388,746	¥2,229,815	\$20,334,947

In the following description, in addition to "Securities" in the consolidated balance sheet, also presented are trading account securities and commercial paper within the item "Trading assets," negotiable certificates of deposit within the item "Cash and due from banks," and miscellaneous monetary claims purchased within the item "Monetary claims bought."





## 15. CORPORATE BONDS

Bonds at March 31, 2006 and 2005, consisted of the following:

	rate (%)	Millions of Yen		Thousands of
		2006	2005	U.S. Dollars
Unsecured bonds, payable in Japanese yen, due May 2007	1.67	¥ 20,000	¥ 20,000	\$ 170,256
Unsecured bonds, payable in Japanese yen, due May 2005	1.27		20,000	
Unsecured bonds, payable in Japanese yen, due September 2005	1.48		20,000	
Unsecured bonds, payable in Japanese yen, due September 2010	2.22	20,000	20,000	170,256
Unsecured bonds, payable in Japanese yen, due May 2006	0.75	20,000	20,000	170,256
Unsecured bonds, payable in Japanese yen, due May 2008	1.11	5,000	5,000	42,564
Unsecured bonds, payable in Japanese yen, due May 2011	1.65	5,000	5,000	42,564
Unsecured bonds, payable in Japanese yen, due September 2009	0.68	20,000	20,000	170,256
Unsecured bonds, payable in Japanese yen, due September 2014	1.59	10,000	10,000	85,129
Unsecured bonds, payable in Japanese yen, due June 2010	0.54	20,000		170,256
Unsecured bonds, payable in Japanese yen, due June 2015	1.37	10,000		85,129
Bond, payable in U.S. dollars, due July 2008	3.49	35,241	32,217	300,000
Bond, payable in U.S. dollars, due November 2008	3.16	35,241	32,217	300,000
Total		¥200,482	¥204,434	\$1,706,666

Annual maturities of bonds as of March 31, 2006, were as follows:

Years Ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 20,000	\$ 170,256
2008	20,000	170,256
2009	75,482	642,564
2010	20,000	170,256
2011	40,000	340,513
2012 and thereafter	25,000	212,821
Total	¥200,482	\$1,706,666

## 16. OTHER LIABILITIES

Other liabilities at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Income taxes payable	¥ 8,976	¥ 7,588	\$ 76,415
Accrued expenses	10,321	9,322	87,867
Deposits from employees	3,330	3,535	28,355
Unearned income	11,005	11,262	93,689
Derivative products	6,986	3,404	59,477
Other	42,745	38,432	363,882
Total	¥83,366	¥73,545	\$709,685

## 17. RETIREMENT AND PENSION PLANS

The Bank and its subsidiaries in Japan have severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Bank or from subsidiaries in Japan and annuity payments from a trustee.

Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or voluntary retirement at certain specific ages prior to the mandatory retirement age.

The contributory funded defined benefit pension plan, established

under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Bank on behalf of the government and a corporate portion established at the discretion of the Bank.

On April 1, 2004, the Bank received approval for transfer of the substitutional portion of past pension obligations to the government, from the Ministry of Health, Labor, and Welfare.

The Bank thereafter transferred the substitutional portion of the pension obligations and related assets to the government on September 28, 2004.

On the same day, the Bank also received approval for transition from the contributory funded defined benefit pension plan to the defined benefit pension plan which covers a corporate portion of the pension program from the Ministry of Health, Labor, and Welfare.

The reserve (asset) for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Projected benefit obligation	¥79,060	¥78,885	\$673,029
Fair value of plan assets	(56,912)	(46,569)	(484,484)
Unrecognized actuarial loss	(2,454)	(14,518)	(20,897)
Prepaid pension costs	4,444	6,229	37,837
Net reserve	¥24,138	¥24,026	\$205,485

The components of net periodic benefit costs for the year ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Service cost	¥2,419	¥2,434	\$20,595
Interest cost	1,571	1,799	13,381
Expected return on plan assets	(1,297)	(1,682)	(11,047)
Recognized actuarial losses	2,072	1,991	17,641
Other	269	301	2,297
Net periodic benefit costs	¥5,035	¥4,844	\$42,867

Assumptions used for the year ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	3.5%	3.5%
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain/loss	10 years	10 years

## 18. STOCKHOLDERS' EQUITY

Through May 1, 2006, Japanese companies were subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing stockholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the stockholders' accounts.

The revised Bank Law of Japan also provides that an amount at least equal to 20% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 100% of the common stock balance. The amount of total additional paid-in capital and legal reserve that exceeds 100% of the common stock balance may be available for dividends by resolution of the stockholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock balance by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot

exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of stockholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥308,050million (\$2,622,375thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the stockholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below;

### (a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the stockholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to stockholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the stockholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the stockholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders.

### (c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the stockholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of stockholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition right and treasury stock. Such treasury stock acquisition rights are presented as a separate component of stockholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for presentation of stockholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of stockholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

## 19. NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES

Breakdown of "Net unrealized gain on available-for-sale securities" posted in Balance Sheets is as follows:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Valuation difference	¥293,192	¥166,104	\$2,495,896
Deferred tax liabilities	(116,525)	(66,021)	(991,956)
Amounts equivalent to difference on valuation on available-for-sale securities (before deduction of a portion of minority interests)	¥176,667	¥100,083	\$1,503,940
Minority interests adjustment	¥ (670)	¥ (729)	\$ (5,712)
Net unrealized gain on available-for-sale securities	¥175,996	¥ 99,353	\$1,498,228

## 20. OTHER OPERATING INCOME

Other operating income for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Gains on foreign exchange transactions	¥1,520	¥ 915	\$12,948
Gains on sales of bonds	706	1,400	6,016
Gains on financial derivatives	53		455
Other	1	2	13
Total	¥2,282	¥2,317	\$19,432

## 21. OTHER INCOME

Other income for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of
	2006	2005	U.S. Dollars
Gains on sales of stocks and other securities	¥ 4,180	¥ 3,011	\$ 35,590
Other	11,262	23,249	95,871
Total	¥15,442	¥26,260	\$131,461

## 22. OTHER OPERATING EXPENSES

Other operating expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Losses on sales of bonds	¥5,417	¥2,593	\$46,117
Losses on devaluation of bonds	15	4	128
Expenses for derivatives transactions		184	
Amortized bond issue cost	273	231	2,330
Other	25	48	213
Total	¥5,731	¥3,063	\$48,788

## 23. OTHER EXPENSES

Other expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Provision for reserve for possible loan losses	¥ 3,682		\$31,349
Loans on written-off claims	249	¥ 259	2,126
Losses on sales of stocks and other securities	378	483	3,226
Losses on devaluation of stocks and other securities	121	203	1,034
Losses on disposition of premises and equipment	651	944	5,547
Loss on impairment of fixed assets	322	2,085	2,745
Other	5,974	12,499	50,856
Total	¥11,380	¥16,476	\$96,883

## 24. INCOME TAXES

The Bank and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 39.7% for the years ended March 31, 2006 and 2005, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities, at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Reserve for possible loan losses	¥ 26,622	¥ 29,829	\$ 226,635
Depreciation	3,538	3,554	30,123
Reserve for employees' retirement benefits	15,719	14,641	133,819
Valuation loss on securities	8,120	10,087	69,129
Other	1,727	2,747	14,706
Deferred tax assets	55,729	60,860	474,412
Deferred tax liabilities:			
Net unrealized gain, net of taxes on available-for-sale securities	(116,525)	(66,021)	(991,956)
Gain on establishment of employee retirement benefit trust	(6,922)	(6,922)	(58,928)
Revaluation reserve for premises and equipment	(1,571)	(1,654)	(13,382)
Other	(19)	(27)	(166)
Deferred tax liabilities	(125,038)	(74,625)	(1,064,432)
Net deferred tax liabilities	¥ (69,309)	¥(13,764)	\$ (590,020)

A reconciliation between the normal effective statutory tax rates for the year ended March 31, 2006 and 2005 and the actual effective tax rates reflected in the accompanying consolidated statements of income was not required under Japanese accounting standards due to immaterial differences of tax rates.

## 25. LEASES

(a) Lessee

Lease payments under finance leases for the years ended March 31, 2006 and 2005 were ¥7 million (\$62 thousand) and ¥21 million, respectively.

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Equipment			
Acquisition cost	¥34	¥58	\$296
Accumulated depreciation	(22)	(38)	(187)
Net leased property	¥12	¥19	\$109

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Equipment			
Due within one year	¥ 7	¥ 6	\$ 60
Due after one year	6	13	54
Total	¥13	¥20	\$114

Depreciation expense and interest expense under finance lease:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥6	¥19	\$59
Interest expense	0		2

Depreciation expense and interest expense, which are not reflected in the accompanying statements of income, are computed by the straight-line method and the interest method, respectively.

(b) Lessor

Lease revenue under finance leases for the year ended March 31, 2006 and 2005 was ¥14,873 million (\$126,613 thousand) and ¥15,354 million, respectively.

Pro forma information of leased property, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation revenue and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Equipment			
Acquisition cost	¥104,158	¥103,002	\$886,680
Accumulated depreciation	(66,452)	(65,302)	(565,698)
Net leased property	¥ 37,705	¥ 37,699	\$320,982

Rights under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Equipment			
Due within one year	¥12,897	¥13,575	\$109,795
Due after one year	24,981	25,862	212,666
Total	¥37,879	¥39,438	\$322,461

Depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Depreciation expense	¥12,079	¥11,861	\$102,828

Description is omitted as no impairment loss is recognized on leased assets.

## 26. SEGMENT INFORMATION

Information regarding business segments of the Bank and its subsidiaries for the years ended March 31, 2006 and 2005 were as follows:

The domestic share of both total income and total assets exceeds 90%; thus, geographic segment information is not presented.  
The domestic share of total income exceeds 90%; thus information on total income from overseas is not presented.

Year ended March 31, 2006	Millions of Yen					
	Bank operations	Leasing operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:						
Total income from outside customers	¥ 174,141	¥20,633	¥ 9,084	¥ 203,860		¥ 203,860
Total income from intersegment transactions	783	1,732	9,898	12,414	¥(12,414)	
Total	174,924	22,366	18,982	216,274	(12,414)	203,860
Total expenses	122,643	20,268	15,961	158,873	(12,389)	146,483
Income before income taxes and minority interests	52,281	2,098	3,021	57,401	(24)	57,376
Total assets, depreciation and amortization and capital expenditure:						
Total assets	8,649,986	64,697	32,758	8,747,442	(55,830)	8,691,612
Depreciation and amortization	6,435	13,195	83	19,714	(45)	19,669
Loss on impairment of fixed assets	322			322		322
Capital expenditure	8,377	14,926	111	23,415	(46)	23,368

Year ended March 31, 2005	Millions of Yen					
	Bank operations	Leasing operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:						
Total income from outside customers	¥ 171,161	¥19,161	¥ 7,437	¥ 197,760		¥ 197,760
Total income from intersegment transactions	428	1,987	9,499	11,915	¥(11,915)	
Total	171,590	21,148	16,936	209,675	(11,915)	197,760
Total expenses	112,440	20,062	15,421	147,924	(11,926)	135,997
Income before income taxes and minority interests	59,150	1,086	1,514	61,751	10	61,762
Total assets, depreciation and amortization and capital expenditure:						
Total assets	8,375,841	64,812	31,980	8,472,634	(60,564)	8,412,069
Depreciation and amortization	6,829	12,980	67	19,877	(62)	19,815
Loss on impairment of fixed assets	2,085			2,085		2,085
Capital expenditure	4,644	15,081	124	19,850	(10)	19,840

Year ended March 31, 2006	Thousands of U.S. Dollars					
	Bank operations	Leasing operations	Other operations	Total	Eliminations	Consolidated
Total income and income before income taxes and minority interests:						
Total income from outside customers	\$ 1,482,434	\$175,651	\$ 77,338	\$ 1,735,423		\$ 1,735,423
Total income from intersegment transactions	6,666	14,752	84,260	105,678	\$(105,678)	
Total	1,489,100	190,403	161,598	1,841,101	(105,678)	1,735,423
Total expenses	1,044,038	172,540	135,879	1,352,457	(105,469)	1,246,988
Income before income taxes and minority interests	445,062	17,863	25,719	488,644	(209)	488,435
Total assets, depreciation and amortization and capital expenditure:						
Total assets	73,635,708	550,755	278,868	74,465,331	(475,271)	73,990,060
Depreciation and amortization	54,781	112,333	715	167,829	(388)	167,441
Loss on impairment of fixed assets	2,745			2,745		2,745
Capital expenditure	71,316	127,070	946	199,332	(398)	198,934

Note: Business segments:

- (1) Bank Operations
- (2) Leasing Operations
- (3) Other Operations—commissioned computer processing operations, credit card operations, etc.

## 27. DERIVATIVES

### (1) Nature of trading

The Bank and its consolidated subsidiaries use the following derivative transactions: Interest rate-related transactions using interest futures, interest rate swaps and interest rate caps; currency related transactions using currency swaps, currency options and forward exchange contracts; and bond-related transactions using bond futures and bond future options.

### (2) Trading policy

In response to risk-hedging needs related to foreign exchange rates and interest rates for customers, the Bank and its consolidated subsidiaries use derivative transactions for hedging risk under asset/liability management ("ALM") and individual transactions with

the aim of appropriate market risk management. In addition, they have set certain position limits and established loss-cutting rules for short-term transactions.

The Bank and its subsidiaries do not enter into derivative transactions for speculative purposes.

### (3) Purpose

Derivative transactions are used on the basis of the trading policy indicated above.

Hedge accounting is applied to certain derivative transactions.

(a) Accounting for hedging activities

The deferral method and exceptional interest rate swap accounting method were adopted for hedging activities.



(b) Hedging policy (including hedging instruments and hedged items)  
In accordance with the internal rules of the Bank that comply with the "accounting standard for derivative financial instruments" and other regulations, interest rate risk and risk from price fluctuations of bonds and equities are hedged.

Hedging instruments and hedged items to which a hedging account was applied for the fiscal year under review as follows:

Hedging instruments: Interest rate swaps, currency swaps

Hedged assets and liabilities:

Yen-denominated assets: deposits (under general method), loans (under individual hedge)

Foreign-currency denominated assets: deposits, loans, corporate bonds and other securities (under individual hedge)

(c) Assessment of the effectiveness of hedging instruments

Fair Value Hedge

A portfolio of hedged items such as deposits or loans with common maturities is matched with a group of hedging instruments such as interest swaps which offset the effect of fair value fluctuations of the hedged items by identified maturities, and are designated as a hedge of the portfolio. The effectiveness of the fair value hedge is assessed by each group.

Cash Flow Hedge

The effectiveness of a cash flow is assessed based on the correlation between a base interest rate index of the hedged cash flow and that of the hedging instrument.

Others have been confirmed to meet the requirements of the exceptional interest rate swap handling method.

#### Market Value of Derivatives

	Millions of Yen				
	Total	Contract or notional amount	More than one year	Market value	Unrealized gain (loss)
<b>2006</b>					
Over-the-counter:					
Interest rate swaps	¥861,702	¥822,797	¥1,079	¥1,079	
Currency swaps	454,571	403,039	1,653	1,653	
Exchange contract	20,442		(27)	(27)	
Currency option	221,333	168,402			
Other	135,283	101,573	(87)	(87)	

Notes: 1. Forward exchange and currency option contracted amounts are reflected in the consolidated statements of income and are not subject to the disclosure of the above information.  
2. The contract or notional amounts of derivatives shown in the above table do not represent the amounts exchanged by the parties and do not measure the Bank's exposure to credit or market risk.  
3. Credit risk equivalent amounts computed according to BIS standards were ¥33.4 billion by the current exposure method at fiscal year-end.

	Millions of Yen				
	Total	Contract or notional amount	More than one year	Market value	Unrealized gain (loss)
<b>2005</b>					
Over-the-counter:					
Interest rate swaps	¥515,561	¥475,384	¥ 886	¥ 886	
Currency swaps	358,122	331,741	1,136	1,136	
Exchange contract	86,607		25	25	
Currency option	51,762	4,445			51
Other	182,475	104,060	(89)	(89)	

	Thousands of U.S. Dollars				
	Total	Contract or notional amount	More than one year	Market value	Unrealized gain (loss)
<b>2006</b>					
Over-the-counter:					
Interest rate swaps	\$7,335,514	\$7,004,323	\$ 9,192	\$ 9,192	
Currency swaps	3,869,679	3,431,000	14,074	14,074	
Exchange contract	174,024		(238)	(238)	
Currency option	1,884,167	1,433,579			
Other	1,151,645	864,678	(742)	(742)	

## 28. STOCK OPTION PLAN

At the ordinary general stockholders' meeting held on June 28, 2000, the Bank's stockholders approved the following stock option plan for the Bank's directors and key employees and the purchase of treasury stock for retirement.

The plan provides for granting options to directors and key employees to purchase the Bank's common stock in an aggregate maximum of 225 thousand shares for 10 directors and an aggregate maximum of 70 thousand shares for seven key employees in the period from June 28, 2002 to June 27, 2007. The options will be granted at an exercise price of 105 percent of the fair market value of the Bank's common stock at the date of option grant. The Bank plans to issue acquired treasury stock upon exercise of the stock options.

## 29. RELATED PARTY TRANSACTIONS

Related party transactions for the years ended March 31, 2006 and 2005 were as follows.

Related party	Category	Description of transactions	Millions of Yen		Thousands of U.S. Dollars
			2006	2005	2006
Sano Kogyo Co., Ltd. (Manufacture of machine parts)	Company in which majority voting rights are held by a close relative of a director of Shizuoka Bank	Lending operation loans	¥109		\$ 929
Masakuni Nakayama, President of MTK Ltd.	Director of Shizuoka Bank	Lending operation loans	42	¥ 56	361
Yasuhiko Saito, Lawyer	Corporate Auditor of Shizuoka Bank	Legal service fees	20	19	179
		Lending operation loans	19	23	165
Hiroyuki Aoshima, President of Santamon Corp.	Corporate Auditor of Shizuoka Bank	Business transactions	78	77	669
		Lending operation loans	157	164	1,337

## 30. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2006 and 2005 is computed as follows:

For the year ended March 31, 2006	Millions of Yen		Thousands of Stocks	Yen	Dollars
	Net income	Weighted average stocks		EPS	
Basic EPS					
Net income available to common stockholders	¥33,008	708,323		¥46.60	\$0.397
For the year ended March 31, 2005					
Basic EPS					
Net income available to common stockholders	¥35,421	708,567		¥49.99	\$0.465

## 31. SUBSEQUENT EVENTS

(a) Appropriations of Retained Earnings

The following appropriations of retained earnings were authorized at the ordinary general stockholders' meeting held on June 27, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥5.75 (\$0.05) per share	¥4,072	\$34,668
Bonuses to directors and corporate auditors	30	255
Total	¥4,102	\$34,923

(b) Revision of defined benefit pension plans

Effective from April 1, 2006, the Bank revised its defined benefit pension plans to establish the cash balance plan and implement a defined contribution pension plan. Due to this revision, the Bank will recognize additional income of ¥5,169 million for the period ending March 31, 2007.

# Key Consolidated Financial Indicators

## Summary of Profits (Losses)

Years ended March 31	Millions of Yen			Percentage change
	2006	2005	Increase (decrease)	
Net interest income	¥108,966	¥105,444	¥3,522	3.3
Net fees and commissions	27,291	24,840	2,450	9.9
Net trading income	1,579	2,577	(997)	(38.7)
Net other operating profits	(3,448)	(745)	(2,703)	362.6
General and administrative expenses	81,076	80,141	935	1.2
Net other recurring losses	4,841	(969)	5,811	(599.5)
Recurring profits	58,156	51,008	7,147	14.0
Income before income taxes and minority interests	57,376	61,762	(4,385)	(7.1)
Income taxes:				
Current	17,193	14,513	2,679	18.5
Deferred	5,041	10,633	(5,591)	(52.6)
Minority interest in net income of consolidated subsidiaries	2,080	1,144	936	81.8
Net income	33,060	35,470	(2,409)	(6.8)

## Breakdown of Net Interest Margin

Year ended March 31	Billions of Yen
	2006
Interest income	¥ 136.0
Average interest-earning assets	7,805.8
Average interest rate of interest-earning assets (%)	1.74
Interest expenses (Note)	27.1
Average interest-bearing liabilities	7,536.5
Average interest rate of interest-bearing liabilities (%)	0.36
Net interest income	108.9

Note: Interest expenses here exclude interest paid in relation to investment in money held in trust.

## Net Other Operating Profits

Years ended March 31	Millions of Yen		
	2006	2005	Increase (decrease)
Gain on foreign exchange transactions	¥ 1,520	¥ 915	¥ 605
Gain/loss on government bonds	(4,725)	(1,197)	(3,528)
Gain on sale	706	1,400	(694)
Loss on sale	(5,417)	(2,593)	(2,824)
Amortization	(15)	(4)	(10)
Amortized bond issue cost	(273)	(231)	(41)
Provision for possible investment losses			
Gain/loss on derivatives transactions	53	(184)	238
Proceeds from derivatives transaction	53		53
Expenses for derivative products		(184)	184
Others	(23)	(46)	22
Gain/loss on other business	(3,448)	(745)	(2,703)
Other operating revenue	2,282	2,317	(35)
Other operating expenses	(5,731)	(3,063)	(2,667)

## Loans Outstanding by Type of Borrower

March 31	Billions of Yen, % Share			
	2006		2005	
Domestic branches:				
Manufacturing	¥ 929.0	17.77%	¥ 918.2	18.58%
Agriculture	6.7	0.13	6.5	0.13
Forestry	0.0	0.00	0.1	0.00
Fishery	6.6	0.13	5.3	0.11
Mining	13.5	0.26	11.1	0.23
Construction	275.4	5.27	282.4	5.72
Utilities	43.6	0.83	40.9	0.83
Telecommunications	25.7	0.49	26.1	0.53
Transportation	188.4	3.60	174.0	3.52
Wholesale and retailing	718.0	13.73	706.2	14.29
Finance and security	319.8	6.12	260.3	5.27
Real estate	300.6	5.75	254.3	5.15
Other miscellaneous services	622.6	11.91	580.3	11.75
Local governments	118.0	2.26	126.2	2.55
Other	1,660.0	31.75	1,548.6	31.34
Subtotal	5,228.5	100.00	4,941.4	100.00
Overseas branches and offshore accounts:				
Governments and official institutions				
Banks and other financial institutions				
Other	112.7	100.00	90.9	100.00
Subtotal	112.7	100.00	90.9	100.00
Total	¥5,341.2		¥5,032.3	

## Risk Management Asset Information

March 31	Millions of Yen		
	2006	2005	Increase (decrease)
Loans under bankruptcy proceedings A	¥ 5,687	¥ 11,513	¥ (5,825)
% of loans and bills discounted	0.10	0.22	(0.12)
Past due loans B	189,313	205,349	(16,036)
% of loans and bills discounted	3.54	4.08	(0.53)
Loans past due for three months or more C	937	2,274	(1,337)
% of loans and bills discounted	0.01	0.04	(0.02)
Loans with relaxed conditions D (D=E+F+G)	27,618	35,882	(8,264)
% of loans and bills discounted	0.51	0.71	(0.19)
Restructured loans (Old category) E	43	44	(1)
% of loans and bills discounted	0.00	0.00	0.00
Claims for which interest payments have been deferred F			
% of loans and bills discounted			
Principal repayment postponed loans G	27,574	35,838	(8,263)
% of loans and bills discounted	0.51	0.71	(0.19)
Risk management loan total H (H=A+B+C+D)	223,556	255,020	(31,464)
% of loans and bills discounted	4.18	5.06	(0.88)
Value covered with collateral, guarantees, etc. I	186,290	207,678	(21,388)
Cover ratio (%) I/H	83.33	81.44	1.89

- Notes: 1. Risk management loans are based on Article 19-2 of the Regulations for Execution of the Bank Law. Because these loans are disclosed regardless of the presence or absence of collateral, guarantees or other coverage, the figures shown do not represent unrecoverable amounts.
2. Loans past due for three months or more include loans for which payments of principal or interest are delinquent by three months or more, as calculated from the day following the contracted payment date, but do not include loans to bankrupt borrowers or past due loans.
3. Loans with relaxed conditions include loans for which certain conditions have been relaxed for the benefit of the borrower (through such means as the reduction or elimination of interest payments, the deferral of principal repayments and the relinquishment of a portion of liabilities) with the goal of supporting the recovery of borrowers that have fallen into financial difficulties and thereby promoting the recovery of the loan.
4. Value covered with collateral, guarantees, etc., includes provisions in the specific reserve for possible loan losses. The covered value was stated on a possible disposal basis.

## Reserve for Possible Loan Losses

March 31	Millions of Yen	
	2006	2005
General reserve	¥29,215	¥26,702
Specific reserve	40,771	51,939
Reserve for specific foreign credit		26
Total	¥69,986	¥78,668
[Loans on written-off claims for the year]	¥ [249]	¥ [259]

## Financial Index

Years ended March 31	Consolidated			Non-Consolidated		
	2006	2005	Increase (decrease)	2006	2005	Increase (decrease)
Per share (Yen):						
Net income	¥ 46.60	¥ 49.99	¥ (3.39)	¥ 44.24	¥ 49.40	¥ (5.16)
Net assets	1,024.55	878.83	145.72	1,019.15	875.93	143.22
Cash dividends	10.00	8.50	1.50	10.00	8.50	1.50
Dividend payout ratio (%)				22.60	17.20	5.40
Return on equity (ROE) (%) (Note)	4.90	5.84	(0.94)	6.04	7.15	(1.11)
Price earnings ratio (PER) (%)	25.49	21.66	3.83	26.85	21.92	4.93

Note: Net income as a percentage of average balance of stockholders' equity.

## Capital Adequacy Ratio

March 31	Billions of Yen			
	Consolidated		Non-Consolidated	
	2006	2005	2006	2005
<b>Tier I:</b>				
Common stockholders' equity	¥ 558.2	¥ 530.2	¥ 542.1	¥ 518.0
Tier II capital included as Tier I				
Total adjusted Tier I capital	558.2	530.2	542.1	518.0
<b>Tier II:</b>				
45% of an aggregate amount equivalent to the balance sheet value of available for sale securities with relevant aggregate book value deducted	131.2	74.6	130.4	73.8
Reserve for possible loan losses, excluding specific reserve	29.2	26.7	27.7	25.2
Others				
Tier II capital included as Tier I				
Total adjusted Tier II capital	160.4	101.3	158.2	99.0
Tier II capital included as qualifying capital	160.4	101.3	158.2	99.0
<b>Tier III (Note 1):</b>				
Short-term subordinated debt (Capital for covering market risks)				
Deduction items	6.1	0.8	6.1	0.8
Total capital	712.4	630.7	694.2	616.2
Total risk-adjusted assets (Notes 1, 3)	5,219.9	4,659.3	5,155.1	4,604.9
Capital adequacy ratio (%) (Note 2)	13.64	13.53	13.46	13.38
Tier I ratio (%) (Note 2)	10.69	11.38	10.51	11.24

- Notes: 1. The ratio of capital to risk-adjusted assets is based on Ministry of Finance guidelines formulated in accordance with the BIS agreement.
2. The capital adequacy ratio and the Tier I ratio were calculated on a consolidated basis. On a non-consolidated basis, based on Article 14-2 of the Bank Law.
3. Subordinated debt with two or more years remaining to redemption may be counted as Tier III capital for covering market risks. Accompanying the January 1, 1998 introduction of BIS market risk regulations, the Bank has recorded quasi-supplementary items and amounts corresponding to market risk beginning in the fiscal year ended March 31, 2000.

## Credit-Related Financial Instruments

March 31	Billions of Yen	
	Contract amount	
	2006	2005
Commitments to extend credit	¥2,813.4	¥2,733.9
Guarantees	103.2	102.5
Total	¥2,916.6	¥2,836.4

# The Shizuoka Bank

## Corporate Data

### HEAD OFFICE

10, Gofukucho 1-chome, Aoi-ku,  
Shizuoka-shi, Shizuoka 420-8760, Japan

### HEADQUARTERS

2-1, Kusanagi-Kita, Shimizu-ku,  
Shizuoka-shi, Shizuoka 424-8677, Japan  
Phone: 0543-45-5411  
URL: <http://www.shizuokabank.co.jp/>

### INTERNATIONAL BUSINESS GROUP

Phone: 0543-45-5411  
Fax: 0543-44-0090

### INTERNATIONAL OPERATIONS CENTER

Phone: 0543-45-5700  
Fax: 0543-49-5501  
SWIFT address: SHIZJPJT

### NUMBER OF EMPLOYEES

(As of March 31, 2007)  
3,419

### DATE OF ESTABLISHMENT

March 1, 1943

### DOMESTIC NETWORK

(As of July 1, 2006)  
Head Office, 163 branches,  
19 sub-branches

### OVERSEAS NETWORK

(As of July 1, 2006)  
2 branches, 1 agency and  
2 representative offices

## Overseas Service Network

### Los Angeles Branch

801 South Figueroa Street, Suite 800,  
Los Angeles, CA 90017, U.S.A.  
Phone: (1) 213-622-3233  
Fax: (1) 213-623-8674

### New York Agency

101 East 52nd Street,  
4th Floor, New York,  
NY 10022, U.S.A.  
Phone: (1) 212-319-6260  
Fax: (1) 212-319-6270

### Hong Kong Branch

Suite 1010, 10th Floor, Chater House,  
8 Connaught Road, Central, Hong Kong  
People's Republic of China  
Phone: (852) 2521-6547  
Fax: (852) 2845-9257

### Singapore Representative Office

2 Shenton Way, #04-02 SGX Centre 1,  
Singapore 068804  
Phone: (65) 6225-3600  
Fax: (65) 6225-9901

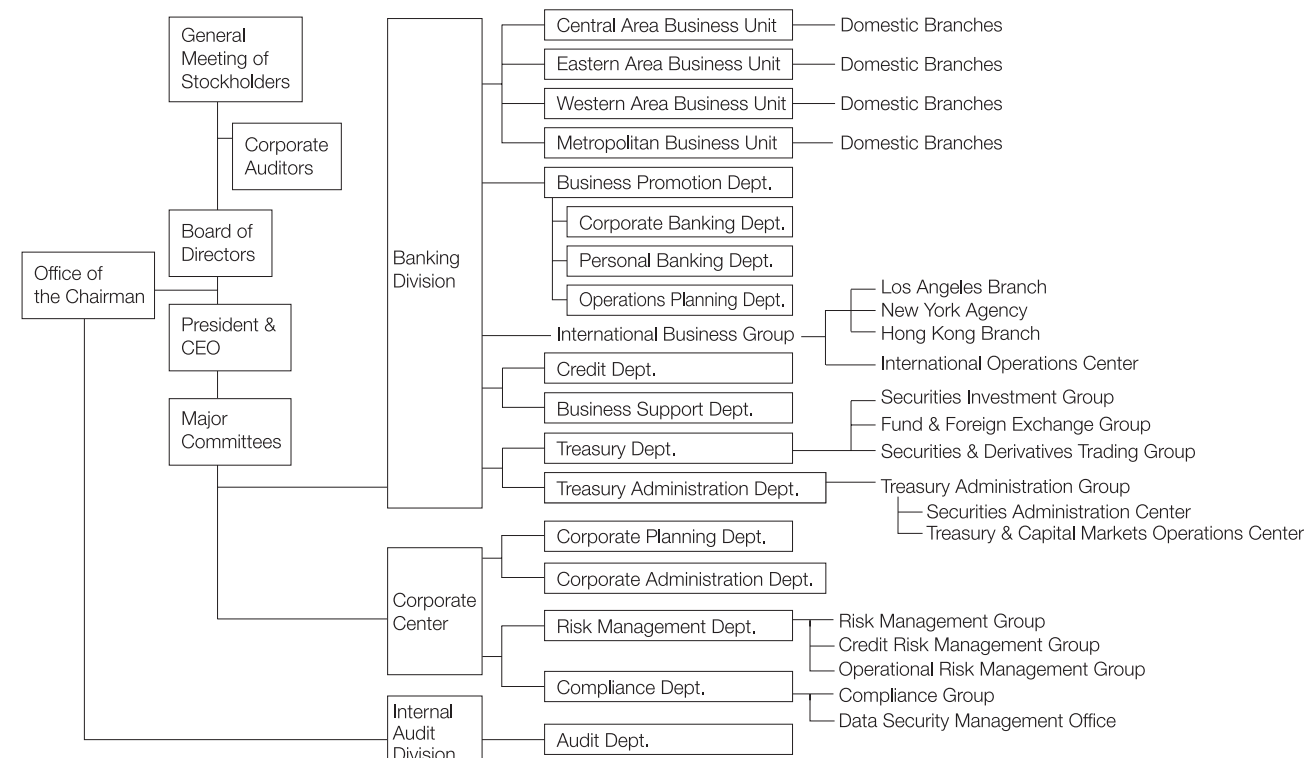
### Shanghai Representative Office

Room 1813, Shanghai  
International Trade Centre,  
2201 Yan-An Road (West),  
Chang Ning Qu, Shanghai,  
People's Republic of China  
Phone: (86) 21-6209-8115  
Fax: (86) 21-6209-8116

### Shizuoka Bank (Europe) S.A.

283 Avenue Louise, Bte. 13,  
1050 Brussels, Belgium  
Phone: (32) 2-646-0470  
Fax: (32) 2-646-2462

## Organization Chart



(As of July 1, 2006)

## Board of Directors and Corporate Auditors

Chairman

**Yasuo Matsuura**

Deputy Chairmen

**Masaharu Fujita**  
**Tadaharu Takato**

President & CEO

**Katsunori Nakanishi**

Director & COO

**Tohru Sakurai**

Director & CFO

**Seiya Ito**

Director & COO

**Kazuhiro Satomi**

Director & Executive Officer

**Yukihiko Fushimi**

Directors

**Masakazu Oishi**

**Masakuni Nakayama**

Corporate Auditors

**Shigeru Masugi**  
**Hisashi Hotta**  
**Yasuhiko Saito**  
**Hiroyuki Aoshima**  
**Hiroaki Sato**

CEO=Chief Executive Officer

COO=Chief Operating Officer

CFO=Chief Financial Officer

CCO=Chief Credit Officer

(As of July 1, 2006)

## Investor Information

### CAPITAL STOCK (As of March 31, 2006)

Common stock..... ¥90,845 million

### NUMBER OF SHARES (As of March 31, 2006)

Authorized..... 2,414,596,000 shares  
Issued and outstanding..... 720,129,069 shares

### NUMBER OF STOCKHOLDERS (As of March 31, 2006)

21,281

### STOCK LISTING

First Section of the Tokyo Stock Exchange

### TRANSFER AGENT

Japan Securities Agents, Ltd.

### STOCK PRICE, TURNOVER

Annual high/low stock price (five years)

Years ended March 31	2002	2003	2004	2005	2006
High	1,110	874	934	1,139	<b>1,255</b>
Low	761	705	745	800	<b>899</b>

### Monthly high/low stock price, turnover (six months)

Month	Oct. 2005	Nov. 2005	Dec. 2005	Jan. 2006	Feb. 2006	Mar. 2006
High	1,217	1,255	1,242	1,227	1,188	1,196
Low	1,062	1,120	1,156	1,084	1,075	1,093
Turnover (thousands of shares)	38,982	37,715	53,931	41,109	44,081	46,462

### PRINCIPAL STOCKHOLDERS

The 10 largest stockholders of the Bank and their respective stockholdings at March 31, 2006 were as follows:

	Number of Shares in Thousands	Percentage of Total Shares Outstanding
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	29,884	4.14%
Nippon Life Insurance Company	29,745	4.13
Meiji Yasuda Life Insurance Company	29,117	4.04
The Dai-ichi Mutual Life Insurance Company	23,546	3.26
The Tokio Marine & Nichido Fire Insurance Co., Ltd.	23,216	3.22
The Master Trust Bank of Japan, Ltd. (trust account)	21,116	2.93
Japan Trustee Services Bank, Ltd. (trust account)	20,129	2.79
Sumitomo Life Insurance Company	12,070	1.67
Mizuho Corporate Bank, Ltd.	11,604	1.61
Northern Trust Company (AVFC) Sub Account American Client (Custodian; The Hongkong and Shanghai Banking Corporation Limited (Tokyo))	10,661	1.48
Total	211,092	29.31%

# The Shizuoka Bank Group

### SHIZUGIN MANAGEMENT CONSULTING CO., LTD.

Corporate and financial management advisory services

### SHIZUGIN LEASE CO., LTD.

Leasing

### SHIZUOKA COMPUTER SERVICE CO., LTD.

Software development and sales

### SHIZUGIN CREDIT GUARANTY CO., LTD.

Guarantee of housing loans, etc.

### SHIZUGIN DC CARD CO., LTD.

Credit card and guarantee of consumer loans

### SHIZUOKA CAPITAL CO., LTD.

Public-offering assistance  
Support for corporate rehabilitation

### SHIZUGIN TM SECURITIES CO., LTD.

Securities

### SHIZUGIN GENERAL SERVICE CO., LTD.

Part-time employee management  
Inventory management

### SHIZUOKA MORTGAGE SERVICE CO., LTD.

Appraisal of real estate for loan collateral  
Custody of credit documents

### SHIZUGIN BUSINESS CREATE CO., LTD.

Operation center for remittance and bill collection

### SHIZUOKA BANK (EUROPE) S.A.

Part-time employee management  
Finance and securities-related services