



MUSASHINO BANK

ANNUAL REPORT 2010

The Musashino Bank, Ltd.

Profile

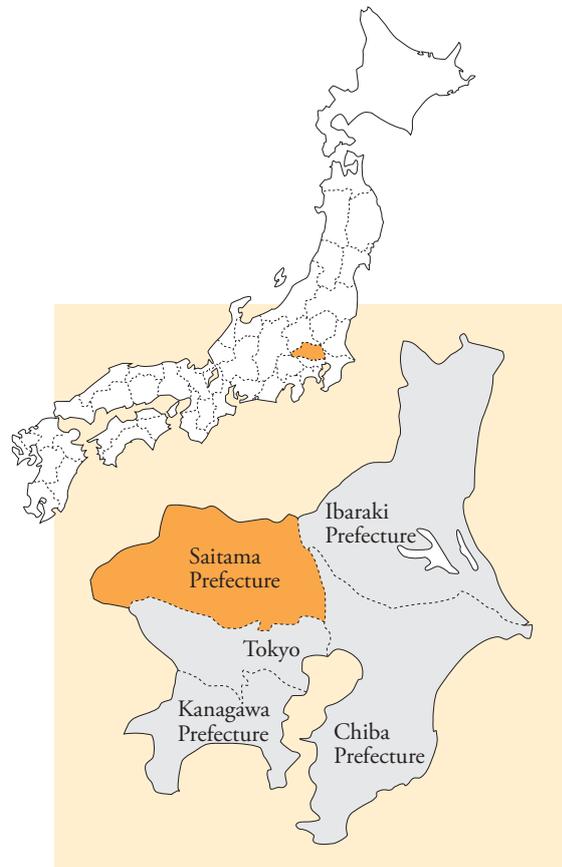
Musashino Bank is the only regional bank whose operational base consists of Saitama Prefecture. The prefecture lies immediately to the north of Tokyo, and many of its residents commute to work in the capital. Currently, 7.17 million people live in Saitama, making it the country's fifth most populous prefecture after Tokyo, Kanagawa, Osaka, and Aichi, and the population is still climbing.

Since its establishment in 1952, Musashino Bank has been one of Saitama Prefecture's core financial institutions, and has played a major role in supporting the development of the regional economy and local industries.

The Bank's paid-in capital as of March 31, 2010, stood at ¥45.7 billion, with total assets of ¥3,554.2 billion, a balance of deposits (excluding CDs) of ¥3,300.5 billion and a balance of loans of ¥2,723.3 billion. The Bank has 91 branches, of which 89 are inside Saitama Prefecture, and a workforce of 2,073.



Head Office



Consolidated Financial Highlights

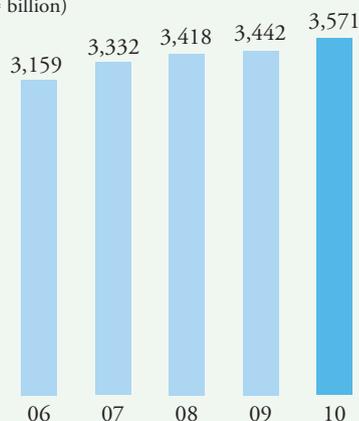
The Musashino Bank, Ltd. and Consolidated Subsidiaries Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars*
	2010	2009	2010
At Year-end			
Total Assets	¥3,571,535	¥3,442,506	\$38,387,094
Deposits	3,307,357	3,192,596	35,547,697
Loans and Bills Discounted	2,715,108	2,717,482	29,182,163
Trading Account Securities and Investment Securities	569,966	470,108	6,126,033
Total Net Assets	156,687	147,795	1,684,092
Capital Ratio (based on domestic standards) (%)	10.58	10.19	—
For the Year			
Total Income	¥ 86,894	¥ 89,789	\$ 933,950
Total Expenses	79,294	97,123	852,258
Income (loss) before Income Taxes	7,600	(7,333)	81,691
Net Income (loss) for Year	3,554	(4,397)	38,207

* U.S. dollar figures have been translated at the rate ¥93.04 to U.S.\$1, the prevailing market rate as of March 31, 2010.

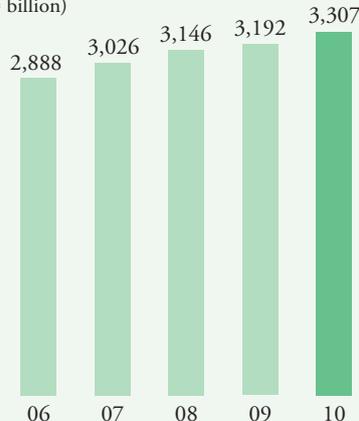
Total Assets

(¥ billion)



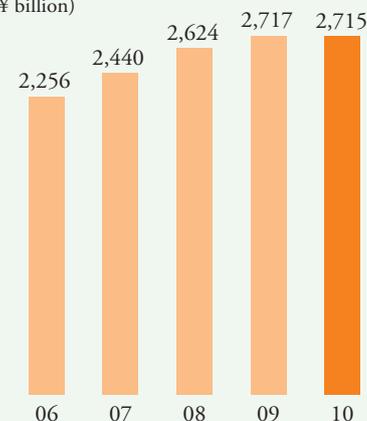
Deposits

(¥ billion)



Loans and Bills Discounted

(¥ billion)





Kikuo Kato,
President

Economic trends

During fiscal 2009, the Japanese economy showed signs of climbing out of the recession triggered by the global financial crisis that began in autumn 2008. However, despite the impetus from increased exports to China and other emerging economies with burgeoning demand, and from Japanese government stimulus policies such as tax benefits for eco-cars and the eco-point incentive system, self-sustaining demand-led recovery has yet to take root. With a still bleak employment and income outlook, and weak corporate earnings, sluggishness continues in housing investment and capital expenditure.

Housing and capital investment were also at a low ebb in our area, but, like the broader domestic economy, the economy of Saitama Prefecture has turned the corner. Momentum is now apparent in stronger production of automobiles, electronics and other durable consumer goods, which benefited from increased overseas demand and stimulus measures in the home market.

In light of continuing gloomy employment and income prospects, there is little hope of significant pickup in personal spending in Saitama. But moderate recovery is expected to continue in the provincial economy on increased corporate output from exports to China and other emerging economies. Likewise, we expect the economic ripple effect on manufacturing from extension works on the Metropolitan Intercity Expressway (*Ken'odo*), coupled with intensive investment in next-generation vehicles and new energy and environmental technologies for a low carbon society, to strengthen the development and industrial base of the regional economy.

Year ended March 31, 2010

Deposits

Deposits posted steady growth during the year under review, rising ¥125.8 billion to ¥3,300.5 billion as of March 31, 2010. Assets in custody grew by ¥48.3 billion, to ¥510.5 billion, driven by our efforts to meet the diverse asset management needs of our customers, through investment trusts, JGBs, and pension products.

Loans

Loans outstanding fell by ¥2.8 billion year-on-year to ¥2,723.3 billion, with weakness in corporate funding demand more than outweighing a strong performance by mortgage loans and other products for individuals.

Non-performing loans

The non-performing loan (NPL) ratio fell 0.2 percentage point year-on-year to 2.53% — a ¥5.5 billion decline to ¥69.7 billion, reflecting progress in collection from debtors in bankruptcy through the disposal of collateral, and a commitment to preventing new cases of NPLs from emerging by supporting managements at troubled clients.

Earnings

During the term under review, the Bank returned to profitability, posting recurring income of ¥6.6 billion and net income of ¥4.1 billion. Reduced expenses and credit costs more than outweighed a decline in interest income due to lower market rates. On a consolidated basis, recurring income came to ¥6.4 billion and net income to ¥3.5 billion.

Capital ratio

The Bank's capital ratio for fiscal 2009 stayed at the healthy level of 10.58% (consolidated basis), slightly higher than the non-consolidated figure of 10.50%.

Medium-term management plan

We have launched the Bank's medium-term management plan, for the three-year period from April 2010 through end-March 2013, dubbed "NEW PROJECT 60."

In this plan, we aim to position ourselves as "a strong bank that survives," "a bank with presence" and "a bank that is trusted," as well as striving to be "ready for business promotion reform," "strengthening human resource development," and "establishing efficient operating conditions and strengthening internal controls."

At the root of these policies are honest practices based on regional financial institutions' "community-based finance," that we use to attempt to build a solid business foundation with the confidence of the community.

Together with the people of Saitama

The Bank will celebrate its milestone 60th anniversary in March 2012. Since the Bank's inception, we have enjoyed the generous support of many customers in our home prefecture of Saitama, walking together with the prefecture's citizens. Going forward, we look to continue to conduct steady sales activities as a regional financial institution, and to grow as a bank that is indispensable to the region. We recognize our social responsibility to the people of Saitama to be a useful corporate citizen.

With the sustained effort and strong sense of mission of all our employees, as well as providing products and services catering to the needs of our customers, as a regional financial institution we believe we must continue to provide accurate and varied assistance.

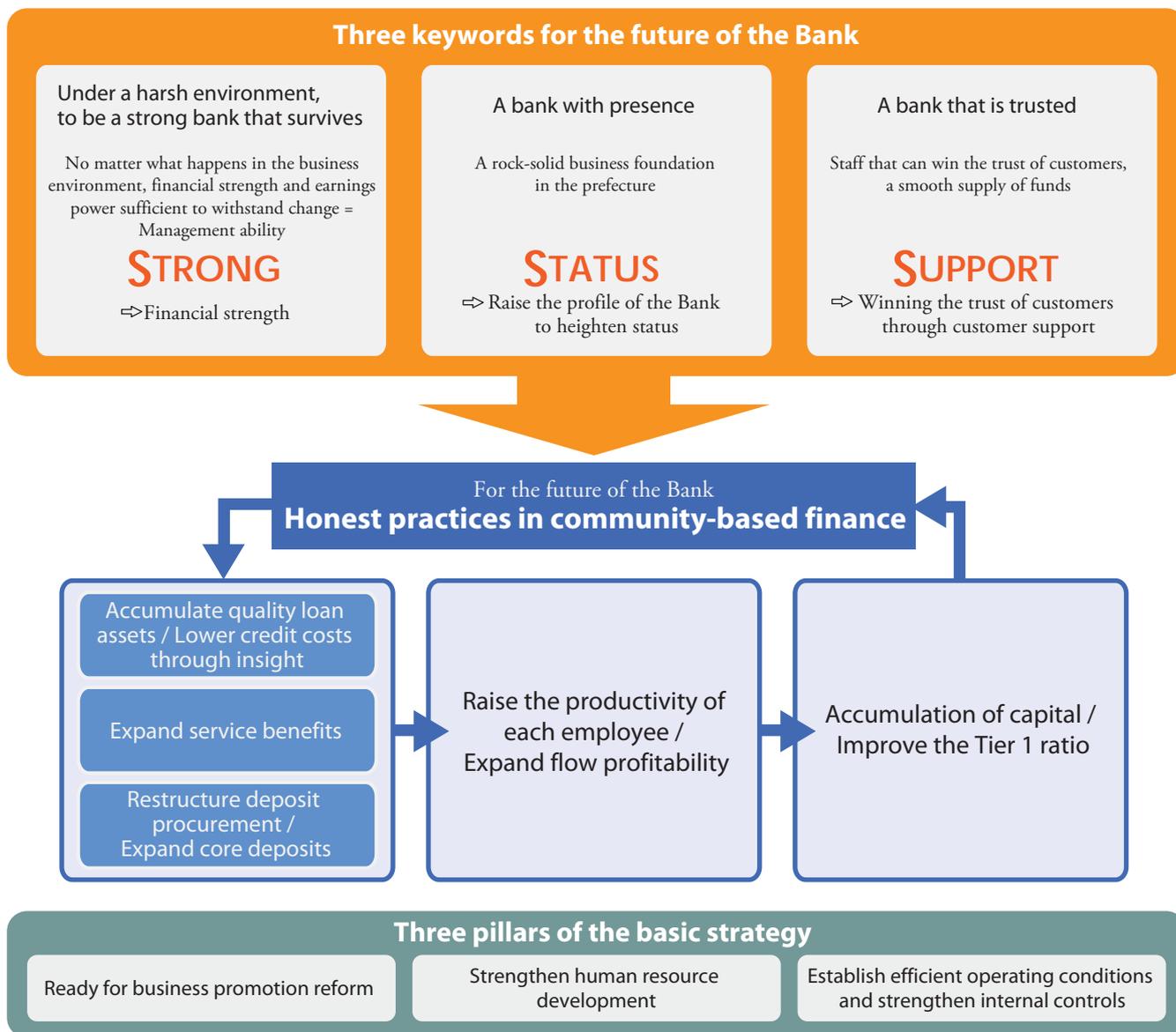
Through these efforts, we strive to be a bank that the people of the prefecture really need, and it is our goal to be the most trusted and top-ranked bank in the region.

We thank you for your unwavering and ongoing support.

Kikuo Kato
President



● Plan course of action



● Target figures

	Fiscal 2009	Fiscal 2012 target
Net profit on core banking operations	¥21.1 billion	¥22.0 billion
Net profit	¥4.1 billion	¥10.0 billion
Capital adequacy ratio	10.5%	Around 10.5% (Tier 1 ratio approx. 8%)
ROE	2.78%	6.0%
Non-performing loan ratio	2.53%	1% level

(Guidelines)

Balance of loans +¥200.0 billion (annual rate of 2.5%)

Balance of deposits +¥300.0 billion (annual rate of 3%)

Balance of assets in custody +¥150.0 billion (annual rate of 10%)

Contributing to the Local Economy

Supporting Alliances with Industry and Universities

The Bank has formed alliances with seven universities within Saitama Prefecture as part of its commitment to meeting customer needs in areas such as research and development and management issue resolution through cooperation with industry and academia. In the “Saitama Regional Exchange Footpath Project” established jointly with the College of Tourism of Rikkyo University, we completed the second phase, the “Hanyu Town Walking Map” project, in February 2010. Looking ahead, we plan further practical cooperative measures to revitalize the regional community, with “image” as the keyword, in addition to local tourism partnerships to date.

Initiatives for Growth Fields

The Bank has set up an agriculture team to strengthen support for agriculture-related businesses. In addition to handling loan products tailored to the needs of farmers,



we held our Bugin Agricultural Management Course (Bugin is a short way of reading the characters for Musashino Bank) to support and foster talent in agriculture and encourage exchange among food production businesses.

We have established similar teams for medical and welfare support. They are actively involved in medical and welfare initiatives around the prefecture. In this way, in our capacity as a prefectural financial institution, we are contributing to the enhancement of medical care facilities and services rooted in the local community.

Support for Corporate Rehabilitation

To strengthen our profile as a regional financial provider, we offer help with advice on management analytics and improvement policies and support for compiling business improvement plans, and also help improve borrowers’ credit-worthiness (by guiding them to sounder borrower rankings) by supporting their commitment to strengthening their balance sheets.

During fiscal 2009, we targeted 20 customers for credit ranking improvement, and actually managed to help 22 move up the classifications.

Contributing to the Local Community

Measures to Prevent Financial Crime

In line with a prefectural police campaign to strengthen measures to eradicate bank transfer fraud, we became the first financial institution in Saitama to lay floor mats with crime warnings (“Stopping fraud is up to you!”) in front of ATMs at ATM corners in all our branches and at machines outside branches.



Invigorating the Arts

To promote arts activities, the Bank organizes annual concerts in the music rooms of elementary schools in cooperation with violinist



Kyoko Yoshida to provide an opportunity for children to experience a live performance by a professional musician.

The Environment

Helping Preserve the Environment through Banking Services

As a regional financial provider, the Bank offers a range of financial instruments and services for customers who show environmental commitment, helping them reduce costs and offering support in their environmental initiatives.

Supporting the Environmental Activities of People in the Prefecture

The Musashino Green Fund Charitable Trust was established as part of events to commemorate the 40th anniversary of the Bank, to help foster attractive living environments by providing funding to businesses that contribute to the protection and creation of the natural environment in Saitama Prefecture. Up through fiscal 2009, we offered grants totaling ¥47 million to a total of 130 organizations.

Consolidated Balance Sheets

The Musashino Bank, Ltd. and Consolidated Subsidiaries As of March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Assets			
Cash and due from banks.....	¥ 48,068	¥ 55,239	\$ 516,647
Call loans	131,364	85,954	1,411,914
Commercial paper and other debt purchased	13,887	14,568	149,264
Trading account securities.....	429	1,284	4,613
Money held in trust.....	1,500	1,497	16,122
Investment securities	569,536	468,823	6,121,420
Loans and bills discounted	2,715,108	2,717,482	29,182,163
Foreign exchanges	2,104	2,449	22,623
Lease receivables and lease investment assets.....	16,151	16,292	173,602
Other assets.....	27,876	27,490	299,619
Tangible fixed assets.....	35,435	35,997	380,866
Intangible fixed assets.....	2,039	2,418	21,921
Deferred income taxes assets.....	20,936	23,916	225,030
Customers' liabilities for acceptances and guarantees	12,200	13,915	131,135
Reserve for possible loan losses	(25,106)	(24,824)	(269,850)
Total assets.....	¥3,571,535	¥3,442,506	\$38,387,094
Liabilities			
Deposits	¥3,307,357	¥3,192,596	\$35,547,697
Borrowed money.....	28,218	28,820	303,289
Foreign exchanges	172	28	1,856
Bonds	18,000	18,000	193,465
Other liabilities	35,395	27,898	380,438
Reserve for employees' bonuses	1,273	1,345	13,688
Reserve for directors' bonuses.....	22	19	241
Reserve for employees' retirement benefits	5,706	5,727	61,332
Reserve for directors' retirement benefits.....	324	249	3,492
Reserve for loss on interest refunded.....	88	78	955
Reserve for reimbursement of dormant deposits	383	326	4,122
Reserve for point loyalty programs	60	64	650
Deferred income taxes liability on land revaluation	5,641	5,641	60,636
Acceptances and guarantees.....	12,200	13,915	131,135
Total liabilities.....	¥3,414,847	¥3,294,710	\$36,703,002
Net assets			
Common stock	¥ 45,743	45,743	\$ 491,658
Capital surplus	39,438	39,438	423,887
Retained earnings.....	61,296	59,776	658,821
Treasury stock.....	(2,050)	(2,042)	(22,040)
Total shareholders' equity.....	144,428	142,916	1,552,327
Unrealized gain (loss) on available-for-sale securities	3,143	(3,990)	33,787
Deferred loss under hedge accounting	(1,639)	(1,414)	(17,625)
Land revaluation excess	6,955	6,955	74,756
Total valuation and translation adjustments	8,458	1,550	90,917
Minority interests.....	3,800	3,328	40,847
Total net assets	156,687	147,795	1,684,092
Total liabilities and net assets	¥3,571,535	¥3,442,506	\$38,387,094

Consolidated Statements of Operations

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Income			
Interest income:			
Interest on loans and discounts	¥52,527	¥ 55,157	\$564,565
Interest and dividends on securities.....	6,560	6,872	70,515
Other interest income.....	588	621	6,330
Fees and commissions	9,280	9,399	99,751
Other operating income	5,156	3,080	55,421
Other income.....	12,780	14,657	137,365
Total income.....	86,894	89,789	933,950
Expenses			
Interest expenses:			
Interest on deposits.....	6,187	8,587	66,508
Interest on borrowings and rediscounts.....	464	509	4,993
Other interest expenses	2,085	1,067	22,414
Fees and commissions	3,924	3,911	42,178
Other operating expenses	3,452	8,767	37,110
General and administrative expenses	37,833	37,381	406,636
Other expenses.....	25,345	36,897	272,416
Total expenses.....	79,294	97,123	852,258
Income (loss) before income taxes	7,600	(7,333)	81,691
Income taxes			
Current	5,332	599	57,315
Deferred.....	(1,655)	(4,033)	(17,790)
	3,677	(3,434)	39,525
Minority interests	368	497	3,959
Net income (loss) for year.....	¥ 3,554	¥ (4,397)	\$ 38,207
Net income (loss) per share (yen and dollars)	¥104.82	¥(129.04)	\$ 1.12

Consolidated Statements of Changes in Net Assets

The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Shareholders' equity			
Common stock			
Balance at end of previous year.....	¥ 45,743	¥ 45,743	\$ 491,658
Changes during the accounting period	—	—	—
Balance at end of year.....	¥ 45,743	¥ 45,743	\$ 491,658
Capital surplus			
Balance at end of previous year.....	¥ 39,438	¥ 39,441	\$ 423,890
Changes during the accounting period:			
Disposition of treasury stock.....	(0)	(2)	(2)
Total changes during the accounting period	(0)	(2)	(2)
Balance at end of year.....	¥ 39,438	¥ 39,438	\$ 423,887
Retained earnings			
Balance at end of previous year.....	¥ 59,776	¥ 66,229	\$ 642,483
Changes during the accounting period:			
Cash dividends	(2,034)	(2,055)	(21,869)
Net income (loss).....	3,554	(4,397)	38,207
Total changes during the accounting period	1,520	(6,452)	16,337
Balance at end of year.....	¥ 61,296	¥ 59,776	\$ 658,821
Treasury stock			
Balance at end of previous year.....	¥ (2,042)	¥ (442)	\$ (21,954)
Changes during the accounting period:			
Purchase of treasury stock.....	(9)	(1,610)	(97)
Disposition of treasury stock.....	1	10	11
Total changes during the accounting period	(8)	(1,600)	(86)
Balance at end of year.....	¥ (2,050)	¥ (2,042)	\$ (22,040)
Total shareholders' equity			
Balance at end of previous year.....	¥142,916	¥150,971	\$1,536,078
Changes during the accounting period:			
Cash dividends	(2,034)	(2,055)	(21,869)
Net income (loss).....	3,554	(4,397)	38,207
Purchase of treasury stock.....	(9)	(1,610)	(97)
Disposition of treasury stock.....	0	8	8
Total changes during the accounting period	1,511	(8,055)	16,248
Balance at end of year.....	¥144,428	¥142,916	\$1,552,327

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Valuation and translation adjustments			
Unrealized gain (loss) on available-for-sale securities			
Balance at end of previous year.....	¥ (3,990)	¥ 139	\$ (42,888)
Changes during the accounting period:			
Net change in items other than shareholders' equity	7,133	(4,129)	76,675
Total changes during the accounting period	7,133	(4,129)	76,675
Balance at end of year.....	¥ 3,143	¥ (3,990)	\$ 33,787
Deferred loss under hedge accounting			
Balance at end of previous year.....	¥ (1,414)	¥ (1,079)	\$ (15,205)
Changes during the accounting period:			
Net change in items other than shareholders' equity	(225)	(335)	(2,420)
Total changes during the accounting period	(225)	(335)	(2,420)
Balance at end of year.....	¥ (1,639)	¥ (1,414)	\$ (17,625)
Land revaluation excess			
Balance at end of previous year.....	¥ 6,955	¥ 6,955	\$ 74,756
Changes during the accounting period:			
Total changes during the accounting period	—	—	0
Balance at end of year.....	¥ 6,955	¥ 6,955	\$ 74,756
Total valuation and translation adjustments			
Balance at end of previous year.....	¥ 1,550	¥ 6,015	\$ 16,662
Changes during the accounting period:			
Net change in items other than shareholders' equity	6,908	(4,465)	74,255
Total changes during the accounting period	6,908	(4,465)	74,255
Balance at end of year.....	¥ 8,458	¥ 1,550	\$ 90,917
Minority interests			
Balance at end of previous year.....	¥ 3,328	¥ 2,839	\$ 35,779
Changes during the accounting period:			
Net change in items other than shareholders' equity	471	489	5,068
Total changes during the accounting period	471	489	5,068
Balance at end of year.....	¥ 3,800	¥ 3,328	\$ 40,847
Total net assets			
Balance at end of previous year.....	¥147,795	¥159,826	\$1,588,520
Changes during the accounting period:			
Cash dividends	(2,034)	(2,055)	(21,869)
Net income (loss).....	3,554	(4,397)	38,207
Purchase of treasury stock.....	(9)	(1,610)	(97)
Disposition of treasury stock.....	0	8	8
Net change in items other than shareholders' equity	7,380	(3,975)	79,324
Total changes during the accounting period	8,892	(12,030)	95,572
Balance at end of year.....	¥156,687	¥147,795	\$1,684,092

Consolidated Statements of Cash Flows

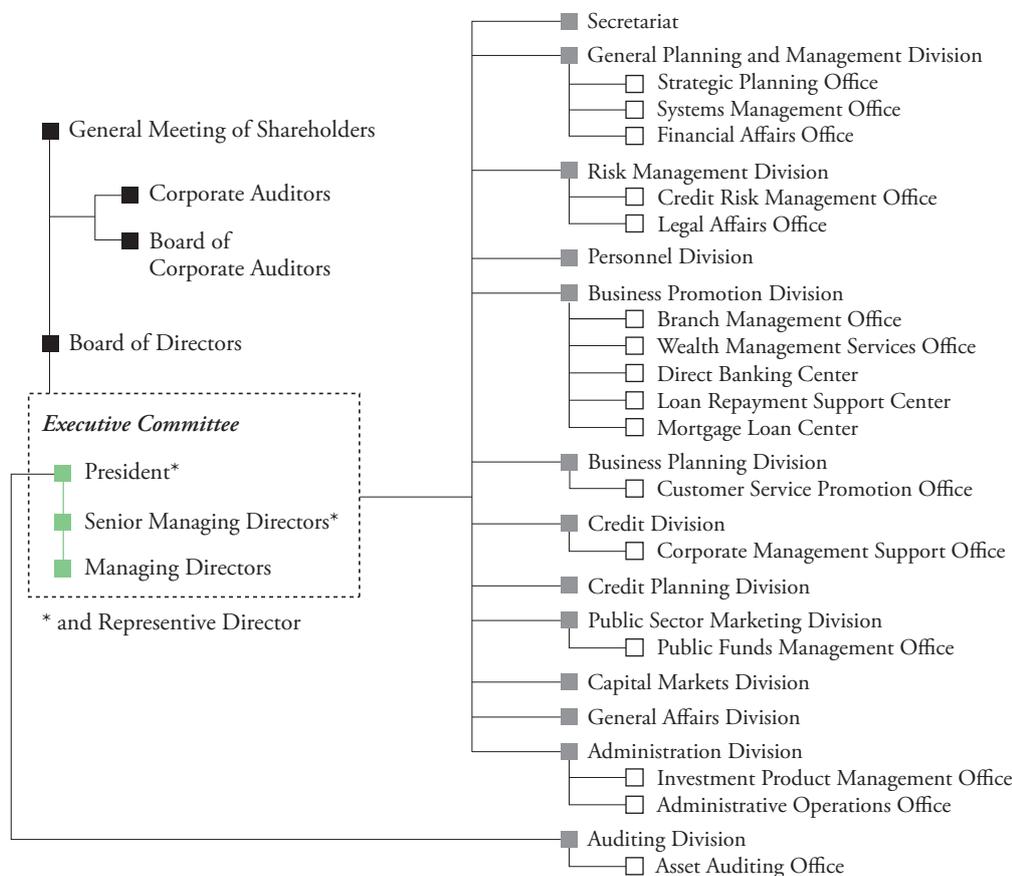
The Musashino Bank, Ltd. and Consolidated Subsidiaries For the Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Cash flows from operating activities			
Income (loss) before income taxes	¥ 7,600	¥ (7,333)	\$ 81,691
Depreciation	2,525	2,365	27,145
Impairment losses.....	12	—	129
Amortization of negative goodwill.....	9	—	96
Increase (decrease) in reserve for possible loan losses.....	282	6,738	3,038
Increase (decrease) in reserve for devaluation of investment securities....	—	(0)	0
Increase (decrease) in reserve for employees' bonuses.....	(71)	(108)	(768)
Increase (decrease) in reserve for directors' bonuses	3	(10)	36
Increase (decrease) in reserve for employees' retirement benefits.....	(20)	(39)	(224)
Increase (decrease) in reserve for directors' retirement benefits	75	48	811
Increase (decrease) in reserve for loss on interest refunded	10	17	113
Increase (decrease) in reserve for reimbursement of dormant deposits....	56	136	609
Increase (decrease) in reserve for point loyalty programs.....	(3)	6	(41)
Interest income	(59,676)	(62,651)	(641,412)
Interest expenses.....	8,738	10,163	93,916
Loss (gain) on investment securities.....	1,231	9,705	13,240
Loss (gain) on money held in trust	(4)	0	(49)
Foreign exchanges loss (gain).....	(540)	(14)	(5,805)
Loss (gain) on disposition of fixed assets.....	33	48	359
Net decrease (increase) in trading account securities.....	855	(557)	9,196
Net decrease (increase) in loans and bills discounted	2,374	(93,352)	25,516
Net increase in deposits.....	124,339	130,897	1,336,410
Net increase (decrease) in negotiable certificate of deposits.....	(9,578)	(84,915)	(102,944)
Net increase (decrease) in borrowed money (excluding subordinated loans)	(602)	324	(6,478)
Net decrease (increase) in due from banks (excluding due from the Bank of Japan)	(447)	654	(4,812)
Net decrease (increase) in call loans and others.....	(44,729)	(13,828)	(480,752)
Net increase (decrease) in call money and others	—	(1,001)	—
Net decrease (increase) in foreign exchange, assets.....	344	(999)	3,700
Net increase (decrease) in foreign exchange, liabilities	144	(50)	1,551
Interest received	60,133	62,579	646,318
Interest paid	(9,128)	(9,657)	(98,111)
Other, net	3,339	(3,497)	35,890
Subtotal.....	87,306	(54,332)	938,375
Income taxes received.....	3,427	—	36,843
Income taxes paid.....	(603)	(8,258)	(6,482)
Net cash provided by (used in) operating activities	90,131	(62,590)	968,735
Cash flows from investing activities			
Purchases of securities	(520,732)	(539,957)	(5,596,864)
Proceeds from sales of securities.....	355,384	227,632	3,819,693
Proceeds from maturities of securities.....	71,333	362,945	766,692
Increase in money held in trust.....	(2)	(9)	(30)
Decrease in money held in trust	—	2	0
Purchases of tangible fixed assets	(1,069)	(1,123)	(11,490)
Purchases of intangible fixed assets	(615)	(773)	(6,618)
Net cash provided by (used in) investing activities	(95,702)	48,716	(1,028,618)
Cash flows from financing activities			
Cash dividends paid	(2,034)	(2,055)	(21,869)
Cash dividends paid to minority shareholders	(3)	(3)	(39)
Purchase of treasury stock.....	(9)	(1,610)	(97)
Proceeds from sales of treasury stock	0	8	8
Net cash used in financing activities.....	(2,046)	(3,661)	(21,998)
Net decrease in cash and cash equivalents	(7,618)	(17,536)	(81,881)
Cash and cash equivalents at beginning of year.....	54,120	71,656	581,689
Cash and cash equivalents at end of year	¥ 46,502	¥ 54,120	\$ 499,807

Directory

(As of July 1, 2010)

Organization Chart



Board of Directors, Corporate Auditors and Executive Officers

President

Kikuo Kato

Senior Managing Directors

Masami Kurihara
Tsuneshi Kurihara

Managing Directors

Masaaki Okano
Makoto Ishikawa
Hiroshi Shimao

Corporate Auditors

Nobuhiro Fukazawa (standing)
Hidemi Shimizu (standing)
Shozo Nishijima
Emi Yano
Atsumu Kuroishi

Managing Executive Officers

Kenji Kimura
Hideo Nomoto
Shigeyuki Miyahara
Kenichiro Inaba
Soe Iijima

Executive Officers

Teiji Komoriya
Takeshi Sekiya
Hajime Ozawa
Koichi Akagi
Motonobu Nakamura
Minoru Watanabe
Kazuya Koyama

Subsidiaries and Affiliated Companies

Name	Line of Business
The Bugin Business Service Co., Ltd.	Clerical work for Musashino Bank
The Bugin General Lease Co., Ltd.	Leasing, factoring and corporate financing
The Bugin Guarantee Co., Ltd.	Loan guarantees for individuals
The Musashino Card Co., Ltd.	Credit card business (JCB, VISA), loans and loan guarantees
The Bugin System Service Co., Ltd.	Development, sale and maintenance of computer systems
The Bugin Economic Research Institute Co., Ltd.	Research into the regional economy, consultation, information services, and holding of seminars
The Bugin Capital Co., Ltd.	Management support for venture businesses



The Musashino Bank, Ltd.

10-8, Sakuragi-cho 1-chome, Omiya-ku,

Saitama 330-0854

Phone: (048) 641-6111