The Bank of Iwate, Ltd. Annual Report 2013

Annual Report 2013

THE BANK OF IWATE, LTD.

Masahiro Takahashi
President

Message from the President

Two and a half years have passed since the Great East Japan Earthquake occurred. The disaster brought about drastic changes in the business environment surrounding the Bank of Iwate, and, while the regional community was already faced with a decreasing birthrate, aging society, and declining population, there are concerns that these problems may worsen rapidly and that the market that forms the Bank's base of operations will shrink, depending on how the reconstruction situation develops and other factors.

In light of these circumstances, the Bank launched its new three-year medium-term management plan "Iwagin Frontier Plan – Reconstruction and Creation, toward a Prosperous Future" starting in April 2013, under the new long-term vision "Demonstrating a dominant presence as a driving force in the region, while establishing our position as a top quality bank." Under the three basic policies of "Active contribution to the revitalization of the regional community," "Reform of the organization and earnings structure to enhance profitability," and "Strengthening of CS activities and fostering of human resources" of the new plan, the Bank will devote effort to initiatives such as strongly promote reconstruction assistance and being actively involved in nurturing industries to support the next generation.

As the top regional bank, recovery from the disaster is our responsibility and our greatest mission. We are committed to supporting the reconstruction of the region and creating a prosperous future by making full use of our relationship banking function and being a proactive driver of the local economy.

Overview of the New Medium-term Management Plan

Hop Phase 1 — Powerful reconstruction together with the regional community

Step Phase 2 — From reconstruction, towards the next step

Jump Phase 3 — A further leap forward

Medium-term management plan

"Iwagin Frontier Plan – Reconstruction and Creation, toward a Prosperous Future"

(April 2013 to March 2016)

Business environment surrounding the Bank of Iwate

External environment

- Full-fledged reconstruction efforts
- Changes in the industrial structure (Restoring occupations in coastal areas, the renewable energy industry, automobile industry)
- Aging population with decreasing birthrate and population outflow to urban centers
- Consumption tax increase, and conclusion of Financing Facilitation Act
- Unstable financial markets

Internal environment

- Lower yield on interest (loans and bills discounted, securities)
- Accumulated expertise in assisting businesses (manufacturing-related, "Reconstruction and Restoration Support Team")
- Increasing cost consciousness
- Thick capital
- Enhanced fostering of human resources
- Increased promotion of women

Theme

Supporting reconstruction of the regional community to create a prosperous future

Three basic policies

1. Active contribution to the revitalization of the regional community
   - Efforts to support post-earthquake reconstruction
   - Efforts to revitalize the local economy
   - Efforts to support business start-ups and foundation
2. Reform of the organization and earnings structure to enhance profitability
   - Reinforcing loans to small and medium-sized enterprises (SMEs) through greater local operation
   - Strengthening retail operations through sophisticated segment strategies
   - Promotion of BPR
   - Upgrading risk management structure
3. Strengthening of CS activities and fostering of human resources
   - Efforts to improve CS
   - Practicing diversity management

Principal indicator targets (final fiscal year)

◆Outstanding loans and bills discounted to SMEs: Over ¥505.0 billion
◆Amount of loans and bills discounted executed to growth industries (cumulative total over target period): Over ¥50.0 billion
◆Assets in custody sales amount: Over ¥75.0 billion
◆Business profit on core banking operations: Over ¥10.0 billion
◆Net income: Over ¥5.0 billion
◆Capital ratio: In 13% range

M. Takahashi

Masahiro Takahashi, *President*

Analysis of the Financial Position and Business Performance of the Bank
(on a consolidated basis)

Financial Position
Principal Accounts
Deposits (including negotiable certificate of deposit)
Public deposits increased due to the inflow of the subsidies relating to the reconstruction, and both personal and corporate deposits also increased. As a result, total deposits grew by ¥340.4 billion during the term, to ¥3,296.2 billion (US$35,047.0 million).
Loans
Loans to individuals decreased while loans to both local governments and corporations increased. As a result, the value of total loans increased by ¥92.9 billion during the term, to ¥1,611.2 billion (US$17,131.7 million).
Securities
Along with the increase in fund management, we pressed ahead with increased purchases of bonds including national bonds. As a result, the value of total securities increased by ¥130.1 billion during the term, to ¥1,239.2 billion (US$13,176.1 million).
Cash Flow Analysis
Net cash provided by operating activities decreased by ¥14.4 billion to a net inflow of ¥249.7 billion (US$2,654.9 million). A cash inflow of ¥439.1 billion due to increase in deposits and a cash inflow of ¥32.3 billion due to decrease in call loans and others outweighed a cash outflow of ¥98.7 billion due to decrease in negotiable certificate of deposit and a cash outflow of ¥92.9 billion due to increase in loans and bills discounted.
Net cash used in investing activities decreased by ¥22.0 billion to a net outflow of ¥112.8 billion (US$1,199.9 million). A cash inflow of ¥225.3 billion from sales and redemptions of securities was surpassed by a cash outflow of ¥332.4 billion on acquisition of securities.
Net cash used in financing activities increased by ¥0.7 billion to a net outflow of ¥11.7 billion (US$124.9 million), primarily due to a cash outflow on the redemption of bonds with stock acquisition rights and other factors.
As a result of the above, the term-end balance of cash and cash equivalents increased by ¥125.1 billion from the previous term-end, to ¥356.8 billion (US$3,793.8 million).
Business Performance
Earnings
Total income decreased by ¥0.7 billion to ¥45.2 billion (US$481.1 million). This was mainly attributable to the decline in interest income as a result of the decrease in interest on loans reflecting a lower yield, in addition to the decrease in gain on sale of bonds including national bonds, despite the increase in fees and commissions boosted primarily by fees related to asset under management and recording of the reversal of reserve for possible loan losses due to our efforts to help clients improve their management. Total expenses decreased by ¥2.2 billion to ¥34.0 billion (US$361.3 million). This was mainly attributable to the decrease in financing expenses and the decreases in losses on sale of stocks and other securities and in amortization thereof.
As a result, income before income taxes increased by ¥1.4 billion to ¥11.3 billion (US$119.9 million), while net income increased by ¥1.5 billion to ¥6.4 billion (US$68.2 million).
Capital Ratio
The capital ratio rose by 0.31 point year-on-year to 13.77%, due to the increase in equity reflecting the increase in internal reserves.

1 Corporate Governance

(1) Outline of the Bank's Governance Structure

① Governance structure and basic approach to corporate governance

The Governance structure of the Bank is developed on the basis of the coordination between appointed outside directors and the Board of Corporate Auditors as well as internal audit divisions. The reason behind the adoption of this structure is the philosophy that supervision of management should be reinforced by the enhanced functions of the Board of Directors and implementation of outside directors, along with the reinforcement of corporate auditors' functions through the appointment of highly independent outside auditors.

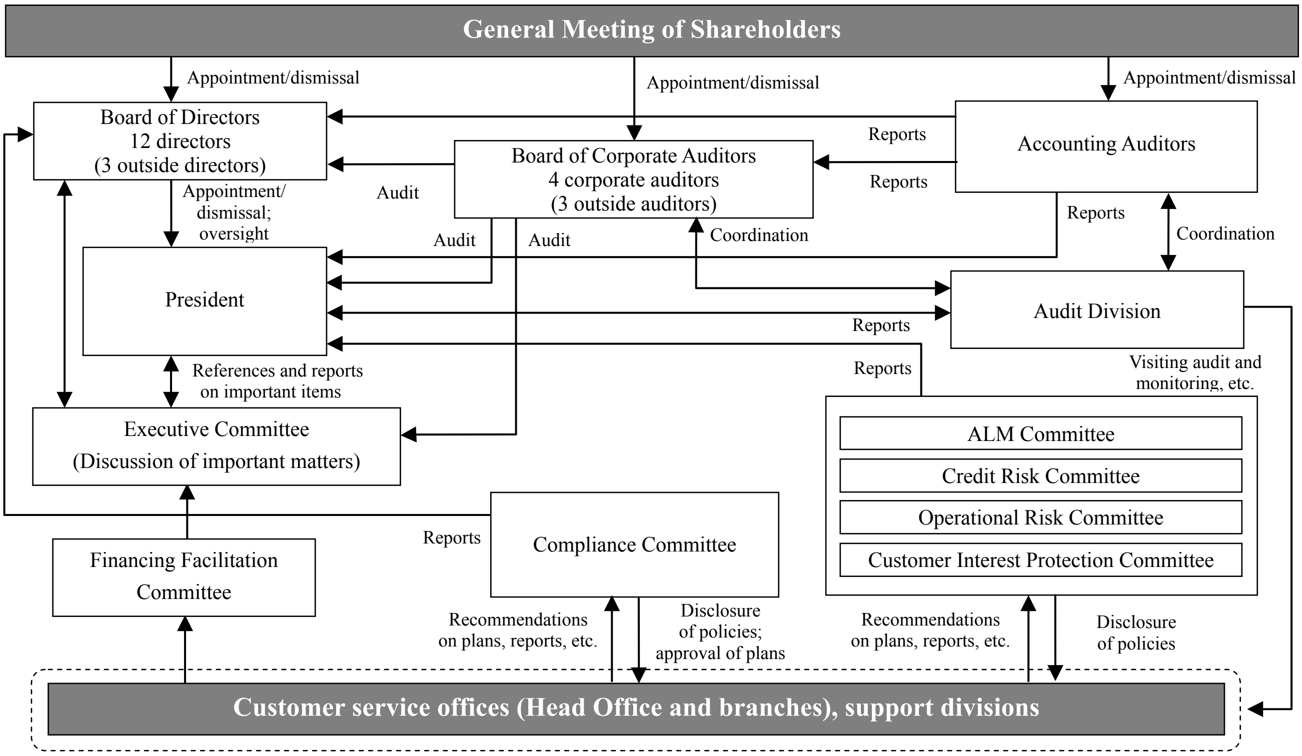
Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the well-being of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, the management of the Bank continues to uphold these principles in its day-to-day performance of business operations. To fulfill the duties expected of us as the leading bank in our region, by our business partners, shareholders, and the community as a whole, we take complete responsibility for our management decisions and are working to raise our management transparency, strengthen management oversight functions, and practice corporate governance in a manner that meets the very highest standards.

② Outline of the corporate governance functions within the Bank

The Bank has chosen the corporate auditor system, in which business execution of directors is monitored by the Board of Directors and corporate auditors. As executive institutions for operation, the Board of Directors is in place along with the Executive Committee and the Compliance Committee that discusses and decides the matters referred by the Board of Directors, on top of executive officers system.

With the purpose to reinforce executive structure focused on corporate governance, the Bank has placed the Compliance Committee on a par with the Executive Committee, along with the hitherto efforts to enhance functions to supervise management including extended functions of the Board of Directors, appointment of outside directors and strengthening of corporate auditors' functions.

③ Organization chart



④ Internal control system development

With regard to internal control, the Board of Directors has laid down the Basic Policies Regarding the Structure of the Bank's Internal Control System, which contains nine items, including a statement of the need for the Bank to operate a system that ensures that the conduct of all directors and employees conforms both to the law and to the Articles of Incorporation of the Bank.

⑤ Development of risk management structure

For the purpose of risk management, the Bank, upon developing structure for the execution of operations and monitoring, has developed a structure to manage individual risks as well as a structure to manage such risks on an integral basis. To firm up these management structures, the Risk Management Regulations have been set out to clearly indicate the basic principles of risk management while defining the specific functions responsible for each category of risk within the Bank. Meanwhile, the Risk Management Division is in place as the department responsible for managing various categories of risks on an integral basis, which coordinates risk management across the Bank.

The Audit Division responsible for internal audits is striving to improve business administration by auditing to examine the adequacy and effectiveness of the internal control system including compliance and risk management, upon ensuring its independence from the departments being audited.

⑥ Accounting audit

Accounting audits of the Bank are conducted by the independent auditing company KPMG AZSA LLC at the request of the Bank. The certified public accountants in charge of auditing the Bank's financial statements for the reporting term were Atsushi Fukuda, Motofumi Okumura, and Takayuki Narita, and they were assisted by seven other certified public accountants and nineteen other staff.

(2) Internal Audits and Auditing by Corporate Auditors

① Internal audits

The Bank's Audit Division, with a staff of nineteen, is primarily responsible for conducting internal audits. In principle, audits are conducted on all divisions of the head office, branches, subsidiaries and affiliate companies at least once a year. The audits focus principally on checking the accuracy of the Bank's securities reports and financial statements, to confirm the effective operation of the Bank's internal control system. Staff of the division is making effort to enhance coordination with corporate auditors by exchanging information, to ensure objective and efficient auditing.

② Auditing by corporate auditors

The Board of Corporate Auditors comprises four corporate auditors. Auditing conducted by the Bank's corporate auditors consists of audits of divisions at the Bank's Head office as well as on-site audits of branch offices conducted on a periodical basis. In addition, the corporate auditors carry out their auditing tasks with the collaboration of the Audit Division and the accounting auditors. Furthermore, corporate auditors regularly meet with accounting auditors to receive reports and exchange opinions, and attend visiting audits by accounting auditors to check the adequacy of their execution of duties.

(3) Outside Directors and Outside Auditors

① Human relationships, capital relationships, trading relationships and other conflicts of interest

The outside directors and outside auditors of the Bank have no special conflicts of interest with the Bank other than standard transactions such as deposits, and the Bank has determined that there are no risks of conflict of interests between the outside directors and outside auditors, and the general stockholders. The Bank has also determined that no conflicts of interest including human relationships, capital relationships and significant trading relationships exist between the Bank and the entities for which the outside directors and outside auditors serve.

The Bank's relationship with each of the outside directors and outside auditors is as follows.

Outside Directors

- The Bank has three outside directors; Hiroshi Miura, Atsushi Takahashi and Fumio Ube. Mr. Miura, as the President and CEO of IWATE NIPPO CO., LTD., is in an executive position of said company as of the date of submission of the Annual Securities Report (hereinafter "currently"). He has served to date as an outside director of DAIICHI SHOJI CO., LTD. since his appointment in June 2012, and he also served as executive directors of numerous other entities with which the Bank had transactions in the past. Mr. Takahashi served as the Chairman of The Sumitomo Trust and Banking Company, Limited (currently Sumitomo Mitsui Trust Bank, Limited) until March 2011 and currently he is the advisor of said company. Mr. Ube served as the Representative Director and Executive Vice President of Tohoku Electric Power Company, Incorporated until June 2012 and currently serves as the Vice Chairman of TOHOKU ECONOMIC FEDERATION.
- In terms of the transactions between the Bank and the outside directors, transactions including loans exist between the entities in which the outside directors currently serve as executive directors, etc. and entities in which the outside directors served as executive directors in the past; however, they are all standard transactions and do not pose any special conflicts of interest.
- In terms of capital relationships between the Bank and outside directors, Mr. Takahashi holds 1,000 shares of the Bank's shares; however, such shares held only account for a small portion of outstanding shares.

Outside Auditors

- The Bank has three outside auditors; Hisaki Miyadate, Koichi Adachi and Shinobu Obara. Mr. Obara currently serves as the Senior Managing Director of Iwate Menkoi Television Co., Ltd. and the Representative Director and President of Ma cherie, Inc., and is in executive positions, etc. in these entities.

- In terms of transactions between the Bank and the outside auditors, transactions including loans exist between the entities in which Mr. Obara currently serves as an executive director, etc., however, they are standard transactions and do not pose special conflicts of interest. Additionally, there are no special conflicts of interest between the Bank and Mr. Miyadate and Mr. Adachi.
- As for Mr. Miyadate and Mr. Adachi, they have been reported to the Tokyo Stock Exchange, Inc. as independent directors/corporate auditors with no risks of conflicts of interest between general stockholders.

② The status and standards for functions, duties, and appointment of outside directors and outside auditors

The Bank elects outside directors and outside auditors in order to reinforce the functions of monitoring and supervision over the Bank's management. At the Bank, the Board of Directors and the corporate auditors conduct monitoring over the directors' execution of duties; and the outside directors, based on their deep experience and knowledge and from an objective outside position that pays due consideration to the interests of the general stockholders, play a vital role in reinforcing the management's decision-making and supervisory functions. Additionally, the outside auditors, based on their extensive insight and specialized knowledge, play a vital role in reinforcing the audit functions over the directors' execution of duties.

Although the Bank has not determined any specific provisions regarding independence in the election of their outside directors and outside auditors, it expects the officers to objectively and appropriately fulfill the functions and roles of supervision and audit, and elects them based on the fundamental understanding that no conflicts of interest will arise with the general stockholders.

③ Cooperation between outside auditors and internal audit divisions

Outside auditors monitor and supervise the management of the Bank through attendance at the Board of Directors meetings and the Board of Corporate Auditors meetings, reports from the Compliance Committee etc., and cooperation with the Audit Division and accounting auditors to ensure the effectiveness of audits based on a high level of independence.

(4) Compensation for Directors and Corporate Auditors

① Aggregate amount of compensation paid to directors and corporate auditors, amount of compensation by category of compensation, and the number of persons that were paid, by classification of directors and corporate auditors

Classification of directors and corporate auditors	Number of persons	Aggregate amount of compensation (¥ million)			
			Basic compensation	Bonus	Retirement benefits
Directors (excluding outside directors)	11	224	123	26	74
Corporate auditors (excluding outside auditors)	1	20	13	2	4
Outside directors and outside auditors	8	39	26	5	6

(Notes) 1. The above numbers of persons include two directors and two outside directors/auditors who resigned at the closing of the 130th General Meeting of Shareholders held on June 22, 2012.

2. The above amounts include ¥76 million provision for retirement benefits for directors and corporate auditors (¥66 million for directors, ¥4 million for corporate auditors and ¥5 million for outside directors/auditors), ¥34 million accrued bonuses for directors and corporate auditors (¥26 million for directors, ¥2 million for corporate auditors and ¥5 million for outside directors/auditors) and ¥9 million for the difference between the retirement benefits paid to the directors and corporate auditors retired during the current fiscal year and the provision for retirement benefits made for the same directors and corporate auditors during the previous fiscal year (¥8 million for directors and ¥1 million for outside directors/auditors).

3. Apart from the above, ¥42 million employees’ compensation was paid to directors concurrently serving as employees (¥34 million employees’ salary and ¥7 million employees’ bonus).

4. Maximum aggregate amounts of compensation for directors and corporate auditors were decided as follows by the general meetings of shareholders.

For directors: ¥20 million per month
(According to the resolution at the 107th General Meeting of Shareholders)
(Excluding employees’ compensation payable to directors concurrently serving as employees)

For corporate auditors: ¥4 million per month
(According to the resolution at the 100th General Meeting of Shareholders)

② Combined compensation for individual directors and corporate auditors

Not applicable, as there are no directors or corporate auditors whose combined compensations exceeded ¥100 million.

③ The Group’s Policies on deciding the amount of compensation for directors and corporate auditors

As authorized by the resolution at the 131st General Meeting of Shareholders held on June 21, 2013, the Bank abolished the retirement benefits system for directors and corporate auditors following the review of the system of compensation for directors and corporate auditors and launched a stock compensation-type stock option scheme instead. As a result, the Bank’s compensation system for directors (excluding outside directors) comprises basic fixed compensation, bonus and stock compensation-type stock options, while that for outside directors and corporate auditors comprises basic fixed compensation alone. Details of the stock compensation-type stock option scheme are described in (9) Description of stock option scheme in 1) Stock information of 4 Status of the Company.

The maximum amounts of compensation (including bonus) are ¥260 million per year for directors including outside directors and ¥60 million per year for corporate auditors.

The monthly amount of basic fixed compensation is decided at the Board of Directors meeting and at the Board of Corporate Auditors meeting after the General Meeting of Shareholders, based on the scope and nature of responsibility as well as experience of each director and corporate auditor that is paid. The

amount of bonus for directors and corporate auditors is decided according to the Bank's internal rules separately set out, in consideration of the Bank's financial business results in each fiscal year as well as each director and corporate auditor's personal contribution thereto. The amount is decided at the Board of Directors meetings or in the consultation of the corporate auditors according to the formulas based on the scope and nature of responsibility as well as years of service of each director and corporate auditor, as stipulated by the Bank's internal rules separately set out.
Retirement benefits are to be paid to the directors and corporate auditors who retired at the conclusion of the 131st General Meeting of Shareholders within the range set out in the Bank's relevant guidelines, while the final payment of retirement benefits is to be made to directors who have been reappointed and to corporate auditors who have been in office within the range likewise, and the specific amounts and payment method of such retirement benefits are subject to the decision of the Board of Directors in the case of directors (including retiring directors), while up to the consultation of the corporate auditors in the case of corporate auditors according to the resolution by the said General Meeting of Shareholders.

(5) Holding of Shares

① Number of stocks held by the Bank for other purposes than pure investment and their balance sheet value

Number of stocks held: 141

Balance sheet value: ¥20,430 million

② Classification, stock name, number of shares, balance sheet values, and purpose of holding of investment securities for other purposes than pure investment are as follows:

(Previous fiscal year)

The stocks whose balance sheet values exceed a hundredth of capital amount are displayed below.

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Tohoku Electric Power Company, Incorporated	2,277,797	2,150	Reinforcement of relationship through shareholding
Mitsubishi UFJ Financial Group, Inc.	4,040,310	1,664	Ibid.
NIPPON STEEL CORPORATION	4,918,200	1,116	Ibid.
TAIYO NIPPON SANSO CORPORATION	1,822,849	1,064	Ibid.
East Japan Railway Company	200,000	1,042	Ibid.
TOSHIBA CORPORATION	2,024,483	736	Ibid.
The Yamagata Bank, Ltd.	1,323,800	520	Ibid.
SECOM CO., LTD.	104,644	423	Ibid.
THE AKITA BANK, LTD.	1,517,159	411	Ibid.
The Bank of Kyoto, Ltd.	540,000	405	Ibid.
Daiwa Securities Group Inc.	1,099,806	359	Ibid.
JFE Holdings, Inc.	200,047	355	Ibid.
The Toho Bank, Ltd.	1,052,090	297	Ibid.
Tokio Marine Holdings, Inc.	127,086	288	Ibid.
The Ogaki Kyoritsu Bank, Ltd.	863,000	257	Ibid.
The Chugoku Bank, Limited	222,000	248	Ibid.
The Yamanashi Chuo Bank, Ltd.	656,000	241	Ibid.
The Aomori Bank, Ltd.	937,000	239	Ibid.
The Hyakugo Bank, Ltd.	619,000	235	Ibid.
Sumitomo Metal Industries, Ltd.	1,383,988	231	Ibid.
NTN CORPORATION	657,555	230	Ibid.
THE OITA BANK, LTD.	860,000	227	Ibid.
Yamaguchi Financial Group, Inc.	300,000	225	Ibid.
Shoei Company, Limited.	632,491	213	Ibid.
The Daishi Bank, Ltd.	731,000	212	Ibid.
DCM Holdings Co., Ltd.	317,949	208	Ibid.
The Musashino Bank, Ltd.	71,600	203	Ibid.
The Iyo Bank, Ltd.	277,000	203	Ibid.
THE KAGOSHIMA BANK, LTD.	377,000	199	Ibid.
THE BANK OF SAGA LTD.	801,000	189	Ibid.
The Juroku Bank, Ltd.	611,000	174	Ibid.
Electric Power Development Co., Ltd.	72,000	161	Ibid.
The Kita-Nippon Bank, Ltd.	68,250	155	Ibid.
The Hokkoku Bank, Ltd.	500,000	155	Ibid.
THE SHIMIZU BANK, LTD.	45,400	148	Ibid.
The Shikoku Bank, Ltd.	474,000	146	Ibid.
Nagase & Co., Ltd.	137,000	140	Ibid.
Sumitomo Seika Chemicals Company, Limited.	356,000	136	Ibid.

(Current fiscal year)

The stocks whose balance sheet values exceed a hundredth of capital amount are displayed below.

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Mitsubishi UFJ Financial Group, Inc.	4,040,310	2,254	Reinforcement of relationship through shareholding
Tohoku Electric Power Company, Incorporated	2,277,797	1,731	Ibid.
East Japan Railway Company	200,000	1,544	Ibid.
NIPPON STEEL & SUMITOMO METAL CORPORATION	5,935,431	1,394	Ibid.
TAIYO NIPPON SANSO CORPORATION	1,822,849	1,162	Ibid.
TOSHIBA CORPORATION	2,024,483	955	Ibid.
Daiwa Securities Group Inc.	1,099,806	721	Ibid.
The Yamagata Bank, Ltd.	1,323,800	586	Ibid.
SECOM CO., LTD.	104,644	507	Ibid.
The Bank of Kyoto, Ltd.	540,000	495	Ibid.
THE AKITA BANK, LTD.	1,517,159	397	Ibid.
JFE Holdings, Inc.	200,047	353	Ibid.
The Chugoku Bank, Limited	222,000	341	Ibid.
Tokio Marine Holdings, Inc.	127,086	336	Ibid.
The Toho Bank, Ltd.	1,052,090	317	Ibid.
THE OITA BANK , LTD.	860,000	306	Ibid.
The Ogaki Kyoritsu Bank, Ltd.	863,000	295	Ibid.
The Hyakugo Bank, Ltd.	619,000	290	Ibid.
Yamaguchi Financial Group, Inc.	300,000	285	Ibid.
The Yamanashi Chuo Bank, Ltd.	656,000	281	Ibid.
The Daishi Bank, Ltd.	731,000	280	Ibid.
The Aomori Bank, Ltd.	937,000	267	Ibid.
The Musashino Bank, Ltd.	71,600	264	Ibid.
DCM Holdings Co., Ltd.	317,949	255	Ibid.
THE KAGOSHIMA BANK, LTD.	377,000	250	Ibid.
The Iyo Bank, Ltd.	277,000	246	Ibid.
ARCS COMPANY, LIMITED	109,590	232	Ibid.
The Hokkoku Bank, Ltd.	500,000	196	Ibid.
THE BANK OF SAGA LTD.	801,000	191	Ibid.
Electric Power Development Co., Ltd.	72,000	178	Ibid.
The Kita-Nippon Bank, Ltd.	68,250	164	Ibid.
NTN CORPORATION	657,555	161	Ibid.
ORIX Corporation	13,230	157	Ibid.
Nagase & Co., Ltd.	137,000	157	Ibid.
Mitsubishi UFJ Lease & Finance Company Limited	29,660	147	Ibid.
MS&AD Insurance Group Holdings, Inc.	66,756	137	Ibid.
The Shikoku Bank, Ltd.	474,000	136	Ibid.
Sumitomo Seika Chemicals Company, Limited.	356,000	128	Ibid.
THE SHIMIZU BANK, LTD.	45,400	127	Ibid.

③ Balance sheet value, dividend income, gain or loss on sales and gain or loss on valuation, in respect of the investment stocks held purely for investment purpose

	At the end of the previous fiscal year			
	Balance sheet value (Millions of yen)	Dividend income (Millions of yen)	Gain or loss on sales (Millions of yen)	Gain or loss on valuation (Millions of yen)
Listed stocks	10,648	241	(444)	2,295
Unlisted stocks	-	-	-	-

	At the end of the current fiscal year			
	Balance sheet value (Millions of yen)	Dividend income (Millions of yen)	Gain or loss on sales (Millions of yen)	Gain or loss on valuation (Millions of yen)
Listed stocks	15,084	289	(109)	4,898
Unlisted stocks	-	-	-	-

④ Of all investment stocks held during the current fiscal year, those whose purpose of holding changed from other than pure investment to pure investment meanwhile

None

(6) Statutory Number of Directors

The Articles of Incorporation of the Bank stipulate that there shall be no more than twelve directors.

(7) Resolutions for Appointment of Directors

The Articles of Incorporation provide that resolutions for appointment of directors are passed by simple majority at a General Meeting of Shareholders at which at least one-third of eligible shareholders with voting rights are present, without use of cumulative voting.

(8) Important Items that may be Approved by Resolution of the Board of Directors

① Based on Article 165, Clause 2 of the Corporation Law, the Articles of Incorporation of the Bank provide that Bank shares may be purchased on the markets by resolution of the Board of Directors only, without the need for approval at the General Meeting of Shareholders. This measure is intended to ensure flexible adjustment of the number of the Bank's shares on the market.

② Based on Article 454, Clause 5 of the Corporation Law, the Articles of Incorporation of the Bank provide that an interim dividend may be paid by resolution of the Board of Directors only, with September 30 each year as date of record. This measure is to ensure a more stable distribution of profits to shareholders.

(9) Special Resolutions of the General Meeting of Shareholders

Based on Article 309, Clause 2 of the Corporation Law, special resolutions may be passed with a majority of two-thirds of eligible shareholders at a meeting at which at least one-third of shareholders with voting rights are present. By relaxing quorum requirements for approval of special resolutions by the General Meeting of Shareholders, our objective is to achieve smoother progress through the agenda at meetings of shareholders.

2 Compensation for Audit Certification Services

(1) Compensation Paid to Certified Public Accountants for Audit Certification Services

(Millions of yen)

	FY2011		FY2012	
	Compensation for audit certification services	Compensation for services other than audit certification	Compensation for audit certification services	Compensation for services other than audit certification
For the Bank	¥55	-	¥55	-
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥55	-	¥55	-

Notes: 1. Compensation paid during the previous term with respect to audit certification services includes ¥1 million paid to KPMG AZSA LLC for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2011.

2. Compensation paid during the reporting term with respect to audit certification services includes ¥1 million paid to KPMG AZSA LLC for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2012.

(2) Other Important Compensatory Payments

None

(3) Nature of Services Performed for the Bank by the Certified Public Accountants Other than Financial Accounting

None

(4) Changes in Policy Regarding Payment of Compensation for Auditing Services

There were no changes during the reporting period.

Consolidated Balance Sheets

The Bank of Iwate, Ltd. and its consolidated subsidiary
31 March 2013 and 2012

	Millions of yen		Thousands of U.S dollars (Note 1)
ASSETS	2013	2012	2013
Cash and due from banks (Notes 3 and 5)	¥422,360	¥293,155	$4,490,803
Call loans and bills bought (Note 5)	190,000	225,000	2,020,202
Commercial paper and other debt purchased (Note 5)	17,383	14,689	184,827
Money held in trust (Note 5)	4,985	995	53,004
Securities (Notes 4, 5 and 7)	1,239,216	1,109,081	13,176,140
Loans and bills discounted (Notes 5, 6 and 8)	1,611,241	1,518,341	17,131,749
Foreign exchange assets	1,867	1,336	19,851
Premises and equipment (Note 10 and 23)	17,018	16,054	180,946
Intangible assets (Note 11 and 23)	2,741	962	29,144
Deferred tax assets (Note 18)	7	1,737	74
Customers' liabilities for acceptances and guarantees (Note 16)	5,180	5,613	55,077
Other assets (Notes 7 and 9)	9,084	7,217	96,588
Reserve for possible loan losses	(13,775)	(17,172)	(146,465)
Total assets	¥3,507,307	¥3,177,008	$37,291,940
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 5, 7 and 12)	¥3,296,175	¥2,955,752	$35,047,049
Borrowed money (Notes 5, 7 and 13)	10,255	26,999	109,038
Call money (Notes 5 and 7)	470	5,000	4,997
Corporate bonds (Notes 5 and 14)	—	10,450	—
Liability for severance and retirement benefits (Note 17)	1,635	9,356	17,384
Accrued bonuses for directors and corporate auditors	34	29	362
Retirement benefits for directors and corporate auditors	420	418	4,466
Provision for losses on reimbursement of dormant deposits	271	185	2,881
Provision for contingent losses	213	237	2,265
Provision for disastrous losses	—	105	—
Deferred tax liabilities (Note 18)	8,128	—	86,422
Acceptances and guarantees (Note 16)	5,180	5,613	55,077
Other liabilities (Note 15)	16,565	16,029	176,130
Total liabilities	3,339,346	3,030,173	35,506,071
Net assets (Note 19):			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2013 and 31 March 2012			
Issued and outstanding — 19,098 thousand shares at 31 March 2013 and 31 March 2012	12,090	12,090	128,549
Capital surplus	4,811	4,811	51,154
Retained earnings	123,721	118,408	1,315,481
Treasury stock, at cost	(4,125)	(4,123)	(43,860)
Net unrealized holding gains on available-for-sale securities	31,989	15,905	340,127
Net unrealized losses on hedging derivatives	(525)	(256)	(5,582)
Total net assets	167,961	146,835	1,785,869
Total liabilities and net assets	¥3,507,307	¥3,177,008	$37,291,940

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2013 and 2012

	Millions of yen		Thousands of U.S dollars (Note 1)
	2013	2012	2013
Income:			
Interest income:			
Interest on loans and discounts	¥22,300	¥23,276	$237,108
Interest and dividends on securities	13,358	13,335	142,031
Other interest income	281	273	2,988
Fees and commissions	6,654	6,153	70,750
Other operating income (Note 21)	429	1,563	4,561
Other income (Note 22)	2,226	1,461	23,668
Total income	45,248	46,061	481,106
Expenses:			
Interest expense:			
Interest on deposits	1,355	1,715	14,407
Interest on borrowings	141	293	1,499
Other interest expense	286	257	3,041
Fees and commissions	2,609	2,470	27,741
General and administrative expenses (Note 20)	27,476	27,257	292,142
Other operating expenses (Note 21)	1,189	637	12,642
Other expenses (Note 22)	920	3,533	9,783
Total expenses	33,976	36,162	361,255
Income before income taxes	11,272	9,899	119,851
Provision for income taxes (Note 18)			
Current	3,060	4,020	32,536
Deferred	1,797	972	19,107
	4,857	4,992	51,643
Net income before minority interests	6,415	4,907	68,208
Minority interests in net income	—	—	—
Net income	¥6,415	¥4,907	$68,208

	Yen		U.S dollars
	2013	2012	2013
Per share data:			
Net income	¥349.42	¥266.79	$3.72
Diluted net income	340.90	248.64	3.62
Cash dividends applicable to the year	65.00	60.00	0.69

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2013 and 2012

	Millions of yen		Thousands of U.S dollars (Note 1)
	2013	2012	2013
Net income before minority interests	¥6,415	¥4,907	$68,208
Other comprehensive income (Note 24):			
Net unrealized holding gains on available-for-sale securities	16,081	7,286	170,983
Net unrealized losses on hedging derivatives	(269)	(261)	(2,860)
Share of the other comprehensive income of affiliates accounted for using the equity method	3	2	32
Total other comprehensive income	15,815	7,027	168,155
Comprehensive income	¥22,230	¥11,934	$236,363
Total comprehensive income	¥22,230	¥11,934	$236,363
Attributable to:			
Owners of the parent	22,230	11,934	236,363
Minority interests	—	—	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2013 and 2012

	Millions of yen		Thousands of U.S dollars (Note 1)
	2013	2012	2013
Stockholders' equity			
Common stock			
Balance at beginning of year	¥12,090	¥12,090	$128,549
Change during year	—	—	—
Total change during year	—	—	—
Balance at end of year	¥12,090	¥12,090	$128,549
Capital surplus			
Balance at beginning of year	¥4,811	¥4,811	$51,154
Change during year	—	—	—
Total change during year	—	—	—
Balance at end of year	¥4,811	¥4,811	$51,154
Retained earnings			
Balance at beginning of year	¥118,408	¥114,606	$1,258,990
Change during year			
Cash dividends	(1,102)	(1,104)	(11,717)
Net income	6,415	4,907	68,208
Disposal of treasury stock	0	(1)	0
Total change during year	5,313	3,802	56,491
Balance at end of year	¥123,721	¥118,408	$1,315,481
Treasury stock			
Balance at beginning of year	¥(4,123)	¥(3,985)	$(43,838)
Change during year			
Acquisition of treasury stock	(3)	(140)	(32)
Disposal of treasury stock	1	2	10
Total change during year	(2)	(138)	(22)
Balance at end of year	¥(4,125)	¥(4,123)	$(43,860)
Total shareholders' equity			
Balance at beginning of year	¥131,186	¥127,522	$1,394,855
Change during year			
Cash dividends	(1,102)	(1,104)	(11,717)
Net income	6,415	4,907	68,208
Acquisition of treasury stock	(3)	(140)	(32)
Disposal of treasury stock	1	1	10
Total change during year	5,311	3,664	56,469
Balance at end of year	¥136,497	¥131,186	$1,451,324
Accumulated other comprehensive income			
Net unrealized holding gains on securities			
Balance at beginning of year	¥15,905	¥8,617	$169,112
Change during year			
Net changes of items other than stockholders' equity during year	16,084	7,288	171,015
Total change during year	16,084	7,288	171,015
Balance at end of year	¥31,989	¥15,905	$340,127
Net unrealized gains (losses) on hedging derivatives			
Balance at beginning of year	¥(256)	¥4	$ (2,722)
Change during year			
Net changes of items other than stockholders' equity during year	(269)	(260)	(2,860)
Total change during year	(269)	(260)	(2,860)
Balance at end of year	¥(525)	¥(256)	$(5,582)
Total accumulated other comprehensive income			
Balance at beginning of year	¥15,649	¥8,621	$166,390
Change during year			
Net changes of items other than stockholders' equity during year	15,815	7,028	168,155
Total change during year	15,815	7,028	168,155
Balance at end of year	¥31,464	¥15,649	$334,545
Total net assets			
Balance at beginning of year	¥146,835	¥136,143	$1,561,245
Change during year			
Cash dividends	(1,102)	(1,104)	(11,717)
Net income	6,415	4,907	68,208
Acquisition of treasury stock	(3)	(140)	(32)
Disposal of treasury stock	1	1	10
Net changes of items other than stockholders' equity during year	15,815	7,028	168,155
Total change during year	21,126	10,692	224,624
Balance at end of year	¥167,961	¥146,835	$1,785,869

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2013 and 2012

	Millions of yen		Thousands of U.S dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Net income before income taxes	¥11,272	¥9,899	$119,851
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	1,897	1,849	20,170
Impairment losses	58	82	617
Equity in (gains) losses of affiliates	(32)	(17)	(340)
Increase (decrease) in reserve for possible loan losses	(3,397)	(2,258)	(36,119)
Increase (decrease) in provision for contingent losses	(24)	(115)	(255)
Increase (decrease) in accrued bonuses for directors	6	0	64
Increase (decrease) in liability for severance and retirement benefits	(7,720)	1,061	(82,084)
(Increase) decrease in prepaid pension costs	(2,447)	—	(26,018)
Increase (decrease) in retirement benefits for directors and corporate auditors	2	58	21
Increase (decrease) in provision for losses on reimbursement of dormant deposits	87	0	925
Increase (decrease) in provision for disastrous losses	(77)	(273)	(819)
Interest income	(35,938)	(36,884)	(382,116)
Interest expenses	1,782	2,266	18,947
Investment securities (gains) losses, net	(383)	1,033	(4,072)
(Increase) decrease in money held in trust	9	5	96
Foreign exchange (gains) losses, net	(162)	(14)	(1,722)
(Gains) losses on disposal of premises and equipment	194	103	2,063
Net (increase) decrease in loans and bills discounted	(92,900)	(44,775)	(987,772)
Net increase (decrease) in deposits	439,078	265,821	4,668,559
Net (increase) decrease in due from banks, excluding the Bank of Japan	(4,060)	(60,976)	(43,169)
Net (increase) decrease in call loans and others	32,311	(222,057)	343,551
Net increase (decrease) in call money	(4,530)	—	(48,166)
Net (increase) decrease in foreign exchange assets	(532)	796	(5,657)
Net increase (decrease) in foreign exchange liabilities	—	(0)	—
Net increase (decrease) in negotiable certificates of deposit	(98,655)	302,609	(1,048,963)
Net increase (decrease) in borrowed money	(16,744)	12,520	(178,033)
Interest received	36,313	36,880	386,103
Interest paid	(2,111)	(3,325)	(22,446)
Other, net	2,044	2,076	21,733
Sub-total	255,341	266,364	2,714,949
Income taxes paid	(5,655)	(2,256)	(60,128)
Income taxes refunded	9	4	96
Net cash provided by operating activities	249,695	264,112	2,654,917
Cash flows from investing activities:			
Acquisition of securities	(332,359)	(337,049)	(3,533,854)
Proceeds from sale of securities	40,377	92,973	429,314
Proceeds from redemption of securities	184,905	150,657	1,966,029
Acquisition of money held in trust	(4,000)	(5,477)	(42,531)
Decrease in money held in trust	—	9,400	—
Acquisition of premises and equipment	(1,197)	(1,270)	(12,727)
Proceeds from sale of premises and equipment	—	274	—
Payment for retirement of premises and equipment	(40)	—	(425)
Acquisition of intangible assets	(534)	(401)	(5,678)
Net cash used in investing activities	(112,848)	(90,893)	(1,199,872)
Cash flows from financing activities:			
Increase in subordinated borrowings	—	10,000	—
Payment for redemption of bonds	—	(10,000)	—
Payment for redemption of subordinated bonds and corporate bonds with stock acquisition rights	(10,450)	(11,247)	(111,111)
Repayments of lease obligations	(191)	—	(2,031)
Cash dividends paid	(1,102)	(1,104)	(11,717)
Payment for acquisition of shares in treasury	(3)	(139)	(32)
Proceeds from sale of shares in treasury	0	1	0
Net cash used in financing activities	(11,746)	(12,489)	(124,891)
Effect of exchange rate changes on cash and cash equivalents	44	24	468
Net increase (decrease) in cash and cash equivalents	125,145	160,754	1,330,622
Cash and cash equivalents at beginning of year	231,659	70,905	2,463,147
Cash and cash equivalents at end of year (Note 3)	¥356,804	¥231,659	$3,793,769

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of The Bank of Iwate, Ltd. (the "Bank") and its consolidated subsidiary have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan, its related accounting regulations and the Banking Law of Japan, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements to International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Bank prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers, using the prevailing exchange rate at 29 March 2013, which was ¥94.05 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The consolidated financial statements include the accounts of the Bank and its significant subsidiary. Japanese GAAP on consolidated financial statements requires consolidation of all significant investees that are controlled through substantial ownership of majority voting rights or existence of certain conditions. All significant intercompany transactions and account balances are eliminated.

Investments in affiliates over which the Bank has the ability to exercise significant influence in terms of operating and financial policies of the investees are accounted for by the equity method.

Trading account securities and Securities

Securities are classified as follows based on purpose: (a) securities held for trading purposes (hereafter, "trading account securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

(a) Trading account securities — National government bonds held for trading purpose are presented as trading account securities. Trading account securities are stated at fair market value. Gains and losses realized on disposal and unrealized gains and losses from market value fluctuations are recognized as gains or losses in the period of the change.

(b) Held-to-maturity debt securities are stated at amortized cost.

(c) Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets.

Realized gains and losses on sale of such securities are computed using moving average cost.

Securities for which it is extremely difficult to determine the fair market value are stated at moving average cost.

Securities included in money held in trust are stated at fair market value.

Available-for-sale securities with available fair market values are written down when a significant decline in fair value below the cost of such securities is deemed to be other than temporary. The amount written down is accounted for as an impairment loss.

Money held in trust

Securities that are invested as part of trust assets in an independently managed money trusts that invest primarily in securities are stated at fair value.

Derivatives and hedge accounting

The Bank employs forward exchange contracts, currency swaps and interest rate swaps to meet customers' needs and to mitigate interest rate risks and foreign exchange risks. Derivative financial instruments are stated at fair market value.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Bank defers recognition of gains or losses resulting from changes in fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

Transactions to hedge against interest rate risks affecting the financial assets and liabilities of the Bank are accounted for using deferred hedge accounting in accordance with the provisions of the Japanese Institute of Certified Public Accountants (hereinafter "JICPA") Industry Audit Committee Report No. 24.

Regarding the effectiveness of a hedge, a hedge that is intended to offset the effects of market fluctuations is assessed on a group-by-group comparison of hedged items and hedging instruments. Both hedged items, including deposits and loans, and hedging instruments, including interest rate swaps, are classified into groups by remaining maturity period. 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.

As for the hedging transactions against currency exchange risks arising from assets and liabilities in foreign currencies, the Bank applies deferred hedge accounting in accordance with the provisions of 'Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry' (JICPA Industry Audit Committee Report No. 25). The Bank assesses the effectiveness of currency swap and foreign exchange swap transactions executed for offsetting the risks of changes in currency exchange rates by verifying that there exist foreign currency positions of the hedging instruments corresponding to the foreign currency monetary claims and debts to be hedged.

Certain interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at fair values, but the differential paid or received under the swap contracts are recognized as interest expenses or income.

Depreciation and amortization methods

(1) Premises and equipment (except leased assets)

Premises and equipment are stated at cost less accumulated depreciation. The Bank and its consolidated subsidiary depreciate their premises and equipment under the declining-balance method over their estimated useful lives. Estimated useful lives are as follows:

Buildings: 3~30 years

Equipment and furniture: 3~20 years

Depreciation of buildings acquired by the Bank on and after 1 April 1998 (excluding installed facilities such as electrical and water facilities) is computed under the straight-line method, in accordance with the revision of corporate tax regulations.

(2) Intangible assets (except leased assets)

The Bank and its consolidated subsidiary amortize their intangible assets under the straight-line method over their estimated useful lives. Costs of computer software developed or obtained for internal use are amortized using the straight-line method over estimated useful lives of 5 years.

(3) Leased assets

Depreciation and amortization of leased assets pertaining to finance lease transactions other than those that transfer the ownership of the leased assets to the Bank, included in “Premises and equipment” and “Intangible assets”, is computed under the straight-line method. The lease term is equal to the useful life and that there is no residual value except where residual value guarantees are stipulated in lease contracts.

Furthermore, depreciation of leased assets that transfer the ownership to the Bank is computed by the same method used for owned assets.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

In accordance with the amendment of the Corporation Tax Act, effective from the beginning of the fiscal year ended 31 March 2013, the Bank and its consolidated subsidiary have changed their depreciation method for those premises and equipment acquired on and after 1 April 2012. As a result of this change, income before income taxes increased by ¥38 million ($404 thousand) from the corresponding amounts which would have been recorded under the previous method.

Finance leases

Finance leases entered into prior to 1 April 2008, except those leases for which the ownership of the leased assets is considered to be transferred to the lessee, are accounted for in the same manner as operating leases.

Reserve for possible loan losses

The reserve for loans to borrowers which are classified as legally bankrupt or substantially bankrupt is calculated by deducting the estimated disposal value of collateral and the amount deemed collectible from guarantees from the book value.

The Bank also provides specific reserves for potentially bankrupt borrowers based on the amount calculated by deducting the estimated disposal value of collateral and the amount deemed collectible from guarantees from the book value.

For all the other loans, general reserves are provided collectively. The ratio of the general reserves is determined based on the Bank’s loan loss experience. The above-mentioned reserve for possible loan losses is made on the basis of the results of a strict assessment of the quality of all the Bank's loan assets, using the Bank's internally established rules for self-assessment.

Accrued bonuses for directors and corporate auditors

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

Employees' severance and retirement benefits

Under the terms of the retirement plan of the Bank and its consolidated subsidiary, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, base salary at retirement and reason for retirement. In addition, the Bank has a funded pension plan covering substantially all employees.

The liability and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Bank provides a liability for employees' severance and retirement benefits (and prepaid pension costs, if applicable) based on the estimated amounts of projected benefit obligation at the balance sheet date and the fair value of the plan assets at that date. Prior service costs are charged to income as incurred.

Actuarial gains or losses are recognized as income or expenses commencing from the following year under the straight-line method over 10 years.

From the current fiscal year, the Bank has set up retirement benefit trust.

Retirement benefits for directors and corporate auditors

Retirement benefits for directors and corporate auditors are provided for the future payments of directors and corporate auditors' retirement benefits attributed to each fiscal year.

Provision for losses on reimbursement of dormant deposits

Provision for losses on reimbursement of dormant deposits which were recorded as profit is provided for the future reimbursement based on the historical reimbursement experience.

Provision for contingent losses

Provision for contingent losses is provided for the estimated future deposits required due to the implementation of burden charge system of credit guarantee corporations.

Provision for disastrous losses

Provision for disastrous losses is provided for the future payments of repairs or abandonments of damaged fixed assets by the Great East Japan Earthquake.

Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Bank and its consolidated subsidiary with certain adjustments required for tax purposes.

Deferred tax assets and liabilities are recorded based on the temporary differences between the financial statement and tax bases of assets and liabilities. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the end of each year.

Appropriations of retained earnings

Under the Company Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the said financial period. The accounts for that period, therefore, do not reflect such appropriations. See Note 26.

Amounts per share

Net income per share of common stock is computed based on the weighted average number of shares outstanding, excluding treasury stock, during each year. Diluted net income per share reflects the potential dilution that could occur if stock options to issue common stock were exercised. Cash dividends per share represent the amounts applicable to the respective years and consist of interim dividends for the current year and year-end dividends declared after the end of the year.

Consumption taxes

With respect to the Bank and its consolidated subsidiary, national and local consumption taxes are accounted for with the tax exclusion method.

Unapplied new accounting standards

"Accounting Standard for Retirement Benefits" (the Accounting Standard Board of Japan (hereinafter "ASBJ") Statement No. 26, 17 May 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, 17 May 2012)

(1) Overview

Unrealized actuarial differences and unrealized prior service costs are required to be recognized in net assets at net of tax effects. Funded status is fully recognized as a liability or an asset on the consolidated balance sheets. With respect to the amortization method of the expected benefit, the benefit formula basis is newly allowed as an option, in addition to the straight-line method. In addition, the method for determining the discount rate is amended.

(2) Date of adoption

The Bank and its consolidated subsidiary will adopt the accounting standards effective from the year end of the fiscal year ending 31 March 2014. However, the Bank and its consolidated subsidiary will adopt the amendments to the method for calculating projected benefit obligation and service costs from the beginning of the fiscal year ending 31 March 2015.

(3) The effect of adopting the accounting standards

The effect of adopting these accounting standards is currently under evaluation.

3. NOTES TO CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and due from the Bank of Japan are considered to be cash and cash equivalents. As of 31 March 2013 and 2012, the reconciliation of cash and cash equivalents in the consolidated statements of cash flows with cash and due from banks in the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and due from banks	¥422,360	¥293,155	$4,490,803
Less: Time deposits	(65,000)	—	(691,122)
Deposits in foreign currencies	—	(61,000)	—
Deposits in other banks other than the Bank of Japan	(556)	(496)	(5,912)
Cash and cash equivalents	¥356,804	¥231,659	$3,793,769

(2) Significant non-cash transactions

Assets and liabilities associated with finance lease transactions that were recorded in the fiscal year ended 31 March 2013 amounted to ¥3,289million ($34,971thousand).

4. SECURITIES

Securities held by the Bank at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
National government bonds	¥432,392	¥386,603	$4,597,469
Local government bonds	276,647	239,861	2,941,489
Debentures	378,430	353,346	4,023,711
Stock shares	35,866	29,028	381,350
Other securities	115,881	100,243	1,232,121
	¥1,239,216	¥1,109,081	$13,176,140

Unsecured loaned securities which borrowers have the right to sell or pledge in the amount of ¥45,000 million ($478,469 thousand) and ¥50,000 million as of 31 March 2013 and 2012 were included in National government bonds, respectively.

A. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of 31 March 2013 and 2012:

(a) Held-to-maturity debt securities

Millions of yen				
Book value	Fair value	Difference	Gain	Loss
As of 31 March 2013				
¥46,209	¥47,657	¥1,448	¥1,466	¥(18)
As of 31 March 2012				
32,801	33,159	358	573	(215)

Thousands of U.S. dollars				
Book value	Fair value	Difference	Gain	Loss
As of 31 March 2013				
$491,324	$506,720	$15,396	$15,587	$(191)

(b) Available-for-sale securities

Securities below include negotiable certificates of deposit classified as cash and due from banks.

	Millions of yen				
	Acquisition cost	Book value	Difference	Gain	Loss
As of 31 March 2013:					
Corporate stocks	¥23,702	¥34,460	¥10,758	¥11,640	¥(882)
Bonds	1,021,131	1,058,007	36,876	36,992	(116)
Other	112,991	114,322	1,331	2,534	(1,203)
	¥1,157,824	¥1,206,789	¥48,965	¥51,166	¥(2,201)
As of 31 March 2012:					
Corporate stocks	¥22,045	¥27,578	¥5,533	¥6,868	¥(1,335)
Bonds	938,654	961,167	22,513	22,708	(195)
Other	102,905	99,535	(3,370)	405	(3,775)
	¥1,063,604	¥1,088,280	¥24,676	¥29,981	¥(5,305)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
As of 31 March 2013:					
Corporate stocks	$252,015	$366,401	$114,386	$123,764	$(9,378)
Bonds	10,857,321	11,249,410	392,089	393,323	(1,234)
Other	1,201,393	1,215,545	14,152	26,943	(12,791)
	$12,310,729	$12,831,356	$520,627	$544,030	$(23,403)

B. Total sales of available-for-sale securities sold in the years ended 31 March 2013 and 31 March 2012 amounted to ¥38,664 million ($411,100 thousand) and ¥92,964 million, respectively. The related gains and losses amounted to ¥1,187 million ($12,621 thousand) and ¥673 million ($7,156 thousand) in 2013, ¥1,392 million and ¥1,576 million in 2012, respectively.

C. Available-for-sale securities other than trading securities (except securities which fair market values is extremely difficult to determine) written down for the year ended 31 March 2013 and 2012 amounted to ¥49 million ($521 thousand) and ¥687 million, respectively, due to a significant decline in fair value below the cost which is deemed to be other than temporary.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

(1) Overview

a. Policy for financial instruments

The Bank and its consolidated subsidiary provide financial services, focusing on banking businesses such as depositing, accommodating, and trading of securities and investing in securities.
Regarding the main operations of the Bank and its consolidated subsidiary, the Bank raises funds through deposits and call money, etc. and applies them to loans receivable and investing in securities and so on. So the financial assets and liabilities of the Bank and its consolidated subsidiary are tended to be affected by interest rate fluctuations, and are exposed to risks stemmed from changes in financial market environments (interest rate risks and price fluctuation risks), as well as to risks arising from fund shortage.
The Bank and its consolidated subsidiary manage those risks using the ALM method in order to appropriately control the balance between revenues and risks in consideration of the status of the financial assets and liabilities, trend of financial markets, policies for fund management and investment policies. The Bank and its consolidated subsidiary use derivatives for the purpose of reducing risks and avoid using derivatives for speculative purposes.

b. Types of financial instruments and related risks

The financial assets of the Bank and its consolidated subsidiary consist mainly of loans for domestic enterprises and individuals and investment securities.
Loans are exposed to credit risks stemming from defaults of borrower. Total balance of loans as of the current fiscal year end is made up of mainly that of local governments, and secondly individuals, manufacturing industries, whole and retail sales industries in terms of industrial categories and we can found that it covers approximately every kind of industries as a whole.
Securities are fundamentally constituted of bonds, stocks and investment trusts, which are held for investing purposes, held-to-maturity purposes and business transaction purposes, while trading securities are held for trading purposes. They are exposed to credit risks of issuers, interest rate risks and risks stemming from fluctuation of market prices.
Liabilities, such as deposits, corporate bonds and call money, etc., are exposed to risks arisen from fluctuation of interest rates stemming from mismatching between interests or periods of assets and liabilities. In addition, they are exposed to risks of fund shortage where the Bank and its consolidated subsidiary fail to control cash receipts and disbursement due to unexpected fund outflow and suffer losses from unusual high interest rates imposed on, as well as market liquidity risks where the Bank and its consolidated subsidiary fail to raise funds owing to market shrinkage, and are obliged to enter into unusual unfavorable transactions.
Regarding derivative transactions, the Bank and its consolidated subsidiary enter into interest rate swap contracts in terms of ALM control and adopt hedge accounting to them as hedging instrument and treating interest rate risks on loans and bonds as hedge items. The Bank and its consolidated subsidiary evaluate effectiveness of the hedge based on accumulated fluctuation of cash flow of hedging instruments and hedged items for the periods beginning from implementation of the hedging to the date of the evaluation and analysis on them.
Furthermore, there are interest rate swap contracts (hedging instruments) and loans and bonds (hedged items), which are treated under qualified method. Some transactions that are not qualified for hedge accounting are exposed to risks stemming from fluctuation of interest rates.
The consolidated subsidiary neither holds financial assets such as securities nor owes borrowings except cash and negotiable deposits.

c. Monitoring of credit risks

In accordance with the internal policies of the Bank and its consolidated subsidiary for managing credit risks arising from accommodation procedures, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Bank and its consolidated subsidiary are making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The results of the above monitoring are regularly reported to the Board of Directors and the results of monitoring of internal rating, loan portfolios and quantification of credit risks are reported to the credit risk committee. Theses monitoring procedures are subjected to austere internal audit.

Credit risks of issuers of securities and counterparty risks of derivative transactions are controlled through periodical review on credit information and fair value of securities at the financial market section.

d. Monitoring of market risks

(Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using the ALM method at the ALM committee, with reference to the discussion at fund accommodation meeting and interest rate analysis group, through monitoring and analysis of execution of the ALM and the discussion of future actions. Concretely, the results of the above monitoring are reported on a monthly to the ALM committee using gap analysis, interest rate sensitivity analysis, BPV and VaR. Derivative instruments such as interest rate swap contracts for the purposes of hedging the interest rate risks are used in terms of the ALM method.

(Foreign currency exchange risks)

Foreign currency swap contracts and foreign currency exchange swap contracts are used in order to control the foreign currency exchange risks.

(Price fluctuation risks)

In accordance with the internal policies of the Bank and its consolidated subsidiary on managing market related risks, the risks arising from fluctuation of market price of stocks are controlled through daily measuring VaR based on a certain holding periods and credit sections, confirming whether the quantities of risks exceed a certain portion of equity capital or not. Upper limits on losses on an aggregation basis or on realization basis are defined to control them on a daily basis. These results are reported by the Risk Management Division to the management on a daily basis.

Investing in securities at the financial market section is executed in accordance with invested items and investing guidelines prescribed in the fund and securities operation standards and primary polices on investing, controlled through continuous monitoring of the investments. The information related to market environment and investment status is reported to the management on a regular basis.

(Derivative transactions)

In conducting derivative transactions, each division responsible for execution of transactions, evaluation of efficiency of the hedging or related administration is clearly identified, following the hedge transaction guidelines, and the fund and securities operation standards, with setting up segregation of duties and checking systems.

(Information on volume of market risk)

1. Financial instruments in market investment division

The Bank employs variance and covariance method in calculating VaR of bonds and stocks held using following parameters for calculation.

	Holding period	Confidence interval	Observation period
Investments in bond	3 months	99%	1 year
Investments in stock	3 months	99%	1 year
Shares held for policy reasons	6 months	99%	1 year
Investments in trust	3 months	99%	1 year

The risk indicator of market investment departments, which is supposed to describe estimated losses, at the end of the year ended 31 March 2013 and 2012 was as follows:

Millions of yen		Thousands of U.S. dollars
2013	2012	2013
¥17,703	¥13,014	$188,230

The Bank periodically verifies the effectiveness of risk measurement under the VaR method by a back testing protocol that compares the volume under the VaR method with the amount of gains or losses. As a result of conducting the back testing protocol with holding period of 1 day, the Bank supposes the method undertaken will provide a reliable indicator of the market risks.

The method of variance and covariance the Bank uses to measure the volume under VaR assumes that changes in the market follow a normal distribution. Accordingly, under conditions subject to changes in the market exceeding the assumption, risks may be underestimated.

2. Financial instruments such as deposits and loans receivable, etc.

The Bank employs variance and covariance method in calculating VaR of deposits and loans receivable, etc., using such parameters of 6 months as holding period, 99% as confidence interval and 1 year as observation period.

The risk indicator on interest rates of deposits and loans receivable, etc., which is supposed to describe estimated losses, at the end of the year ended 31 March 2013 and 2012 was as follows:

Millions of yen		Thousands of U.S. dollars
2013	2012	2013
¥2,604	¥5,211	$27,687

The calculation was conducted using cash flows allocated according to the interest terms of the related financial assets and liabilities and the periodic fluctuations of interest. The method of variance and covariance the Bank undertakes to measure the volume under VaR employs statistically calculated interest rate risks based on the past normal interest rate fluctuations, so if changes in the interest market go beyond those assumptions, the impact may exceed the calculated amount.

(Monitoring of liquidity risks)

The Bank and its consolidated subsidiary adequately manage their liquidity risks based on various internal quantitative standards prescribed in fund management regulation, monitoring their liquidity positions on a daily basis with minimum fund reserve established twice a year.

(Supplementary explanation of the estimated fair value of financial instruments)

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, the fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumption and factors could result in different fair value.

(2) Fair value of financial instruments

The carrying amounts and the estimated fair value of financial instruments as of 31 March 2013 and 2012 are as follows.

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥422,360	¥422,360	¥293,155	¥293,155	$4,490,803	$4,490,803
Call loans and bills bought	190,000	190,000	225,000	225,000	2,020,202	2,020,202
Commercial paper and other debt purchased	17,383	17,552	14,689	14,723	184,827	186,624
Money held in trust	4,985	4,985	995	995	53,004	53,004
Securities						
Held to maturity bonds	29,462	30,741	18,643	18,967	313,259	326,858
Available-for-sale securities	1,206,789	1,206,789	1,088,280	1,088,280	12,831,356	12,831,356
Loans and bills discounted	1,611,241		1,518,341		17,131,749	
Reserve for possible loan losses	(13,681)		(16,529)		(145,465)	
	1,597,560	1,603,522	1,501,812	1,509,186	16,986,284	17,049,676
Liabilities:						
Deposits	3,296,175	3,296,561	2,955,752	2,956,371	35,047,049	35,051,154
Borrowed money	10,255	10,255	26,999	26,949	109,038	109,038
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	(23)	(23)	(75)	(75)	(245)	(245)
Derivative instruments qualifying for hedge accounting	(835)	(1,426)	(398)	(594)	(8,878)	(15,162)

(Note 1) Methods to determine the estimated fair value of financial instruments

a. Cash and due from banks, Call loans and bills bought

All cash and due from banks, call loans and bills bought are short-term in nature, and therefore their carrying amounts approximate fair value.

b. Commercial paper and other debt purchased

As for commercial paper and other debt purchased whose terms are less than one year, their carrying amounts are supposed to approximate fair value, while the fair value of those with long-term is based on either quoted market prices or prices provided by the financial institutions making markets.

c. Money held in trust

For the securities that are invested as part of trust assets in an independently managed money trusts that invest primarily in securities, the fair value of the equity securities is determined using quoted market prices and the fair value of debt securities is determined using the prices provided by the financial institutions that the Bank has been dealing with.

d. Held to maturity bonds and other securities

The fair value of held to maturity bonds and other securities is based on either quoted market prices or prices provided by the financial institutions making markets in these bonds.

e. Loans and bills discounted

Fair value of loans and bills discounted is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into. As for loans and bills with short-term settlement, their carrying amounts are supposed to approximate fair value.

The fair value of loans to borrowers which are classified as legally bankrupt or substantially bankrupt is based on the estimated disposal value of collateral and the amount deemed collectible from guarantees, and therefore approximate their carrying amounts after deduction of the specific reserves for potentially bankrupt borrowers.

f. Deposits

The fair value of deposits at notice is based on the payment amount that would be required to pay at the end of the year.

The fair value of time deposits is based on the present value of the total of principal and interest discounted by an interest rate to be applied if similar new deposits were entered into. As to time deposits with short-term maturities, their carrying amounts approximate the fair value.

g. Borrowed money

The fair value of borrowed money is based on the present value discounted by an interest rate to be applied if a similar new borrowing is entered into. As to borrowed money with short-term maturity, its carrying amount approximates the fair value.

h. Derivative transactions

Please refer to the following section of the notes to Derivatives.

(Note 2) The following table summarizes book values of securities for which is extremely difficult to determine the fair market values as of 31 March 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Available-for-sale securities	¥2,965	¥2,158	$31,525

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2013 and 2012 are as follows:

	2013					
	Millions of yen					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Call loans and bills bought	¥190,000	¥−	¥−	¥−	¥−	¥−
Commercial paper and other debt purchased Securities	10,636	1,413	−	−	−	5,334
Bonds held for maturity	3,627	2,259	640	−	−	22,936
Mainly consists of followings:						
National bonds	3,000	−	−	−	−	21,936
Corporate bonds	627	2,259	640	−	−	1,000
Other securities	149,298	256,189	192,540	204,764	290,212	66,004
Mainly consists of followings:						
National bonds	31,648	44,278	75,717	135,020	96,702	24,091
Local government bonds	28,620	71,811	8,731	9,590	121,970	35,925
Corporate bonds	73,759	100,331	80,782	55,544	63,488	−
Loans	294,852	320,799	317,362	141,180	123,219	203,462
Deposits	¥3,129,317	¥156,388	¥10,077	¥131	¥262	−
Call money	470	−	−	−	−	−
Borrowed money	−	−	−	−	10,000	−

Note: Borrowed money is stated for the long-term and interest-bearing borrowed money.

	2012					
	Millions of yen					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Call loans and bills bought	¥225,000	¥–	¥–	¥–	¥–	¥–
Commercial paper and other debt purchased	5,531	930	1,385	–	–	6,843
Securities						
Bonds held for maturity	9,086	4,844	1,740	–	–	2,972
Mainly consists of followings:						
National bonds	7,996	2,999	–	–	–	1,972
Corporate bonds	1,090	1,845	1,740	–	–	1,000
Other securities	111,312	274,259	167,194	140,480	284,038	65,293
Mainly consists of followings:						
National bonds	24,734	46,904	65,201	96,132	122,355	18,309
Local government bonds	7,127	85,738	24,680	4,541	76,973	40,803
Corporate bonds	57,417	123,612	50,713	37,503	78,228	197
Loans	287,350	340,804	261,675	126,060	126,886	194,539
Deposits	2,757,011	188,125	10,229	139	248	–
Call money	5,000	–	–	–	–	–
Borrowed money	–	–	–	–	10,000	–
Corporate bonds with stock acquisition rights	–	–	–	10,450	–	–

	2013					
	Thousands of U.S. dollars					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Call loans and bills bought	$2,020,202	$–	$–	$–	$–	$–
Commercial paper and other debt purchased	113,088	15,024	–	–	–	56,715
Securities						
Bonds held for maturity	38,565	24,019	6,805	–	–	243,870
Mainly consists of followings:						
National bonds	31,898	–	–	–	–	233,237
Corporate bonds	6,667	24,019	6,805	–	–	10,633
Other securities	1,587,432	2,723,966	2,047,209	2,177,182	3,085,720	701,797
Mainly consists of followings:						
National bonds	336,502	470,792	805,072	1,435,619	1,028,198	256,151
Local government bonds	304,306	763,541	92,834	101,967	1,296,863	381,978
Corporate bonds	784,253	1,066,784	858,926	590,579	675,045	–
Loans	3,135,056	3,410,941	3,374,397	1,501,116	1,310,144	2,163,339
Deposits	33,272,908	1,662,818	107,145	1,393	2,785	–
Call money	4,997	–	–	–	–	–
Borrowed money	–	–	–	–	106,326	–

Derivatives

As stated in significant accounting policies, the Bank deals in interest rate swaps, currency swaps, forward exchange contracts.

a. Derivative instruments not qualifying for hedge accounting

(Interest rate swap)

Notional amounts, market values, and valuation gains (losses) are as follows:

	2013		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap :			
Receive floating / Pay fixed rate	¥4,962	¥(29)	¥(29)
Receive fixed / Pay floating rate	—	—	—

	2012		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap :			
Receive floating / Pay fixed rate	¥4,962	¥(75)	¥(75)
Receive fixed / Pay floating rate	—	—	—

	2013		
	Thousands of U.S. dollars		
	Notional amounts	Fair value	Valuation gain (loss)
Interest rate swap :			
Receive floating / Pay fixed rate	$52,759	$(308)	$(308)
Receive fixed / Pay floating rate	—	—	—

Note: Transactions in the above table are revalued at fair market value. Valuation gains (losses) generated from the revaluation are included in the consolidated statements of income.

(Forward exchange contracts)

Notional amounts, market values, and valuation gains (losses) are as follows:

	2013		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange :			
Sell	¥27	¥1	¥1
Buy	380	5	5

	2012		
	Millions of yen		
	Notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange :			
Sell	¥15	¥(1)	¥(1)
Buy	36	1	1

	2013		
	Thousands of U.S. dollars		
	Notional amounts	Fair value	Valuation gain (loss)
Forward foreign exchange :			
Sell	$287	$11	$11
Buy	4,040	53	53

Note: Transactions in the above table are revalued at fair market value. Valuation gains (losses) generated from revaluation are included in the consolidated statement of income.

b. Derivative instruments qualifying for hedge accounting

(Interest rate swap)

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap :						
Receive floating / Pay fixed rate (Deferral method)	¥30,223	¥(811)	¥32,157	¥(397)	$321,350	$(8,623)
Receive floating / Pay fixed rate (Exceptional method)	22,919	(591)	3,105	(195)	243,690	(6,284)

(Currency swap)

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:						
Pay foreign currency / Receive Japanese yen	¥—	¥—	¥—	¥—	$—	$—
Receive foreign currency / Pay Japanese yen	125,000	(24)	—	—	1,329,080	(255)

(Forward exchange contracts)

	Millions of yen				Thousands of U.S. dollars	
	2013		2012		2013	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Forward foreign exchange :						
Sell	¥—	¥—	¥—	¥—	$—	$—
Buy	—	—	512	(2)	—	—

6. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Bills discounted	¥4,572	¥5,034	$48,612
Loans on notes	104,613	112,986	1,112,313
Loans on deeds	1,298,745	1,231,487	13,809,091
Overdrafts	203,311	168,834	2,161,733
	¥1,611,241	¥1,518,341	$17,131,749

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Bank has rights to sell or pledge commercial bills discounted and foreign bills of exchanges bought without restrictions. The total face value at 31 March 2013 and 2012 was ¥4,572 million ($48,612 thousand) and ¥5,034 million, respectively.

The Bank is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Loans to borrowers under bankruptcy proceedings	¥1,944	¥1,016	$20,670
Past due loans	36,911	43,523	392,461
Loans past due three months or more	15	365	160
Restructured loans, including loans to borrowers financially assisted by the Bank	9,614	10,109	102,222
	¥48,484	¥55,013	$515,513

7. PLEDGED ASSETS

At 31 March 2013, deposits amounting to ¥26,899 million ($286,007 thousand) were secured by pledges over pledged by securities in the amount of ¥105,690 million ($1,123,764 thousand), and guarantee money deposits in the amount of ¥73 million ($776 thousand). At 31 March 2012, deposits amounting to ¥21,959 million, call money amounting to ¥5,000 million, and borrowed money amounting to ¥16,770 million were secured by pledges over pledged by securities in the amount of ¥159,792 million, and guarantee money deposits in the amount of ¥72 million. In addition to the above-mentioned assets pledged as collateral, the Bank provided securities of ¥41,823 million ($444,689 thousand) and ¥57,601 million, and cash in the amount of ¥3 million ($32 thousand) and ¥3 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2013 and 2012.

8. COMMITMENT LINE AGREEMENT

Commitment line agreements are agreements to lend to customers when they apply for borrowing, to a prescribed amount, as long as no violation of the condition of the agreement exists. The amount of unused commitment line related to such agreements at 31 March 2013 and 2012 amounted to ¥621,196 million ($6,604,955 thousand) and ¥644,277 million, respectively. The amount of commitment line agreements, having a condition that the original agreement period was less than one year or unconditionally cancelable at any time, was ¥604,120 million ($6,423,392 thousand) and ¥624,064 million at 31 March 2013 and 2012, respectively. The amount of unused commitment line does not necessarily affect the future cash flows of the Bank and its consolidated subsidiary because most of such agreements were terminated without being used. The majority of these agreements contain provisions which stipulate that the Bank may refuse to make loans or may decrease the commitment line when there are certain changes in financial conditions, security for the loans or other reasons. When entering into loan agreements with the customers, the Bank requests pledges of collateral in the form of premises or securities if necessary. After entering into loan agreements, the Bank periodically checks the financial condition of the customers based on its internal rules and performs certain actions relating to the security of the loans if necessary.

9. OTHER ASSETS

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Accrual income	¥4,445	¥4,209	$47,262
Other	4,639	3,008	49,326
	¥9,084	¥7,217	$96,588

10. PREMISES AND EQUIPMENT

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Land	¥8,932	¥9,003	$94,971
Buildings	33,359	32,750	354,694
Equipment	9,386	11,438	99,798
Leased assets	1,315	－	13,982
Other	261	338	2,775
	53,253	53,529	566,220
Accumulated depreciation	36,235	37,475	385,274
	¥17,018	¥16,054	$180,946

To conform with the Corporate Law of Japan, deferred gains on sale of real estate in the amount of ¥1,046 million ($11,122 thousand) and ¥1,046 million at 31 March 2013 and 2012, respectively, were deducted from the acquisition cost of premises and equipment.

11. INTANGIBLE ASSETS

Intangible assets at 31 March 2013 and 2012 consisted of the following:

Intangible assets

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Software	¥1,051	¥842	$11,175
Leased assets	1,649	－	17,533
Other	41	120	436
	¥2,741	¥962	$29,144

12. DEPOSITS

Deposits at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Current deposits	¥43,014	¥50,414	$457,352
Ordinary deposits	1,577,768	1,325,725	16,775,843
Deposits at notice	5,390	6,184	57,310
Time deposits	1,210,882	1,143,860	12,874,875
Other deposits	186,842	58,635	1,986,624
Negotiable certificates of deposit	272,279	370,934	2,895,045
	¥3,296,175	¥2,955,752	$35,047,049

13. BORROWED MONEY

Subordinated borrowings with a special provision stipulating that fulfillment of obligation is subordinated to other obligations included in borrowed money at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Subordinated borrowings	¥10,000	¥10,000	$106,326

14. CORPORATE BONDS

Corporate bonds at 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Corporate bonds with stock acquisition rights	¥―	¥10,450	$―

15. OTHER LIABILITIES

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Accrual income taxes	¥972	¥3,449	$10,335
Accrued expenses	3,556	3,431	37,810
Unearned income	497	537	5,284
Lease obligations	3,097	―	32,929
Other	8,443	8,612	89,772
	¥16,565	¥16,029	$176,130

16. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

All contingent liabilities including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Bank's right of indemnity from customers.

The amount of guarantee obligation for privately-placed bonds (Financial Instruments and Exchange Law, Article 2, Item 3), out of bonds included in Securities, stands at ¥2,227 million ($23,679 thousand) in 2013 and ¥2,693 million in 2012.

17. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The liability for severance and retirement benefits included in the consolidated balance sheets as of 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligation	¥24,652	¥24,872	$262,116
Unrecognized actuarial differences	(3,622)	(5,316)	(38,512)
Less fair value of plan assets	(21,842)	(10,200)	(232,238)
[of which plan assets of retirement benefit trust]	[10,000]	—	[106,326]
Prepaid pension costs	2,447	—	26,018
	¥1,635	¥9,356	$17,384

Severance and retirement benefit expenses included in the consolidated statements of income for the years ended 31 March 2013 and 2012 were comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service costs - benefits earned during the year	¥659	¥608	$7,007
Interest cost on projected benefit obligation	373	364	3,966
Expected return on plan assets	(306)	(320)	(3,254)
Amortization of actuarial differences	1,036	998	11,016
	¥1,762	¥1,650	$18,735

The discount rate used by the Bank in 2013 and 2012 was 1.5%. The rate of expected return on plan assets of retirement benefit trust was 1.5 % in 2013 and the rate of expected return on plan assets used by the Bank in 2013 and 2012 was 3.0 %.

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

Prior service costs are recognized in the statements of income when they are determined to occur actuarially.

Actuarial differences are recognized in ten years (using the straight-line method within the employees' average remaining service period, commencing from the next fiscal year of incurrence).

18. INCOME TAXES

The Bank and its subsidiary are subject to a number of taxes based on income such as corporation tax, inhabitant taxes and enterprise tax, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 37.7% and 40.2% for the years ended 31 March 2013 and 2012, respectively.

Significant components of the Bank's deferred tax assets and liabilities as of 31 March 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Reserve for possible loan losses	¥4,348	¥5,446	$46,231
Liabilities for severance and retirement benefits	3,270	3,341	34,769
Accumulated depreciation	1,357	1,375	14,428
Securities	722	738	7,677
Other	1,618	1,585	17,203
Subtotal	11,315	12,485	120,308
Allowance to reduce deferred tax assets to expected realizable value	(1,971)	(1,464)	(20,957)
Total deferred tax assets	9,344	11,021	99,351
Deferred tax liabilities:			
Net unrealized holding gains on securities	(16,983)	(8,776)	(180,574)
Deferred gains on sale of real estate	(482)	(508)	(5,125)
Other	(0)	(0)	(0)
Total deferred tax liabilities	(17,465)	(9,284)	(185,699)
Net deferred tax assets	¥(8,121)	¥1,737	$(86,348)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the year ended 31 March 2013 and 2012.

	2013	2012
Statutory tax rate	37.7%	40.2%
Non-deductible expenses	0.4	0.5
Non-taxable dividend income	(1.3)	(1.7)
Per capita inhabitant taxes	0.4	0.5
Valuation allowance	4.8	1.0
Decrease in deferred tax assets due to tax rate changes	—	9.8
Other, net	1.1	0.1
	43.1%	50.4%

19. NET ASSETS

Under the Japanese Corporate Law (the "Law") and the Banking Law of Japan, the following are provided: The entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Law and Banking Law provide that an amount equal to at least 20% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 100% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 100% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

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

The amount of treasury stock held by the bank and its consolidated subsidiary was 739 thousand shares at 31 March 2013.

20. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Salaries and allowances	¥11,051	¥10,906	$117,501
Fringe benefits and welfare	2,565	2,500	27,273
Severance and retirement benefit expenses	1,762	1,650	18,735
Depreciation for premises and equipment	1,897	1,849	20,170
Rental expenses	753	766	8,006
Taxes other than income taxes	1,306	1,190	13,886
Other expenses	8,142	8,396	86,571
	¥27,476	¥27,257	$292,142

21. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other operating income :			
Gain on trading account securities transactions	¥5	¥4	$53
Gain on sale of bonds	301	1,363	3,200
Gain on sale of foreign bills of exchange	123	124	1,308
Gain on financial instruments	—	69	—
Other	0	3	0
	¥429	¥1,563	$4,561

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other operating expenses :			
Loss on sales of bonds	¥558	¥501	$5,933
Loss on redemption of bonds	45	135	478
Loss on financial instruments	586	—	6,231
Other	0	1	0
	¥1,189	¥637	$12,642

22. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other income :			
Gain on disposal of premises and equipment	¥7	¥147	$74
Gain on sale of stocks and other securities	885	30	9,410
Other	1,334	1,284	14,184
	¥2,226	¥1,461	$23,668

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Other expenses :			
Provision for possible loan losses	¥—	¥1,260	$—
Loss on devaluation of stocks and other securities	58	698	617
Loss on sale of stocks and other securities	116	1,076	1,233
Loss on disposal of premises and equipment	201	175	2,137
Other	545	324	5,796
	¥920	¥3,533	$9,783

23. LEASE TRANSACTIONS

A. Finance leases

(1) Finance leases that transfer the ownership

(i) Details of leased assets

(a) Premises and equipment:

Mainly consisted of equipment for the Bank's network system

(b) Intangible assets:

Mainly consisted of software for branch operating system

(ii) Depreciation and amortization method of leased assets

Depreciation and amortization method of leased assets is described in Note 2. Depreciation and amortization methods (3) Leased assets.

(2) Finance leases other than those that transfer the ownership

(i) Details of leased assets

(a) Premises and equipment:

Mainly consisted of equipment for branch operating system

(b) Intangible assets:

Mainly consisted of software for branch operating system

(ii) Depreciation and amortization method of leased assets

Depreciation and amortization method of leased assets is described in Note 2. Depreciation and amortization methods (3) Leased assets.

(3) The following pro forma amounts present the acquisition cost, accumulated depreciation and net book value of the leased assets as of 31 March 2013 and 2012, which would have been reflected in the consolidated balance sheets if finance leases other than those that transfer the ownership of the leased assets to the Bank (which are currently accounted for in the same manner as operating leases) were capitalized.

	Millions of yen		
As of 31 March 2013	Acquisition cost	Accumulated depreciation	Net book value
Premises and equipment	¥145	¥145	¥−
Intangible assets	8	8	−
Total	¥153	¥153	¥−

	Millions of yen		
As of 31 March 2012	Acquisition cost	Accumulated depreciation	Net book value
Premises and equipment	¥158	¥138	¥20
Intangible assets	8	7	1
Total	¥166	¥145	¥21

	Thousands of U.S. dollars		
As of 31 March 2013	Acquisition cost	Accumulated depreciation	Net book value
Premises and equipment	$1,542	$1,542	$－
Intangible assets	85	85	－
Total	$1,627	$1,627	$－

Lease payments under certain finance leases, which are accounted for in the same manner as operating leases, for the years ended 31 March 2013 and 2012 were ¥23 million ($245 thousand) and ¥33 million, respectively.

Future lease payments as of 31 March 2013, inclusive of interest under such leases, were nil.

(4) Current portion of lease obligations and lease obligations (excluding current portion) as of 31 March 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2013	2012	2013	2013
Current portion of lease obligations	¥462	¥－	$4,912	
Lease obligations (excluding current portion)	2,635	－	28,017	
	¥3,097	¥－	$32,929	2.37%

Note: The average interest rate represents the weighted-average rate applicable to the year-end balance.

The aggregate annual maturities of lease obligations are summarized as follows:

Year ending 31 March	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
2013	¥－	¥－	$－
2014	462	－	4,912
2015	472	－	5,019
2016	482	－	5,125
2017	493	－	5,242
2018 and thereafter	1,188	－	12,631

B. Operating leases

(a) As lessee

Future lease payments under non-cancelable operating leases as of 31 March 2013 were ¥1 million ($11 thousand) due within one year.

(b) As lessor

Future lease receivables under non-cancelable operating leases as of 31 March 2013 were ¥326 million ($3,466 thousand) including ¥13 million ($138 thousand) due within one year.

24. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income for the year ended 31 March 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gains on available-for-sale securities:			
Amount for the year	¥24,759	¥9,168	$263,253
Reclassification adjustment	(470)	1,034	(4,997)
Amount before tax effect	24,289	10,202	258,256
Tax effect amount	(8,208)	(2,916)	(87,273)
Net unrealized holding gains on available-for-sale securities	16,081	7,286	170,983
Net unrealized losses on hedging derivatives:			
Amount for the year	(617)	(606)	(6,560)
Reclassification adjustment	202	202	2,148
Amount before tax effect	(415)	(404)	(4,412)
Tax effect amount	146	143	1,552
Net unrealized losses on hedging derivatives	(269)	(261)	(2,860)
Share of other comprehensive income of affiliated companies accounted for using the equity method:			
Amount for the year	3	2	32
Reclassification adjustment	—	—	—
Amount before tax effect	3	2	32
Tax effect amount	—	—	—
Share of other comprehensive income of affiliates accounted for using the equity method	3	2	32
Total other comprehensive income	¥15,815	¥7,027	$168,155

25. SEGMENT INFORMATION

(1) Reportable segment information

Reportable segment information has been omitted as the Bank and its consolidated subsidiary have a single segment, commercial banking business for the years ended 31 March 2013 and 2012.

(2) Other segment related information

a. Information by services

Information by services for the years ended 31 March 2013 and 2012 was as follows:

	2013			
	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥22,011	¥14,544	¥8,686	¥45,241

	2012			
	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥23,072	¥14,728	¥8,114	¥45,914

	2013			
	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	$234,035	$154,641	$92,355	$481,031

Note: “Ordinary income” corresponds to net sales of non-banking industries.

b. Information by geographic region

i. Ordinary income

Information as to ordinary income from domestic customers for the years ended 31 March 2013 and 2012 was omitted, because the amount of ordinary income from domestic customers was more than 90% of consolidated ordinary income.

ii. Tangible fixed assets

Information as to tangible fixed assets for the years ended 31 March 2013 and 2012 was omitted, because there was no tangible fixed asset located abroad.

c. Major Customers' Segment Information

Major customers' segment information is not shown for the years ended 31 March 2013 and 2012, since there is no customer accounting more than 10% of the sales to customers in the consolidated statements of income.

d. Information on Impairment of Fixed Assets for Each Reportable Segment

Information on impairment of fixed assets for each reportable segment has been omitted for the years ended 31 March 2013 and 2012, since the Bank and its consolidated subsidiary have a single segment.

e. Segment information on amortization of goodwill and its remaining balance

There is no information to be reported on amortization of goodwill and its remaining balance for the years ended 31 March 2013 and 2012.

f. Information on Gain in Negative Goodwill for Each Reportable Segment

There is no information to be reported on gain in negative goodwill for the years ended 31 March 2013 and 2012.

26. SUBSEQUENT EVENTS

a. Cash dividends

On 21 June 2013, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2013:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 per share for year end)	¥643	$6,837

b. Abolishment of the Retirement Benefit Program for Directors and Introduction of Stock Compensation-type Stock Option Plan

On 21 June 2013, shareholders of the Bank decided to abolish the retirement benefit program for directors and introduce the Stock Compensation-type Stock Option Plan which grants stock acquisition rights to directors, as a result of reviewing its director's remuneration policy.

The stock acquisition rights can be exercised at a price of ¥1 per share in the period from 25 July 2013 to 24 July 2043, and a total of 13,400 shares of common stock could be issued by the exercise of these rights.

The grantees may exercise their stock acquisition rights only within 10 days from the day following the date on which the grantees lose their position as a director of the Bank (if the 10th day is a holiday, the next business day of the 10th day is applied).

Approval of the board of directors of the Bank is required for the acquisition of stock acquisition rights by assignment.

The number and the condition on exercise of stock acquisition rights would be adjusted, if the Bank carries out a merge, corporate split, stock swap or stock transfer of the Bank's common stock after the date of issuing of stock acquisition rights.

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of The Bank of Iwate, Ltd. and its consolidated subsidiary, which comprise the consolidated balance sheets as at 31 March, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The Bank of Iwate, Ltd. and its consolidated subsidiary as at 31 March, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

21 June, 2013
Tokyo, Japan

Corporate Profile

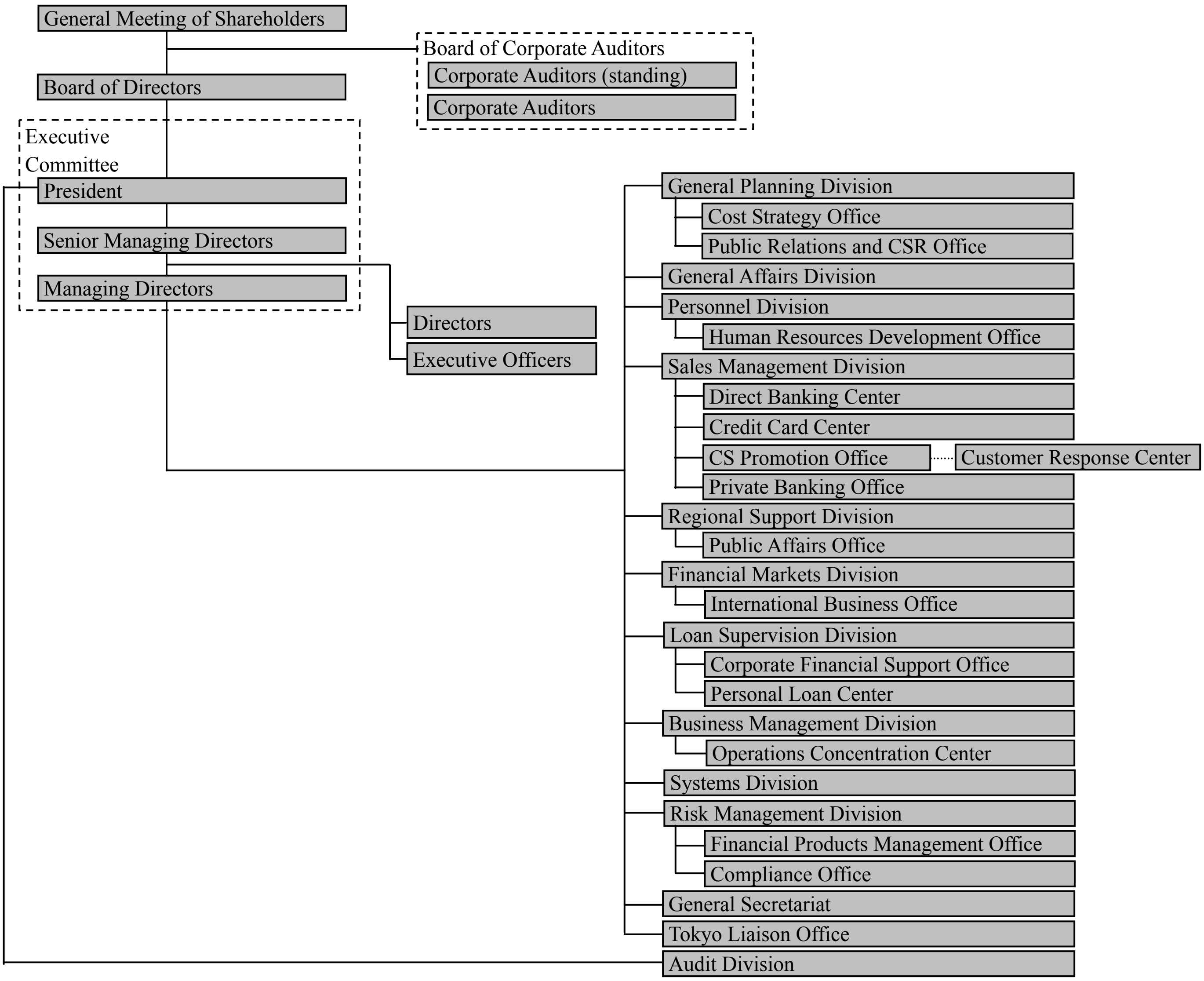
・Corporate Data (As of March 31, 2013)

Established	May 2, 1932	Employees	1,497
Paid-in Capital	¥12,000 million	Stock Listing	First Section of the Tokyo Stock Exchange
Authorized Shares	49,450,000		
Issued and Outstanding Shares	19,097,786	Branches	109 (Iwate Prefecture 91)
Shareholders	7,777		

・Board of Directors and Corporate Auditors (As of July 1, 2013)

President Masahiro Takahashi *Senior Managing Director* Masahiro Saito	*Directors* Katsuya Sato Yasuyuki Aramichi Shigeki Miura Hiroshi Miura Atsushi Takahashi Fumio Ube	*Corporate Auditors* Yukio Narita (standing) Hisaki Miyadate (standing) Koichi Adachi Shinobu Obara	*Executive Officers* Shuetsu Inagaki Mikio Kikuchi
Senior Managing Director Sachio Taguchi *Managing Directors* Osamu Sakamoto Keiji Iwata Yuichi Kato	Notes: 1. Hiroshi Miura, Atsushi Takahashi and Fumio Ube satisfy the requirements for outside directors as stipulated in Article 2, Item 15 of the Corporation Law. 2. Hisaki Miyadate, Koichi Adachi and Shinobu Obara are outside auditors as stipulated in Article 2, Item 16 of the Corporation Law.		

・Organization (As of July 1, 2013)



・The Bank of Iwate Group

Name/Business Lines	Equity
Iwagin Business Service Co., Ltd. Cash Management Services	100%
Iwagin Lease Data Co., Ltd. Computerized Accounting Services, Leasing	5%
Iwagin DC Card Co., Ltd. Credit Cards and Consumer Loans	5%
Iwagin Credit Service Co., Ltd. Credit Cards and Consumer Loans	5%

Head Office

A message from Iwate Bank concerning reconstruction

Trust, and beyond

By virtue of your support, the Bank of Iwate was able to celebrate the 81st anniversary of its foundation in May of this year.

This is entirely thanks to your loyal patronage, and all executives and employees of the Bank extend our heartfelt gratitude.

The Bank will continue to dedicate its utmost efforts to the reconstruction and development of the regional community, as we strive to be your trusted bank of choice.

We thank you for your continued support and loyal patronage.

THE BANK OF IWATE, LTD.

The Bank of Iwate, Ltd.
2-3, Chuodori 1-chome, Morioka, Iwate 020-8688, Japan
Phone: +81-19-623-1111
URL: http://www.iwatebank.co.jp/

General Planning Division
Public Relations and CSR Office
2-3, Chuodori 1-chome, Morioka, Iwate 020-8688, Japan
Phone: +81-19-623-1111 Fax: +81-19-652-7571
SWIFT: BAIWJPJT