

The Bank of Iwate, Ltd. Annual Report 2014

Annual Report 2014

 THE BANK OF IWATE, LTD.





Sachio Taguchi  
*President*

## **Message from the President**

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Three and a half years have passed since the Great East Japan Earthquake occurred. Although “restoration and reconstruction” is making gradual progress in the affected areas, there are concerns that problems faced the regional community, such as a decreasing birthrate, aging society and declining population, 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, in April of last year the Bank formulated the long-term vision “Demonstrating a dominant presence as a driving force in the region, while establishing our position as a top quality bank” as a commitment for the next 10 years and launched its three-year medium-term management plan “Iwagin Frontier Plan – Reconstruction and Creation, toward a Prosperous Future” as the first stage of that vision. 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 plan, the Bank will not only strongly support reconstruction of the region but also focus its energies on nurturing and promoting new industries to support the next generation in order to be actively involved in the reconstruction and development of the local economy.

In fiscal 2013, we were able to secure an income level above the initial plan as a result of concerted efforts made by officers and employees to press ahead with the medium-term management plan. In fiscal 2014 as well, the second year of the plan, we intend to untiringly and expeditiously work toward completing the plan.

As the top regional bank, we recognize that 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 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

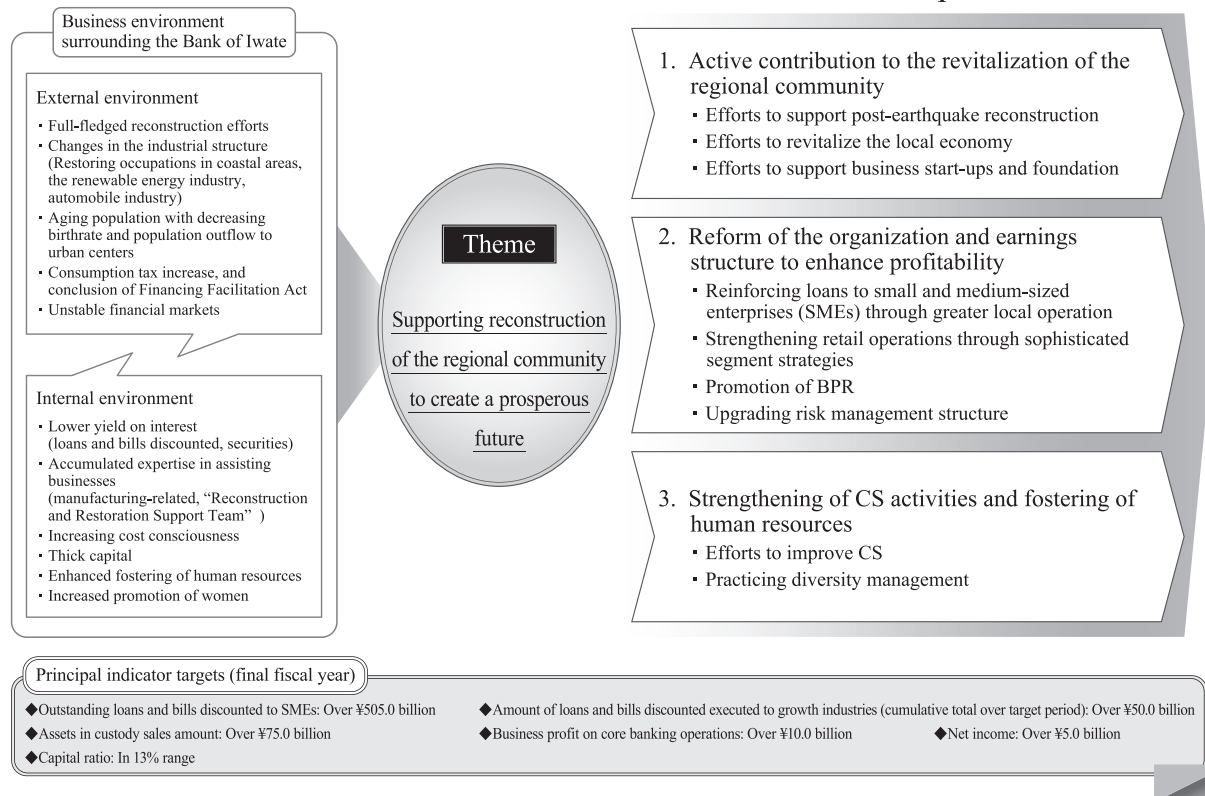
A further leap forward

Medium-term management plan

## “Iwagin Frontier Plan – Reconstruction and Creation, toward a Prosperous Future”

(April 2013 to March 2016)

### Three basic policies



*S. Taguchi*

Sachio Taguchi, *President*

# Analysis of the Financial Position and Business Performance of the Bank

(on a consolidated basis)

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## Financial Position

### Principal Accounts

#### Deposits (including negotiable certificate of deposit)

Deposits (including negotiable certificate of deposit) decreased due primarily to a decrease in public deposits. As a result, total deposits decreased by ¥11.8 billion during the term, to ¥3,284.4 billion (US\$31,912.4 million).

#### Loans

Loans to local governments as well as individuals increased. As a result, the value of total loans increased by ¥27.7 billion during the term, to ¥1,638.9 billion (US\$15,924.1 million).

#### Securities

The value of total securities increased by ¥119.8 billion during the term, to ¥1,358.9 billion (US\$13,204.2 million).

### Cash Flow Analysis

Net cash provided by operating activities decreased by ¥198.1 billion to a net inflow of ¥51.6 billion (US\$501.7 million), due primarily to a decrease in call loans.

Net cash used in investment activities decreased by ¥10.4 billion to a net outflow of ¥123.2 billion (US\$1,197.5 million), due primarily to acquisition of securities.

Net cash provided by financing activities increased by ¥17.3 billion to a net inflow of ¥5.5 billion (US\$53.8 million), due primarily to the issuance of bonds with stock acquisition rights.

As a result of the above, the term-end balance of cash and cash equivalents decreased by ¥66.0 billion from the previous term-end, to ¥290.8 billion (US\$2,825.4 million).

## Business Performance

### Earnings

Total income increased by ¥1.2 billion to ¥46.4 billion (US\$451.2 million). This was mainly attributable to the increase in fees and commissions boosted primarily by fees related to asset under management and recording of the reversal of provision for possible loan losses. Total expenses decreased by ¥0.3 billion to ¥33.7 billion (US\$327.7 million). This was mainly attributable to the decreases in losses on sale of stocks and other securities and in amortization thereof, despite the increase in depreciation and other expenses associated with system investments. As a result, income before income taxes increased by ¥1.4 billion to ¥12.7 billion (US\$123.5 million), while net income increased by ¥1.3 billion to ¥7.7 billion (US\$75.0 million).

### Capital Ratio

The capital ratios stood at 13.15% on a consolidated basis, while 13.12% on a non-consolidated basis. From the fiscal year ended 31 March 2014, the Bank has calculated its capital ratio in accordance with the new standards under Basel III.

### 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.

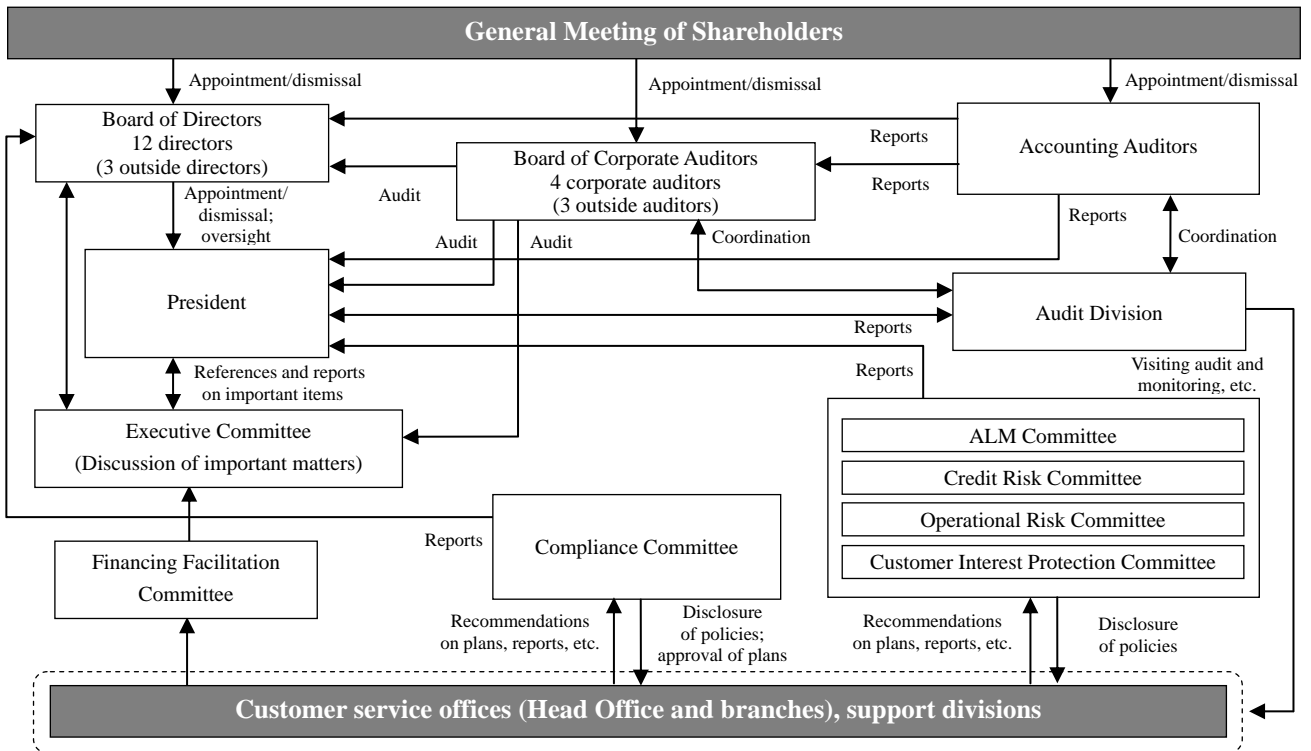
Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the well-being of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, 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 six other certified public accountants and eighteen other staff.

## (2) Internal Audits and Auditing by Corporate Auditors

### ① Internal audits

The Bank's Audit Division, with a staff of eighteen, is primarily responsible for conducting internal audits as an organization independent of all business divisions. Audits are conducted on all divisions of the head office, branches, subsidiaries and affiliates for the purpose of verifying adequacy and effectiveness of the internal control system, as well as to prevent fraud and errors. 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"). While he is currently serving as an outside director at five companies including Iwate Broadcasting Co., Ltd., 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, as well as an outside director of Keio Corporation. 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) Outline of the Liability Limitation Agreement

The Bank has concluded liability limitation agreements with its outside directors and outside auditors, under which the liability for damages due to the negligence of duty on the side of outside directors and outside auditors is confined to the minimum statutory limits, in accordance with the provisions of Article 427, Item 1 of the Corporation Law.



(5) 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	Stock option	Retirement benefits
Directors (excluding outside directors)	10	290	154	22	55	57
Corporate auditors (excluding outside auditors)	1	20	18	0	-	1
Outside directors and outside auditors	7	37	34	1	-	1

(Notes) 1. The above numbers of persons include two directors who retired at the closing of the 131st General Meeting of Shareholders held on June 21, 2013.

2. The above amounts include ¥23 million accrued bonuses for directors and corporate auditors (¥22 million for directors, nil for corporate auditors and ¥1 million for outside directors/auditors), ¥10 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 (¥10 million for directors and nil for outside directors/auditors), ¥49 million outstanding portion of the final payment of retirement benefits for directors and corporate auditors made according to the resolution of the 131st General Meeting of Shareholders (¥47 million for directors, ¥1 million for corporate auditors and ¥1 million for outside directors/auditors) and ¥55 million for stock compensation-type stock acquisition rights (¥55 million for directors).

3. Apart from the above, ¥43 million employees' compensation was paid to directors concurrently serving as employees (¥34 million employees' salary and ¥9 million employees' bonus).

- 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

For compensation for directors and corporate auditors, maximum aggregate amounts payable per year are determined based on the resolution of General Meeting of Shareholders, which are ¥260 million for directors including outside directors and ¥60 million for corporate auditors. Apart from the aforementioned aggregate limits for compensation, stock acquisition rights are allocated to directors (excluding outside directors) as stock compensation-type stock options with the annual aggregate limit of ¥80 million, based on the resolution of General Meeting of Shareholders.

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.

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.

(6) 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: 144  
Balance sheet value: ¥22,519 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
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.

(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
Tohoku Electric Power Company, Incorporated	2,277,797	2,423	Reinforcement of relationship through shareholding
Mitsubishi UFJ Financial Group, Inc.	4,040,310	2,290	Ibid.
NIPPON STEEL & SUMITOMO METAL CORPORATION	5,935,431	1,673	Ibid.
East Japan Railway Company	200,000	1,521	Ibid.
TAIYO NIPPON SANJO CORPORATION	1,822,849	1,480	Ibid.
Daiwa Securities Group Inc.	1,099,806	987	Ibid.
TOSHIBA CORPORATION	2,024,483	884	Ibid.
SECOM CO., LTD.	104,644	622	Ibid.
The Yamagata Bank, Ltd.	1,323,800	581	Ibid.
The Bank of Kyoto, Ltd.	540,000	460	Ibid.
THE AKITA BANK, LTD.	1,517,159	452	Ibid.
Tokio Marine Holdings, Inc.	127,086	393	Ibid.
JFE Holdings, Inc.	200,047	388	Ibid.
The Toho Bank, Ltd.	1,052,090	353	Ibid.
THE OITA BANK, LTD.	860,000	344	Ibid.
The Yamanashi Chuo Bank, Ltd.	656,000	305	Ibid.
The Chugoku Bank, Limited	222,000	305	Ibid.
Yamaguchi Financial Group, Inc.	300,000	279	Ibid.
The Daishi Bank, Ltd.	731,000	277	Ibid.
The Iyo Bank, Ltd.	277,000	273	Ibid.
The Aomori Bank, Ltd.	937,000	267	Ibid.
The Hyakugo Bank, Ltd.	619,000	262	Ibid.
THE KAGOSHIMA BANK, LTD.	377,000	246	Ibid.
Sumitomo Seika Chemicals Company, Limited.	356,000	246	Ibid.
The Musashino Bank, Ltd.	71,600	244	Ibid.
The Ogaki Kyoritsu Bank, Ltd.	863,000	243	Ibid.
NTN CORPORATION	657,555	230	Ibid.
ARCS COMPANY, LIMITED	109,590	220	Ibid.
DCM Holdings Co., Ltd.	317,949	219	Ibid.
Electric Power Development Co., Ltd.	72,000	209	Ibid.
ORIX Corporation	132,300	192	Ibid.
The Kita-Nippon Bank, Ltd.	68,250	187	Ibid.
The Hokkoku Bank, Ltd.	500,000	180	Ibid.
THE BANK OF SAGA LTD.	801,000	179	Ibid.
Nagase & Co., Ltd.	137,000	174	Ibid.
MS&AD Insurance Group Holdings, Inc.	66,756	157	Ibid.
Mitsubishi UFJ Lease & Finance Company Limited	296,600	150	Ibid.
Katakura Industries Co., Ltd.	99,000	129	Ibid.
THE SHIMIZU BANK, LTD.	45,400	121	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	15,084	289	(109)	4,898
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	18,143	359	166	7,111
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

- (7) Statutory Number of Directors

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

- (8) 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.

- (9) 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.

- (10) 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)

	FY2012		FY2013	
	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	¥8
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥55	-	¥55	¥8

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 2012.

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 2013.

### (2) Other Important Compensatory Payments

None

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

Previous fiscal year

None

Current fiscal year

This comprises the preparation of the comfort letter associated with the issuance of Euro and U.S. dollar-denominated convertible bond-type bonds with stock acquisition rights subject to call, as well as the advisory service concerning the notification of capital ratio under Basel III.

### (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 2014 and 2013

	Millions of yen		Thousands of U.S dollars (Note 1)
	2014	2013	2014
<b>ASSETS</b>			
Cash and due from banks (Notes 3 and 6)	¥335,312	¥422,360	\$3,257,987
Call loans and bills bought (Note 6)	146,029	190,000	1,418,859
Commercial paper and other debt purchased (Note 6)	7,162	17,383	69,588
Money held in trust (Notes 5 and 6)	4,985	4,985	48,436
Securities (Notes 4, 6, 8 and 17)	1,358,979	1,239,216	13,204,227
Loans and bills discounted (Notes 6, 7 and 9)	1,638,911	1,611,241	15,924,126
Foreign exchange assets	1,185	1,867	11,514
Premises and equipment (Notes 11 and 25)	16,756	17,018	162,806
Intangible assets (Notes 12 and 25)	2,667	2,741	25,913
Net defined benefit asset (Note 18)	1,104	—	10,727
Deferred tax assets (Note 19)	7	7	68
Customers' liabilities for acceptances and guarantees (Note 17)	7,558	5,180	73,436
Other assets (Notes 6, 8 and 10)	5,933	9,084	57,646
Reserve for possible loan losses (Note 6)	(9,803)	(13,775)	(95,249)
Total assets	¥3,516,785	¥3,507,307	\$34,170,084
<b>LIABILITIES AND NET ASSETS</b>			
<b>Liabilities:</b>			
Deposits (Notes 6, 8 and 13)	¥3,284,422	¥3,296,175	\$31,912,379
Borrowed money (Notes 6, 8 and 14)	11,144	10,255	108,278
Call money	—	470	—
Corporate bonds (Notes 6 and 15)	10,292	—	100,000
Foreign exchange liabilities	11	—	107
Liability for severance and retirement benefits (Note 18)	—	1,635	—
Net defined benefit liability (Note 18)	1,960	—	19,044
Accrued bonuses for directors and corporate auditors	24	34	233
Retirement benefits for directors and corporate auditors	6	420	58
Provision for losses on reimbursement of dormant deposits	324	271	3,148
Provision for contingent losses	229	213	2,225
Deferred tax liabilities (Note 19)	8,800	8,128	85,503
Acceptances and guarantees (Note 17)	7,558	5,180	73,436
Other liabilities (Notes 6, 16 and 25)	21,440	16,565	208,317
Total liabilities	3,346,210	3,339,346	32,512,728
<b>Net assets (Note 20):</b>			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2014 and 31 March 2013			
Issued and outstanding — 18,498 thousand shares at 31 March 2014 and 19,098 thousand shares at 31 March 2013	12,090	12,090	117,470
Capital surplus	4,811	4,811	46,745
Retained earnings	127,231	123,721	1,236,213
Treasury stock, at cost	(3,739)	(4,125)	(36,329)
Net unrealized holding gains on available-for-sale securities (Note 4)	32,075	31,989	311,650
Net unrealized losses on hedging derivatives	(419)	(525)	(4,071)
Remeasurements of defined benefit plans (Note 18)	(1,529)	—	(14,856)
Stock acquisition rights (Note 21)	55	—	534
Total net assets	170,575	167,961	1,657,356
Total liabilities and net assets	¥3,516,785	¥3,507,307	\$34,170,084
	Yen		U.S dollars
	2014	2013	2014
Per share data:			
Net assets (Note 27)	¥9,602.66	¥9,148.71	\$93.30

See accompanying notes.

## Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2014 and 2013

	Millions of yen		Thousands of U.S dollars
			(Note 1)
	2014	2013	2014
Income:			
Interest income:			
Interest on loans and discounts	¥20,919	¥22,300	\$203,255
Interest and dividends on securities	14,019	13,358	136,213
Other interest income	307	281	2,983
Fees and commissions	7,119	6,654	69,170
Other operating income (Note 23)	924	429	8,978
Other income (Note 24)	3,146	2,226	30,567
Total income	<u>46,434</u>	<u>45,248</u>	<u>451,166</u>
Expenses:			
Interest expenses:			
Interest on deposits	1,294	1,355	12,573
Interest on borrowings	138	141	1,341
Other interest expenses	286	286	2,779
Fees and commissions	2,656	2,609	25,806
General and administrative expenses (Note 22)	27,809	27,476	270,200
Other operating expenses (Note 23)	553	1,189	5,373
Other expenses (Note 24)	989	920	9,610
Total expenses	<u>33,725</u>	<u>33,976</u>	<u>327,682</u>
Income before income taxes	12,709	11,272	123,484
Provision for income taxes (Note 19)			
Current	3,425	3,060	33,278
Deferred	1,564	1,797	15,196
	<u>4,989</u>	<u>4,857</u>	<u>48,474</u>
Net income before minority interests	7,720	6,415	75,010
Minority interests in net income	—	—	—
Net income	<u>¥7,720</u>	<u>¥6,415</u>	<u>\$75,010</u>
	Yen		U.S dollars
	2014	2013	2014
Per share data:			
Net income (Note 27)	¥429.49	¥349.42	\$4.17
Diluted net income (Note 27)	398.91	340.90	3.88
Cash dividends applicable to the year	60.00	65.00	0.58

See accompanying notes.

## Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2014 and 2013

	Millions of yen		Thousands of U.S dollars (Note 1)
	2014	2013	2014
Net income before minority interests	¥7,720	¥6,415	\$75,010
Other comprehensive income (Note 26):			
Net unrealized holding gains on available-for-sale securities	84	16,081	816
Net unrealized gains (losses) on hedging derivatives	106	(269)	1,030
Share of the other comprehensive income of affiliates accounted for using the equity method	2	3	19
Total other comprehensive income	192	15,815	1,865
Comprehensive income	¥7,912	¥22,230	\$76,875
Total comprehensive income	¥7,912	¥22,230	\$76,875
Attributable to:			
Owners of the parent	7,912	22,230	76,875
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 2014 and 2013

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
<b>BALANCE, 1 April 2012</b>	¥12,090	¥4,811	¥118,408	¥(4,123)	¥131,186	¥15,905	¥(256)	¥—	¥15,649	¥—	¥146,835
Change during year											
Cash dividends	—	—	(1,102)	—	(1,102)	—	—	—	—	—	(1,102)
Net income	—	—	6,415	—	6,415	—	—	—	—	—	6,415
Acquisition of treasury stock	—	—	—	(3)	(3)	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	(0)	1	1	—	—	—	—	—	1
Cancellation of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than stockholders' equity during year	—	—	—	—	—	16,084	(269)	—	15,815	—	15,815
<b>Total change during year</b>	—	—	5,313	(2)	5,311	16,084	(269)	—	15,815	—	21,126
<b>BALANCE, 1 April 2013</b>	12,090	4,811	123,721	(4,125)	136,497	31,989	(525)	—	31,464	—	167,961
Change during year											
Cash dividends	—	—	(1,175)	—	(1,175)	—	—	—	—	—	(1,175)
Net income	—	—	7,720	—	7,720	—	—	—	—	—	7,720
Acquisition of treasury stock	—	—	—	(2,649)	(2,649)	—	—	—	—	—	(2,649)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Cancellation of treasury stock	—	—	(3,035)	3,035	—	—	—	—	—	—	—
Net changes of items other than stockholders' equity during year	—	—	—	—	—	86	106	(1,529)	(1,337)	55	(1,282)
<b>Total change during year</b>	—	—	3,510	386	3,896	86	106	(1,529)	(1,337)	55	2,614
<b>BALANCE, 31 March 2014</b>	¥12,090	¥4,811	¥127,231	¥(3,739)	¥140,393	¥32,075	¥(419)	¥(1,529)	¥30,127	¥55	¥170,575

	Thousands of U.S dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Total net assets
<b>BALANCE, 1 April 2013</b>	\$117,470	\$46,745	\$1,202,109	\$ (40,080)	\$1,326,244	\$310,814	\$ (5,101)	\$—	\$305,713	\$—	\$1,631,957
Change during year											
Cash dividends	—	—	(11,417)	—	(11,417)	—	—	—	—	—	(11,417)
Net income	—	—	75,010	—	75,010	—	—	—	—	—	75,010
Acquisition of treasury stock	—	—	—	(25,738)	(25,738)	—	—	—	—	—	(25,738)
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Cancellation of treasury stock	—	—	(29,489)	29,489	—	—	—	—	—	—	—
Net changes of items other than stockholders' equity during year	—	—	—	—	—	836	1,030	(14,856)	(12,990)	534	(12,456)
<b>Total change during year</b>	—	—	34,104	3,751	37,855	836	1,030	(14,856)	(12,990)	534	25,399
<b>BALANCE, 31 March 2014</b>	\$117,470	\$46,745	\$1,236,213	\$ (36,329)	\$1,364,099	\$311,650	\$ (4,071)	\$ (14,856)	\$292,723	\$534	\$1,657,356

See accompanying notes.

## Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiary  
Years ended 31 March 2014 and 2013

	Millions of yen		Thousands of U.S dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes	¥12,709	¥11,272	\$123,484
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	2,122	1,897	20,618
Impairment losses	48	58	466
Equity in (gains) losses of affiliates	(53)	(32)	(515)
Increase (decrease) in reserve for possible loan losses	(3,972)	(3,397)	(38,593)
Increase (decrease) in provision for contingent losses	16	(24)	155
Increase (decrease) in accrued bonuses for directors	(10)	6	(97)
(Increase) decrease in prepaid pension costs	2,447	(2,447)	23,776
Increase (decrease) in liability for severance and retirement benefits	(1,635)	(7,720)	(15,886)
(Increase) decrease in net defined benefit asset	(3,072)	—	(29,848)
Increase (decrease) in net defined benefit liability	1,564	—	15,196
Increase (decrease) in retirement benefits for directors and corporate auditors	(414)	2	(4,023)
Increase (decrease) in provision for losses on reimbursement of dormant deposits	53	87	515
Increase (decrease) in provision for disastrous losses	—	(77)	—
Interest income	(35,244)	(35,938)	(342,441)
Interest expenses	1,718	1,782	16,693
Investment securities (gains) losses, net	(454)	(383)	(4,411)
(Increase) decrease in money held in trust	(5)	9	(49)
Foreign exchange (gains) losses, net	80	(162)	777
(Gains) losses on disposal of premises and equipment	168	194	1,632
Net (increase) decrease in loans and bills discounted	(27,670)	(92,900)	(268,850)
Net increase (decrease) in deposits	9,265	439,078	90,021
Net (increase) decrease in due from banks, excluding the Bank of Japan	21,040	(4,060)	204,431
Net (increase) decrease in call loans and others	54,196	32,311	526,584
Net increase (decrease) in call money	(470)	(4,530)	(4,567)
Net (increase) decrease in foreign exchange assets	682	(532)	6,627
Net increase (decrease) in foreign exchange liabilities	11	—	107
Net increase (decrease) in negotiable certificates of deposit	(21,018)	(98,655)	(204,217)
Net increase (decrease) in borrowed money	889	(16,744)	8,638
Interest received	36,316	36,313	352,857
Interest paid	(2,030)	(2,111)	(19,724)
Other, net	6,992	2,044	67,937
Sub-total	54,269	255,341	527,293
Income taxes paid	(2,641)	(5,655)	(25,660)
Income taxes refunded	6	9	58
Net cash provided by operating activities	51,634	249,695	501,691
Cash flows from investing activities:			
Acquisition of securities	(361,649)	(332,359)	(3,513,885)
Proceeds from sale of securities	56,750	40,377	551,399
Proceeds from redemption of securities	183,391	184,905	1,781,880
Acquisition of money held in trust	—	(4,000)	—
Acquisition of premises and equipment	(1,075)	(1,197)	(10,445)
Payment for retirement of premises and equipment	(68)	(40)	(661)
Acquisition of intangible assets	(598)	(534)	(5,810)
Net cash used in investing activities	(123,249)	(112,848)	(1,197,522)
Cash flows from financing activities:			
Proceeds from issuance of subordinated bonds and corporate bonds with stock acquisition rights	9,859	—	95,793
Payment for redemption of subordinated bonds and corporate bonds with stock acquisition rights	—	(10,450)	—
Repayments of lease obligations	(493)	(191)	(4,790)
Cash dividends paid	(1,175)	(1,102)	(11,417)
Payment for acquisition of shares in treasury	(2,649)	(3)	(25,738)
Proceeds from sale of shares in treasury	—	0	—
Net cash provided by (used in) financing activities	5,542	(11,746)	53,848
Effect of exchange rate changes on cash and cash equivalents	64	44	621
Net increase (decrease) in cash and cash equivalents	(66,009)	125,145	(641,362)
Cash and cash equivalents at beginning of year	356,804	231,659	3,466,809
Cash and cash equivalents at end of year (Note 3)	¥290,795	¥356,804	\$2,825,447

See accompanying notes.

## Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiary  
Years ended 31 March 2014 and 2013

### 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 31 March 2014, which was ¥102.92 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 carried at amortized cost (straight-line method) using the moving-average method.

(c) Available-for-sale securities with available fair market values are primarily carried at the period end market prices (cost of securities sold is calculated using the moving-average method).

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

Net unrealized holding gains (losses) on these securities and net of applicable income taxes are reported in a separate component of net assets.

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.

#### Deferred assets

Bond issuance cost is recognized as expenses in full when incurred.

#### 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.

#### 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.

(Additional information)

The Bank approved the terms for abolition of its retirement benefit program for directors and corporate auditors at the Board of Directors meeting held on 13 May 2013 and termination payment at the 131st general meeting of shareholders of the Bank held on 21 June 2013. In addition, at the regular Board of Directors meeting held on 25 March 2014, the Bank decided to abolish the retirement benefits payment program for executive officers and to pay t accrued retirement benefits associated with the abolishment of the system.

Consequently, retirement benefits for directors and corporate auditors of the Bank are reversed and ¥355 million (\$3,449 thousand) of accrued termination payment is included in other liabilities for the year ended 31 March 2014. There are no changes in the consolidated subsidiary.

#### 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.

#### Accounting for retirement benefits

Upon the calculation of projected benefit obligation, 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. The Bank has also set up retirement benefit trust.

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

In addition, the consolidated subsidiary adopts the simplified method.

#### 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 28.

#### 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.

#### Changes in accounting policies

The Bank and its consolidated subsidiary have adopted “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, 17 May 2012, hereinafter “Retirement Benefits Standard”) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, 17 May 2012, hereinafter “Retirement Benefits Guidance”), except the article 35 of Retirement Benefits Standard and the article 67 of Retirement Benefits Guidance, from the end of the year ended 31 March 2014. The Bank and its consolidated subsidiary changed their accounting to recognize the difference between projected benefit obligation and plan assets either as net defined benefit asset or net defined benefit liability.

In accordance with the article 37 of Retirement Benefits Standard, unrecognized actuarial differences, net of tax, were recognized as remeasurements of defined benefit plans under accumulated other comprehensive income at the end of the year ended 31 March 2014.

As a result, net defined benefit asset of ¥1,104 million (\$10,727 thousand) and net defined benefit liability of ¥1,960 million (\$19,044 thousand) were recognized at 31 March 2014. In addition, deferred tax liability and accumulated other comprehensive income decreased by ¥834 million (\$8,103 thousand) and ¥1,529 million (\$14,856 thousand), respectively.

The effects of this change on per share data are described in note 27.

## Unapplied new accounting standards

### Accounting standards for retirement benefits

#### (1) Overview

Accounting standards for retirement benefits have been revised from the viewpoint of improvements to financial reporting and international convergence, and the following items have been revised; accounting treatment for unrecognized actuarial differences and service costs, and calculation method for projected benefit obligation and service costs, as well as expansion of related disclosures.

#### (2) Date of adoption

The Bank and its consolidated subsidiary will adopt the revised method for calculating projected benefit obligation and service costs from the beginning of the year ending 31 March 2015.

#### (3) The effect of adopting the accounting standards

As a result of adopting these accounting standards, the retained earnings at the beginning of the year ending 31 March 2015 will decrease by ¥1,129 million (\$10,970 thousand), and income before income taxes for the following year will increase by ¥64 million (\$622 thousand).

### Accounting standards for business combinations

#### (1) Overview

The following items have been mainly revised; (i) accounting treatment for changes in the parent's ownership interests in a subsidiary when the parent continues to retain control of that subsidiary after the additional acquisition of ownership interest in that subsidiary or in other cases, (ii) accounting treatment of acquisition-related costs, (iii) provisional accounting treatment, and (iv) presentation of net income as well as the change of minority interests to non-controlling interests.

#### (2) Date of adoption

The Bank will adopt the accounting standards effective from the beginning of the year ending 31 March 2016.

#### (3) The effect of adopting the accounting standards

The effect of adopting these accounting standards has not been determined.



### 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. At 31 March 2014 and 2013, 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
	2014	2013	2014
Cash and due from banks	¥335,312	¥422,360	\$3,257,987
Less: Time deposits	(24,000)	(65,000)	(233,191)
Deposits in foreign currencies	(20,000)	—	(194,326)
Deposits in other banks other than the Bank of Japan	(517)	(556)	(5,023)
Cash and cash equivalents	¥290,795	¥356,804	\$2,825,447

#### (2) Significant non-cash transactions

Assets and liabilities associated with finance lease transactions that were recorded in the years ended 31 March 2014 and 2013 amounted to ¥297 million (\$2,886 thousand) and ¥3,289 million, respectively.

### 4. SECURITIES

Securities held by the Bank at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
National government bonds	¥473,105	¥432,392	\$4,596,823
Local government bonds	293,032	276,647	2,847,182
Debentures	399,669	378,430	3,883,298
Stock shares	41,069	35,866	399,038
Other securities	152,104	115,881	1,477,886
	¥1,358,979	¥1,239,216	\$13,204,227

Unsecured loaned securities which borrowers have the right to sell or pledge in the amount of ¥85,000 million (\$825,884 thousand) and ¥45,000 million at 31 March 2014 and 2013 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 at 31 March 2014 and 2013:

#### (a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2014:	¥43,312	¥44,638	¥1,326	¥1,335	¥ (9)
At 31 March 2013:	46,209	47,657	1,448	1,466	(18)

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2014:	\$420,832	\$433,716	\$12,884	\$12,971	\$ (87)

(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
At 31 March 2014:					
Corporate stocks	¥24,472	¥39,511	¥15,039	¥15,627	¥ (588)
Bonds	1,099,709	1,130,926	31,217	31,271	(54)
Other	145,781	148,458	2,677	3,468	(791)
	<u>¥1,269,962</u>	<u>¥1,318,895</u>	<u>¥48,933</u>	<u>¥50,366</u>	<u>¥ (1,433)</u>
At 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)
	<u>¥1,157,824</u>	<u>¥1,206,789</u>	<u>¥48,965</u>	<u>¥51,166</u>	<u>¥(2,201)</u>
	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2014:					
Corporate stocks	\$237,777	\$383,900	\$146,123	\$151,836	\$ (5,713)
Bonds	10,685,086	10,988,399	303,313	303,838	(525)
Other	1,416,449	1,442,460	26,011	33,696	(7,685)
	<u>\$12,339,312</u>	<u>\$12,814,759</u>	<u>\$475,447</u>	<u>\$489,370</u>	<u>\$ (13,923)</u>

B. Total sales of available-for-sale securities sold in the years ended 31 March 2014 and 2013 amounted to ¥56,746 million (\$551,360 thousand) and ¥38,664 million, respectively. The related gains and losses amounted to ¥991 million (\$9,629 thousand) and ¥43 million (\$418 thousand) in 2014, and ¥1,187 million and ¥673 million in 2013, respectively.

C. Available-for-sale securities other than trading securities (except securities whose fair market values are extremely difficult to determine) written down for the years ended 31 March 2014 and 2013 amounted to ¥76 million (\$738 thousand) and ¥49 million, respectively, due to a significant decline in fair value below the cost which is deemed to be other than temporary.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities	¥48,933	¥48,965	\$475,447
Deferred tax liabilities	(16,867)	(16,983)	(163,885)
Net unrealized holding gains before minority interests adjustment	32,066	31,982	311,562
Equity of net unrealized holding gains on available-for-sale securities:			
Owned by affiliates that are accounted for under the equity method	9	7	88
Net unrealized holding gains on available-for-sale securities	<u>¥32,075</u>	<u>¥31,989</u>	<u>\$311,650</u>

## 5. MONEY HELD IN TRUST

Money held in trust at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Money held in trust for trading purpose:			
Carrying amount	¥4,985	¥4,985	\$48,436
Realized gains included in earnings	—	—	—

## 6. 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. These 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, these 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.

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 internal rating, loan portfolios and quantification of credit risks are reported to the credit risk committee. These 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 market business operation standards, the marketing risk management standards and primary polices on investing, and 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 and its role responsible for execution of transactions, evaluation of efficiency of the hedging or related administration is clearly identified, following the hedge transaction guidelines, the market business operation standards and marketing risk management 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 2014 and 2013 was as follows:

Millions of yen		Thousands of U.S. dollars
2014	2013	2014
¥30,062	¥17,703	\$292,091

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 2014 and 2013 was as follows:

Millions of yen		Thousands of U.S. dollars
2014	2013	2014
¥8,600	¥2,604	\$83,560

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.

e. 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.

f. 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 at 31 March 2014 and 2013 are as follows.

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		2014	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
<b>Assets:</b>						
Cash and due from banks	¥335,312	¥335,312	¥422,360	¥422,360	\$3,257,987	\$3,257,987
Call loans and bills bought	146,029	146,029	190,000	190,000	1,418,859	1,418,859
Commercial paper and other debt purchased	7,162	7,292	17,383	17,552	69,588	70,851
Money held in trust	4,985	4,985	4,985	4,985	48,436	48,436
Securities						
Held to maturity bonds	36,939	38,134	29,462	30,741	358,910	370,521
Available-for-sale securities	1,318,895	1,318,895	1,206,789	1,206,789	12,814,759	12,814,759
Loans and bills discounted	1,638,911		1,611,241		15,924,126	
Reserve for possible loan losses	(9,728)		(13,681)		(94,520)	
	1,629,183	1,631,251	1,597,560	1,603,522	15,829,606	15,849,699
<b>Liabilities:</b>						
Deposits	3,284,422	3,284,847	3,296,175	3,296,561	31,912,379	31,916,508
Borrowed money	11,144	11,144	10,255	10,255	108,278	108,278
Corporate bonds	10,292	11,630	—	—	100,000	113,000
<b>Derivative transactions:</b>						
Derivative instruments not qualifying for hedge accounting	9	9	(23)	(23)	87	87
Derivative instruments qualifying for hedge accounting	(647)	(905)	(835)	(1,426)	(6,286)	(8,793)

(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 available-for-sale securities

The fair value of held to maturity bonds and available-for-sale 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. Corporate bonds

The fair value of corporate bonds is determined using the prices provided by the financial institutions that the Bank has been dealing with.

i. 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 it is extremely difficult to determine the fair market values at 31 March 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Available-for-sale securities	¥3,145	¥2,965	\$30,558

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2014 and 2013 are as follows:

	Millions of yen					
	2014					
	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	¥146,029	¥—	¥—	¥—	¥—	¥—
Commercial paper and other debt purchased	788	1,394	—	—	—	4,980
Securities						
Held to maturity bonds	1,176	1,762	12,061	—	—	21,940
Mainly consists of followings:						
National bonds	—	—	10,003	—	—	21,940
Corporate bonds	1,176	1,762	—	—	—	—
Available-for-sale securities	143,382	231,792	370,178	244,841	227,744	44,036
Mainly consists of followings:						
National bonds	14,441	56,514	195,858	133,237	37,696	3,416
Local government bonds	52,644	21,583	12,264	29,732	139,170	37,639
Corporate bonds	53,915	90,822	143,246	72,096	36,653	—
Loans and bills discounted	307,146	335,560	324,142	149,661	134,198	222,795
Deposits	3,114,822	159,234	9,950	119	297	—
Borrowed money	—	—	—	—	10,000	—

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



Millions of yen						
2013						
	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	10,636	1,413	—	—	—	5,334
Securities						
Held to maturity bonds	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
Available-for-sale 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 and bills discounted	294,852	320,799	317,362	141,180	123,219	203,462
Deposits	3,129,317	156,388	10,077	131	262	—
Borrowed money	—	—	—	—	10,000	—

Thousands of U.S. dollars						
2014						
	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	\$1,418,859	\$—	\$—	\$—	\$—	\$—
Commercial paper and other debt purchased	7,656	13,545	—	—	—	48,387
Securities						
Held to maturity bonds	11,426	17,121	117,188	—	—	213,175
Mainly consists of followings:						
National bonds	—	—	97,192	—	—	213,175
Corporate bonds	11,426	17,121	—	—	—	—
Available-for-sale securities	1,393,140	2,252,157	3,596,755	2,378,945	2,212,825	427,866
Mainly consists of followings:						
National bonds	140,313	549,106	1,903,012	1,294,569	366,265	33,191
Local government bonds	511,504	209,707	119,161	288,884	1,352,215	365,711
Corporate bonds	523,853	882,452	1,391,819	700,505	356,131	—
Loans and bills discounted	2,984,318	3,260,396	3,149,456	1,454,149	1,303,906	2,164,740
Deposits	30,264,497	1,547,163	96,677	1,156	2,886	—
Borrowed money	—	—	—	—	97,163	—

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

Notional amounts, market values, and valuation gains (losses) for the years ended 31 March 2014 and 2013 are as follows:

(Interest-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			2014		
	Notional amounts	Valuation gains	(losses)	Notional amounts	Valuation gains	(losses)	Notional amounts	Valuation gains	(losses)
Interest rate swap:									
Receive floating / Pay fixed rate	¥—	¥—	¥—	¥4,962	¥(29)	¥(29)	\$—	\$—	\$—

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.

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			2014		
	Notional amounts	Valuation gains	(losses)	Notional amounts	Valuation gains	(losses)	Notional amounts	Valuation gains	(losses)
Forward foreign exchange:									
Sell	¥21	¥(0)	¥(0)	¥27	¥1	¥1	\$204	\$(0)	\$(0)
Buy	296	9	9	380	5	5	2,876	87	87

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

b. Derivative instruments qualifying for hedge accounting

Notional amounts and market values for the years ended 31 March 2014 and 2013 are as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		2014	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥14,798	¥ (647)	¥30,223	¥(811)	\$143,782	\$(6,286)
Receive floating / Pay fixed rate (Exceptional method)	22,813	(258)	22,919	(591)	221,658	(2,507)

(Currency-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2014		2013		2014	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:						
Receive foreign currency / Pay Japanese yen (Deferral method)	¥—	¥—	¥125,000	¥ (24)	\$—	\$—

## 7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Bills discounted	¥3,580	¥4,572
Loans on notes	97,904	104,613	951,263
Loans on deeds	1,377,689	1,298,745	13,386,018
Overdrafts	159,738	203,311	1,552,060
	<u>¥1,638,911</u>	<u>¥1,611,241</u>	<u>\$15,924,126</u>

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 2014 and 2013 was ¥3,589 million (\$34,872 thousand) and ¥4,572 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 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Loans to borrowers under bankruptcy proceedings	¥1,651	¥1,944
Past due loans	30,886	36,911	300,097
Loans past due three months or more	92	15	894
Restructured loans, including loans to borrowers financially assisted by the Bank	8,153	9,614	79,217
	<u>¥40,782</u>	<u>¥48,484</u>	<u>\$396,250</u>

## 8. PLEDGED ASSETS

At 31 March 2014, deposits amounting to ¥12,221 million (\$118,743 thousand) and borrowed money amounting to ¥926 million (\$8,997 thousand) were secured by a pledge of securities in the amount of ¥162,027 million (\$1,574,300 thousand) and guarantee money deposits in the amount of ¥71 million (\$690 thousand). At 31 March 2013, deposits amounting to ¥26,899 million were secured by a pledge of securities in the amount of ¥105,690 million and guarantee money deposits in the amount of ¥73 million. In addition to the above-mentioned assets pledged as collateral, the Bank provided securities of ¥41,443 million (\$402,672 thousand) and ¥41,823 million, and cash in the amount of ¥3 million (\$29 thousand) and ¥3 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2014 and 2013.

## 9. COMMITMENT LINE AGREEMENT

Commitment line agreements are agreements to lend to customers to a prescribed amount when they apply for borrowing, unless violation of the condition of the agreement exists. The amount of unused commitment line related to such agreements at 31 March 2014 and 2013 amounted to ¥680,377 million (\$6,610,736 thousand) and ¥621,196 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 ¥644,950 million (\$6,266,518 thousand) and ¥604,120 million at 31 March 2014 and 2013, 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.

## 10. OTHER ASSETS

Other assets at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accrual income	¥3,965	¥4,445	\$38,525
Other	1,968	4,639	19,121
	<u>¥5,933</u>	<u>¥9,084</u>	<u>\$57,646</u>

## 11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Land	¥ 8,998	¥8,932	\$87,427
Buildings	33,643	33,359	326,885
Equipment	7,971	9,386	77,449
Leased assets	1,531	1,315	14,876
Other	108	261	1,049
	<u>52,251</u>	<u>53,253</u>	<u>507,686</u>
Accumulated depreciation	<u>35,495</u>	<u>36,235</u>	<u>344,880</u>
	<u>¥16,756</u>	<u>¥17,018</u>	<u>\$162,806</u>

To conform with the Corporate Law of Japan, deferred gains on sale of real estate in the amount of ¥1,041 million (\$10,115 thousand) and ¥1,046 million at 31 March 2014 and 2013, respectively, were deducted from the acquisition cost of premises and equipment.

## 12. INTANGIBLE ASSETS

Intangible assets at 31 March 2014 and 2013 consisted of the following:

Intangible assets

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Software	¥1,255	¥1,051	\$12,194
Leased assets	1,372	1,649	13,331
Other	40	41	388
	<u>¥2,667</u>	<u>¥2,741</u>	<u>\$25,913</u>

## 13. DEPOSITS

Deposits at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current deposits	¥51,185	¥43,014	\$497,328
Ordinary deposits	1,711,574	1,577,768	16,630,140
Deposits at notice	4,604	5,390	44,734
Time deposits	1,217,411	1,210,882	11,828,712
Other deposits	48,388	186,842	470,151
Negotiable certificates of deposit	251,260	272,279	2,441,314
	<u>¥3,284,422</u>	<u>¥3,296,175</u>	<u>\$31,912,379</u>

## 14. 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 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Subordinated borrowings	¥10,000	¥10,000	\$97,163

## 15. CORPORATE BONDS

Corporate bonds with stock acquisition rights at 31 March 2014 and 2013 were summarized as follows:

Name	Issued	Millions of Yen		Thousands of U.S. Dollars	Coupon Rate (%)	Secured or Unsecured	Due
		2014	2013	2014			
Zero coupon convertible bond-type bonds with subscription rights to shares due 2018 payable in U.S. dollars	25 July 2013	¥10,292	¥—	\$100,000	Non-interest	Unsecured	25 July 2018

Notes: 1. Outline of corporate bonds with stock acquisition rights at 31 March 2014 was as follows:

	Zero coupon convertible bond-type bonds with subscription rights to shares due 2018 payable in U.S. dollars
Type of stock involved	Common stock
Issue price of stock acquisition rights	Gratis
Issue price of stock (Yen/ U.S. Dollars)	¥5,149 (\$50.03)
Total amount of issue (Millions of Yen / Thousands of U.S. Dollars)	¥10,292 (\$100,000)
Total amount of stock acquisition rights exercised	—
Percentage of stock acquisition right granted	100%
Exercise period of stock acquisition rights	From 8 August 2013 to 11 July 2018

Upon the request to exercise stock acquisition rights from the bondholders, it shall be deemed as payment by the bondholders of the full amount required to be paid upon the exercise of stock acquisition rights, rather than as redemption of corporate bonds with stock acquisition rights at its total amount of issue. In addition, if the bondholders exercise the stock acquisition rights, it would be considered that such request has been made.

2. Corporate bonds are bonds issued in European market and denominated in U.S. dollars. The amount of corporate bonds with stock acquisition rights was translated into Japanese yen at telegraphic transfer middle rate at 31 March 2014 announced by the Bank.

3. Annual maturities of corporate bonds with stock acquisition rights at 31 March 2014 were as follows:

Year ending 31 March	Thousands of U.S.	
	Millions of yen	dollars
2015	¥—	\$—
2016	—	—
2017	—	—
2018	—	—
2019 and thereafter	10,292	100,000

## 16. OTHER LIABILITIES

Other liabilities at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Accrual income taxes	¥1,879	¥972	\$18,257
Accrued expenses	2,733	3,556	26,554
Unearned income	723	497	7,025
Lease obligations	2,902	3,097	28,197
Other	13,203	8,443	128,284
	<u>¥21,440</u>	<u>¥16,565</u>	<u>\$208,317</u>

## 17. 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 ¥1,852 million (\$17,995 thousand) in 2014 and ¥2,227 million in 2013.

## 18. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

### **Year ended 31 March 2014**

The Bank and its consolidated subsidiary have adopted funded and unfunded defined benefit plans to prepare for the employees' retirement benefits.

Under the defined benefit pension plan, which is a funded plan, employees receive lump-sum payments or pensions based on salaries and service period and cash balance plan has been introduced. Each participant has a hypothetical individual account with the amount equivalent to the reserve as resource of pension for each participant. In hypothetical individual accounts, interest credits based on trends in market interest rates and pay credits based on such as salary level are accumulated. Also, the Bank have set up a retirement benefit trust in the defined benefit pension plan.

Under the lump-sum retirement benefit plans (Even though these are unfunded plans, these have become funded plans as a result of setting up retirement benefit trusts.), predetermined points based on years of service and ability-based grade / job title are given to each participant annually, and employees receive lump-sum payments, which are calculated by multiplying the unit price of points to the accumulated points at the time of retirement, as retirement benefits.

The consolidated subsidiary adopts the simplified method in calculating net defined benefit liability and retirement benefit expenses.

## Defined benefit plans

### (i) Change in projected benefit obligation

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of year	¥24,652	\$239,526
Service costs (including the amount of employee contributions)	708	6,879
Interest costs	370	3,595
Actuarial differences	209	2,031
Retirement benefits paid	(1,357)	(13,185)
Balance at end of year	<u>¥24,582</u>	<u>\$238,846</u>

Note: Since the consolidated subsidiary which adopts the simplified method is insignificant, its net defined benefit liability, retirement benefit expenses and retirement benefits paid are included in the above accounts. The retirement benefit expenses are included in service costs at once.

### (ii) Change in plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Balance at beginning of year	¥21,842	\$212,223
Expected return on plan assets	446	4,333
Actuarial differences	759	7,375
Employer contributions	1,330	12,923
Employee contributions	55	534
Retirement benefits paid	(706)	(6,859)
Balance at end of year	<u>¥23,726</u>	<u>\$230,529</u>

### (iii) Reconciliation from projected benefit obligation and plan assets to net defined benefit liability (asset) for retirement benefits

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded projected benefit obligation	¥24,571	\$238,739
Plan assets	(23,726)	(230,529)
	845	8,210
Unfunded projected benefit obligation	11	107
Net liability (asset) recognized in consolidated balance sheets	<u>856</u>	<u>8,317</u>
Net defined benefit liability	1,960	19,044
Net defined benefit asset	(1,104)	(10,727)
Net liability (asset) recognized in consolidated balance sheets	<u>¥856</u>	<u>\$8,317</u>

### (iv) Retirement benefit expenses and its breakdown

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service costs (excluding the amount of employee contributions)	¥652	\$6,335
Interest costs	370	3,595
Expected return on plan assets	(446)	(4,333)
Amortization of actuarial differences	708	6,879
Retirement benefit expenses	<u>¥1,284</u>	<u>\$12,476</u>

Note: The retirement benefit expenses of the consolidated subsidiary adopting simplified method are included in service costs at once.



(v) Remeasurements of defined benefit plans

The component of items recognized in remeasurements of defined benefit plans (pre-tax) was as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial differences	¥2,364	\$22,969
Total	¥2,364	\$22,969

(vi) Plan assets

(a) Percentage by major category of plans assets was as follows:

Bonds	67%
Equities	18%
Cash and deposits	0%
Other	15%
Total	100%

Retirement benefit trust set up for defined benefit pension plans and that set up for lump-sum retirement benefit plans account for 19% and 24% of total plan assets, respectively.

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Bank considers the current and projected asset allocations, as well as current and future long-term rate of returns for various categories of the plan assets.

(vii) Basis for calculation of actuarial assumptions

Basis for calculation of actuarial assumptions (presented as weighted-average rate) at 31 March 2014 was as follows:

Discount rate	1.5%
Long-term expected rate of return on plan assets	2.0%

**Year ended 31 March 2013**

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

	Millions of yen
	2013
Projected benefit obligation	¥24,652
Unrecognized actuarial differences	(3,622)
Less fair value of plan assets	(21,842)
[of which plan assets of retirement benefit trust]	[10,000]
Prepaid pension costs	2,447
	¥1,635

Retirement benefit expenses included in the consolidated statements of income for the year ended 31 March 2013 were comprised of the following:

	Millions of yen
	2013
Service costs - benefits earned during the year	¥659
Interest cost on projected benefit obligation	373
Expected return on plan assets	(306)
Amortization of actuarial differences	1,036
	¥1,762

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

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).

## 19. 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 both 37.7% for the years ended 31 March 2014 and 2013.

Significant components of the Bank's deferred tax assets and liabilities at 31 March 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Reserve for possible loan losses	¥2,975	¥4,348	\$28,906
Liabilities for severance and retirement benefits	—	3,270	—
Net defined benefit liability	3,883	—	37,728
Accumulated depreciation	1,349	1,357	13,107
Securities	749	722	7,277
Other	1,701	1,618	16,528
Subtotal	10,657	11,315	103,546
Allowance to reduce deferred tax assets to expected realizable value	(2,127)	(1,971)	(20,666)
Total deferred tax assets	8,530	9,344	82,880
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(16,867)	(16,983)	(163,884)
Deferred gains on sale of real estate	(456)	(482)	(4,431)
Other	(0)	(0)	(0)
Total deferred tax liabilities	(17,323)	(17,465)	(168,315)
Net deferred tax liabilities	¥(8,793)	¥(8,121)	\$(85,435)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2014 and 2013.

	2014	2013
Statutory tax rate	37.7%	37.7%
Non-deductible expenses	0.4	0.4
Non-taxable dividend income	(1.3)	(1.3)
Per capita inhabitant taxes	0.3	0.4
Valuation allowance	1.3	4.8
Decrease in deferred tax assets due to tax rate changes	1.3	—
Other, net	(0.4)	1.1
	39.3%	43.1%

(Revisions to amounts of deferred tax assets and deferred tax liabilities due to change in rate of income taxes)

On 31 March 2014, “Partial Amendment of the Income Tax Law” was promulgated, according to which the Special Reconstruction Corporation Tax will no longer be imposed from the years beginning on or after 1 April 2014. Accordingly, for temporary differences expected to be reversed in the year beginning on 1 April 2014, the effective tax rate applied to the calculation of deferred tax assets and liabilities for this fiscal year, will be lowered from 37.7% in previous fiscal year to 35.3%.

As a result, the amount of deferred tax assets decreased by ¥149 million (\$1,448 thousand), net unrealized holding gains on available-for-sale securities increased by ¥10 million (\$97 thousand) and provision for income taxes-deferred increased by ¥159 million (\$1,545 thousand).

## 20. 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 740 thousand shares at 31 March 2014.

## 21. STOCK OPTION

### 1. Share-based compensation expenses accounted for as general and administrative expenses

The Bank resolved to grant stock acquisition rights to certain directors of the Bank at the Board of Directors’ meeting held on 21 June 2013. The balance of stock acquisition rights granted for stock option program is ¥55 million (\$534 thousand) at 31 March 2014. There is no balance at 31 March 2013.

Share-based compensation expense which was accounted for as general and administrative expenses for the year ended 31 March 2014 amounted to ¥55 million (\$534 thousand). There is no amount for the year ended 31 March 2013.

## 2. Detail of stock options, volume and activity

### (a) Detail of stock options

	2013 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9
Number of stock options by type of shares	Common stock: 13,400 shares
Grant date	24 July 2013
Condition for vesting	Not applicable
Requisite service period	Not applicable
Exercise period	From 25 July 2013 to 24 July 2043

Note: Reported in terms of shares of stock.

### (b) Volume and activity

The following describes volume and activity that existed during the year ended 31 March 2014. The number of stock options is reported in terms of shares of stock.

#### (i) Number of stock options

	2013 Stock Option Plan
<b>Before vesting (shares):</b>	
At 31 March 2013	—
Granted	13,400
Forfeited	—
Vested	—
Outstanding	13,400
<b>After vesting (shares):</b>	
At 31 March 2013	—
Vested	—
Exercised	—
Forfeited	—
Outstanding	—

#### (ii) Price information

	2013 Stock Option Plan
Exercise price	¥1 (\$0.01)
Average exercise price	—
Fair value at the grant	¥4,119 (\$40.02)

## 3. Valuation method for fair value of stock options

### (a) The valuation method : Black-Scholes formula

### (b) Major basic numerical values and valuation method:

	2013 Stock Option Plan
Stock price volatility (*1)	28.2%
Expected years to expiration (*2)	4.3years
Expected dividends (*3)	¥65 (\$0.63) per share
Risk-free interest rate (*4)	0.21%

Notes:\*1. Stock price volatility was calculated based on the actual stock prices from 30 March 2009 to 15 July 2013.

\*2. As a rational estimation was difficult due to the lack of historical data, expected years to expiration was set up by the estimated average remaining service period.

\*3. Expected dividends are determined based on actual dividends for the year ended 31 March 2013.

\*4. Risk-free interest rate is Japanese government bond yield corresponding to the expected years to expiration.

#### 4. Estimation method for the vested number of stock options

Since it is difficult to make a reasonable estimate on future forfeited stock options, the actual number of forfeited stock options is reflected in the estimation.

## 22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries and allowances	¥11,360	¥11,051	\$110,377
Fringe benefits and welfare	2,582	2,565	25,087
Retirement benefit expenses	1,284	1,761	12,476
Depreciation for premises and equipment	2,122	1,897	20,618
Rental expenses	740	753	7,190
Taxes other than income taxes	1,176	1,306	11,426
Deposit insurance premium	1,808	1,687	17,567
Business consignment expenses	2,602	2,477	25,282
Other expenses	4,135	3,979	40,177
	<u>¥27,809</u>	<u>¥27,476</u>	<u>\$270,200</u>

## 23. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Other operating income:			
Gain on sale of bonds	¥825	¥301	\$8,016
Gain on sale of foreign bills of exchange	90	123	874
Gain on financial instruments	5	—	49
Gain on trading account securities transactions	4	5	39
Other	0	0	0
	<u>¥924</u>	<u>¥429</u>	<u>\$8,978</u>

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Other operating expenses:			
Loss on redemption of bonds	¥434	¥45	\$4,217
Loss on sales of bonds	43	558	418
Loss on financial instruments	—	586	—
Other	76	0	738
	<u>¥553</u>	<u>¥1,189</u>	<u>\$5,373</u>

## 24. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Other income:</b>			
Reversal of provision for possible loan losses	¥2,182	¥723	\$21,201
Gain on sale of stocks and other securities	166	885	1,613
Gain on disposal of premises and equipment	11	7	107
Other	787	611	7,646
	<u>¥3,146</u>	<u>¥2,226</u>	<u>\$30,567</u>
	2014	2013	2014
<b>Other expenses:</b>			
Loss on transfer of receivables	¥217	¥58	\$2,109
Loss on disposal of premises and equipment	179	201	1,739
Loss on devaluation of stocks and other securities	76	58	739
Loss on sale of stocks and other securities	—	116	—
Other	517	487	5,023
	<u>¥989</u>	<u>¥920</u>	<u>\$9,610</u>

## 25. 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 at 31 March 2013, 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.

There is no pro forma amount of leased assets at 31 March 2014.

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

There were no lease payments under certain finance leases, which are accounted for in the same manner as operating leases, for the year ended 31 March 2014. Such lease payments described above for the year ended 31 March 2013 were ¥23 million.

Future lease payments at 31 March 2014 and 2013, inclusive of interest under such leases, were nil.

(4) Current portion of lease obligations and lease obligations (excluding current portion) at 31 March 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2014	2013	2014	2014
Current portion of lease obligations	¥511	¥462	\$4,965	2.41%
Lease obligations (excluding current portion)	2,391	2,635	23,232	2.49%
	¥2,902	¥3,097	\$28,197	

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
	2014	2013	2014
2015	¥511	¥462	\$4,965
2016	523	472	5,082
2017	535	482	5,198
2018	538	493	5,227
2019 and thereafter	795	1,188	7,725

## B. Operating leases

### (a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2014. Future lease payments under non-cancelable operating leases at 31 March 2013 were ¥1 million due within one year.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2014 were ¥263 million (\$2,555 thousand) including ¥11 million (\$107 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2013 were ¥326 million including ¥13 million due within one year.

## 26. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income for the years ended 31 March 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gains on available-for-sale securities:			
Amount for the year	¥557	¥24,759	\$5,412
Reclassification adjustment	(589)	(470)	(5,723)
Amount before tax effect	(32)	24,289	(311)
Tax effect amount	116	(8,208)	1,127
Net unrealized holding gains on available-for-sale securities	84	16,081	816
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	(20)	(617)	(194)
Reclassification adjustment	184	202	1,788
Amount before tax effect	164	(415)	1,594
Tax effect amount	(58)	146	(564)
Net unrealized gains (losses) on hedging derivatives	106	(269)	1,030
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount for the year	2	3	19
Reclassification adjustment	—	—	—
Amount before tax effect	2	3	19
Tax effect amount	—	—	—
Share of other comprehensive income of affiliates accounted for using the equity method	2	3	19
Total other comprehensive income	¥192	¥15,815	\$1,865



## 27. Per Share Data

Net assets per share at March 31, 2014 and 2013 and net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets	¥9,602.66	¥9,148.71	\$93.30
Net income	429.49	349.42	4.17
Diluted net income	398.91	340.90	3.88

Net assets per share and net income per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2014	2013	2014
Net asset:			
Total net assets	¥170,575	¥167,961	\$1,657,356
Amount to be deducted from total net assets	55	—	534
Stock acquisition rights	55	—	534
Net assets at the end of fiscal year attributed to common stock	170,520	167,961	1,656,822
Number of shares of common stock at the end of fiscal year used in computing net assets per share attributed to common stock	17,758	18,359	
Net income:			
Net income	7,720	6,415	75,010
Net income attributed to common stock	7,720	6,415	75,010
Average number of shares of common stock during the year	17,976	18,359	
Diluted net income:			
Number of increased common stock used in computing diluted net income per share	1,378	459	
Convertible bond-type bonds with acquisition rights	1,369	459	
Compensation-type stock option	9	—	

As described in “Changes in accounting policies”, the Bank and its consolidated subsidiary have adopted the Retirement Benefits Standard, etc. and accounted for in accordance with the transitional provisions set forth in paragraph 37 of the Retirement Benefits Standard.

As a result, net assets per share declined by ¥86.11 (\$0.84) at March 31, 2014.

## 28. 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 2014 and 2013.

### (2) Other segment related information

#### a. Information by services

Information by services for the years ended 31 March 2014 and 2013 was as follows:

	2014			
	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥20,714	¥15,010	¥10,700	¥46,424

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

	2014			
	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	\$201,263	\$145,841	\$103,965	\$451,069

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 2014 and 2013 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 2014 and 2013 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 2014 and 2013, since there is no customer accounting more than 10% of ordinary income 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 2014 and

2013, 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 2014 and 2013.

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 2014 and 2013.

## 29. SUBSEQUENT EVENTS

### Cash dividends

On 20 June 2014, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2014:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥30 (\$0.29) per share for year end)	¥533	\$5,179

## **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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 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

12 September, 2014  
Tokyo, Japan

## Corporate Profile

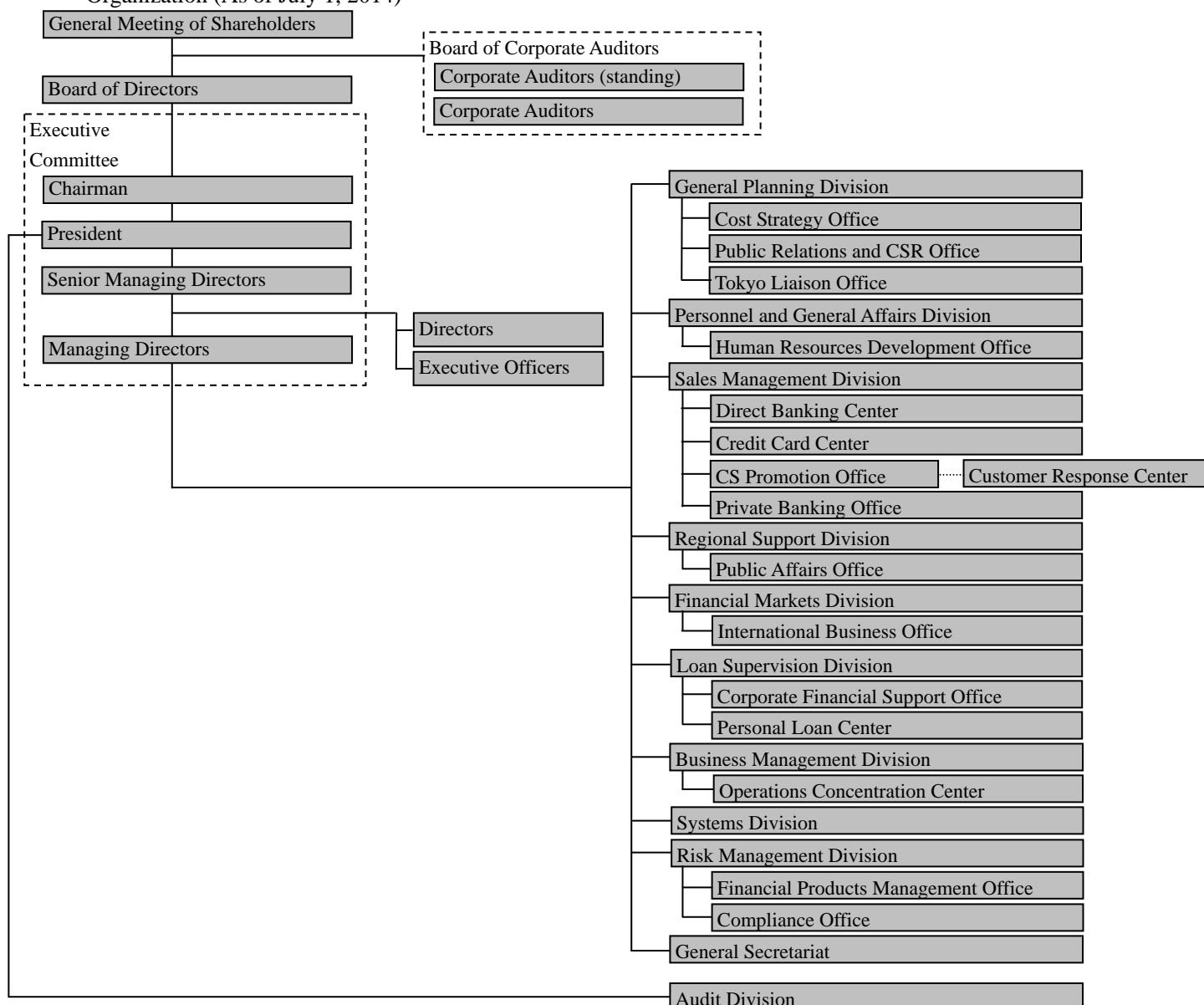
### • Corporate Data (As of March 31, 2014)

Established	May 2, 1932	Employees	1,489
Paid-in Capital	¥12,090 million	Stock Listing	First Section of the Tokyo Stock Exchange
Authorized Shares	49,450,000		
Issued and Outstanding Shares	18,497,786	Branches	110 (Iwate Prefecture 92)
Shareholders	7,382		

### • Board of Directors and Corporate Auditors (As of July 1, 2014)

<i>Chairman</i> Masahiro Takahashi	<i>Directors</i> Yasuyuki Aramichi Shigeki Miura Mikio Kikuchi Hiroshi Miura Atsushi Takahashi Fumio Ube	<i>Corporate Auditors</i> Katsuya Sato (standing) Hisaki Miyadate (standing) Koichi Adachi Shinobu Obara	<i>Executive Officers</i> Shuetsu Inagaki Hiroaki Takahashi
<i>President</i> Sachio Taguchi			
<i>Senior Managing Director</i> Masahiro Saito	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.		
<i>Managing Directors</i> Osamu Sakamoto Keiji Iwata Yuichi Kato	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, 2014)



• 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 82nd 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.

