



Annual Report **2015**
 **THE BANK OF IWATE, LTD.**



Sachio Taguchi
President

Message from the President

Four 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 2013 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.

Continuing from the first fiscal year of the plan (fiscal 2013), in fiscal 2014, the income level was achieved and the principal indicator targets were almost attained. Regarding the final fiscal year (the current fiscal year), apart from the enhancement of the speed of response to the Earthquake, we are looking ahead to the future and intend to take a step further to make efforts on the contribution related to the revitalization of the regional community including the nurture of new industries, as well as the support for business start-ups and foundation.

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

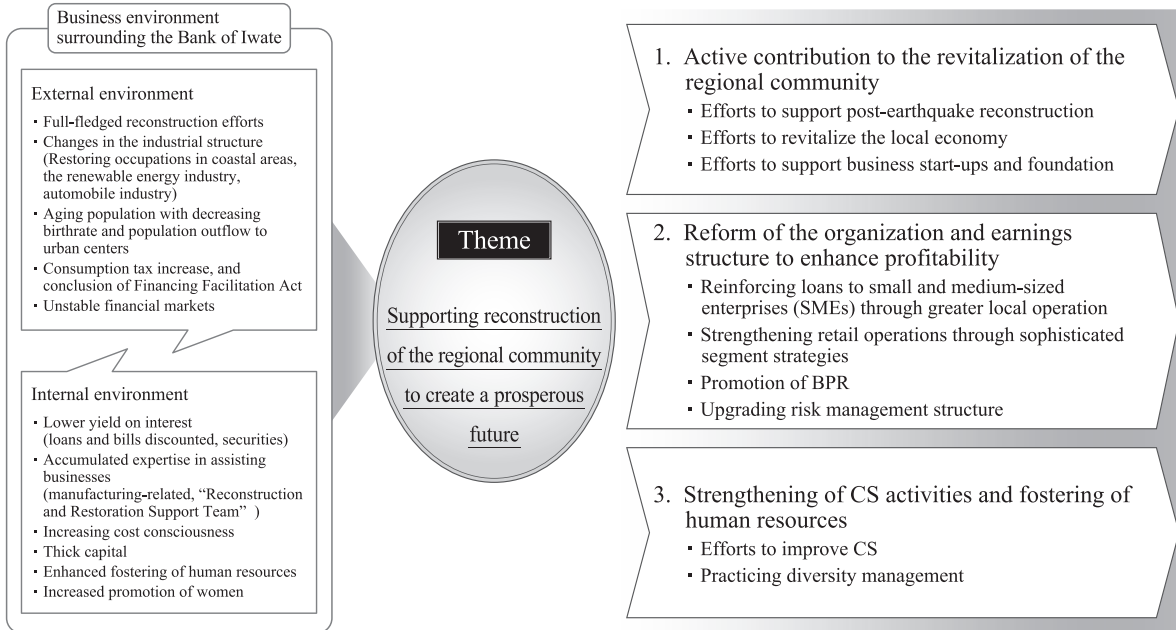
A further leap forward

Medium-term management plan

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

(April 2013 to March 2016)

Three basic policies



Principal indicator targets (final fiscal year)

- ◆ Outstanding loans and bills discounted to SMEs: Over ¥505.0 billion
- ◆ Assets in custody sales amount: Over ¥75.0 billion
- ◆ Capital ratio: In 13% range

- ◆ Amount of loans and bills discounted executed to growth industries (cumulative total over target period): Over ¥50.0 billion
- ◆ Business profit on core banking operations: Over ¥10.0 billion
- ◆ Net income: Over ¥5.0 billion

S. Taguchi

Sachio Taguchi, *President*

Analysis of the Financial Position and Business Performance of the Bank

(on a consolidated basis)

Financial Position

Principal Accounts

Deposits (including negotiable certificate of deposit) and Asset Under Management

Deposits (including negotiable certificate of deposit) at the term-end decreased by ¥14.6 billion from the previous term-end to ¥3,269.7 billion (US\$27,209.5 million). This was attributable to the decrease in public deposits resulting from reversal of reconstruction-related funds outweighing the increase in deposits by corporate clients and individuals.

Furthermore, the term-end balance of investment trusts within asset under management posted an increase of ¥17.3 billion from the previous term-end to ¥81.4 billion (US\$677.4 million), while the term-end balance of public bonds decreased by ¥20.4 billion to ¥45.7 billion (US\$380.3 million) and the total balance, including effective insurance policies, stood at ¥262.5 billion (US\$2,184.4 million).

Loans

Loans to local governments increased. Loans to corporate clients also rose, mainly attributable to an increase in loans to small and midsize firms. Loans to individuals grew due to an increase in the balance of housing loans. As a result, the term-end value of total loans increased by ¥102.1 billion from the previous term-end to ¥1,741.0 billion (US\$14,487.9 million).

Securities

The value of total securities increased by ¥23.8 billion from the previous term-end, to ¥1,382.8 billion (US\$11,507.0 million) as a result of increased purchases of foreign securities and investment trusts.

Cash Flow Analysis

Net cash provided by operating activities decreased by ¥86.4 billion to a net outflow of ¥34.7 billion (US\$288.9 million), partly due to an increase in loans and a decrease in negotiable certificate of deposit.

Net cash used in investing activities decreased by ¥121.2 billion to a net outflow of ¥2.1 billion (US\$17.1million), partly due to the acquisition of securities.

Net cash provided by financing activities decreased by ¥7.1 billion to a net outflow of ¥1.6 billion (US\$13.2 million), partly due to the payment of dividends.

As a result of the above, the term-end balance of cash and cash equivalents decreased by ¥38.3 billion from the previous term-end, to ¥252.5 billion (US\$2,100.9 million).

Business Performance

Earnings

Total income decreased by ¥1.6 billion from the previous term to ¥44.9 billion (US\$373.3 million). This was mainly attributable to the decrease in interest income resulting from lower interest on loans and securities caused by a reduction in yield, as well as decreases in reversal of provision for possible loan losses and gain on sale of bonds, in spite of increase in fees and commissions boosted primarily by fees related to asset under management and recording of gain on disposal of premises and equipment.

Total expenses decreased from the previous term-end by ¥0.4 billion to ¥33.4 billion (US\$277.7 million) as a result of a reduction in general and administrative expenses. General and administrative expenses decreased by ¥0.5 billion to ¥27.3 billion (US\$227.2 million) as a result of a reduction in personnel expenses, mainly retirement benefit expenses, as well as a decrease in property rental expenses, although there was an increase in tax as a result of the consumption tax hike.

As a result, income before income taxes decreased from the previous term by ¥1.2 billion to ¥11.5 billion (US\$95.6 million).

Capital Ratio

The capital ratios fell by 0.17% to 12.98% on a consolidated capital adequacy basis and by 0.19% on a non-consolidated capital adequacy basis to 12.93% mainly as a result of the growth of risk assets attributable to an increase in the balance of loans.

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.

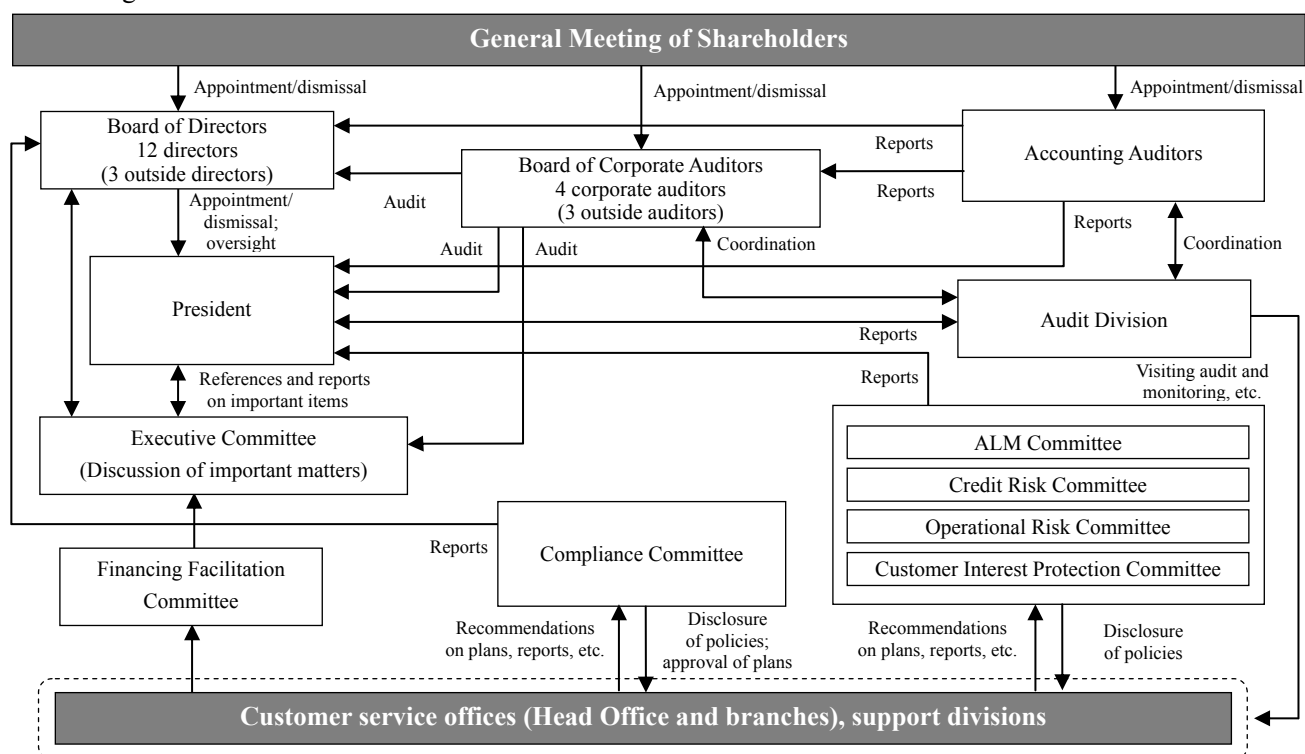
Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the development of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, 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 believe it is necessary to establish and maintain the highest standard of corporate governance that includes improved management transparency and strengthened management oversight functions.

② Outline of the corporate governance functions within the Bank

The Bank has chosen the corporate auditor system, under which the execution of business by directors is monitored by the Board of Directors and corporate auditors. In regard to the business execution system, in addition to utilizing the executive officers system, the Bank has also established the Executive Committee and the Compliance Committee along with the Board of Directors as mechanisms that discuss and decide the matters referred by the Board of Directors.

Furthermore, the Bank continues to strengthen management oversight functions, as evidenced by the expanded functions of the Board of Directors, the appointment of outside directors and the strengthened functions of auditors. The Bank is also planning to reinforce its organization with a greater emphasis on compliance, such as by positioning the Compliance Committee on a par with the Executive Committee.

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, and established a system for nine items, including a system that ensures that the conduct of all directors and employees conforms both to law and regulations as well as to the Articles of Incorporation of the Bank.

⑤ Development of risk management structure

With regard to risk management, the Bank, upon developing structures for the execution of operations and monitoring, has established 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 and to clearly define the structure of responsibility. Furthermore, the Risk Management Division is in place as the department responsible for both the integrated management of the various categories of risks, and risk management throughout the Bank.

The Audit Division, upon ensuring its independence from the departments being audited, undertakes auditing of the appropriateness and effectiveness of internal control systems, including compliance and risk management, and strives to improve business administration based on the verification of that auditing.

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 are Atsushi Fukuda, Motofumi Okumura, and Takayuki Narita, assisted by six other certified public accountants and seventeen additional staff.

(2) Internal Audits and Auditing by Corporate Auditors

① Internal audits

The Bank's Audit Division, with a staff of eighteen, is 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. Internal audits are furthermore conducted on Bank's securities reports and financial statements in order to confirm the effective operation of the Bank's internal control system. Staff of the division strives 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 by collaborating and exchanging information with the Audit Division and the accounting auditors. Furthermore, corporate auditors regularly meet with accounting auditors to receive reports and exchange opinions, and also undertake activities such as fieldwork to confirm the adequacy of the execution of duties by accounting auditors.

(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 shareholders. 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 that 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 director of numerous other entities with which the Bank has 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 is currently 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, the Vice Chairman of TOHOKU ECONOMIC FEDERATION until June 2015, and currently serves as an auditor at Tousei Kougyo Co., Ltd.
- 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, 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 only account for a small portion of outstanding shares.
- Mr. Takahashi and Mr. Ube have been reported to the Tokyo Stock Exchange, Inc. as independent directors who pose no risk of conflict of interest with general shareholders.

Outside Auditors

- The Bank has three outside auditors: Katsunori Ikeda, Shinobu Obara and Mizuhiko Yoshida. Mr. Obara currently serves as the Director and Executive Vice President of Iwate Menkoi Television Co., Ltd. and the Representative Director and President of Ma cherie, Inc., and is in executive positions 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 and Mr. Yoshida; 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. Ikeda.
- Mr. Ikeda and Mr. Yoshida have been reported to the Tokyo Stock Exchange, Inc. as independent directors who pose no risk of conflict of interest with general shareholders.

② The status and standards for functions, duties, and appointment of outside directors and outside auditors with regard to corporate governance

The Bank elects outside directors and outside auditors in order to reinforce the functions of monitoring and supervision of the Bank's management. The Bank's Board of Directors and corporate auditors monitor the directors' execution of duties, while the outside directors undertake the role of reinforcing management decision-making and supervisory functions, with full regard for the interests of general shareholders and from an objective, outside position based on extensive knowledge. Additionally, the outside auditors, based on their extensive insight and specialized knowledge, undertake the role of reinforcing the audit functions in regard to 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 based on specialty understanding and extensive knowledge, and elects them based on the fundamental understanding that no conflicts of interest will arise with the general shareholders.

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 and other committees, and cooperation with the Audit Division and accounting auditors to ensure effective 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, Paragraph 1 of the Corporation Law.

(5) Compensation for Directors and Corporate Auditors

- ① Aggregate amount of compensation paid to directors and corporate auditors, aggregate amount of compensation by category of compensation, and the number of eligible 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	234	166	22	46	-
Corporate auditors (excluding outside auditors)	2	21	21	-	-	-
Outside directors and outside auditors	6	32	32	-	-	-

(Notes) 1. The above numbers of persons include one director and one auditor who resigned at the closing of the 132nd General Meeting of Shareholders held on June 20, 2014 and one auditor who resigned as of January 31, 2015 .

2. The above amounts include ¥22 million accrued bonuses for directors and corporate auditors during the current fiscal year (¥22 million for directors), and ¥46 million for stock compensation-type stock acquisition rights (¥46 million for directors).

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

- 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 Policies on determining the amount of compensation for directors and corporate auditors

Annual compensation limits payable to the Bank's directors and corporate auditors are determined according to a resolution passed at the General Meeting of Shareholders, and are set at a maximum of ¥260 million for directors, including outside directors, and a maximum of ¥60 million for corporate auditors. In addition to the aforementioned limits for compensation, the General Meeting of Shareholders has passed a resolution to allocate stock acquisition rights to directors (excluding outside directors) as stock compensation-type stock options at an annual limit of ¥80 million.

The Bank's compensation system for directors (excluding outside directors) comprises basic fixed compensation, bonuses 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 following the General Meeting of Shareholders, based on the duties and 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 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: 141

Balance sheet value: ¥28,772 million

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

(Previous fiscal year)

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

(Specific investment stocks)

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Tohoku Electric Power Company, Incorporated	2,277,797	2,423	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.			
The Ogaki Kyoritsu Bank, Ltd.	71,600	244	Ibid.
NTN CORPORATION	863,000	243	Ibid.
ARCS COMPANY, LIMITED	657,555	230	Ibid.
DCM Holdings Co., Ltd.	109,590	220	Ibid.
Electric Power Development Co., Ltd.	317,949	219	Ibid.
ORIX Corporation	72,000	209	Ibid.
The Kita-Nippon Bank, Ltd.	132,300	192	Ibid.
The Hokkoku Bank, Ltd.	68,250	187	Ibid.
THE BANK OF SAGA LTD.	500,000	180	Ibid.
Nagase & Co., Ltd.	801,000	179	Ibid.
MS&AD Insurance Group Holdings, Inc.	137,000	174	Ibid.
Mitsubishi UFJ Lease & Finance Company Limited	66,756	157	Ibid.
	296,600	150	Ibid.
Katakura Industries Co., Ltd.			
THE SHIMIZU BANK, LTD.	99,000	129	Ibid.
	45,400	121	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, Inc.	2,277,797	3,111	Reinforcement of relationship through shareholding
Mitsubishi UFJ Financial Group, Inc.	4,040,310	3,004	Ibid.
TAIYO NIPPON SANSO CORPORATION	1,822,849	2,987	Ibid.
East Japan Railway Company	200,000	1,928	Ibid.
NIPPON STEEL & SUMITOMO METAL CORPORATION	5,935,431	1,795	Ibid.
Daiwa Securities Group Inc.	1,099,806	1,040	Ibid.
TOSHIBA CORPORATION	2,024,483	1,020	Ibid.
SECOM CO., LTD.	104,644	839	Ibid.
The Bank of Kyoto, Ltd.	540,000	679	Ibid.
The Yamagata Bank, Ltd.	1,323,800	673	Ibid.
Tokio Marine Holdings, Inc.	127,086	576	Ibid.
THE AKITA BANK, LTD.	1,517,159	556	Ibid.
JFE Holdings, Inc.	200,047	530	Ibid.
The Toho Bank, Ltd.	1,052,090	519	Ibid.
NTN CORPORATION	657,555	418	Ibid.
Yamaguchi Financial Group, Inc.	300,000	414	Ibid.
THE OITA BANK, LTD.	860,000	401	Ibid.
The Iyo Bank, Ltd.	277,000	395	Ibid.
The Aomori Bank, Ltd.	937,000	362	Ibid.
The Yamanashi Chuo Bank, Ltd.	656,000	345	Ibid.
The Hyakugo Bank, Ltd.	619,000	344	Ibid.
The Ogaki Kyoritsu Bank, Ltd.	863,000	327	Ibid.
ARCS COMPANY, LIMITED	109,590	315	Ibid.
The Daishi Bank, Ltd.	731,000	309	Ibid.
THE KAGOSHIMA BANK, LTD.	377,000	308	Ibid.
Sumitomo Seika Chemicals Company, Limited	356,000	304	Ibid.
Electric Power Development Co., Ltd.	72,000	291	Ibid.
The Musashino Bank, Ltd.	71,600	288	Ibid.
DCM Holdings Co., Ltd.	317,949	286	Ibid.
THE BANK OF SAGA LTD.	801,000	242	Ibid.
The Kita-Nippon Bank, Ltd.	68,250	239	Ibid.
MS&AD Insurance Group Holdings, Inc.	66,756	224	Ibid.
ORIX Corporation	132,300	223	Ibid.
Nagase & Co., Ltd.	137,000	215	Ibid.
The Hokkoku Bank, Ltd.	500,000	209	Ibid.
Mitsubishi UFJ Lease & Finance Company Limited	296,600	176	Ibid.
YAKUODO Co., Ltd.	60,000	142	Ibid.
THE SHIMIZU BANK, LTD.	45,400	137	Ibid.
NEC Corporation	372,556	131	Ibid.
MIKUNI CORP.	193,884	128	Ibid.
Sumitomo Mitsui Trust Holdings, Inc.	259,375	128	Ibid.
Katakura Industries Co., Ltd.	99,000	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

(Millions of yen)

	At the end of the previous fiscal year			
	Balance sheet value	Dividend income	Gain or loss on sales	Gain or loss on valuation
Listed stocks	18,143	359	166	7,111
Unlisted stocks	-	-	-	-

(Millions of yen)

	At the end of the current fiscal year			
	Balance sheet value	Dividend income	Gain or loss on sales	Gain or loss on valuation
Listed stocks	23,970	424	245	12,586
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, Paragraph 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, Paragraph 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, Paragraph 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)

	FY2013		FY2014	
	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	¥8	¥55	¥1
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥55	¥8	¥55	¥1

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 2013.

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 2014.

(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

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 services concerning the notification of capital ratio under Basel III.

Current fiscal year

This comprises advisory services concerning the notification of capital ratio under Basel III, as well as advisory services regarding the interpretation of regulatory requirements relating to the calculation of credit risk assets.

(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 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
ASSETS			
Cash and due from banks (Notes 3 and 6)	¥274,895	¥335,312	\$2,287,551
Call loans and bills bought (Note 6)	105,000	146,029	873,762
Commercial paper and other debt purchased (Note 6)	6,094	7,162	50,711
Trading account securities (Note 4)	2	—	17
Money held in trust (Notes 5 and 6)	4,985	4,985	41,483
Securities (Notes 4, 6, 8 and 17)	1,382,794	1,358,979	11,506,982
Loans and bills discounted (Notes 6, 7, 9 and 29)	1,741,016	1,638,911	14,487,942
Foreign exchange assets	1,797	1,185	14,954
Premises and equipment (Notes 11 and 25)	16,514	16,756	137,422
Intangible assets (Notes 12 and 25)	2,195	2,667	18,266
Net defined benefit asset (Note 18)	2,774	1,104	23,084
Deferred tax assets (Note 19)	6	7	50
Customers' liabilities for acceptances and guarantees (Note 17)	8,187	7,558	68,128
Other assets (Notes 6, 8 and 10)	6,144	5,933	51,128
Reserve for possible loan losses (Note 6)	(6,419)	(9,803)	(53,416)
Total assets	¥3,545,984	¥3,516,785	\$29,508,064
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,269,768	¥3,284,422	\$27,209,520
Call money (Notes 6 and 8)	10,000	—	83,215
Borrowed money (Notes 6, 8 and 14)	13,837	11,144	115,145
Foreign exchange liabilities	5	11	42
Corporate bonds with stock acquisition rights (Notes 6 and 15)	12,017	10,292	100,000
Accrued bonuses for directors and corporate auditors	22	24	183
Net defined benefit liability (Note 18)	2,373	1,960	19,747
Retirement benefits for directors and corporate auditors	5	6	42
Provision for losses on reimbursement of dormant deposits	470	324	3,911
Provision for contingent losses	237	229	1,972
Deferred tax liabilities (Note 19)	15,675	8,800	130,440
Acceptances and guarantees (Note 17)	8,187	7,558	68,129
Other liabilities (Notes 6, 16 and 25)	20,694	21,440	172,206
Total liabilities	3,353,290	3,346,210	27,904,552
Net assets (Note 20):			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2015 and 31 March 2014			
Issued and outstanding — 18,498 thousand shares at 31 March 2015 and 31 March 2014	12,090	12,090	100,607
Capital surplus	4,811	4,811	40,035
Retained earnings	132,390	127,231	1,101,689
Treasury stock, at cost	(3,742)	(3,739)	(31,139)
Net unrealized holding gains on available-for-sale securities (Note 4)	48,402	32,075	402,780
Net unrealized losses on hedging derivatives	(1,290)	(419)	(10,735)
Remeasurements of defined benefit plans (Note 18)	(66)	(1,529)	(549)
Stock acquisition rights (Note 21)	99	55	824
Total net assets	192,694	170,575	1,603,512
Total liabilities and net assets	¥3,545,984	¥3,516,785	\$29,508,064
	Yen		U.S. dollars
	2015	2014	2015
Per share data:			
Net assets (Note 27)	¥10,846.26	¥9,602.66	\$90.26

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
			(Note 1)
	2015	2014	2015
Income:			
Interest income:			
Interest on loans and discounts	¥20,177	¥20,919	\$167,904
Interest and dividends on securities	13,770	14,019	114,588
Other interest income	202	307	1,681
Fees and commissions	7,508	7,119	62,478
Other operating income (Note 23)	607	924	5,051
Other income (Note 24)	2,594	3,146	21,586
Total income	44,858	46,434	373,288
Expenses:			
Interest expenses:			
Interest on deposits	1,320	1,294	10,984
Interest on borrowings	146	138	1,215
Other interest expenses	430	286	3,578
Fees and commissions	2,876	2,656	23,933
Other operating expenses (Note 23)	146	553	1,215
General and administrative expenses (Note 22)	27,308	27,809	227,245
Other expenses (Note 24)	1,145	989	9,528
Total expenses	33,371	33,725	277,698
Income before income taxes	11,487	12,709	95,590
Provision for income taxes (Note 19)			
Current	2,277	3,425	18,948
Deferred	1,856	1,564	15,445
	4,133	4,989	34,393
Net income before minority interests	7,354	7,720	61,197
Minority interests in net income	—	—	—
Net income	¥7,354	¥7,720	\$61,197
	Yen		U.S. dollars
	2015	2014	2015
Per share data:			
Net income (Note 27)	¥414.15	¥429.49	\$3.45
Diluted net income (Note 27)	371.87	398.91	3.09
Cash dividends applicable to the year	65.00	60.00	0.54

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiary

Years ended 31 March 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net income before minority interests	¥7,354	¥7,720	\$61,197
Other comprehensive income (Note 26):			
Net unrealized holding gains on available-for-sale securities	16,322	84	135,824
Net unrealized gains (losses) on hedging derivatives	(871)	106	(7,248)
Remeasurements of defined benefit plans (Note 18)	1,463	—	12,175
Share of the other comprehensive income of affiliates accounted for using the equity method	5	2	42
Total other comprehensive income	16,919	192	140,793
Comprehensive income	¥24,273	¥7,912	\$201,990
Total comprehensive income	¥24,273	¥7,912	\$201,990
Attributable to:			
Owners of the parent	24,273	7,912	201,990
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 2015 and 2014

	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
BALANCE, 1 April 2013	¥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)
Total change during year	—	—	3,510	386	3,896	86	106	(1,529)	(1,337)	55	2,614
BALANCE, 1 April 2014	12,090	4,811	127,231	(3,739)	140,393	32,075	(419)	(1,529)	30,127	55	170,575
Cumulative effects of changes in accounting policies	—	—	(1,129)	—	(1,129)	—	—	—	—	—	(1,129)
Restated balance	12,090	4,811	126,102	(3,739)	139,264	32,075	(419)	(1,529)	30,127	55	169,446
Change during year											
Cash dividends	—	—	(1,066)	—	(1,066)	—	—	—	—	—	(1,066)
Net income	—	—	7,354	—	7,354	—	—	—	—	—	7,354
Acquisition of treasury stock	—	—	—	(6)	(6)	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	(0)	3	3	—	—	—	—	—	3
Cancellation of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than stockholders' equity during year	—	—	—	—	—	16,327	(871)	1,463	16,919	44	16,963
Total change during year	—	—	6,288	(3)	6,285	16,327	(871)	1,463	16,919	44	23,248
BALANCE, 31 March 2015	¥12,090	¥4,811	¥132,390	¥(3,742)	¥145,549	¥48,402	¥(1,290)	¥(66)	¥47,046	¥99	¥192,694

	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
BALANCE, 1 April 2014	\$100,607	\$40,035	\$1,058,758	\$ (31,114)	\$1,168,286	\$266,914	\$ (3,487)	\$(12,724)	\$250,703	\$458	\$1,419,447
Cumulative effects of changes in accounting policies	—	—	(9,395)	—	(9,395)	—	—	—	—	—	(9,395)
Restated balance	100,607	40,035	1,049,363	(31,114)	1,158,891	266,914	(3,487)	(12,724)	250,703	458	1,410,052
Change during year											
Cash dividends	—	—	(8,871)	—	(8,871)	—	—	—	—	—	(8,871)
Net income	—	—	61,197	—	61,197	—	—	—	—	—	61,197
Acquisition of treasury stock	—	—	—	(50)	(50)	—	—	—	—	—	(50)
Disposal of treasury stock	—	—	(0)	25	25	—	—	—	—	—	25
Cancellation of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Net changes of items other than stockholders' equity during year	—	—	—	—	—	135,866	(7,248)	12,175	140,793	366	141,159
Total change during year	—	—	52,326	(25)	52,301	135,866	(7,248)	12,175	140,793	366	193,460
BALANCE, 31 March 2015	\$100,607	\$40,035	\$1,101,689	\$(31,139)	\$1,211,192	\$402,780	\$(10,735)	\$(549)	\$391,496	\$824	\$1,603,512

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes	¥11,487	¥12,709	\$95,590
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation	2,089	2,122	17,384
Impairment losses	15	48	125
Equity in (gains) losses of affiliates	(17)	(53)	(141)
Increase (decrease) in reserve for possible loan losses	(3,384)	(3,972)	(28,160)
Increase (decrease) in provision for contingent losses	8	16	67
Increase (decrease) in accrued bonuses for directors	(2)	(10)	(17)
(Increase) decrease in prepaid pension costs	—	2,447	—
Increase (decrease) in liability for severance and retirement benefits	—	(1,635)	—
(Increase) decrease in net defined benefit asset	(661)	(3,072)	(5,501)
Increase (decrease) in net defined benefit liability	(76)	1,564	(632)
Increase (decrease) in retirement benefits for directors and corporate auditors	(1)	(414)	(8)
Increase (decrease) in provision for losses on reimbursement of dormant deposits	146	53	1,215
Interest income	(34,149)	(35,244)	(284,173)
Interest expenses	1,896	1,718	15,777
Investment securities (gains) losses, net	(603)	(454)	(5,018)
(Increase) decrease in money held in trust	(116)	(5)	(965)
Foreign exchange (gains) losses, net	303	80	2,521
(Gains) losses on disposal of premises and equipment	(296)	168	(2,463)
Net (increase) decrease in loans and bills discounted	(102,104)	(27,670)	(849,663)
Net increase (decrease) in deposits	20,582	9,265	171,274
Net increase (decrease) in negotiable certificates of deposit	(35,237)	(21,018)	(293,226)
Net increase (decrease) in borrowed money	2,694	889	22,418
Net (increase) decrease in due from banks, excluding the Bank of Japan	22,089	21,040	183,815
Net (increase) decrease in call loans and others	42,101	54,196	350,345
Net increase (decrease) in call money	10,000	(470)	83,215
Net (increase) decrease in foreign exchange assets	(612)	682	(5,093)
Net increase (decrease) in foreign exchange liabilities	(6)	11	(50)
Interest received	35,154	36,316	292,536
Interest paid	(1,872)	(2,030)	(15,578)
Other, net	(164)	6,992	(1,365)
Sub-total	(30,736)	54,269	(255,771)
Income taxes paid	(3,982)	(2,641)	(33,136)
Income taxes refunded	1	6	8
Net cash provided by (used in) operating activities	(34,717)	51,634	(288,899)
Cash flows from investing activities:			
Acquisition of securities	(219,313)	(361,649)	(1,825,023)
Proceeds from sale of securities	28,426	56,750	236,548
Proceeds from redemption of securities	189,906	183,391	1,580,311
Acquisition of premises and equipment	(1,335)	(1,075)	(11,109)
Proceeds from sale of premises and equipment	553	—	4,602
Payment for retirement of premises and equipment	—	(68)	—
Acquisition of intangible assets	(294)	(598)	(2,446)
Net cash used in investing activities	(2,057)	(123,249)	(17,117)
Cash flows from financing activities:			
Proceeds from issuance of subordinated bonds and corporate bonds with stock acquisition rights	—	9,859	—
Repayments of lease obligations	(511)	(493)	(4,252)
Cash dividends paid	(1,066)	(1,175)	(8,871)
Payment for acquisition of shares in treasury	(6)	(2,649)	(50)
Proceeds from sale of shares in treasury	0	—	0
Net cash provided by (used in) financing activities	(1,583)	5,542	(13,173)
Effect of exchange rate changes on cash and cash equivalents	30	64	249
Net increase (decrease) in cash and cash equivalents	(38,327)	(66,009)	(318,940)
Cash and cash equivalents at beginning of year	290,795	356,804	2,419,864
Cash and cash equivalents at end of year (Note 3)	¥252,468	¥290,795	\$2,100,924

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2015 and 2014

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 2015, which was ¥120.17 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 (“trading account securities”), (b) debt securities intended to be held to maturity (“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 (“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 ("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, which are included in "Premises and equipment" and "Intangible assets," are 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.

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.

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 by using the benefit formula basis. The Bank has also set up retirement benefit trusts.

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 Companies 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 30.

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

Application of “Accounting Standard for Retirement Benefits,” etc.

The Bank and its consolidated subsidiary have adopted the main clause of Paragraph 35 of “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, 17 May 2012, hereinafter “Retirement Benefits Standard”) and the main clause of Paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, 26 March 2015, hereinafter “Retirement Benefits Guidance”) from the year ended 31 March 2015. Accordingly, the Bank and its consolidated subsidiary have revised the calculation method for projected benefit obligation and service costs, and have changed the method of attributing the estimated amount of all retirement benefits to be paid to periods of services from the straight-line method to the benefit formula basis, and also changed the method of determining the discount rate from using the discount rate based on the terms closely related to the employees’ average remaining service years to using a single weighted average discount rate that reflects the estimated term and amount of benefit payments.

The Retirement Benefits Standard and the Retirement Benefits Guidance are applied in accordance with the transitional provisions set forth in Paragraph 37 of the Retirement Benefits Standard. The effect of the change in calculation method for projected benefit obligation and service costs is reflected as increase or decrease in retained earnings at the beginning of the year ended 31 March 2015.

As a result of this change, at the beginning of the year ended 31 March 2015, net defined benefit asset decreased by ¥810 million (\$6,740 thousand), net defined benefit liability increased by ¥935 million (\$7,781 thousand) and retained earnings decreased by

¥1,129 million (\$9,395 thousand). Meanwhile, income before income taxes for the year ended 31 March 2015 increased by ¥64 million (\$533 thousand).

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

Unapplied new accounting standards

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 2015 and 2014, 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 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and due from banks	¥274,895	¥335,312	\$2,287,551
Less: Time deposits	(12,000)	(24,000)	(99,859)
Deposits in foreign currencies	(10,000)	(20,000)	(83,215)
Deposits in other banks other than the Bank of Japan	(427)	(517)	(3,553)
Cash and cash equivalents	¥252,468	¥290,795	\$2,100,924

(2) Significant non-cash transactions

Assets and liabilities associated with finance lease transactions that were recorded in the years ended 31 March 2015 and 2014 amounted to nil and ¥297 million, respectively.

4. TRADING ACCOUNT SECURITIES AND SECURITIES

Trading account securities held by the Bank at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Local government bonds	¥2	¥-	\$17
	¥2	¥-	\$17

The Bank records ¥0 million (\$0 thousand) of net valuation gains in consolidated statement of income for the year ended 31 March 2015.

Securities held by the Bank at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
National government bonds	¥482,399	¥473,105	\$4,014,305
Local government bonds	267,888	293,032	2,229,242
Debentures	370,351	399,669	3,081,892
Stock shares	53,162	41,069	442,390
Other securities	208,994	152,104	1,739,153
	¥1,382,794	¥1,358,979	\$11,506,982

Unsecured loaned securities which borrowers have the right to sell or pledge in the amount of ¥73,500 million (\$611,634 thousand) and ¥85,000 million at 31 March 2015 and 2014 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 2015 and 2014:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2015:	¥41,299	¥44,022	¥2,723	¥2,729	¥ (6)
At 31 March 2014:	43,312	44,638	1,326	1,335	(9)

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2015:	\$343,671	\$366,331	\$22,660	\$22,710	\$ (50)

(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 2015:					
Corporate stocks	¥24,511	¥51,591	¥27,080	¥27,148	¥ (68)
Bonds	1,051,598	1,086,937	35,339	35,379	(40)
Other	195,667	203,716	8,049	9,712	(1,663)
	¥1,271,776	¥1,342,244	¥70,468	¥72,239	¥ (1,771)
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)
	¥1,269,962	¥1,318,895	¥48,933	¥50,366	¥ (1,433)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2015:					
Corporate stocks	\$203,969	\$429,316	\$225,347	\$225,913	\$ (566)
Bonds	8,750,920	9,044,995	294,075	294,408	(333)
Other	1,628,252	1,695,232	66,980	80,819	(13,839)
	\$10,583,141	\$11,169,543	\$586,402	\$601,140	\$ (14,738)

B. Total sales of available-for-sale securities sold in the years ended 31 March 2015 and 2014 amounted to ¥28,426 million (\$236,548 thousand) and ¥56,746 million, respectively. The related gains and losses amounted to ¥799 million (\$6,649 thousand) and ¥115 million (\$957 thousand) in 2015, and ¥991 million and ¥43 million in 2014, 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 2015 and 2014 amounted to ¥83 million (\$691 thousand) and ¥76 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 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities	¥70,468	¥48,933	\$586,403
Deferred tax liabilities	(22,080)	(16,867)	(183,740)
Net unrealized holding gains before minority interests adjustment	48,388	32,066	402,663
Equity of net unrealized holding gains on available-for-sale securities:			
Owned by affiliates that are accounted for under the equity method	14	9	117
Net unrealized holding gains on available-for-sale securities	¥48,402	¥32,075	\$402,780

5. MONEY HELD IN TRUST

Money held in trust at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Money held in trust for trading purpose:			
Carrying amount	¥4,985	¥4,985	\$41,483
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. Therefore, 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. The largest industrial categories of loans as of the current fiscal year-end was local governments, followed in order by individuals, manufacturing industries, and whole and retail sales

industries, 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 suffering 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 for 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 flows 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 the exceptional method.

The consolidated subsidiary neither holds financial assets such as securities nor owes borrowings except deposits 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 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 quarterly reported to the credit risk committee. Audit Division strictly reviews to ensure the monitoring procedures function properly.

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 by Financial Markets Division.

d. Monitoring of market risks

(Interest rate risks)

The risks arising from fluctuations in interest rates are controlled using ALM 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 monthly to the ALM committee using gap analysis or interest rate sensitivity analysis such as BPV and VaR. Derivative instruments such as interest rate

swap contracts to hedge interest rate risks are used in terms of ALM.

(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 a daily VaR based on certain holding periods and confidence interval by confirming whether the quantities of its risk 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.

Investments in securities at Financial Markets Division are executed in accordance with invested items and investing guidelines prescribed in the market business operation standards, the marketing risk management standards and primary policies on investing, and controlled through continuous monitoring. 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 and related administration are clearly identified, following the hedge transaction guidelines, the market business operation standards and market 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 the 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 2015 and 2014 was as follows:

Millions of yen		Thousands of U.S. dollars
2015	2014	2015
¥34,775	¥30,062	\$289,382

The Bank and its consolidated subsidiary periodically verify the effectiveness of risk measurement by a back testing protocol that compares the volume under VaR with the amount of actual gains or losses or hypothetical gains or losses on a fixed portfolio. As a result of conducting the back testing protocol, the Bank and its consolidated subsidiary suppose 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 and its consolidated subsidiary employ 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 2015 and 2014 was as follows:

Millions of yen		Thousands of U.S. dollars
2015	2014	2015
¥2,149	¥8,600	\$17,883

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 2015 and 2014 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2015		2014		2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥274,895	¥274,895	¥335,312	¥335,312	\$2,287,551	\$2,287,551
Call loans and bills bought	105,000	105,000	146,029	146,029	873,762	873,762
Commercial paper and other debt purchased	6,094	6,185	7,162	7,292	50,711	51,469
Money held in trust	4,985	4,985	4,985	4,985	41,483	41,483
Securities						
Held-to-maturity bonds	36,104	38,737	36,939	38,134	300,441	322,352
Available-for-sale securities	1,342,244	1,342,244	1,318,895	1,318,895	11,169,543	11,169,543
Loans and bills discounted	1,741,016		1,638,911		14,487,942	
Reserve for possible loan losses	(6,318)		(9,728)		(52,575)	
	1,734,698	1,737,434	1,629,183	1,631,251	14,435,367	14,458,134
Liabilities:						
Deposits	3,269,768	3,270,190	3,284,422	3,284,847	27,209,520	27,213,032
Call money	10,000	10,000	—	—	83,215	83,215
Borrowed money	13,837	13,941	11,144	11,144	115,145	116,011
Corporate bonds with stock acquisition rights	12,017	11,957	10,292	11,630	100,000	99,501
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	(80)	(80)	9	9	(666)	(666)
Derivative instruments qualifying for hedge accounting	(1,132)	(3,106)	(647)	(905)	(9,420)	(25,847)

(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 values of held-to-maturity bonds and available-for-sale securities are based on either quoted market prices or prices provided by the financial institutions making markets in these bonds. Private placement bonds are based on the discounted present

value, which is calculated by discounting estimated future cash flows arising from the financial assets.

e. Loans and bills discounted

Carrying amounts of loans and bills discounted with floating rates, which indicate the short-term market interest rates, are supposed to approximate the fair value as long as credit status of the borrower has not largely changed. The fair value of loans and bills discounted with fixed rates 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, by the types, self-assessment and the terms. As for loans and bills with short-term settlement (within a year), their carrying amounts are supposed to approximate the fair value.

The estimated uncollectable amount of loans to borrowers which are classified as legally bankrupt, substantially bankrupt and potentially bankrupt is based on the estimated disposal value of collateral and the amount deemed collectible from guarantees, and therefore their carrying amounts after deduction of reserve for possible loan losses at the closing date are supposed to approximate the fair value.

Carrying amounts of loans and bills discounted with no specified repayment dates settled, due to some characteristics such as the outstanding balance which is not exceeding the value of collateral, are supposed to approximate the fair value, given the estimated repayment period, interest rates and other conditions.

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. Call money

Call money are short-term in nature, and therefore their carrying amounts approximate fair value.

h. 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.

i. Corporate bonds with stock acquisition rights

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

j. 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 values at 31 March 2015 and 2014:

	Millions of yen		Thousands of
	2015	2014	U.S. dollars
Available-for-sale securities	¥4,446	¥3,145	\$36,998

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2015 and 2014 were as follows:

	Millions of yen					
	2015					
	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	¥105,000	¥—	¥—	¥—	¥—	¥—
Commercial paper and other debt purchased	2,298	—	—	—	—	3,796
Securities						
Held-to-maturity bonds	1,115	640	12,405	—	—	21,944
Mainly consists of followings:						
National bonds	—	—	10,002	—	—	21,944
Corporate bonds	1,115	640	—	—	—	—
Available-for-sale securities	138,776	276,571	365,127	188,123	239,395	62,215
Mainly consists of followings:						
National bonds	26,192	101,186	178,084	85,318	25,933	33,740
Local government bonds	18,702	7,407	16,345	31,206	167,106	27,122
Corporate bonds	52,801	120,589	114,362	65,304	15,541	—
Loans and bills discounted	268,011	399,185	360,313	152,759	144,650	230,090
Deposits	3,084,281	176,764	8,192	174	357	—
Call money	10,000	—	—	—	—	—
Borrowed money	—	—	—	10,000	—	—

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

	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	—
Call money	—	—	—	—	—	—
Borrowed money	—	—	—	—	10,000	—

	Thousands of U.S. dollars					
	2015					
	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	\$873,762	\$—	\$—	\$—	\$—	\$—
Commercial paper and other debt purchased	19,123	—	—	—	—	31,588
Securities						
Held-to-maturity bonds	9,278	5,326	103,229	—	—	182,608
Mainly consists of followings:						
National bonds	—	—	83,232	—	—	182,608
Corporate bonds	9,278	5,326	—	—	—	—
Available-for-sale securities	1,154,831	2,301,498	3,038,421	1,565,474	1,992,136	517,725
Mainly consists of followings:						
National bonds	217,958	842,024	1,481,934	709,978	215,803	280,768
Local government bonds	155,629	61,638	136,016	259,682	1,390,580	225,697
Corporate bonds	439,386	1,003,487	951,668	543,430	129,325	—
Loans and bills discounted	2,230,265	3,321,836	2,998,361	1,271,191	1,203,711	1,914,704
Deposits	25,665,982	1,470,949	68,170	1,448	2,971	—
Call money	83,215	—	—	—	—	—
Borrowed money	—	—	—	83,215	—	—

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 2015 and 2014 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2015			2014			2015		
	Notional amounts	Valuation gains Fair value	(losses)	Notional amounts	Valuation gains Fair value	(losses)	Notional amounts	Valuation gains Fair value	(losses)
Forward foreign exchange:									
Sell	¥4,879	¥(78)	¥(78)	¥21	¥(0)	¥(0)	\$40,601	\$(649)	\$(649)
Buy	104	(2)	(2)	296	9	9	865	(17)	(17)

Note: Transactions in the above table are revalued at fair 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 2015 and 2014 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2015		2014		2015	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥43,827	¥ (1,896)	¥14,798	¥ (647)	\$364,708	\$ (15,778)
Receive floating / Pay fixed rate (Exceptional method)	22,717	(1,974)	22,813	(258)	189,041	(16,427)

(Currency-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2015		2014		2015	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap (Deferral method)	¥91,000	¥764	¥—	¥—	\$757,261	\$6,358

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
	Bills discounted	¥3,725	¥3,580
Loans on notes	89,304	97,904	743,147
Loans on deeds	1,465,609	1,377,689	12,196,130
Overdrafts	182,378	159,738	1,517,667
	<u>¥1,741,016</u>	<u>¥1,638,911</u>	<u>\$14,487,942</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 2015 and 2014 was ¥3,725 million (\$30,998 thousand) and ¥3,589 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 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Loans to borrowers under bankruptcy proceedings	¥1,007	¥1,651	\$8,380
Past due loans	26,498	30,886	220,505
Loans past due three months or more	119	92	990
Restructured loans, including loans to borrowers financially assisted by the Bank	10,074	8,153	83,831
	<u>¥37,698</u>	<u>¥40,782</u>	<u>\$313,706</u>

8. PLEDGED ASSETS

At 31 March 2015, deposits of ¥28,649 million (\$238,404 thousand), call money of ¥10,000 million (\$83,215 thousand), and borrowed money of ¥3,725 million (\$30,998 thousand) were secured by a pledge of securities in the amount of ¥120,746 million (\$1,004,793 thousand) and guarantee money deposits in the amount of ¥71 million (\$591 thousand). At 31 March 2014, deposits of ¥12,221 million and borrowed money of ¥926 million were secured by a pledge of securities in the amount of ¥162,027 million and guarantee money deposits in the amount of ¥71 million. In addition to the above-mentioned assets pledged as collateral, the Bank provided securities of ¥43,103 million (\$358,684 thousand) and ¥41,443 million, and other assets in the amount of ¥3 million (\$25 thousand) and ¥3 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2015 and 2014.

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 2015 and 2014 amounted to ¥685,132 million (\$5,701,356 thousand) and ¥680,377 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 ¥647,388 million (\$5,387,268 thousand) and ¥644,950 million at 31 March 2015 and 2014, 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 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Accrual income	¥3,709	¥3,965	\$30,865
Other	2,435	1,968	20,263
	<u>¥6,144</u>	<u>¥5,933</u>	<u>\$51,128</u>

11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Land	¥ 8,906	¥ 8,998	\$74,112
Buildings	33,618	33,643	279,754
Equipment	7,808	7,971	64,975
Leased assets	1,531	1,531	12,740
Other	375	108	3,120
	<u>52,238</u>	<u>52,251</u>	<u>434,701</u>
Accumulated depreciation	<u>35,724</u>	<u>35,495</u>	<u>297,279</u>
	<u>¥16,514</u>	<u>¥16,756</u>	<u>\$137,422</u>

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥1,030 million (\$10,008 thousand) and ¥1,041 million at 31 March 2015 and 2014, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets at 31 March 2015 and 2014 consisted of the following:

Intangible assets

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Software	¥1,143	¥1,255	\$9,511
Leased assets	1,013	1,372	8,430
Other	39	40	325
	<u>¥2,195</u>	<u>¥2,667</u>	<u>\$18,266</u>

13. DEPOSITS

Deposits at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Current deposits	¥49,127	¥51,185	\$408,812
Ordinary deposits	1,650,347	1,711,574	13,733,436
Deposits at notice	6,281	4,604	52,268
Time deposits	1,198,132	1,217,411	9,970,309
Other deposits	149,857	48,388	1,247,042
Negotiable certificates of deposit	216,024	251,260	1,797,653
	<u>¥3,269,768</u>	<u>¥3,284,422</u>	<u>\$27,209,520</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 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Subordinated borrowings	¥10,000	¥10,000	\$83,215

15. CORPORATE BONDS WITH STOCK ACQUISITION RIGHTS

Corporate bonds with stock acquisition rights at 31 March 2015 and 2014 were summarized as follows:

Name	Issued	Millions of Yen		Thousands of U.S. Dollars	Coupon Rate (%)	Secured or Unsecured	Due
		2015	2014	2015			
Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars	25 July 2013	¥12,017	¥10,292	\$100,000	Non-interest	Unsecured	25 July 2018

Notes: 1. Outline of corporate bonds with stock acquisition rights was as follows:

	Zero coupon convertible bond-type bonds with stock acquisition rights 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)	¥6,012 (\$50.03)
Total amount of issue (Millions of Yen / Thousands of U.S. Dollars)	¥12,017 (\$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 their 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. These 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 2015 announced by the Bank.

3. Annual maturities of corporate bonds with stock acquisition rights at 31 March 2015 were as follows:

Year ending 31 March	Thousands of U.S.	
	Millions of yen	dollars
2016	¥—	\$—
2017	—	—
2018	—	—
2019	12,017	100,000
2020 and thereafter	—	—

16. OTHER LIABILITIES

Other liabilities at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of
	2015	2014	U.S. dollars
Accrual income taxes	¥287	¥1,879	\$2,388
Accrued expenses	2,728	2,733	22,701
Unearned income	702	723	5,842
Lease obligations	2,391	2,902	19,897
Other	14,586	13,203	121,378
	<u>¥20,694</u>	<u>¥21,440</u>	<u>\$172,206</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, Paragraph 3), out of bonds included in Securities, stands at ¥1,690 million (\$14,063 thousand) in 2015 and ¥1,852 million in 2014.

18. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

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 has set up retirement benefit trust in the defined benefit pension plan.

Under the lump-sum retirement benefit plan (even though this is unfunded plan, this has become funded plan as a result of setting up retirement benefit trust.), 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
	2015	2014	2015
Balance at beginning of year	¥24,582	¥24,652	\$204,560
Cumulative effects of changes in accounting policies	1,745	—	14,521
Restated balance	26,327	—	219,081
Service costs (including the amount of employee contributions)	735	708	6,116
Interest costs	273	370	2,272
Actuarial differences	132	209	1,099
Retirement benefits paid	(1,303)	(1,357)	(10,843)
Balance at end of year	¥26,164	¥24,582	\$217,725

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
	2015	2014	2015
Balance at beginning of year	¥23,726	¥21,842	\$197,436
Expected return on plan assets	491	446	4,086
Actuarial differences	1,666	759	13,864
Employer contributions	1,330	1,330	11,068
Employee contributions	56	55	466
Retirement benefits paid	(704)	(706)	(5,858)
Balance at end of year	¥26,565	¥23,726	\$221,062

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Funded projected benefit obligation	¥26,152	¥24,571	\$217,625
Plan assets	(26,565)	(23,726)	(221,062)
	(413)	845	(3,437)
Unfunded projected benefit obligation	12	11	100
Net liability (asset) recognized in consolidated balance sheets	(401)	856	(3,337)
Net defined benefit liability	2,373	1,960	19,747
Net defined benefit asset	(2,774)	(1,104)	(23,084)
Net liability (asset) recognized in consolidated balance sheets	¥(401)	¥856	\$(3,337)

Note: The table above includes the plans to which the simplified method is applied.

(iv) Retirement benefit expenses and its breakdown

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service costs (excluding the amount of employee contributions)	¥680	¥652	\$5,658
Interest costs	273	370	2,272
Expected return on plan assets	(491)	(446)	(4,086)
Amortization of actuarial differences	730	708	6,075
Retirement benefit expenses	¥1,192	¥1,284	\$9,919

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

(v) Remeasurements of defined benefit plans on other comprehensive income

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial differences	¥ 2,264	¥—	\$ 18,840
Total	¥ 2,264	¥—	\$ 18,840

(vi) Remeasurements of defined benefit plans on accumulated other comprehensive income

The component of items recognized in remeasurements of defined benefit plans (pre-tax) on accumulated other comprehensive income was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial differences	¥(99)	¥(2,364)	\$(824)
Total	¥(99)	¥(2,364)	\$(824)

(vii) Plan assets

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

	2015	2014
Bonds	66%	67%
Equities	19%	18%
Cash and deposits	0%	0%
Other	15%	15%
Total	100%	100%

Retirement benefit trust set up for defined benefit pension plans accounts for 18% and 19% of total plan assets for the years ended 31 March 2015 and 2014, respectively. In addition, retirement benefit trust set up for the lump-sum retirement benefit plans accounts for 22% and 24% of total plan assets for the years ended 31 March 2015 and 2014, 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 return for various categories of the plan assets.

(viii) Basis for calculation of actuarial assumptions

Basis for calculation of actuarial assumptions (presented as weighted-average rate) at 31 March 2015 and 2014 was as follows:

	2015	2014
Discount rate	1.0%	1.5%
Long-term expected rate of return on plan assets	2.1%	2.0%

19. INCOME TAXES

The Bank and its consolidated 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 35.3% and 37.7% for the years ended 31 March 2015 and 2014, respectively.

Significant components of the Bank's deferred tax assets and liabilities at 31 March 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Reserve for possible loan losses	¥1,522	¥2,975	\$12,665
Net defined benefit liability	3,177	3,883	26,437
Accumulated depreciation	1,190	1,349	9,903
Securities	699	749	5,817
Other	1,887	1,701	15,703
Subtotal	8,475	10,657	70,525
Valuation allowance	(1,611)	(2,127)	(13,406)
Total deferred tax assets	6,864	8,530	57,119
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(22,080)	(16,867)	(183,740)
Deferred gains on sale of real estate	(452)	(456)	(3,761)
Other	(1)	(0)	(8)
Total deferred tax liabilities	(22,533)	(17,323)	(187,509)
Net deferred tax liabilities	¥(15,669)	¥(8,793)	\$(130,390)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2015 and 2014.

	2015	2014
Statutory tax rate	35.3%	37.7%
Non-deductible expenses	0.3	0.4
Non-taxable income	(1.7)	(1.3)
Per capita inhabitant taxes	0.3	0.3
Valuation allowance	(3.0)	1.3
Decrease in deferred tax assets due to tax rate changes	4.8	1.3
Other, net	(0.0)	(0.4)
Effective tax rate	36.0%	39.3%

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

On 31 March 2015, “Partial Amendment of the Income Tax Law” and “Partial Amendment of the Local Tax Law” were promulgated, and the rate of income taxes will be lowered from the years beginning on and after 1 April 2015. Accordingly, the effective tax rate applied to the calculation of deferred tax assets and liabilities has been lowered from 35.3% to 32.8% and 32.0% for temporary differences expected to be reversed during the year beginning on 1 April 2015 and the years beginning on and after 1 April 2016.

This change resulted in decrease in deferred tax liabilities by ¥1,656 million (\$13,780 thousand), increase in net unrealized holding gains on available-for-sale securities by ¥2,274 million (\$18,923 thousand), decrease in net unrealized losses on hedging derivatives by ¥63 million (\$524 thousand), decrease in remeasurements of defined benefit plans on accumulated other comprehensive income by ¥1 million (\$8 thousand), and increase in provision for income taxes-deferred by ¥554 million (\$4,610 thousand).

20. NET ASSETS

Under the Companies 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 the 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 a 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 the 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 741 thousand shares at 31 March 2015.

21. STOCK OPTION

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

The balance of stock acquisition rights granted for stock option program was ¥99 million (\$824 thousand) and ¥55 million at 31 March 2015 and 2014, respectively.

Share-based compensation expenses which were accounted for as general and administrative expenses for the year ended 31 March 2015 and 2014 amounted to ¥46 million (\$383 thousand) and ¥55 million, respectively.

2. Detail of stock options, volume and activity

(a) Detail of stock options

	2013 Stock Option Plan	2014 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	Directors of the Bank: 9
Number of stock options by type of shares	Common stock: 13,400 shares	Common stock: 10,400 shares
Grant date	24 July 2013	24 July 2014
Condition for vesting	Not applicable	Not applicable
Requisite service period	Not applicable	Not applicable
Exercise period	From 25 July 2013 to 24 July 2043	From 25 July 2014 to 24 July 2044

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 2015. The number of stock options is reported in terms of shares of stock.

(i) Number of stock options

	2013 Stock Option Plan	2014 Stock Option Plan
Before vesting (shares):		
At 31 March 2014	13,400	—
Granted	—	10,400
Forfeited	—	—
Vested	600	—
Outstanding	12,800	10,400
After vesting (shares):		
At 31 March 2014	—	—
Vested	600	—
Exercised	600	—
Forfeited	—	—
Outstanding	—	—

(ii) Price information

	2013 Stock Option Plan	2014 Stock Option Plan
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)
Average exercise price	¥4,850 (\$40.36)	—
Fair value at the grant date	¥4,119 (\$34.28)	¥4,437 (\$36.92)

3. Valuation method for fair value of stock options

(a) The valuation method : Black-Scholes formula

(b) Major basic numerical values and valuation method

	2014 Stock Option Plan
Stock price volatility (*1)	30.7%
Expected years to expiration (*2)	4.4years
Expected dividends (*3)	¥60 (\$0.50) per share
Risk-free interest rate (*4)	0.12%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 22 February 2010 to 14 July 2014.

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

*3. Expected dividends are determined based on actual dividends for the year ended 31 March 2014.

*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 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Salaries and allowances	¥11,175	¥11,360	\$92,993
Fringe benefits and welfare	2,648	2,582	22,035
Retirement benefit expenses	1,192	1,284	9,919
Depreciation for premises and equipment	2,089	2,122	17,384
Rental expenses	755	740	6,283
Taxes other than income taxes	1,256	1,176	10,452
Deposit insurance premium	1,981	1,808	16,485
Business consignment expenses	2,507	2,602	20,862
Other expenses	3,705	4,135	30,832
	<u>¥27,308</u>	<u>¥27,809</u>	<u>\$227,245</u>

23. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Other operating income:			
Gain on sale of bonds	¥553	¥825	\$4,602
Gain on sale of foreign bills of exchange	53	90	441
Gain on financial instruments	—	5	—
Gain on trading account securities transactions	1	4	8
Other	—	0	—
	<u>¥607</u>	<u>¥924</u>	<u>\$5,051</u>

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Other operating expenses:			
Loss on redemption of bonds	¥31	¥434	\$258
Loss on sales of bonds	114	43	949
Other	1	76	8
	<u>¥146</u>	<u>¥553</u>	<u>\$1,215</u>

24. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of
	2015	2014	U.S. dollars
Other income:			2015
Reversal of provision for possible loan losses	¥983	¥2,182	\$8,180
Gain on sale of stocks and other securities	246	166	2,047
Gain on disposal of premises and equipment	438	11	3,645
Other	927	787	7,714
	<u>¥2,594</u>	<u>¥3,146</u>	<u>\$21,586</u>
Other expenses:			Thousands of
			U.S. dollars
	2015	2014	2015
Loss on transfer of receivables	¥350	¥217	\$2,912
Loss on disposal of premises and equipment	142	179	1,182
Loss on devaluation of stocks and other securities	85	76	707
Other	568	517	4,727
	<u>¥1,145</u>	<u>¥989</u>	<u>\$9,528</u>

25. LEASE TRANSACTIONS

A. Finance leases

(a) As lessee

(1) Finance leases that transfer the ownership

(i) Details of leased assets

Premises and equipment:

Mainly consisted of equipment for the Bank's network system

Intangible assets:

Mainly consisted of software for branch operating system

(ii) Depreciation and amortization methods of leased assets

Depreciation and amortization methods of leased assets are 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

Premises and equipment:

Mainly consisted of equipment for branch operating system

Intangible assets:

Mainly consisted of software for branch operating system

(ii) Depreciation and amortization methods of leased assets

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

(3) Current portion of lease obligations and lease obligations (excluding current portion) at 31 March 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of	Average interest
	2015	2014	U.S. dollars	rate (%)
			2015	2015
Current portion of lease obligations	¥523	¥511	\$4,352	2.42%
Lease obligations (excluding current portion)	1,868	2,391	15,545	2.50%
	¥2,391	¥2,902	\$19,897	

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

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

Year ending 31 March	Millions of	Thousands of
	yen	U.S. dollars
	2015	2015
2016	¥523	\$4,352
2017	535	4,452
2018	538	4,477
2019	524	4,361
2020 and thereafter	271	2,255

Year ending 31 March	Millions of
	yen
	2014
2015	¥511
2016	523
2017	535
2018	538
2019 and thereafter	795

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2015 and 2014.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2015 were ¥252 million (\$2,097 thousand) including ¥11 million (\$92 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2014 were ¥263 million including ¥11 million due within one year.

26. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income for the years ended 31 March 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized holding gains on available-for-sale securities:			
Amount for the year	¥22,617	¥557	\$188,208
Reclassification adjustment	(1,081)	(589)	(8,995)
Amount before tax effect	21,536	(32)	179,213
Tax effect amount	(5,214)	116	(43,389)
Net unrealized holding gains on available-for-sale securities	16,322	84	135,824
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	(1,616)	(20)	(13,448)
Reclassification adjustment	367	184	3,054
Amount before tax effect	(1,249)	164	(10,394)
Tax effect amount	378	(58)	3,146
Net unrealized gains (losses) on hedging derivatives	(871)	106	(7,248)
Remeasurements of defined benefit plans:			
Amount for the year	1,534	—	12,765
Reclassification adjustment	730	—	6,075
Amount before tax effect	2,264	—	18,840
Tax effect amount	(801)	—	(6,665)
Remeasurements of defined benefit plans	1,463	—	12,175
Share of other comprehensive income of affiliates accounted for using the equity method:			
Amount for the year	5	2	42
Reclassification adjustment	—	—	—
Amount before tax effect	5	2	42
Tax effect amount	—	—	—
Share of other comprehensive income of affiliates accounted for using the equity method	5	2	42
Total other comprehensive income	¥16,919	¥192	\$140,793

27. PER SHARE DATA

Net assets per share at March 31, 2015 and 2014 and net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2015	2014	2015
Net assets	¥10,846.26	¥9,602.66	\$90.26
Net income	414.15	429.49	3.45
Diluted net income	371.87	398.91	3.09

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
	2015	2014	2015
Net assets:			
Total net assets	¥192,694	¥170,575	\$1,603,512
Amount to be deducted from total net assets	99	55	824
Stock acquisition rights	99	55	824
Net assets at the end of fiscal year attributed to common stock	192,595	170,520	1,602,688
Number of shares of common stock at the end of fiscal year used in computing net assets per share attributed to common stock	17,757	17,758	
Net income:			
Net income	7,354	7,720	61,197
Net income attributed to common stock	7,354	7,720	61,197
Average number of shares of common stock during the year	17,757	17,976	
Diluted net income:			
Number of increased common stock used in computing diluted net income per share	2,019	1,378	
Convertible bond-type bonds with stock acquisition rights	1,999	1,369	
Compensation-type stock option	20	9	

As described in “Changes in accounting policies,” the Bank and its consolidated subsidiary have adopted the main clause of Paragraph 35 of Retirement Benefits Standard and the main clause of Paragraph 67 of Retirement Benefits Guidance from the year ended 31 March 2015. The Retirement Benefits Standard and the Retirement Benefits Guidance are applied in accordance with the transitional provisions set forth in Paragraph 37 of the Retirement Benefits Standard.

As a result of this change, net assets per share at 1 April 2014 decreased by ¥63.58 (\$0.53), while net income per share and diluted net income per share for the year ended 31 March 2015 increased by ¥2.34 (\$0.02) and ¥2.10 (\$0.02), respectively.

28. SEGMENT INFORMATION

(1) Reportable segment information

Reportable segment information was omitted as the Bank and its consolidated subsidiary had a single segment, commercial banking business for the years ended 31 March 2015 and 2014.

(2) Other segment-related information

a. Information by services

Information by services for the years ended 31 March 2015 and 2014 was as follows:

	2015			
	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥20,045	¥14,569	¥9,806	¥44,420

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

	2015			
	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	\$166,805	\$121,237	\$81,601	\$369,643

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 2015 and 2014 was omitted, because the amount of ordinary income from domestic customers was more than 90% of consolidated ordinary income.

ii. Premises and equipment

Information as to premises and equipment for the years ended 31 March 2015 and 2014 was omitted, because there were no premises and equipment located abroad.

c. Major customers' segment information

Major customers' segment information was not shown for the years ended 31 March 2015 and 2014, since there was 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 was omitted for the years ended 31 March 2015 and 2014,

since the Bank and its consolidated subsidiary had 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 2015 and 2014.

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 2015 and 2014.

29. RELATED PARTY TRANSACTIONS

(1) Related party transactions

a. Transactions between the Bank and related parties

Transactions with executive officers of the Bank and major shareholders (limited to individual) and others

For the year ended 31 March 2015

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2015
Executive officer and close family members	Satoshi Kikuchi	Close family member of a Director of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥13 million (\$108 thousand)

Note: Terms and conditions of the transaction are determined in the same way as other ordinary transactions.

There is no significant transaction to be disclosed between the Bank and related parties for the year ended 31 March 2014.

b. Transactions between the Bank's consolidated subsidiary and related parties

There is no significant transaction to be disclosed between the Bank's consolidated subsidiary and related parties for the years ended 31 March 2015 and 2014.

(2) Notes to the Bank's parent company and significant affiliates

There is no information to be reported on the notes to the Bank's parent company and significant affiliates for the years ended 31 March 2015 and 2014.

30. SUBSEQUENT EVENTS

Cash dividends

On 23 June 2015, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2015:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 (\$0.29) per share for year-end)	¥622	\$5,176

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, 2015 and 2014, 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, 2015 and 2014, 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, 2015 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
11 September, 2015
Tokyo, Japan

Corporate Profile

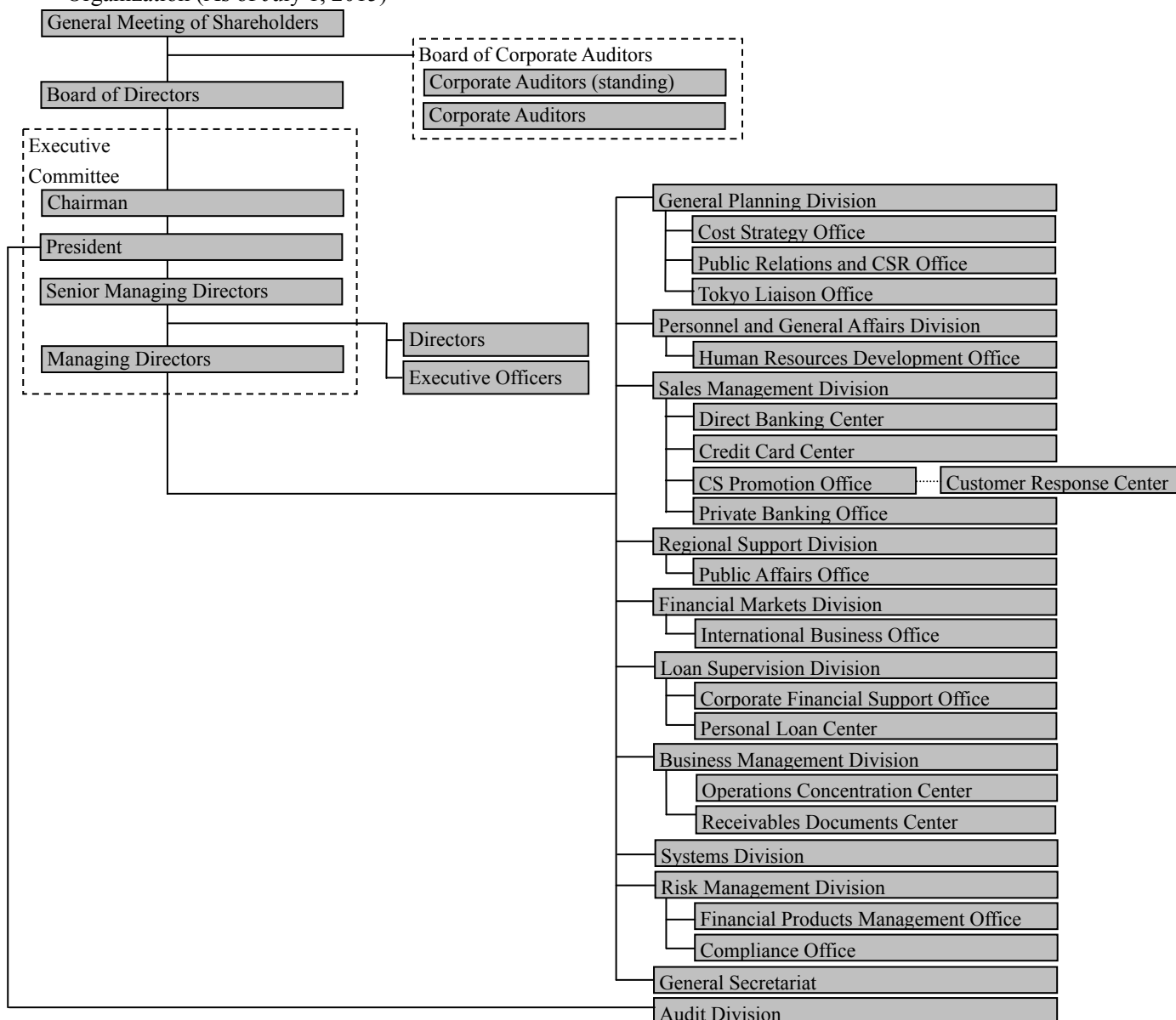
• Corporate Data (As of March 31, 2015)

Established	May 2, 1932	Employees	1,458
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	109 (Iwate Prefecture 91)
Shareholders	7,038		

• Board of Directors and Corporate Auditors (As of July 1, 2015)

<i>Chairman</i> Masahiro Takahashi	<i>Directors</i> Yasuyuki Aramichi Mikio Kikuchi Hiroshi Miura Atsushi Takahashi Fumio Ube	<i>Corporate Auditors</i> Katsuya Sato (standing) Katsunori Ikeda (standing) Shinobu Obara Mizuhiko Yoshida	<i>Executive Officers</i> Hiroaki Takahashi Katsuhiro Kawamura Motomu Sato
<i>President</i> Sachio Taguchi	<p>Notes:</p> <p>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.</p> <p>2. Katsunori Ikeda, Shinobu Obara, and Mizuhiko Yoshida are outside auditors as stipulated in Article 2, Item 16 of the Corporation Law.</p>		
<i>Senior Managing Director</i> Masahiro Saito			
<i>Managing Directors</i> Osamu Sakamoto Keiji Iwata Yuichi Kato Shigeki Miura			

• Organization (As of July 1, 2015)



• The Bank of Iwate Group

Name/Address	Capital (Millions of yen)	Main Business	Date of Establishment	The Bank's Voting Rights	Voting Rights of Subsidiaries, etc. Other than Said Subsidiaries, etc.
(Consolidated subsidiary) Iwagin Business Service Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	10	Administrative work of the Bank	September 4, 1979	100%	0%
(Equity method affiliate) Iwagin Lease Data Co., Ltd. 1-5-31 Nakanohashi Dori, Morioka City, Iwate Prefecture	30	Computerized accounting services, leasing	April 1, 1972	5%	20%
(Equity method affiliate) Iwagin DC Card Co., Ltd. 1-2-14 Nakanohashi Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	5%	20%
(Equity method affiliate) Iwagin Credit Service Co., Ltd. 14-10-301 Morioka Ekimae Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	5%	20%
(Non-equity method affiliate) Iwagin Enterprise Creation Capital Co., Ltd. 1-2-3 Chuo Dori, Morioka City, Iwate Prefecture	50	Investment fund management	April 1, 2015	40%	0%



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 83rd 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.

