The Bank of Iwate, Ltd. Annual Report 2016

Annual Report
2016

THE BANK OF IWATE, LTD.

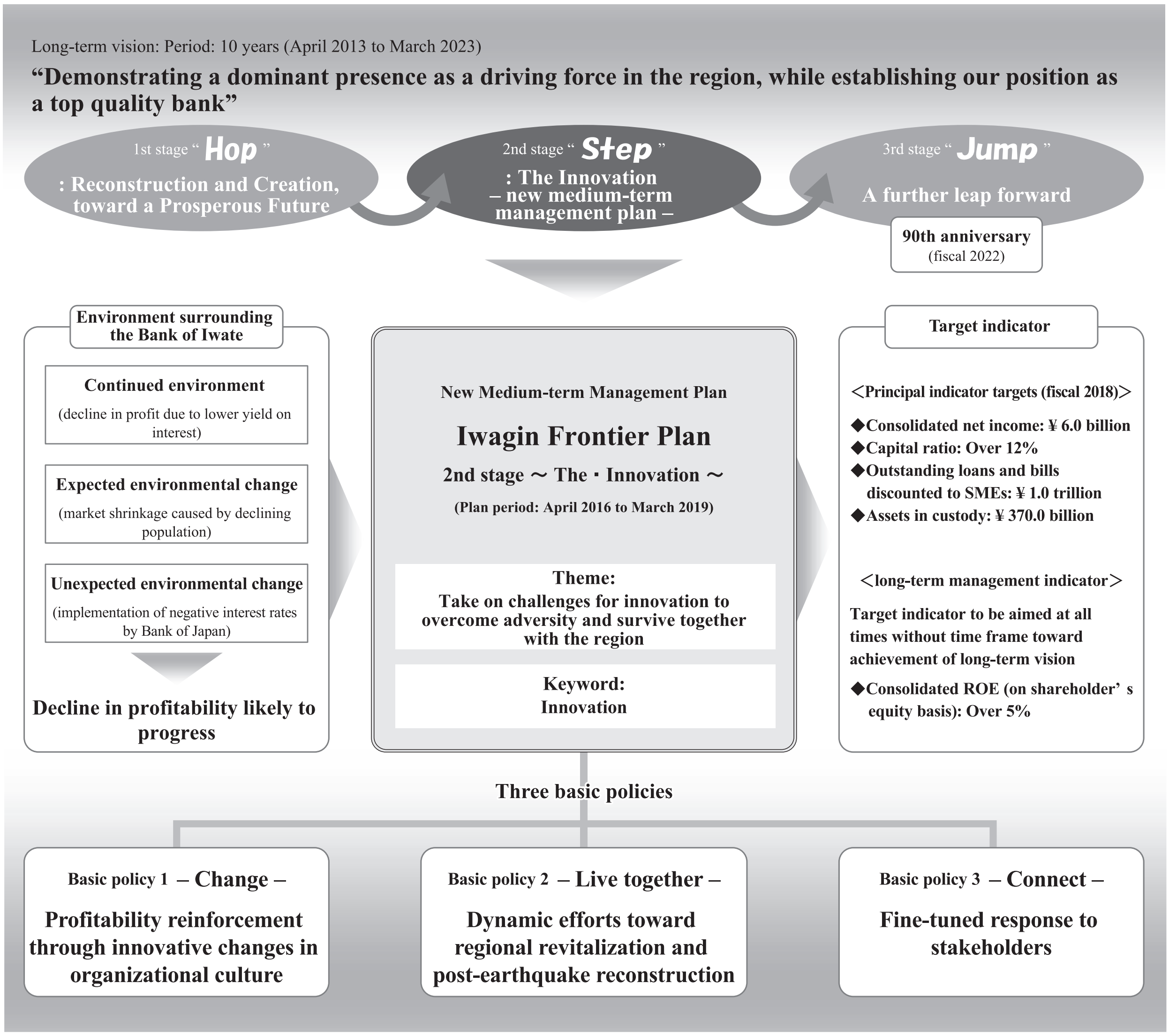
Sachio Taguchi
President

Message from the President

Five and a half years have passed since the Great East Japan Earthquake occurred. Post-earthquake reconstruction activities are now going into the stage for a further leap forward. In light of these circumstances, the Bank launched its new medium-term management plan, “Iwagin Frontier Plan 2nd stage – The・Innovation” as the second stage of the long-term vision “Demonstrating a dominant presence as a driving force in the region, while establishing our position as a top quality bank.” This plan is geared to the “Step” stage of the “Hop, Step and Jump” stages of the long-term vision, which is defined as a period in which we strongly promote regional revitalization, looking beyond the reconstruction, while storing energies and forging solid footing for the next “Jump” stage.

Environment surrounding the Bank is becoming increasingly challenging, including profitability decline due to lower yield caused by quantitative and qualitative monetary easing with negative interest rates by the Bank of Japan, intensifying competition as well as future market shrinkage due to declining population. In this plan, in order to overcome this environment, we will take on challenges for “innovation” with the aim of adapting to the environment and vigorously push forward innovative changes in all aspects beyond conventional thought.

Overview of the Medium-term Management Plan



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 ¥21.4 billion from the previous term-end to ¥3,248.3 billion (US$28,827.7 million). This was attributable to the decrease in public deposits outweighing the increase in deposits by corporate clients and individuals.

Furthermore, the term-end balance of asset under management posted a decrease of ¥5.1 billion from the previous term-end to ¥257.4 billion (US$2,284.3 million), reflecting decreases in public bonds and investment trusts.

Loans

The term-end balance of loans rose by ¥ 31.8 billion from the previous term-end to ¥ 1,772.8 billion (US$15,733.2 million) as loans to corporate clients, loans to individuals and loan to local governments all reported increases.

Securities

The value of total securities decreased by ¥61.5 billion from the previous term-end to ¥1,321.2 billion (US$11,726.0 million). This was mainly attributable to a decline in bonds including national bonds and corporate bonds.

Cash Flow Analysis

With regards to cash flow situation for the current fiscal year, net cash provided by operating activities was a net inflow of ¥44.6 billion (US$395.5 million), partly due to a decrease in call loans and an increase in negotiable certificate of deposit.

Net cash provided by investing activities was a net inflow of ¥57.2 billion (US$507.9 million), partly due to proceeds from sale and redemption of securities. Net cash used in financing activities was a net outflow of ¥1.8 billion (US$15.7 million), mainly attributable to cash dividends paid. As a result of the above, the term-end balance of cash and cash equivalents increased by ¥100.0 billion from the previous term-end, to ¥352.5 billion (US$3,128.5 million).

Business Performance

Earnings

Total income increased by ¥2.1 billion from the previous term to ¥46.5 billion (US$413.6 million). This was mainly attributable to increases in gain on sale of bonds and stocks as well as interest and dividends on securities, in spite of a decrease in interest on loans and discounts resulting from a reduction in yield.

Total expenses increased by ¥2.1 billion from the previous term to ¥35.3 billion (US$314.9 million). This was mainly due to increases in loss on redemption of bonds and provision of reserve for possible loan losses, despite declines in property rental expenses and retirement benefit expenses.

As a result, income before income taxes decreased by ¥0.4 billion from the previous term to ¥11.1 billion (US$98.7 million), and net income attributable to owners of parent declined by ¥0.2 billion from the previous term to ¥7.1 billion (US$63.1 million).

Capital Ratio

The capital ratios rose by 0.09% to 13.07% on a consolidated capital adequacy basis and by 0.10% on a non-consolidated capital adequacy basis to 13.03%, as a result of the increase in equity capital due to accumulated internal reserves overweighing 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 the appointment of highly independent outside directors and outside auditors.

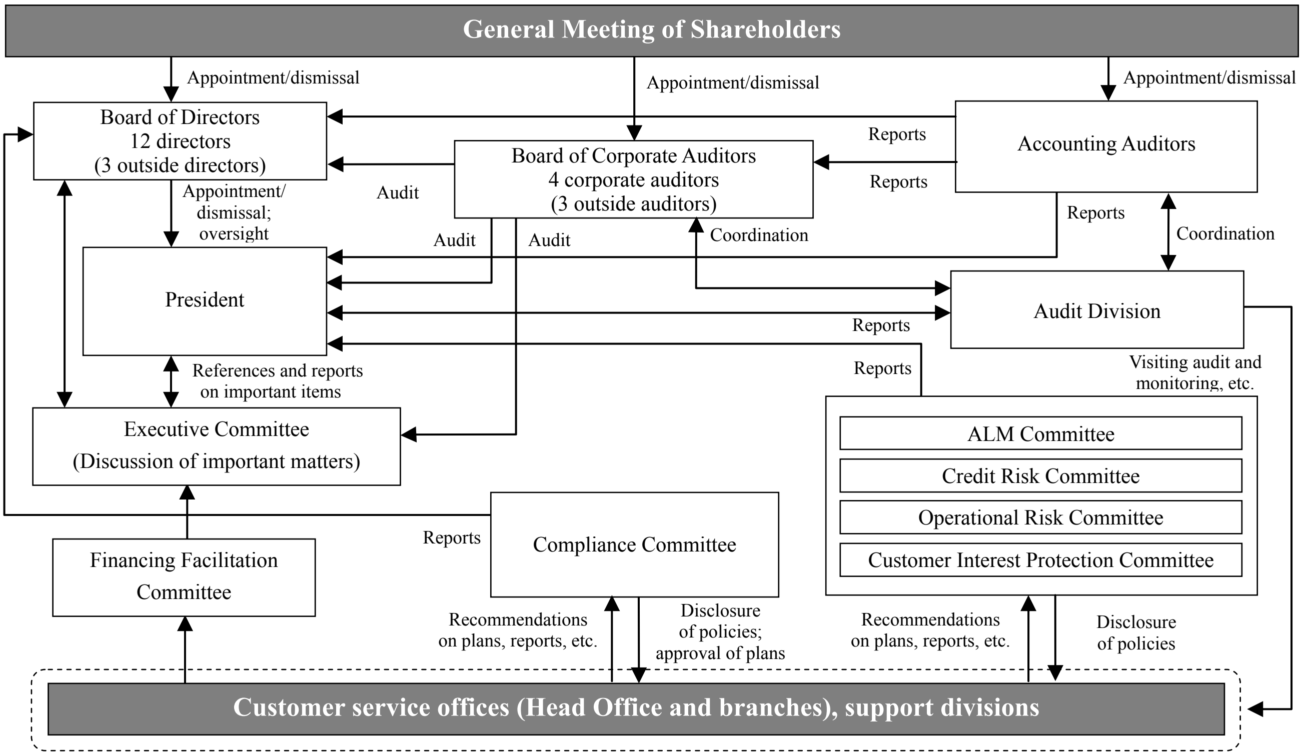
Ever since its establishment, the management of the Bank of Iwate has been based on the two fundamental mission objectives of contributing to the development of the regional community and ensuring the financial soundness of the Bank under all circumstances. Amid today's rapidly changing business environment, 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 eleven 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 and a system that ensures the adequacy of business operations by the Group consisting of the Bank and subsidiaries etc.

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 Toru Narushima, assisted by nine other certified public accountants and twenty four 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"). 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, as the Vice Chairman of TOHOKU ECONOMIC FEDERATION until June 2015, and currently serves as Chairman of Tohoku Productivity Center.
- 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.
- The Bank's three outside directors 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: Masahiko Mochizuki, Shinobu Obara and Mizuhiko Yoshida. Mr. Mochizuki served as Representative Director and President of Sanrikutetsudo Co., Ltd., and was in an executive position of said company; however, he resigned from the position on June 24, 2016. Mr. Obara currently serves as Director and Executive Vice President of Iwate Menkoi Television Co., Ltd., and is in an executive position of said company.
- In terms of transactions between the Bank and the outside auditors, transactions including loans exist between the entities in which Mr. Mochizuki and Mr. Obara currently serve as executive directors 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.
- The Bank's three outside auditors 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.

In addition to the establishment of independence standards for outside directors and outside auditors, the Bank 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)	9	255	182	24	48	-
Corporate auditors (excluding outside auditors)	1	19	19	-	-	-
Outside directors and outside auditors	7	29	29	-	-	-

(Notes) 1. The above numbers of persons include one auditor who retired at the closing of the 133rd General Meeting of Shareholders held on June 23, 2015 and one director who resigned as of March 31, 2016.

2. The above amounts include ¥24 million accrued bonuses for directors and corporate auditors during the current fiscal year (¥24 million for directors), and ¥48 million for stock compensation-type stock acquisition rights (¥48 million for directors).

3. Apart from the above, ¥32 million employees' compensation was paid as compensation to directors concurrently serving as employees (¥25 million employees' salaries and ¥7 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: 137

Balance sheet value: ¥21,138 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, 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.

(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	3,307	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Mitsubishi UFJ Financial Group, Inc.	4,040,310	2,107	Maintenance and reinforcement of collaborative relationship for finance-related businesses
TAIYO NIPPON SANSO CORPORATION	1,822,849	1,946	Maintenance and reinforcement of business relationship
East Japan Railway Company	200,000	1,942	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
SECOM CO., LTD.	104,644	875	Maintenance and reinforcement of business relationship
Daiwa Securities Group Inc.	1,099,806	761	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Yamagata Bank, Ltd.	1,323,800	565	Maintenance and reinforcement cooperative relationship
Tokio Marine Holdings, Inc.	127,086	482	Maintenance and reinforcement of collaborative relationship for finance-related businesses
THE AKITA BANK, LTD.	1,517,159	465	Maintenance and reinforcement cooperative relationship
The Bank of Kyoto, Ltd.	540,000	396	Maintenance and reinforcement cooperative relationship
The Toho Bank, Ltd.	1,052,090	379	Maintenance and reinforcement cooperative relationship
The Aomori Bank, Ltd.	937,000	307	Maintenance and reinforcement cooperative relationship
Yamaguchi Financial Group, Inc.	300,000	306	Maintenance and reinforcement cooperative relationship
JFE Holdings, Inc.	200,047	303	Maintenance and reinforcement of business relationship
THE OITA BANK, LTD.	860,000	301	Maintenance and reinforcement cooperative relationship
The Ogaki Kyoritsu Bank, Ltd.	863,000	293	Maintenance and reinforcement cooperative relationship
The Daishi Bank, Ltd.	731,000	282	Maintenance and reinforcement cooperative relationship
ARCS COMPANY, LIMITED	109,590	276	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Kyushu Financial Group, Inc.	418,470	271	Maintenance and reinforcement cooperative relationship
The Yamanashi Chuo Bank, Ltd.	656,000	270	Maintenance and reinforcement cooperative relationship
The Hyakugo Bank, Ltd.	619,000	261	Maintenance and reinforcement cooperative relationship
DCM Holdings Co., Ltd.	317,949	258	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Electric Power Development Co., Ltd.	72,000	253	Maintenance and reinforcement of business relationship
NTN CORPORATION	657,555	236	Maintenance and reinforcement of business relationship
TOSHIBA CORPORATION	1,024,483	224	Maintenance and reinforcement of business relationship
ORIX Corporation	132,300	212	Maintenance and reinforcement of business relationship
MS&AD Insurance Group Holdings, Inc.	66,756	209	Maintenance and reinforcement of collaborative relationship for finance-related businesses

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
The Musashino Bank, Ltd.	71,600	202	Maintenance and reinforcement cooperative relationship
Sumitomo Seika Chemicals Company, Limited	356,000	197	Maintenance and reinforcement of business relationship
The Kita-Nippon Bank, Ltd	68,250	195	Maintenance and reinforcement cooperative relationship
YAKUODO Co., Ltd.	60,000	191	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
THE BANK OF SAGA LTD.	801,000	169	Maintenance and reinforcement cooperative relationship
Nagase & Co., Ltd.	137,000	169	Maintenance and reinforcement of business relationship
Mitsubishi UFJ Lease & Finance Company Limited	296,600	146	Maintenance and reinforcement of business relationship

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	23,970	424	245	12,586
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	22,983	512	771	11,025
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

Stock name	Number of shares	Balance sheet value (Millions of yen)
NIPPON STEEL & SUMITOMO METAL CORPORATION	193,543	418

(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)

	FY2014		FY2015	
	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	¥1	¥55	¥0
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥55	¥1	¥55	¥0

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 2014.

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 2015.

(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 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.

Current fiscal year

This is 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
Years ended 31 March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2016	2015	2016
Cash and due from banks (Notes 3 and 6)	¥364,926	¥274,895	$3,238,605
Call loans and bills bought (Note 6)	20,000	105,000	177,494
Commercial paper and other debt purchased (Note 6)	3,907	6,094	34,674
Trading account securities (Note 4)	—	2	—
Money held in trust (Notes 5 and 6)	4,985	4,985	44,240
Securities (Notes 4, 6, 8 and 17)	1,321,286	1,382,794	11,726,003
Loans and bills discounted (Notes 6, 7, 9 and 29)	1,772,818	1,741,016	15,733,209
Foreign exchange assets	1,710	1,797	15,176
Premises and equipment (Notes 11 and 25)	16,287	16,514	144,542
Intangible assets (Notes 12 and 25)	1,875	2,195	16,640
Net defined benefit asset (Note 18)	1,180	2,774	10,472
Deferred tax assets (Note 19)	7	6	62
Customers' liabilities for acceptances and guarantees (Note 17)	6,527	8,187	57,925
Other assets (Notes 6, 8 and 10)	6,319	6,144	56,079
Reserve for possible loan losses (Note 6)	(7,480)	(6,419)	(66,383)
Total assets	¥3,514,347	¥3,545,984	$31,188,738
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,248,304	¥3,269,768	$28,827,689
Call money (Notes 6 and 8)	1,127	10,000	10,002
Borrowed money (Notes 6, 8 and 14)	13,584	13,837	120,554
Foreign exchange liabilities	1	5	9
Corporate bonds with stock acquisition rights (Notes 6 and 15)	11,268	12,017	100,000
Accrued bonuses for directors and corporate auditors	25	22	222
Net defined benefit liability (Note 18)	1,440	2,373	12,779
Retirement benefits for directors and corporate auditors	2	5	18
Provision for losses on reimbursement of dormant deposits	501	470	4,446
Provision for contingent losses	297	237	2,636
Deferred tax liabilities (Note 19)	12,306	15,675	109,212
Acceptances and guarantees (Note 17)	6,527	8,187	57,925
Other liabilities (Notes 6, 16 and 25)	25,867	20,694	229,561
Total liabilities	3,321,249	3,353,290	29,475,053
Net assets (Note 20):			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2016 and 31 March 2015			
Issued and outstanding —18,498 thousand shares at 31 March 2016 and 31 March 2015	12,090	12,090	107,295
Capital surplus	4,811	4,811	42,696
Retained earnings	138,254	132,390	1,226,961
Treasury stock, at cost	(3,748)	(3,742)	(33,262)
Net unrealized holding gains on available-for-sale securities (Note 4)	47,198	48,402	418,868
Net unrealized losses on hedging derivatives (Note 6)	(4,074)	(1,290)	(36,156)
Remeasurements of defined benefit plans (Note 18)	(1,580)	(66)	(14,022)
Stock acquisition rights (Note 21)	147	99	1,305
Total net assets	193,098	192,694	1,713,685
Total liabilities and net assets	¥3,514,347	¥3,545,984	$31,188,738

	Yen		U.S. dollars
	2016	2015	2016
Per share data:			
Net assets (Note 27)	¥10,867.07	¥10,846.26	$96.44

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Income:			
Interest income:			
Interest on loans and discounts	¥19,442	¥20,177	$172,542
Interest and dividends on securities	14,408	13,770	127,867
Other interest income	120	202	1,065
Fees and commissions	7,610	7,508	67,536
Other operating income (Note 22)	2,090	607	18,548
Other income (Note 24)	2,934	2,594	26,038
Total income	46,604	44,858	413,596
Expenses:			
Interest expenses:			
Interest on deposits	1,203	1,320	10,676
Interest on borrowings	156	146	1,385
Other interest expenses	598	430	5,307
Fees and commissions	3,077	2,876	27,307
Other operating expenses (Note 22)	1,940	146	17,217
General and administrative expenses (Note 23)	26,361	27,308	233,946
Other expenses (Note 24)	2,149	1,145	19,072
Total expenses	35,484	33,371	314,910
Income before income taxes	11,120	11,487	98,686
Provision for income taxes (Note 19)			
Current	3,657	2,277	32,455
Deferred	356	1,856	3,159
	4,013	4,133	35,614
Net income	7,107	7,354	63,072
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of parent	¥7,107	¥7,354	$63,072

	Yen		U.S. dollars
	2016	2015	2016
Per share data:			
Net income (Note 27)	¥400.26	¥414.15	$3.55
Diluted net income (Note 27)	359.19	371.87	3.19
Cash dividends applicable to the year (Note 30)	70.00	65.00	0.62

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥7,107	¥7,354	$63,072
Other comprehensive income (losses) (Note 26):			
Net unrealized holding gains (losses) on available-for-sale securities	(1,203)	16,322	(10,676)
Net unrealized gains (losses) on hedging derivatives (Note 6)	(2,784)	(871)	(24,707)
Remeasurements of defined benefit plans (Note 18)	(1,514)	1,463	(13,436)
Share of the other comprehensive income (losses) of affiliates accounted for using the equity method	(1)	5	(9)
Total other comprehensive income (losses)	(5,502)	16,919	(48,828)
Comprehensive income (losses)	¥1,605	¥24,273	$14,244
Total comprehensive income (losses)	¥1,605	¥24,273	$14,244
Attributable to:			
Owners of parent	1,605	24,273	14,244
Non-controlling interests	—	—	—

See accompanying notes.

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2016 and 2015

	Millions of yen										
	Shareholders' equity					Accumulated other comprehensive income (losses)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Total net assets
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 attributable to owners of parent	—	—	7,354	—	7,354	—	—	—	—	—	7,354
Acquisition of treasury stock	—	—	—	(6)	(6)	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	(0)	3	3	—	—	—	—	—	3
Net changes of items other than shareholders' 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, 1 April 2015	12,090	4,811	132,390	(3,742)	145,549	48,402	(1,290)	(66)	47,046	99	192,694
Change during year											
Cash dividends	—	—	(1,243)	—	(1,243)	—	—	—	—	—	(1,243)
Net income attributable to owners of parent	—	—	7,107	—	7,107	—	—	—	—	—	7,107
Acquisition of treasury stock	—	—	—	(6)	(6)	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	(0)	0	0	—	—	—	—	—	0
Net changes of items other than shareholders' equity during year	—	—	—	—	—	(1,204)	(2,784)	(1,514)	(5,502)	48	(5,454)
Total change during year	—	—	5,864	(6)	5,858	(1,204)	(2,784)	(1,514)	(5,502)	48	404
BALANCE, 31 March 2016	¥12,090	¥4,811	¥138,254	¥(3,748)	¥151,407	¥47,198	¥(4,074)	¥(1,580)	¥41,544	¥147	¥193,098

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity					Accumulated other comprehensive income (losses)					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (losses) on available-for-sale securities	Net unrealized gains (losses) on hedging derivatives	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (losses)	Stock acquisition rights	Total net assets
BALANCE, 1 April 2015	$107,295	$42,696	$1,174,920	$(33,209)	$1,291,702	$429,553	$(11,449)	$(586)	$417,518	$879	$1,710,099
Change during year											
Cash dividends	—	—	(11,031)	—	(11,031)	—	—	—	—	—	(11,031)
Net income attributable to owners of parent	—	—	63,072	—	63,072	—	—	—	—	—	63,072
Acquisition of treasury stock	—	—	—	(53)	(53)	—	—	—	—	—	(53)
Disposal of treasury stock	—	—	(0)	0	0	—	—	—	—	—	0
Net changes of items other than shareholders' equity during year	—	—	—	—	—	(10,685)	(24,707)	(13,436)	(48,828)	426	(48,402)
Total change during year	—	—	52,041	(53)	51,988	(10,685)	(24,707)	(13,436)	(48,828)	426	3,586
BALANCE, 31 March 2016	$107,295	$42,696	$1,226,961	$(33,262)	$1,343,690	$418,868	$(36,156)	$(14,022)	$368,690	$1,305	$1,713,685

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥11,120	¥11,487	$98,687
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	2,086	2,089	18,513
Impairment losses	64	15	568
Equity in (gains) losses of affiliates	(30)	(17)	(266)
Increase (decrease) in reserve for possible loan losses	1,061	(3,384)	9,416
Increase (decrease) in provision for contingent losses	60	8	532
Increase (decrease) in accrued bonuses for directors	3	(2)	27
(Increase) decrease in net defined benefit asset	(1,104)	(661)	(9,798)
Increase (decrease) in net defined benefit liability	(411)	(76)	(3,647)
Increase (decrease) in retirement benefits for directors and corporate auditors	(3)	(1)	(27)
Increase (decrease) in provision for losses on reimbursement of dormant deposits	32	146	284
Interest income	(33,970)	(34,149)	(301,474)
Interest expenses	1,957	1,896	17,368
Investment securities (gains) losses, net	(2,125)	(603)	(18,859)
(Increase) decrease in money held in trust	(30)	(116)	(266)
Foreign exchange (gains) losses, net	74	303	657
(Gains) losses on disposal of premises and equipment	4	(296)	35
Net (increase) decrease in loans and bills discounted	(31,802)	(102,104)	(282,233)
Net increase (decrease) in deposits	(52,541)	20,582	(466,285)
Net increase (decrease) in negotiable certificates of deposit	31,077	(35,237)	275,799
Net increase (decrease) in borrowed money	(253)	2,694	(2,245)
Net (increase) decrease in due from banks, excluding the Bank of Japan	10,015	22,089	88,880
Net (increase) decrease in call loans and others	87,188	42,101	773,766
Net increase (decrease) in call money	(8,873)	10,000	(78,745)
Net (increase) decrease in foreign exchange assets	87	(612)	772
Net increase (decrease) in foreign exchange liabilities	(5)	(6)	(44)
Interest received	34,847	35,154	309,256
Interest paid	(1,979)	(1,872)	(17,563)
Other, net	(19)	(164)	(169)
Sub-total	46,530	(30,736)	412,939
Income taxes paid	(1,966)	(3,982)	(17,448)
Income taxes refunded	1	1	9
Net cash provided by (used in) operating activities	44,565	(34,717)	395,500
Cash flows from investing activities:			
Acquisition of securities	(213,921)	(219,313)	(1,898,482)
Proceeds from sale of securities	79,547	28,426	705,955
Proceeds from redemption of securities	193,229	189,906	1,714,847
Acquisition of premises and equipment	(1,221)	(1,335)	(10,836)
Proceeds from sale of premises and equipment	52	553	461
Acquisition of intangible assets	(452)	(294)	(4,011)
Net cash provided by (used in) investing activities	57,234	(2,057)	507,934
Cash flows from financing activities:			
Repayments of lease obligations	(523)	(511)	(4,642)
Cash dividends paid	(1,243)	(1,066)	(11,031)
Payment for acquisition of treasury stock	(6)	(6)	(53)
Proceeds from sale of treasury stock	0	0	0
Net cash used in financing activities	(1,772)	(1,583)	(15,726)
Effect of exchange rate changes on cash and cash equivalents	19	30	169
Net increase (decrease) in cash and cash equivalents	100,046	(38,327)	887,877
Cash and cash equivalents at beginning of year	252,468	290,795	2,240,575
Cash and cash equivalents at end of year (Note 3)	¥352,514	¥252,468	$3,128,452

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiary
Years ended 31 March 2016 and 2015

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 necessarily 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 2016, which was ¥112.68 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.

An unconsolidated subsidiary is excluded from the scope of consolidation because in terms of its total assets, ordinary income, net income or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and accumulated other comprehensive income or loss (amount corresponding to equity), it has minor impact on the consolidated financial statements even if it is excluded from the scope of consolidation.

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.

The unconsolidated subsidiary and investments in affiliates that are not accounted for by the equity method are excluded from the scope of equity method because in terms of their net income or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and accumulated other comprehensive income or loss (amount corresponding to equity), they have minor impact on the consolidated financial statements even if they are excluded from the scope of equity method.

Trading account securities and securities

Securities are classified as follows based on the 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 purposes are presented as trading account securities. Trading account securities are stated at fair 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) Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for by the equity method, are carried at cost using the moving-average method.

(d) Available-for-sale securities with available fair 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 value are stated at moving average cost.

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

Available-for-sale securities with available fair 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 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 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 (deferral method).

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 "Treatment of Accounting and Auditing of Application of Accounting Standard for Financial Instruments in the Banking Industry" (Japanese Institute of Certified Public Accountants ("JICPA") Industry Audit Committee Report No. 24, 13 February 2002).

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 "Treatment of Accounting and Auditing Concerning Accounting for Foreign Currency Transactions in the Banking Industry" (JICPA Industry Audit Committee Report No. 25, 29 July 2002). 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 to be paid or received under the swap contracts is recognized as interest expenses or income (exceptional method).

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 (the "Group") 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: 2-20 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 Group amortizes its 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.

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 for an amount deemed necessary based on the loan balance, less expected collection from disposal of collateral, guarantees and repayment on uncovered portion of the loan from historical experiences.

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 incurred up to the end of the fiscal year based on the approved internal rule.

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 estimated future payments related to a risk-share agreement with public credit guarantee associations for the Bank's loans guaranteed by the associations. The provision is calculated by expected loss ratios based on historical foreclosure experiences by the category of the borrowers.

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 set up retirement benefit trusts.

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

The consolidated subsidiary adopts a simplified method, as allowed for small companies, which is to record retirement benefits liabilities for an amount assuming all employees would retire at the end of the fiscal year on a voluntary basis.

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 in Section 4.

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 Group, national and local consumption taxes are accounted for with the tax exclusion method.

Changes in accounting policies

Application of "Accounting Standard for Business Combinations," etc.

The Group has adopted "Revised Accounting Standard for Business Combinations" (the Accounting Standards Board of Japan ("ASBJ") Statement No. 21, 13 September 2013, "Business Combinations Accounting Standard"), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, 13 September 2013, "Consolidation Accounting Standard"), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, 13 September 2013, "Business Divestitures Accounting Standard") and others effective from the year ended 31 March 2016. As a result, differences arising from changes in the equity in subsidiaries over which the Bank retains control are recognized in capital surplus, and acquisition-related costs are accounted for as expenses in the periods in which the costs are incurred. For business combination implemented on or after the beginning of the year ended 31 March 2016, the restatement of purchase price allocation by finalizing the tentative accounting treatment is reflected in the consolidated financial statements for the period in which the business combination occurred. In addition, the presentation method of net income was amended as well as the presentation method of minority interests was amended to non-controlling interests. To reflect these changes in presentation, adjustments have been made to the consolidated financial statements for the previous fiscal year presented herein.

These revised accounting standards are applied in accordance with the transitional provisions set forth in Paragraph 58-2 (4) of Business Combinations Accounting Standard, Paragraph 44-5 (4) of Consolidation Accounting Standard and Paragraph 57-4 (4) of Business Divestitures Accounting Standard effective from the beginning of the year ended 31 March 2016 onward.

The effect on profit and loss and per share data from the above changes for the year ended 31 March 2016 is immaterial.

Unapplied new accounting standards

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (hereinafter, "Implementation Guidance" (ASBJ Guidance No. 26, 28 March 2016)

(1) Overview

The Implementation Guidance has been partially revised basically following the guidelines regarding recoverability of deferred tax assets prescribed in JICPA Audit Committee Report No. 66, "Auditing Treatment for Determining the Recoverability of Deferred Tax Assets."

(2) Date of adoption

The Bank will adopt the Implementation Guidance from the beginning of the year ending 31 March 2017.

(3) The effect of adopting accounting standards

The effect of adopting the Implementation Guidance is currently under assessment.

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 2016 and 2015, 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
	2016	2015	2016
Cash and due from banks	¥364,926	¥274,895	$3,238,605
Less: Time deposits	(12,000)	(12,000)	(106,496)
Deposits in foreign currencies	—	(10,000)	—
Deposits in other banks other than the Bank of Japan	(412)	(427)	(3,657)
Cash and cash equivalents	¥352,514	¥252,468	$3,128,452

4. TRADING ACCOUNT SECURITIES AND SECURITIES

Trading account securities held by the Bank at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Local government bonds	¥—	¥2	$—
	¥—	¥2	$—

The Bank records ¥0 million of net valuation gains in the consolidated statements of income for the year ended 31 March 2015.

Securities held by the Bank at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
National government bonds	¥435,353	¥482,399	$3,863,622
Local government bonds	284,845	267,888	2,527,911
Corporate bonds	324,731	370,351	2,881,887
Corporate stocks	44,571	53,162	395,554
Other securities	231,786	208,994	2,057,029
	¥1,321,286	¥1,382,794	$11,726,003

Unsecured loaned securities which borrowers have the right to sell or pledge in the amount of ¥89,000 million ($789,847 thousand) and ¥73,500 million at 31 March 2016 and 2015 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 2016 and 2015:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2016:	¥37,724	¥42,751	¥5,027	¥5,030	¥(3)
At 31 March 2015:	41,299	44,022	2,723	2,729	(6)

	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2016:	$334,789	$379,402	$44,613	$44,640	$(27)

(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 2016:					
Corporate stocks	¥24,144	¥42,963	¥18,819	¥19,458	¥(639)
Bonds	967,596	1,012,332	44,736	44,887	(151)
Other	222,846	226,663	3,817	7,182	(3,365)
	¥1,214,586	¥1,281,958	¥67,372	¥71,527	¥(4,155)
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)

	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2016:					
Corporate stocks	$214,270	$381,283	$167,013	$172,684	$(5,671)
Bonds	8,587,114	8,984,132	397,018	398,358	(1,340)
Other	1,977,689	2,011,564	33,875	63,738	(29,863)
	$10,779,073	$11,376,979	$597,906	$634,780	$(36,874)

B. Total sales of available-for-sale securities sold in the years ended 31 March 2016 and 2015 amounted to ¥79,536 million ($705,857 thousand) and ¥28,426 million, respectively. The related gains and losses amounted to ¥3,980 million ($35,321thousand) and ¥5 million ($44 thousand) in 2016, and ¥799 million and ¥115 million in 2015, respectively.

C. Available-for-sale securities other than trading securities (except securities whose fair values are extremely difficult to determine) written down for the year ended 31 March 2015 amounted to ¥83 million, due to a significant decline in fair value below the cost which is deemed to be other than temporary. There were no available-for-sale securities other than trading securities written down for the year ended 31 March 2016.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities	¥67,373	¥70,468	$597,914
Deferred tax liabilities	(20,187)	(22,080)	(179,153)
Net unrealized holding gains before interests adjustment	47,186	48,388	418,761
Equity of net unrealized holding gains on available-for-sale securities owned by affiliates that are accounted for by the equity method	12	14	107
Net unrealized holding gains on available-for-sale securities	¥47,198	¥48,402	$418,868

E. Equity securities issued by unconsolidated subsidiaries and affiliated companies are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Shares	¥482	¥434	$4,278
Investments	269	—	2,387

5. MONEY HELD IN TRUST

Money held in trust at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Money held in trust for trading purposes:			
Carrying amount	¥4,985	¥4,985	$44,240
Realized gains included in earnings	—	—	—

6. FINANCIAL INSTRUMENTS

(1) Overview

a. Policy for financial instruments

The Group provides financial services, focusing on banking businesses such as deposit taking, granting loans, and trading of securities and investing in securities.

Regarding the main operations of the Group, 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 Group tends 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 Group manages 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 Group uses derivatives for the purpose of reducing risks and not using derivatives for speculative purposes.

b. Types of financial instruments and related risks

The financial assets of the Group consists mainly of loans for domestic enterprises and individuals and investment securities.

Loans are exposed to credit risks stemming from defaults of borrowers. The largest industrial categories of loans as of the current fiscal year-end was local governments, followed by individuals, manufacturing industries, and whole and retail sales industries, and more or less all 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 for maintaining business relationships, 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 arising 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 Group fails 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 Group fails to raise funds owing to market shrinkage and are obliged to enter into unusual unfavorable transactions.

Regarding derivative transactions, the Group enters 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 Group evaluates 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 Group for managing credit risks arising from loans, each related division monitors credit worthiness of their customers periodically and due dates and outstanding balances by individual customer. In addition, the Group is 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 the fund management 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 Group 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 a realization basis are defined to control them on a daily basis. These results are reported by 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 polices on investing, and controlled through continuous monitoring. The information related to the market environment and the investment status is reported to the management on a regular basis.

(Derivative transactions)

In conducting derivative transactions, each division responsible for execution of transactions, evaluation of efficiency of the hedging 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 the variance-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 years ended 31 March 2016 and 2015 was as follows:

Millions of yen		Thousands of U.S. dollars
2016	2015	2016
¥34,372	¥34,775	$305,041

The Group periodically verifies 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 Group supposes the method undertaken will provide a reliable indicator of the market risks.

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

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

The Group employs the variance-covariance method in calculating VaR of deposits and loans receivable, etc., using such parameters of six months as holding period, 99% as confidence interval and one 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 years ended 31 March 2016 and 2015 was as follows:

Millions of yen		Thousands of U.S. dollars
2016	2015	2016
¥4,995	¥2,149	$44,329

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 Group adequately manages its liquidity risks based on various internal quantitative standards prescribed in fund management regulations, 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 assumptions and factors could result in different fair values.

(2) Fair value of financial instruments

The carrying amounts and the estimated fair value of financial instruments at 31 March 2016 and 2015 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥364,926	¥364,926	¥274,895	¥274,895	$3,238,605	$3,238,605
Call loans and bills bought	20,000	20,000	105,000	105,000	177,494	177,494
Commercial paper and other debt purchased	3,907	3,976	6,094	6,185	34,674	35,286
Money held in trust	4,985	4,985	4,985	4,985	44,240	44,240
Securities						
Held-to-maturity debt securities	34,851	39,808	36,104	38,737	309,292	353,284
Available-for-sale securities	1,281,958	1,281,958	1,342,244	1,342,244	11,376,979	11,376,979
Loans and bills discounted	1,772,818		1,741,016		15,733,209	
Reserve for possible loan losses	(7,404)		(6,318)		(65,708)	
	1,765,414	1,775,739	1,734,698	1,737,434	15,667,501	15,759,132
Liabilities:						
Deposits	3,248,304	3,248,655	3,269,768	3,270,190	28,827,689	28,830,804
Call money	1,127	1,127	10,000	10,000	10,002	10,002
Borrowed money	13,584	13,639	13,837	13,941	120,554	121,042
Corporate bonds with stock acquisition rights	11,268	10,635	12,017	11,957	100,000	94,382
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	308	308	(80)	(80)	2,733	2,733
Derivative instruments qualifying for hedge accounting	(4,714)	(8,620)	(1,132)	(3,106)	(41,835)	(76,500)

(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 the 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 the fair value, while the fair value of those with longer terms 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 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 debt securities and available-for-sale securities

The fair values of held-to-maturity debt securities 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 the 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 the 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 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Available-for-sale securities	¥4,477	¥4,446	$39,732

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2016 and 2015 were as follows:

	Millions of yen					
	2016					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks (*1)	¥341,615	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	20,000	—	—	—	—	—
Commercial paper and other debt purchased	1,034	—	—	—	—	2,873
Securities						
Held-to-maturity debt securities	648	12,255	—	—	—	21,948
Mainly consists of followings:						
National bonds	—	10,002	—	—	—	21,948
Corporate bonds	648	—	—	—	—	—
Available-for-sale securities	102,056	344,166	339,518	80,141	275,181	70,814
Mainly consists of followings:						
National bonds	25,298	168,288	129,999	15,127	13,782	50,909
Local government bonds	2,922	11,123	32,098	25,292	203,367	10,043
Corporate bonds	36,571	138,327	106,281	33,878	6,181	1,323
Loans and bills discounted	314,827	397,005	347,574	144,866	139,077	240,543
Deposits	3,083,583	156,009	7,200	163	1,349	—
Call money	1,127	—	—	—	—	—
Borrowed money (*2)	—	—	—	10,000	—	—

	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
Due from banks (*1)	¥252,015	¥—	¥—	¥—	¥—	¥—
Call loans and bills bought	105,000	—	—	—	—	—
Commercial paper and other debt purchased	2,298	—	—	—	—	3,796
Securities						
Held-to-maturity debt securities	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 (*2)	—	—	—	10,000	—	—

Notes: *1. Due from banks that does not have maturity is included in the “within one year” column.

*2. Borrowed money is stated for the long-term and interest-bearing borrowed money.

	Thousands of U.S. dollars					
	2016					
	Within one year	One to three years	Three to five years	Five to seven years	Seven to ten years	Over ten years
Due from banks	$3,031,727	$—	$—	$—	$—	$—
Call loans and bills bought	177,494	—	—	—	—	—
Commercial paper and other debt purchased	9,177	—	—	—	—	25,497
Securities						
Held-to-maturity debt securities	5,751	108,759	—	—	—	194,782
Mainly consists of followings:						
National bonds	—	88,764	—	—	—	194,782
Corporate bonds	5,751	—	—	—	—	—
Available-for-sale securities	905,715	3,054,366	3,013,117	711,226	2,442,146	628,452
Mainly consists of followings:						
National bonds	224,512	1,493,504	1,153,701	134,247	122,311	451,801
Local government bonds	25,932	98,713	284,860	224,459	1,804,819	89,128
Corporate bonds	324,556	1,227,609	943,211	300,657	54,854	11,741
Loans and bills discounted	2,793,992	3,523,296	3,084,611	1,285,641	1,234,265	2,134,744
Deposits	27,365,841	1,384,531	63,898	1,447	11,972	—
Call money	10,002	—	—	—	—	—
Borrowed money	—	—	—	88,747	—	—

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, fair values, and valuation gains (losses) for the years ended 31 March 2016 and 2015 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2016			2015			2016		
	Notional amounts	Fair value	Valuation gains (losses)	Notional amounts	Fair value	Valuation gains (losses)	Notional amounts	Fair value	Valuation gains (losses)
Forward foreign exchange:									
Sell	¥7,632	¥303	¥303	¥4,879	¥(78)	¥(78)	$67,732	$2,689	$2,689
Buy	1,328	5	5	104	(2)	(2)	11,786	44	44

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 fair values for the years ended 31 March 2016 and 2015 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		2016	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥47,856	¥(5,823)	¥43,827	¥ (1,896)	$424,707	$ (51,677)
Receive floating / Pay fixed rate (Exceptional method)	22,622	(3,906)	22,717	(1,974)	200,763	(34,665)

(Currency-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2016		2015		2016	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:						
(Deferral method)	¥80,000	¥1,109	¥91,000	¥764	$709,975	$9,842

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Bills discounted	¥3,656	¥3,725	$32,446
Loans on notes	76,347	89,304	677,556
Loans on deeds	1,507,049	1,465,609	13,374,592
Overdrafts	185,766	182,378	1,648,615
	¥1,772,818	¥1,741,016	$15,733,209

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 2016 and 2015 was ¥3,657 million ($32,455 thousand) and ¥3,725 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 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Loans to borrowers under bankruptcy proceedings	¥893	¥1,007	$7,925
Past due loans	31,706	26,498	281,381
Loans past due three months or more	16	119	142
Restructured loans, including loans to borrowers financially assisted by the Bank	9,640	10,074	85,552
	¥42,255	¥37,698	$375,000

8. PLEDGED ASSETS

At 31 March 2016, deposits of ¥35,260 million ($312,922 thousand) and borrowed money of ¥3,493 million ($30,999 thousand) were secured by a pledge of securities in the amount of ¥87,295 million ($774,716 thousand) and guarantee money deposits in the amount of ¥71 million ($630 thousand). At 31 March 2015, deposits of ¥28,649 million, call money of ¥10,000 million, and borrowed money of ¥3,725 million were secured by a pledge of securities in the amount of ¥120,746 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 ¥47,136 million ($418,317 thousand) and ¥43,103 million, and other assets in the amount of ¥3 million ($27 thousand) and ¥3 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2016 and 2015.

9. COMMITMENT LINE AGREEMENT

Commitment line agreements are agreements to lend to customers 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 2016 and 2015 amounted to ¥691,264 million ($6,134,753 thousand) and ¥685,132 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 ¥658,476 million ($5,843,770 thousand) and ¥647,388 million at 31 March 2016 and 2015, respectively. The amount of unused commitment line does not necessarily affect the future cash flows of the Group 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 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Accrued income	¥3,715	¥3,709	¥32,969
Other	2,604	2,435	23,110
	¥6,319	¥6,144	¥56,079

11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Land	¥8,844	¥ 8,906	$78,488
Buildings	34,191	33,618	303,435
Equipment	8,010	7,808	71,086
Leased assets	1,531	1,531	13,587
Other	108	375	958
	52,684	52,238	467,554
Accumulated depreciation	36,397	35,724	323,012
	¥16,287	¥16,514	$144,542

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥1,024 million ($9,088 thousand) and ¥1,030 million at 31 March 2016 and 2015, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Software	¥952	¥1,143	$8,449
Leased assets	680	1,013	6,035
Other	243	39	2,156
	¥1,875	¥2,195	$16,640

13. DEPOSITS

Deposits at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current deposits	¥49,514	¥49,127	$439,421
Ordinary deposits	1,637,095	1,650,347	14,528,710
Deposits at notice	2,600	6,281	23,074
Time deposits	1,167,734	1,198,132	10,363,276
Other deposits	144,260	149,857	1,280,263
Negotiable certificates of deposit	247,101	216,024	2,192,945
	¥3,248,304	¥3,269,768	$28,827,689

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 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Subordinated borrowings	¥10,000	¥10,000	$88,747

15. CORPORATE BONDS WITH STOCK ACQUISITION RIGHTS

Corporate bonds with stock acquisition rights at 31 March 2016 and 2015 were summarized as follows:

		Millions of Yen		Thousands of U.S. Dollars			
Name	Issued	2016	2015	2016	Coupon Rate (%)	Secured or Unsecured	Due
Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars	25 July 2013	¥11,268	¥12,017	$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)	¥5,632 ($49.98)
Total amount of issue (Millions of Yen / Thousands of U.S. Dollars)	¥11,268 ($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 markets and denominated in U.S. dollars. The amount of corporate bonds with stock acquisition rights was translated into Japanese yen at the telegraphic transfer middle rate at 31 March 2016 announced by the Bank.

3. Annual maturities of corporate bonds with stock acquisition rights at 31 March 2016 were as follows:

Year ending 31 March	Millions of yen	Thousands of U.S. dollars
2017	¥—	$—
2018	—	—
2019	11,268	100,000
2020	—	—
2021 and thereafter	—	—

16. OTHER LIABILITIES

Other liabilities at 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Accrued income taxes	¥2,179	¥287	$19,338
Accrued expenses	2,586	2,728	22,950
Unearned income	630	702	5,591
Lease obligations	1,868	2,391	16,578
Other	18,604	14,586	165,104
	¥25,867	¥20,694	$229,561

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 ¥1,485 million ($13,179 thousand) in 2016 and ¥1,690 million in 2015.

18. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Group has 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 periods and a 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 benefit credits based on the salary level are accumulated. Also, the Bank has set up retirement benefit trusts related to defined benefit pension plan.

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

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

Defined benefit plans

(i) Change in projected benefit obligation

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥26,164	¥24,582	$232,197
Cumulative effects of changes in accounting policies	—	1,745	—
Restated balance	26,164	26,327	232,197
Service costs (including the amount of employee contributions)	735	735	6,523
Interest costs	272	273	2,414
Actuarial differences	2,842	132	25,222
Retirement benefits paid	(1,544)	(1,303)	(13,703)
Balance at end of year	¥28,469	¥26,164	$252,653

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
	2016	2015	2016
Balance at beginning of year	¥26,565	¥23,726	$235,756
Expected return on plan assets	555	491	4,925
Actuarial differences	432	1,666	3,834
Employer contributions	1,326	1,330	11,768
Employee contributions	55	56	488
Retirement benefits paid	(724)	(704)	(6,425)
Balance at end of year	¥28,209	¥26,565	$250,346

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded projected benefit obligation	¥28,455	¥26,152	$252,529
Plan assets	(28,209)	(26,565)	(250,346)
	246	(413)	2,183
Unfunded projected benefit obligation	14	12	124
Net liability (asset) recognized in consolidated balance sheets	260	(401)	2,307
Net defined benefit liability	1,440	2,373	12,779
Net defined benefit asset	(1,180)	(2,774)	(10,472)
Net liability (asset) recognized in consolidated balance sheets	¥260	¥(401)	$2,307

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
	2016	2015	2016
Service costs (excluding the amount of employee contributions)	¥680	¥680	$6,035
Interest costs	272	273	2,414
Expected return on plan assets	(555)	(491)	(4,925)
Amortization of actuarial differences	235	730	2,085
Retirement benefit expenses	¥632	¥1,192	$5,609

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

(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
	2016	2015	2016
Actuarial differences	¥(2,175)	¥ 2,264	$(19,303)
Total	¥(2,175)	¥ 2,264	$(19,303)

(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
	2016	2015	2016
Unrecognized actuarial differences	¥(2,274)	¥(99)	$(20,181)
Total	¥(2,274)	¥(99)	$(20,181)

(vii) Plan assets

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

	2016	2015
Bonds	68%	66%
Equities	18%	19%
Cash and deposits	0%	0%
Other	14%	15%
Total	100%	100%

Retirement benefit trusts set up for defined benefit pension plans account for 19% and 18% of total plan assets for the years ended 31 March 2016 and 2015, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans account for 23% and 22% of total plan assets for the years ended 31 March 2016 and 2015, respectively.

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

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

(viii) Bases for calculation of actuarial assumptions

The bases for calculation of actuarial assumptions (presented as a weighted-average rate) at 31 March 2016 and 2015 was as follows:

	2016	2015
Discount rate	0.4%	1.0%
Long-term expected rate of return on plan assets	2.0%	2.1%

19. INCOME TAXES

The Group is subject to a number of taxes based on income such as corporation, inhabitant and enterprise taxes, which, in the aggregate, indicated a statutory tax rate in Japan of approximately 32.8% and 35.3% for the years ended 31 March 2016 and 2015, respectively.

Significant components of the Bank's deferred tax assets and liabilities at 31 March 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Reserve for possible loan losses	¥1,755	¥1,522	$15,575
Net defined benefit liability	3,279	3,177	29,100
Accumulated depreciation	1,126	1,190	9,993
Securities	620	699	5,502
Deferred hedge	1,779	608	15,788
Other	1,362	1,279	12,087
Subtotal	9,921	8,475	88,045
Valuation allowance	(1,587)	(1,611)	(14,084)
Total deferred tax assets	8,334	6,864	73,961
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(20,187)	(22,080)	(179,153)
Deferred gains on sale of real estate	(446)	(452)	(3,958)
Other	(0)	(1)	(0)
Total deferred tax liabilities	(20,633)	(22,533)	(183,111)
Net deferred tax liabilities	¥(12,299)	¥(15,669)	$(109,150)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2016 and 2015.

	2016	2015
Statutory tax rate	32.8%	35.3%
Non-deductible expenses	0.3	0.3
Non-taxable income	(0.7)	(1.7)
Per capita inhabitant taxes	0.4	0.3
Valuation allowance	0.5	(3.0)
Decrease in deferred tax assets due to tax rate changes	2.4	4.8
Other, net	0.4	(0.0)
Effective tax rate	36.1%	36.0%

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

On 29 March 2016, “Partial Amendment of the Income Tax Law” and “Partial Amendment of the Local Tax Law” were enacted by the Diet, and the rate of income taxes will be lowered from the years beginning on or after 1 April 2016. Accordingly, the statutory tax rate applied to the calculation of deferred tax assets and liabilities has been lowered from 32.0% to 30.6% for temporary differences expected to be reversed during the years beginning on 1 April 2016 and 2017 and 30.4% for the years beginning on or after 1 April 2018.

This change resulted in decrease in deferred tax liabilities by ¥663 million ($5,884 thousand), increase in net unrealized holding gains on available-for-sale securities by ¥1,059 million ($9,398 thousand), decrease in net unrealized losses on hedging derivatives by ¥94 million ($834 thousand), decrease in remeasurements of defined benefit plans on accumulated other comprehensive income by ¥34 million ($302 thousand), and increase in provision for income taxes-deferred by ¥268 million ($2,378 thousand).

20. NET ASSETS

Under the Companies Law and the Banking Law of Japan, the following is 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 Companies 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 Companies Law.

The number of treasury stock held by the Group was 742 thousand shares at 31 March 2016.

21. STOCK OPTION

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

The balance of stock acquisition rights granted for the stock option program was ¥147 million ($1,305 thousand) and ¥99 million at 31 March 2016 and 2015, respectively.

Share-based compensation expenses which were accounted for as general and administrative expenses for the years ended 31 March 2016 and 2015 amounted to ¥48 million ($426 thousand) and ¥46 million, respectively.

2. Details of stock options, volume and activity

(a) Details of stock options

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	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	Common stock: 9,100 shares
Grant date	24 July 2013	24 July 2014	23 July 2015
Condition for vesting	Not applicable	Not applicable	Not applicable
Requisite service period	Not applicable	Not applicable	Not applicable
Exercise period	From 25 July 2013 to 24 July 2043	From 25 July 2014 to 24 July 2044	From 24 July 2015 to 23 July 2045

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 2016. 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	2015 Stock Option Plan
Before vesting (shares):			
At 31 March 2015	12,800	10,400	—
Granted	—	—	9,100
Forfeited	—	—	—
Vested	600	400	300
Outstanding	12,200	10,000	8,800
After vesting (shares):			
At 31 March 2015	—	—	—
Vested	600	400	300
Exercised	—	—	—
Forfeited	—	—	—
Outstanding	600	400	300

(ii) Price information

	2013 Stock Option Plan	2014 Stock Option Plan	2015 Stock Option Plan
Exercise price	¥1 ($0.01)	¥1 ($0.01)	¥1 ($0.01)
Average exercise price	—	—	—
Fair value at the grant date	¥4,119 ($36.55)	¥4,437 ($39.38)	¥5,287 ($46.92)

3. Valuation method for fair value of stock options

The valuation method for fair value of stock options granted in the year ended 31 March 2016 were as follows:

(a) The valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

	2015 Stock Option Plan
Stock price volatility (*1)	30.3%
Expected years to expiration (*2)	3.5years
Expected dividends (*3)	¥65 ($0.58) per share
Risk-free interest rate (*4)	0.03%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 16 January 2012 to 13 July 2015.

*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 2015.

*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. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other operating income:			
Gain on sale of foreign bills of exchange	¥23	¥53	$204
Gain on trading account securities transactions	9	1	80
Gain on sale of bonds	2,058	553	18,264
	¥2,090	¥607	$18,548

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other operating expenses:			
Loss on sales of bonds	¥5	¥114	$44
Loss on redemption of bonds	1,798	31	15,957
Loss on financial instruments	136	—	1,207
Other	1	1	9
	¥1,940	¥146	$17,217

23. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Salaries and allowances	¥11,257	¥11,175	$99,902
Fringe benefits and welfare	2,712	2,648	24,068
Retirement benefit expenses	632	1,192	5,609
Depreciation for premises and equipment	2,086	2,089	18,513
Rental expenses	758	755	6,727
Taxes other than income taxes	1,382	1,256	12,265
Deposit insurance premium	1,197	1,981	10,623
Business consignment expenses	2,673	2,507	23,722
Other expenses	3,664	3,705	32,517
	¥26,361	¥27,308	$233,946

24. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other income:			
Reversal of reserve for possible loan losses	¥—	¥983	$—
Gain on sale of stocks and other securities	1,923	246	17,066
Gain on disposal of premises and equipment	81	438	719
Other	930	927	8,253
	¥2,934	¥2,594	$26,038

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Other expenses:			
Provision of reserve for possible loan losses	¥1,459	¥—	$12,948
Loss on disposal of premises and equipment	85	142	754
Loss on devaluation of stocks and other securities	2	85	18
Loss on transfer of receivables	92	350	817
Other	511	568	4,535
	¥2,149	¥1,145	$19,072

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 the 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 the branch operating system

Intangible assets:

Mainly consisted of software for the 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 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars	Average interest rate (%)
	2016	2015	2016	2016
Current portion of lease obligations	¥535	¥523	$4,748	2.43%
Lease obligations (excluding current portion)	1,333	1,868	11,830	2.53%
	¥1,868	¥2,391	$16,578	

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 yen	Thousands of U.S. dollars
	2016	2016
2017	¥535	$4,748
2018	538	4,775
2019	524	4,650
2020	271	2,405
2021 and thereafter	—	—

Year ending 31 March	Millions of yen
	2015
2016	¥523
2017	535
2018	538
2019	524
2020 and thereafter	271

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2016 and 2015.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2016 were ¥241 million ($2,139 thousand) including ¥11 million ($98 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2015 were ¥252 million including ¥11 million due within one year.

26. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized holding gains (losses) on available-for-sale securities:			
Amount for the year	¥469	¥22,617	$4,162
Reclassification adjustment	(3,565)	(1,081)	(31,638)
Amount before tax effect	(3,096)	21,536	(27,476)
Tax effect amount	1,893	(5,214)	16,800
Net unrealized holding gains (losses) on available-for-sale securities	(1,203)	16,322	(10,676)
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	(4,496)	(1,616)	(39,900)
Reclassification adjustment	540	367	4,792
Amount before tax effect	(3,956)	(1,249)	(35,108)
Tax effect amount	1,172	378	10,401
Net unrealized gains (losses) on hedging derivatives	(2,784)	(871)	(24,707)
Remeasurements of defined benefit plans:			
Amount for the year	(2,410)	1,534	(21,388)
Reclassification adjustment	235	730	2,085
Amount before tax effect	(2,175)	2,264	(19,303)
Tax effect amount	661	(801)	5,867
Remeasurements of defined benefit plans	(1,514)	1,463	(13,436)
Share of other comprehensive income (losses) of affiliates accounted for by the equity method:			
Amount for the year	1	5	9
Reclassification adjustment	(2)	―	(18)
Amount before tax effect	(1)	5	(9)
Tax effect amount	―	―	―
Share of other comprehensive income (losses) of affiliates accounted for by the equity method	(1)	5	(9)
Total other comprehensive income (losses)	¥(5,502)	¥16,919	$(48,828)

27. PER SHARE DATA

Amounts per share at March 31 2016 and 2015 and for the years then ended were as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥10,867.07	¥10,846.26	$96.44
Net income per share	400.26	414.15	3.55
Diluted net income per share	359.19	371.87	3.19

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2016	2015	2016
Net assets per share:			
Total net assets	¥193,098	¥192,694	$1,713,685
Amount to be deducted from total net assets	147	99	1,305
Stock acquisition rights	147	99	1,305
Net assets at the end of fiscal year attributed to common stock	192,951	192,595	1,712,380
Number of shares of common stock at the end of fiscal year used in computing net assets per share attributed to common stock	17,756	17,757	
Net income per share:			
Net income attributable to owners of parent	7,107	7,354	63,072
Net income attributable to owners of parent attributed to common stock	7,107	7,354	63,072
Average number of shares of common stock during the year	17,756	17,757	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	2,030	2,019	
Convertible bond-type bonds with stock acquisition rights	2,001	1,999	
Compensation-type stock option	29	20	

As described in “Changes in accounting policies,” the Bank has adopted the transitional accounting in accordance with the transitional accounting treatments set forth in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Consolidated Accounting Standard and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures.

As a result, the effect on net assets per share, net income per share and diluted net income per share for the year ended 31 March 2016 is immaterial.

28. SEGMENT INFORMATION

(1) Reportable segment information

Reportable segment information was omitted as the Group had a single segment, commercial banking business for the years ended 31 March 2016 and 2015.

(2) Other segment-related information

a. Information by services

Information by services for the years ended 31 March 2016 and 2015 was as follows:

	2016			
	Millions of yen			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	¥19,326	¥18,388	¥8,809	¥46,523

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

	2016			
	Thousands of U.S. dollars			
	Banking	Investment in securities	Other	Total
Ordinary income from external customers	$171,512	$163,188	$78,177	$412,877

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 2016 and 2015 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 2016 and 2015 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 2016 and 2015, since there was no customer accounting for 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 2016 and 2015, since the Group 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 2016 and 2015.

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 2016 and 2015.

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 2016

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2016
Executive officer and close family members	Mizuhiko Yoshida	Corporate Auditor of the Bank	–	Creditor	Term loan	–	Loans and bills discounted	¥27 million ($240 thousands)
	Satoshi Kikuchi	Close family member of a Director of the Bank	–	Creditor	Term loan	–	Loans and bills discounted	¥12 million ($106 thousand)

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

Note: Terms and conditions of the transaction are determined on an arm's length basis.

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 2016 and 2015.

(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 2016 and 2015.

30. SUBSEQUENT EVENTS

1. Gain associated with the revisions of its defined benefit plans

As of 1 April 2016, the Bank has transferred part of the defined benefit plans (excluding the portion for vested pensioners in a waiting period and current pensioners) to defined contribution plans. Regarding the accounting treatment associated with this transfer, "Guidance on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Guidance No. 1, 31 January 2002) and "Practical Solution on Accounting for Transfer between Retirement Benefit Plans" (ASBJ Practical Issues Task Force No. 2, 7 February 2007) are applied to the portion transferred to the defined contribution plans as partial termination of retirement benefit plans.

Accordingly, a gain will be recognized in other income in the amount of ¥864 million ($7,668 thousand) for the year ending 31 March 2017, which resulted from the decrease in projected benefit obligation associated with the transfer.

2. Business combination through additional acquisition of shares of affiliates

The Bank made Iwagin Lease Data Co., Ltd. ("Iwagin Lease Data"), Iwagin DC Card Co., Ltd. ("Iwagin DC Card ") and Iwagin Credit Service Co., Ltd. ("Iwagin Credit Service"), which were equity-method affiliates of the Bank in the previous consolidated fiscal year, (hereinafter, "Three Group Companies") its consolidated subsidiaries as of 17 May 2016 through additional acquisition of the shares of the Three Group Companies.

(a) Overview of the business combination through acquisition

(i) Name and business description of acquired companies

Name of acquired companies	Business description
Iwagin Lease Data	Leasing and computerized accounting services
Iwagin DC Card	Credit cards and credit guarantee
Iwagin Credit Service	Credit cards and credit guarantee

(ii) Major reason for the business combination

With an aim to maximize synergy by enhancing the use of the group's management resources effectively and efficiently and also to accelerate and to enhance the efficiency of the group's management, the Bank has decided to make the Three Group Companies its subsidiaries.

(iii) Date of the business combination

17 May 2016

(iv) Legal form of the business combination

Acquisition of shares by cash

(v) Name of the company subsequent to the business combination

There will be no change to the name of the company.

(vi) Ratio of voting rights acquired

	Iwagin Lease Data	Iwagin DC Card	Iwagin Credit Service
Ratio of voting rights immediately before the business combination	5.0%	5.0%	5.0%
Ratio of voting rights additionally acquired on the date of business combination	91.3	70.0	70.0
Ratio of voting rights after the business combination	96.3	75.0	75.0

(vii) Major reason for determining the acquiring company

The Bank acquired the shares of the Three Group Companies by cash, hence the Bank is the acquirer.

(b) Calculation of acquisition cost

(i) Acquisition cost of the acquired companies and the breakdown of respective considerations

		Millions of yen	Thousands of U.S. dollars
Fair value on the date of business combination of common stock held by the Bank immediately before the business combination		¥204	$1,810
Consideration of common stock additionally acquired	Cash	3,275	29,065
Acquisition cost		¥3,479	$30,875

(ii) The difference between the acquisition cost of the acquired companies and the total amount of the acquisition cost of the respective transactions leading to the acquisition

Loss on step acquisitions: ¥251 million ($2,228 thousand)

(iii) Details of the major cost related to acquisition and the amount

Consulting fee: ¥8 million ($71 thousand)

(c) Allocation of acquisition cost

(i) The amount of assets accepted and liabilities assumed on the date of the business combination and major breakdown thereof

	Millions of yen	Thousands of U.S. dollars
Current assets	¥18,943	$168,113
Non-current assets	3,378	29,979
Total assets	¥22,321	$198,092

	Millions of yen	Thousands of U.S. dollars
Current liabilities	¥7,373	$65,433
Non-current liabilities	5,735	50,896
Total liabilities	¥13,108	$116,329

(ii) The amount of gain on bargain purchase and the cause of the occurrence

a. The amount of gain on bargain purchase: ¥4,340 million ($38,516 thousand)

b. The cause of the occurrence

Gain on bargain purchase occurred as the amount of assets and liabilities of the acquired companies calculated by fair value on the date of the business combination surpassed the acquisition cost.

2. Making Iwagin DC Card and Iwagin Credit Service the Bank's wholly owned subsidiaries through a share exchange

The Bank conducted a share exchange with Iwagin DC Card and Iwagin Credit Service (hereinafter, "Two Subsidiaries"), where the Bank became a wholly owning parent company and the Two Subsidiaries became wholly owned subsidiaries, with an effective date of 30 June 2016.

(a) Overview of the business combination

(i) Name and business description of the combined companies

Name of combined companies	Business description
Iwagin DC Card	Credit cards and credit guarantee
Iwagin Credit Service	Credit cards and credit guarantee

(ii) Date of the business combination

30 June 2016

(iii) Legal form of the business combination

It is a simplified share exchange where the Bank is the wholly owning parent company and the Two Subsidiaries are the wholly owned subsidiaries.

(iv) Name of the company subsequent to the business combination

There will be no change to the name of the company.

(v) Any other significant matters

The purpose of the share exchange is as described in Section 2. (a) (ii) Major reason for the business combination.

(b) Overview of accounting treatment

Based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, 13 September 2013) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, 13 September 2013), the share exchange is accounted for as a transaction with non-controlling interests among the transactions under common control.

(c) Additional acquisition of shares of subsidiaries

(i) Acquisition cost and the breakdown of respective considerations

		Millions of yen	Thousands of U.S. dollars
Considerations	Fair value of common stock of the Bank issued on the date of the business combination	¥548	$4,863
Acquisition cost		¥548	$4,863

(ii) Share exchange ratio by class of shares, their calculation method and the number of shares delivered

a. Share exchange ratios by class of shares

a) Iwagin DC Card

The Bank (wholly owing parent company in share exchange)	Iwagin DC Card (wholly owned subsidiary in share exchange)
1	730

Note: For each common stock issued by Iwagin DC Card, 730 shares of the Bank's common stock were delivered by allotment. However, 300 shares of Iwagin DC Card's common stock held by the Bank are not subject to allotment.

b) Iwagin Credit Service

The Bank (wholly owing parent company in share exchange)	Iwagin Credit Service (wholly owned subsidiary in share exchange)
1	689

Note: For each common stock issued by Iwagin Credit Service, 689 shares of the Bank's common stock were delivered by allotment. However, 300 shares of Iwagin Credit Service's common stock held by the Bank were not subject to allotment.

b. Calculation method of exchange ratio

To ensure fairness and appropriateness in the determination of share exchange ratio in the share exchange, the Bank appointed Deloitte Tohmatsu Financial Advisory LLC and the Two Subsidiaries appointed Minamiaoyama FAS Corporation as independent third-party valuation institutions (hereinafter, collectively "Third Party Institutions") and requested to calculate a share exchange ratio to be used in each share exchange.

The Third Party Institutions determined that the value of the Bank's common stock should be analyzed using the average market price analysis (Using 17 May 2016 as the record date, the analysis is based on the closing price of the record date and the simple average of closing prices over one-month, three-month, and six-month periods prior to the record date of the Bank's stock on the First Section of the Tokyo Stock Exchange), based on the fact that the Bank's common stock is listed on the Tokyo Stock Exchange and the market price of the stock is available. On the other hand, to reflect the valuation of future business activities, the Third Party Institutions determined that the value of the Two Subsidiaries' common stock that are not listed should be analyzed using the discount dividend analysis method (DDM analysis) widely used in financial institutions for evaluation, which is an analysis where the stock is evaluated by discounting the profit attributable to shareholders by using the cost of capital to the present value after considering the internal reserves required to maintain certain capital structures.

Based on these calculation results, share exchange ratios were determined through discussions among the parties concerned.

c. Number of shares delivered

Upon the share exchange, the Bank delivered 141,900 shares of the Bank's common stock to shareholders of the Two Subsidiaries (excluding the Bank) as of the time immediately before the Bank acquires all the issued shares of the Two Subsidiaries excluding common stock of the Two Subsidiaries held by the Bank.

KPMG

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, 2016 and 2015, 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, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 30 to the consolidated financial statements:

(1) The Bank made Iwagin Lease Data Co., Ltd. ("Iwagin Lease Data"), Iwagin DC Card Co., Ltd. ("Iwagin DC Card ") and Iwagin Credit Service Co., Ltd. ("Iwagin Credit Service"), which were equity-method affiliates of the Bank in the previous consolidated fiscal year, (hereinafter, "Three Group Companies") its consolidated subsidiaries as of 17 May 2016 through additional acquisition of the shares of the Three Group Companies.

KPMG

(2) The Bank conducted a share exchange with Iwagin DC Card and Iwagin Credit Service (hereinafter, "Two Subsidiaries"), where the Bank became a wholly owning parent company and the Two Subsidiaries became wholly owned subsidiaries, with an effective date of 30 June 2016

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

12 September, 2016
Tokyo, Japan

Corporate Profile

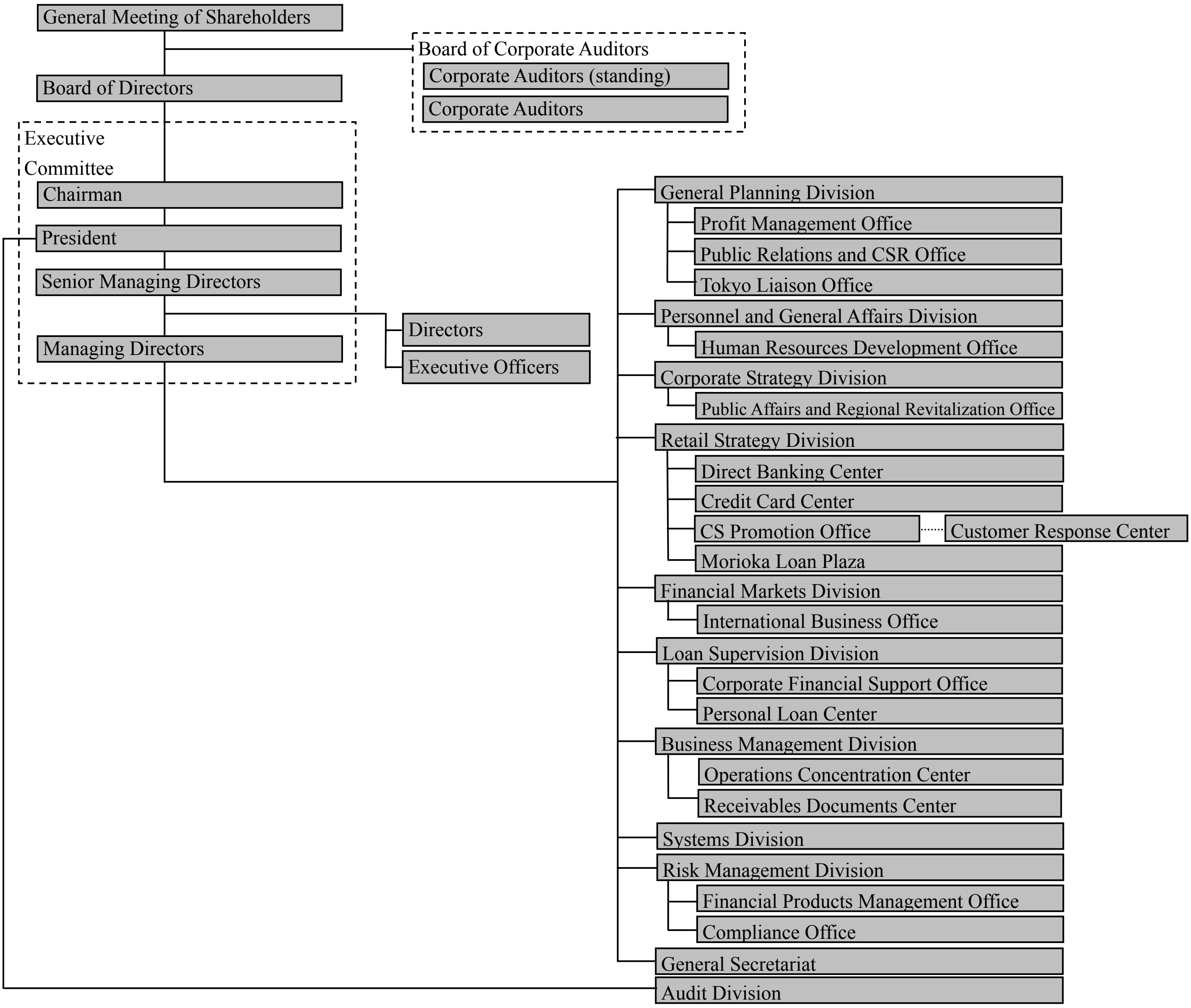
・Corporate Data (As of March 31, 2016)

Established	May 2, 1932	Employees	1,467
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	108 (Iwate Prefecture 90)
Shareholders	7,091		

・Board of Directors and Corporate Auditors (As of July 1, 2016)

Chairman	*Directors*	*Corporate Auditors*	*Executive Officers*
Masahiro Takahashi *President* Sachio Taguchi	Motomu Sato Yasushi Sasaki Hiroshi Miura Atsushi Takahashi Fumio Ube	Katsuya Sato (standing) Masahiko Mochizuki (standing) Shinobu Obara Mizuhiko Yoshida	Katsuhiro Kawamura Yuji Chiba Kensei Ishikawa
Senior Managing Director Yuichi Kato *Managing Directors* Keiji Iwata Shigeki Miura Mikio Kikuchi Hiroaki Takahashi	Notes: 1. Hiroshi Miura, Atsushi Takahashi and Fumio Ube satisfy the requirements for outside directors as stipulated in Article 2, Item 15 of the Corporation Law. 2. Masahiko Mochizuki, Shinobu Obara and Mizuhiko Yoshida are outside auditors as stipulated in Article 2, Item 16 of the Corporation Law.		

・Organization (As of July 1, 2016)



・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.
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%
Iwagin Lease Data Co., Ltd. 1-5-31 Nakanohashi Dori, Morioka City, Iwate Prefecture	30	Computerized accounting services, leasing	April 1, 1972	96.3%	0%
Iwagin DC Card Co., Ltd. 1-2-14 Nakanohashi Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	100%	0%
Iwagin Credit Service Co., Ltd. 14-10-301 Morioka Ekimae Dori, Morioka City, Iwate Prefecture	20	Credit cards and consumer loans	August 1, 1989	100%	0%
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 84th anniversary of its foundation in May of this year.
This is entirely thanks to your loyal patronage, and all executives and employees of the Bank extend our heartfelt gratitude.
The Bank will continue to dedicate its utmost efforts to the reconstruction and development of the regional community, as we strive to be your trusted bank of choice.
We thank you for your continued support and loyal patronage.

THE BANK OF IWATE, LTD.

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