



Annual Report

2018

 THE BANK OF IWATE, LTD.





Sachio Taguchi
President

Message from the President

The Bank is advancing its medium-term management plan “Iwagin Frontier Plan 2nd stage - The•Innovation,” which spans the three years from April 2016 to March 2019.

In this medium-term management plan, we set four principal indicator targets: “consolidated net income,” “capital ratio,” “outstanding loans and bills discounted to SMEs” and “assets in custody.” In addition, we set “consolidated ROE” (return on shareholders’ equity) as a long-term management indicator (target indicator to be aimed at all times without time frame toward achievement of long-term vision). In fiscal 2017, the second year of this plan, we steadily achieved our goals for “consolidated net income,” “capital ratio” and “outstanding loans and bills discounted to SMEs,” but fell short of our targets and indicators for “assets in custody” and “consolidated ROE.” In the final fiscal year of the plan, we intend to accelerate efforts toward achieving goals by further enhancing the promotion of loans for SMEs to accumulate balances, and with regard to assets in custody, by broadening our business scope and enhancing our ability to make proposals through identifying needs.

The Bank will continue striving to promote policies to the best of our ability with the aim of being a bank that local customers trust and choose.

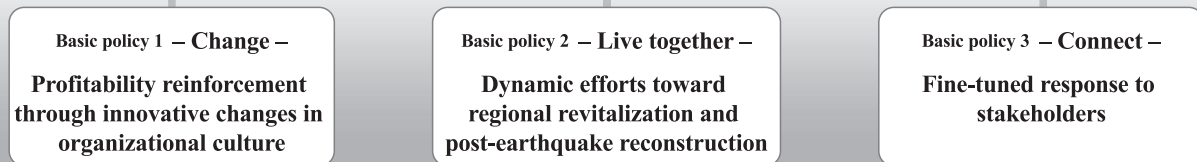
Overview of the Medium-term Management Plan

Long-term vision: Period: 10 years (April 2013 to March 2023)

“Demonstrating a dominant presence as a driving force in the region, while establishing our position as a top quality bank”



Three basic policies



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 increased by ¥8.7 billion from the previous term-end to ¥3,280.1 billion (US\$30,874.6 million). This was attributable to an increase in deposits by corporate clients and individuals, despite a decrease in public deposits.

The term-end balance of assets under management posted an increase of ¥7.3 billion from the previous term-end to ¥271.9 billion (US\$25,593.0 million), due to increases in insurances and public bonds.

Loans

The term-end balance of loans decreased by ¥47.9 billion from the previous term-end to ¥1,752.7 billion (US\$16,497.2 million). This was attributable to increases in loans to SMEs and individuals, despite a decrease in loans to local governments.

Securities

The value of total securities decreased by ¥45.9 billion from the previous term-end to ¥1,298.8 billion (US\$12,225.2 million). This was attributable to a decrease in national government bonds and others under management.

Cash Flow Analysis

Net cash used in operating activities was a net outflow of ¥56.0 billion (US\$527.1 million) in the current fiscal year, while net cash of ¥120.6 billion was provided in the previous term. This was due to a decrease in net cash as a result of an increase in loans exceeding an increase in deposits in the current fiscal year, whereas in the previous term net cash increased primarily as a result of a decrease in loans and an increase in deposits.

Net cash provided by investing activities was a net inflow of ¥39.5 billion (US\$372.1 million) in the current fiscal year, while net cash of ¥34.8 billion was used in the previous term. This was due to the proceeds from sale and redemption of securities exceeding the acquisition of securities in the current fiscal year.

Net cash used in financing activities was a net outflow of ¥1.6 billion (US\$15.1 million) in the current fiscal year, while net cash of ¥11.7 billion was used in the previous term. This was due to the payment of cash dividends in addition to the repayment of subordinated borrowings in the previous term.

As a result of the above, the term-end balance of cash and cash equivalents decreased by ¥18.1 billion from the previous term-end to ¥408.5 billion (US\$3,845.3 million).

Business Performance

Earnings

Total income decreased by ¥3.9 billion from the previous term to ¥47.2 billion (US\$444.4 million). This was mainly attributable to a decrease in interest income including interest on loans and discounts due to a decline in the yield on investments and the absence of a gain on negative goodwill which was recorded in the previous term, despite an increase in other income including gain on sale of stocks and other securities.

Total expenses increased by ¥0.7 billion from the previous term to ¥39.2 billion (US\$368.5 million). This was mainly due to an increase in other operating expenses, despite a decrease in interest expenses including interest on deposits.

As a result, income before income taxes decreased by ¥4.6 billion from the previous term to ¥8.1 billion (US\$75.9 million). Net income attributable to owners of parent decreased by ¥4.6 billion from the previous term to ¥5.5 billion (US\$52.0 million), mainly due to the absence of the gain on negative goodwill recorded in the previous term in conjunction with the acquisition of additional shares of the Three Group Companies.

Capital Ratio

The capital ratio declined by 0.25% from the previous term-end to 12.52% on a consolidated capital adequacy basis and by 0.27% from the previous term-end to 12.11% on a non-consolidated capital adequacy basis, as a result of an increase in risk assets mainly due to an increase in outstanding loans to SMEs, etc. and an increase in other securities under management in securities.

1 Corporate Governance

(1) Outline of the Bank's Governance Structure

① Basic approach to corporate governance

Ever since its establishment, the management of the Bank has been based on the fundamental mission objectives of contributing to the development of the regional community and ensuring the financial soundness of the Bank under all circumstances. Even in today's rapidly changing business environment, in order to fulfill the duties expected of us as the leading bank in our region, by all stakeholders including our business partners and shareholders, we take complete responsibility for our management decisions and aim to establish the highest standard of corporate governance that includes improved management transparency and strengthened oversight functions.

② Details of the corporate governance functions within the Bank

The Bank, pursuant to the resolution on the partial amendments to the Articles of Incorporation at the General Meeting of Shareholders held on June 22, 2018, transitioned to a company with Audit & Supervisory Committee. By strengthening oversight functions through the voting rights on the Board of Directors and the right to voice opinions on executive appointments and dismissals held by the Directors serving as Audit & Supervisory Committee Members, the Bank shall strive to further improve its corporate value through the enhancement of its corporate governance system.

a. Board of Directors

The Board of Directors comprises a total of fourteen Directors, including ten Directors (excluding Directors serving as Audit & Supervisory Committee Members), three of whom are Outside Directors, and four Directors serving as Audit & Supervisory Committee Members, three of whom are Outside Directors. Outside Directors account for 42% of the Board of Directors. Additionally, two female Outside Directors have been appointed.

b. Audit & Supervisory Committee

Directors serving as Audit & Supervisory Committee Members hold voting rights on the Board of Directors and are delegated certain business execution responsibilities, in addition to the auditing authority. The Audit & Supervisory Committee collaborates closely with the internal audit division and the Accounting Auditors to maintain and enhance audit quality, as well as conducts effective and efficient audits by appointing Standing Audit & Supervisory Committee Members and assigning support staff.

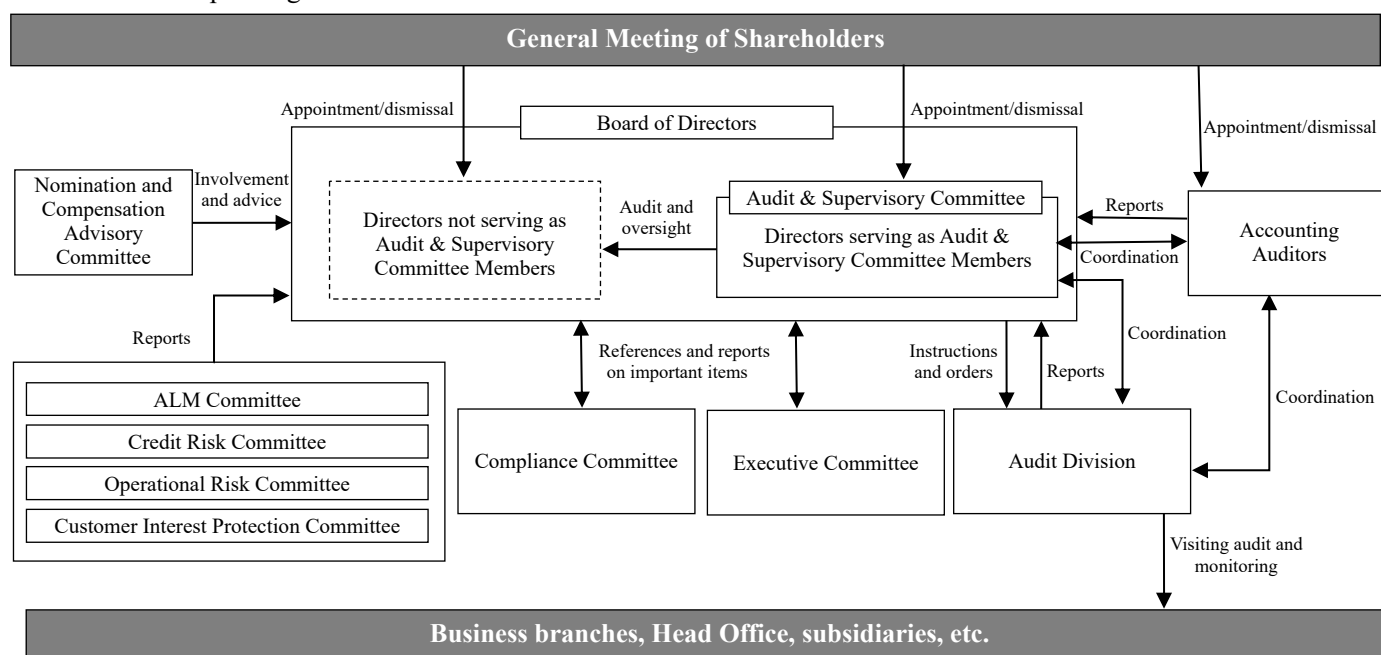
c. Executive Committee and Compliance Committee

The Bank has established the Executive Committee and the Compliance Committee as mechanisms that discuss and decide the matters referred by the Board of Directors. The Bank is planning to reinforce its organization with a greater emphasis on compliance by having the Compliance Committee, rather than the Executive Committee, discuss important matters relating to compliance.

d. Nomination and Compensation Advisory Committee

The Nomination and Compensation Advisory Committee has been established as an advisory body to the Board of Directors to improve the transparency and objectivity of the nomination and compensation of Directors. The Bank stipulates that the Nomination and Compensation Advisory Committee comprises a total of five members, including two Representative Directors and three Outside Directors who are not serving as Audit & Supervisory Committee Members, so that the majority is made up of Outside Directors, and that an Outside Director serves as chairman.

③ Corporate governance structure



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 Kazuhiko Kusano, Motofumi Okumura, and Toru Narushima, assisted by eleven other certified public accountants and eleven additional staff.

(2) Internal Audits and Auditing by Audit & Supervisory Committee

① Internal audits

The Bank's Audit Division, with a staff of seventeen, 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 the Audit & Supervisory Committee by exchanging information to ensure objective and efficient auditing.

② Auditing by Audit & Supervisory Committee

The Audit & Supervisory Committee, pursuant to the Audit & Supervisory Committee Regulations and the Audit & Supervisory Committee Audit Standards, attends important meetings including the Board of Directors, and audits the Directors' execution of duties, in accordance with the audit plan determined by the Audit & Supervisory Committee, as well as conducts research on the status of business and assets of the Bank. In addition, it receives various reports from the internal control division, monitors the development and implementation of internal control systems, and gives advice and instruction, as necessary. Furthermore, the Audit & Supervisory Committee strives to carry out appropriate auditing by maintaining close coordination with the Audit Division and Accounting Auditors to exchange opinions and information, through measures including regular meetings.

(3) Outside Directors

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

The Outside Directors 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 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 serve.

The Bank's relationship with each of the Outside Directors is as follows.

Outside Directors (excluding Directors serving as Audit & Supervisory Committee Members)

- The Bank has three Outside Directors (excluding Directors serving as Audit & Supervisory Committee Members): 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 Senior Corporate 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 (excluding Directors serving as Audit & Supervisory Committee Members), 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 (excluding Directors serving as Audit & Supervisory Committee Members), 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 (excluding Directors serving as Audit & Supervisory Committee

Members) have been reported to the Tokyo Stock Exchange, Inc. as Independent Directors who pose no risk of conflict of interest with general shareholders.

Outside Directors serving as Audit & Supervisory Committee Members

- The Bank has three Outside Directors serving as Audit & Supervisory Committee Members: Shinobu Obara, Mizuhiko Yoshida and Etsuko Sugawara. Ms. Obara currently serves as Representative Director and Executive Vice President of Iwate Menkoi Television Co., Ltd. Mr. Yoshida, as a lawyer, has established a law office and has served as Chairman of the Iwate Prefecture Public Interest Certification, etc., Council since April 2008. Ms. Sugawara serves as Director and Vice President of Iwate University.
- In terms of transactions between the Bank and Outside Directors serving as Audit & Supervisory Committee Members, the Bank has standard loans transactions with Mr. Yoshida, and standard banking transactions including deposits with the respective entities at which Ms. Obara and Ms. Sugawara serve. Also, in December 2017, on the occasion of the new construction of the “day-care center in the workplace” operated jointly by the Bank and Iwate University, where Ms. Sugawara serves as Director, the Bank made a donation to the university to support balancing of work and child-rearing.
- The Bank’s three Outside Directors serving as Audit & Supervisory Committee Members 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 with regard to corporate governance

The Bank elects six Outside Directors in order to reinforce the functions of monitoring and supervision of the Bank’s management. The Bank’s Board of Directors and the Audit & Supervisory Committee monitor the Directors’ execution of duties, while the Outside Directors (excluding Directors serving as Audit & Supervisory Committee Members) 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 Directors serving as Audit & Supervisory Committee Members, 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, 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.

(4) Outline of the Liability Limitation Agreement

The Bank has concluded liability limitation agreements with its Outside Directors, under which the liability for damages due to the negligence of duty on the side of Outside Directors is confined to the minimum statutory limits, in accordance with the provisions of Article 427, Paragraph 1 of the Companies Act.

(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	258	185	25	46	-
Corporate Auditors (excluding Outside Auditors)	2	20	20	-	-	-
Outside Directors and Outside Auditors	6	32	32	-	-	-

(Notes) 1. The above numbers of persons include one Corporate Auditor who retired at the closing of the 135th General Meeting of Shareholders held on June 22, 2017.

2. The above amounts include ¥25 million accrued bonuses for Directors and Corporate Auditors during the current fiscal year (¥25 million for Directors), and ¥46 million for stock compensation-type stock acquisition rights (¥46 million for Directors).

3. Apart from the above, ¥29 million employees' compensation was paid as compensation to Directors concurrently serving as employees (¥23 million employees' salaries and ¥6 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

Annual compensation limits payable to the Bank's Directors are determined according to a resolution passed at the General Meeting of Shareholders, and are set at a maximum of ¥260 million (including a maximum of ¥20 million for Outside Directors) for Directors (excluding Directors serving as Audit & Supervisory Committee Members), including Outside Directors, and a maximum of ¥60 million for Directors serving as Audit & Supervisory Committee Members. 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 Directors serving as Audit & Supervisory Committee Members and Outside Directors) as stock compensation-type stock options at an annual limit of ¥80 million.

The Bank's compensation system for Directors (excluding Directors serving as Audit & Supervisory Committee Members and Outside Directors) comprises basic fixed compensation, bonuses and stock compensation-type stock options, while that for Outside Directors and Directors serving as Audit & Supervisory Committee Members comprises basic fixed compensation alone.

The monthly amount of basic fixed compensation is decided at the Board of Directors meeting and through discussion by Directors serving as Audit & Supervisory Committee Members following the General Meeting of Shareholders, based on the duties and experience of each Director that is paid. The amount of bonus for Directors 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'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: 132

Balance sheet value: ¥ 26,272 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	3,434	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
TAIYO NIPPON SANSO CORPORATION	1,822,849	2,373	Maintenance and reinforcement of business relationship
East Japan Railway Company	200,000	1,938	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Mitsubishi UFJ Financial Group, Inc.	2,424,110	1,696	Maintenance and reinforcement of collaborative relationship for finance-related businesses
SECOM CO., LTD.	104,644	833	Maintenance and reinforcement of business relationship
Daiwa Securities Group Inc.	1,099,806	745	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Yamagata Bank, Ltd.	1,323,800	642	Maintenance and reinforcement cooperative relationship
Tokio Marine Holdings, Inc.	127,086	596	Maintenance and reinforcement of collaborative relationship for finance-related businesses
THE AKITA BANK, LTD.	1,517,159	526	Maintenance and reinforcement cooperative relationship
YAKUODO Co., Ltd.	180,000	500	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Toho Bank, Ltd.	1,052,090	440	Maintenance and reinforcement cooperative relationship
The Bank of Kyoto, Ltd.	540,000	437	Maintenance and reinforcement cooperative relationship
JFE Holdings, Inc.	200,047	381	Maintenance and reinforcement of business relationship
THE OITA BANK, LTD.	860,000	374	Maintenance and reinforcement cooperative relationship
NTN CORPORATION	657,555	364	Maintenance and reinforcement of business relationship
Yamaguchi Financial Group, Inc.	300,000	362	Maintenance and reinforcement cooperative relationship
The Aomori Bank, Ltd.	937,000	357	Maintenance and reinforcement cooperative relationship
Sumitomo Seika Chemicals Company, Limited	71,200	337	Maintenance and reinforcement of business relationship
The Yamanashi Chuo Bank, Ltd.	656,000	326	Maintenance and reinforcement cooperative relationship
DCM Holdings Co., Ltd.	317,949	326	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Daishi Bank, Ltd.	731,000	322	Maintenance and reinforcement cooperative relationship

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
ARCS COMPANY, LIMITED	109,590	291	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Ogaki Kyoritsu Bank, Ltd.	863,000	285	Maintenance and reinforcement cooperative relationship
Kyushu Financial Group, Inc.	418,470	284	Maintenance and reinforcement cooperative relationship
The Hyakugo Bank, Ltd.	619,000	274	Maintenance and reinforcement cooperative relationship
TOSHIBA CORPORATION	1,024,483	247	Maintenance and reinforcement of business relationship
THE BANK OF SAGA LTD.	801,000	244	Maintenance and reinforcement cooperative relationship
MS&AD Insurance Group Holdings, Inc.	66,756	236	Maintenance and reinforcement of collaborative relationship for finance-related businesses
The Musashino Bank, Ltd.	71,600	236	Maintenance and reinforcement cooperative relationship
The Kita-Nippon Bank, Ltd	68,250	219	Maintenance and reinforcement cooperative relationship
ORIX Corporation	132,300	217	Maintenance and reinforcement of business relationship
Nagase & Co., Ltd.	137,000	212	Maintenance and reinforcement of business relationship
Electric Power Development Co., Ltd.	72,000	187	Maintenance and reinforcement of business relationship
Mitsubishi UFJ Lease & Finance Company Limited	296,600	164	Maintenance and reinforcement of business relationship
THE SHIMIZU BANK, LTD.	45,400	153	Maintenance and reinforcement cooperative relationship
Katakura Industries Co., Ltd.	99,000	137	Maintenance and reinforcement of business relationship

(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	3,236	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
TAIYO NIPPON SANSO CORPORATION	1,822,849	2,936	Maintenance and reinforcement of business relationship
East Japan Railway Company	200,000	1,972	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
Mitsubishi UFJ Financial Group, Inc.	2,424,110	1,689	Maintenance and reinforcement of collaborative relationship for finance-related businesses
SECOM CO., LTD.	104,644	828	Maintenance and reinforcement of business relationship
Daiwa Securities Group Inc.	1,099,806	746	Maintenance and reinforcement of collaborative relationship for finance-related businesses
YAKUODO Co., Ltd.	180,000	718	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Bank of Kyoto, Ltd.	108,000	641	Maintenance and reinforcement cooperative relationship
The Yamagata Bank, Ltd.	264,760	623	Maintenance and reinforcement cooperative relationship
Tokio Marine Holdings, Inc.	127,086	601	Maintenance and reinforcement of collaborative relationship for finance-related businesses
THE AKITA BANK, LTD.	151,715	431	Maintenance and reinforcement cooperative relationship
JFE Holdings, Inc.	200,047	428	Maintenance and reinforcement of business relationship
The Toho Bank, Ltd.	1,052,090	428	Maintenance and reinforcement cooperative relationship
Sumitomo Seika Chemicals Company, Limited	71,200	362	Maintenance and reinforcement of business relationship
The Daishi Bank, Ltd.	73,100	343	Maintenance and reinforcement cooperative relationship
DCM Holdings Co., Ltd.	317,949	343	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
The Hyakugo Bank, Ltd.	619,000	311	Maintenance and reinforcement cooperative relationship
The Aomori Bank, Ltd.	93,700	301	Maintenance and reinforcement cooperative relationship
NTN CORPORATION	657,555	291	Maintenance and reinforcement of business relationship
The Yamanashi Chuo Bank, Ltd.	656,000	287	Maintenance and reinforcement cooperative relationship
ARCS COMPANY, LIMITED	109,590	281	Close ties to local economy as well as promotion of general transactions and reinforcement of relationship
ORIX Corporation	132,300	248	Maintenance and reinforcement of business relationship
Nagase & Co., Ltd.	137,000	247	Maintenance and reinforcement of business relationship
The Musashino Bank, Ltd.	71,600	240	Maintenance and reinforcement cooperative relationship
The Ogaki Kyoritsu Bank, Ltd.	86,300	231	Maintenance and reinforcement cooperative relationship
MS&AD Insurance Group Holdings, Inc.	66,756	223	Maintenance and reinforcement of collaborative relationship for finance-related businesses

Stock name	Number of shares	Balance sheet values (Millions of yen)	Purpose of holding
Kyushu Financial Group, Inc.	418,470	220	Maintenance and reinforcement cooperative relationship
The Kita-Nippon Bank, Ltd	68,250	202	Maintenance and reinforcement cooperative relationship
Electric Power Development Co., Ltd.	72,000	193	Maintenance and reinforcement of business relationship
THE BANK OF SAGA LTD.	80,100	186	Maintenance and reinforcement cooperative relationship
Mitsubishi UFJ Lease & Finance Company Limited	296,600	185	Maintenance and reinforcement of business relationship
Katakura Industries Co., Ltd.	99,000	136	Maintenance and reinforcement of business relationship
THE SHIMIZU BANK, LTD.	45,400	134	Maintenance and reinforcement cooperative relationship
MIKUNI CORPORATION	193,884	124	Close ties to local economy as well as promotion of general transactions and reinforcement of 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	26,624	529	636	13,066
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	30,233	604	624	16,731
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
None

(7) Statutory Number of Directors

The Articles of Incorporation of the Bank stipulate that there shall be no more than twelve Directors (excluding Directors serving as Audit & Supervisory Committee Members) and no more than four Directors serving as Audit & Supervisory Committee Members.

(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 Companies Act, 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 Companies Act, 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 Companies Act, 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)

	FY2016		FY2017	
	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	¥57	¥4	¥57	¥1
For consolidated subsidiaries of the Bank	-	-	-	-
Total	¥57	¥4	¥57	¥1

Notes: 1. Compensation paid during the previous term with respect to audit certification services includes ¥1 million paid to KPMG AZSA LLC for the auditing of the English-language version (translation) of the Bank's financial statements on a consolidated basis for fiscal 2016.

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 2017.

(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 regarding the interpretation of regulatory requirements relating to the calculation of credit risk assets as well as the CRS.

Current fiscal year

This is advisory services regarding the interpretation of regulatory requirements relating to the calculation of credit risk assets as well as the CRS.

(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 subsidiaries
Years ended 31 March 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
	ASSETS		
Cash and due from banks (Notes 3 and 6)	¥408,997	¥427,050	\$3,849,746
Monetary claims bought (Note 6)	4,277	2,851	40,258
Money held in trust (Notes 5 and 6)	7,982	4,982	75,132
Securities (Notes 4, 6, 8 and 16)	1,298,808	1,344,719	12,225,226
Loans and bills discounted (Notes 6, 7, 9 and 29)	1,752,659	1,704,750	16,497,167
Foreign exchange assets	2,498	1,874	23,513
Premises and equipment (Notes 11 and 24)	17,309	16,907	162,923
Intangible assets (Notes 12 and 24)	1,241	1,556	11,681
Net defined benefit asset (Note 17)	4,543	4,080	42,762
Deferred tax assets (Note 18)	489	557	4,603
Customers' liabilities for acceptances and guarantees (Note 16)	7,264	7,281	68,373
Other assets (Notes 6, 8 and 10)	60,027	44,779	565,013
Allowance for doubtful accounts (Note 6)	(9,262)	(8,908)	(87,180)
Total assets	¥3,556,832	¥3,552,478	\$33,479,217
LIABILITIES AND NET ASSETS			
Liabilities:			
Deposits (Notes 6, 8 and 13)	¥3,280,121	¥3,271,398	\$30,874,633
Call money and bills sold (Notes 6 and 8)	2,337	5,610	21,997
Payables under securities lending transactions (Notes 6 and 8)	4,134	1,130	38,912
Borrowed money (Notes 6 and 8)	13,602	14,102	128,031
Foreign exchange liabilities	7	20	66
Corporate bonds with stock acquisition rights (Notes 6 and 14)	10,624	11,219	100,000
Accrued bonuses for directors and corporate auditors	26	26	245
Net defined benefit liability (Note 17)	1,944	1,709	18,298
Retirement benefits for directors and corporate auditors	19	20	179
Provision for losses on reimbursement of dormant deposits	451	569	4,245
Provision for contingent losses	226	288	2,127
Deferred tax liabilities (Note 18)	10,749	10,985	101,177
Acceptances and guarantees (Note 16)	7,264	7,281	68,373
Other liabilities (Notes 6, 15 and 24)	21,950	29,833	206,608
Total liabilities	3,353,454	3,354,190	31,564,891
Net assets (Note 19):			
Common stock:			
Authorized — 49,450 thousand shares at 31 March 2018 and 2017			
Issued and outstanding — 18,498 thousand shares at 31 March 2018 and 2017	12,090	12,090	113,799
Capital surplus	5,667	5,502	53,341
Retained earnings	151,236	146,965	1,423,532
Treasury stock, at cost	(2,989)	(3,117)	(28,134)
Total shareholders' equity	166,004	161,440	1,562,538
Net unrealized holding gains on available-for-sale securities (Note 4)	41,696	41,417	392,470
Net unrealized losses on hedging derivatives (Note 6)	(3,358)	(3,355)	(31,608)
Remeasurements of defined benefit plans (Note 17)	(1,167)	(1,530)	(10,985)
Total accumulated other comprehensive income	37,171	36,532	349,877
Stock acquisition rights (Note 20)	203	157	1,911
Non-controlling interests	—	159	—
Total net assets	203,378	198,288	1,914,326
Total liabilities and net assets	¥3,556,832	¥3,552,478	\$33,479,217
Yen		U.S. dollars	
2018	2017	2018	
Per share data:			
Net assets (Note 26)	¥11,346.27	¥11,075.22	\$106.80

See accompanying notes.

Consolidated Statements of Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2018 and 2017

	Millions of yen		Thousands of U.S. dollars
	2018	2017	(Note 1) 2018
Income:			
Interest income:			
Interest on loans and discounts	¥17,811	¥18,296	\$167,649
Interest and dividends on securities	13,404	13,501	126,167
Other interest income	52	66	489
Fees and commissions	8,250	8,406	77,654
Other operating income (Note 21)	4,402	3,742	41,435
Other income (Note 23)	3,297	7,120	31,034
Total income	47,216	51,131	444,428
Expenses:			
Interest expenses:			
Interest on deposits	525	704	4,942
Interest on borrowings	155	173	1,459
Other interest expenses	575	609	5,412
Fees and commissions	3,112	2,958	29,292
Other operating expenses (Note 21)	5,522	4,293	51,977
General and administrative expenses (Note 22)	28,108	28,040	264,571
Other expenses (Note 23)	1,154	1,695	10,862
Total expenses	39,151	38,472	368,515
Income before income taxes	8,065	12,659	75,913
Provision for income taxes (Note 18)			
Current	3,044	1,827	28,652
Deferred	(499)	672	(4,697)
	2,545	2,499	23,955
Net income	5,520	10,160	51,958
Net income (loss) attributable to non-controlling interests	(3)	8	(28)
Net income attributable to owners of parent	¥5,523	¥10,152	\$51,986
	Yen		U.S. dollars
	2018	2017	2018
Per share data:			
Net income (Note 26)	¥308.70	¥567.99	\$2.91
Diluted net income (Note 26)	276.91	509.82	2.61
Cash dividends applicable to the year (Note 30)	70.00	70.00	0.66

See accompanying notes.

Consolidated Statements of Comprehensive Income

The Bank of Iwate, Ltd. and its consolidated subsidiaries

Years ended 31 March 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net income	¥5,520	¥10,160	\$51,958
Other comprehensive income (losses): (Note 25):			
Net unrealized holding gains(losses) on available-for-sale securities	279	(5,769)	2,626
Net unrealized gains (losses) on hedging derivatives (Note 6)	(3)	719	(28)
Remeasurements of defined benefit plans (Note 17)	363	50	3,417
Share of the other comprehensive losses of affiliates accounted for using the equity method	—	(12)	—
Total other comprehensive income (losses)	639	(5,012)	6,015
Comprehensive income	¥6,159	¥5,148	\$57,973
Total comprehensive income	¥6,159	¥5,148	\$57,973
Attributable to:			
Owners of parent	6,162	5,140	58,001
Non-controlling interests	(3)	8	(28)
See accompanying notes.			

Consolidated Statements of Changes in Net Assets

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2018 and 2017

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (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	Non-controlling interests	Total net assets
BALANCE, 1 April 2016	12,090	4,811	138,254	(3,748)	151,407	47,198	(4,074)	(1,580)	41,544	147	—	193,098
Change during year												
Cash dividends	—	—	(1,246)	—	(1,246)	—	—	—	—	—	—	(1,246)
Net income attributable to owners of parent	—	—	10,152	—	10,152	—	—	—	—	—	—	10,152
Acquisition of treasury stock	—	—	—	(4)	(4)	—	—	—	—	—	—	(4)
Disposal of treasury stock	—	—	(175)	761	586	—	—	—	—	—	—	586
Change in scope of consolidation	—	—	(20)	(123)	(143)	—	—	—	—	—	—	(143)
Change in equity of parent arising from transactions with non-controlling shareholders	—	691	—	(3)	688	—	—	—	—	—	—	688
Net changes of items other than stockholders' equity during year	—	—	—	—	—	(5,781)	719	50	(5,012)	10	159	(4,843)
Total change during year	—	691	8,711	631	10,033	(5,781)	719	50	(5,012)	10	159	5,190
BALANCE, 1 April 2017	¥12,090	¥5,502	¥146,965	¥(3,117)	¥161,440	¥41,417	¥(3,355)	¥(1,530)	¥36,532	157	159	198,288
Change during year												
Cash dividends	—	—	(1,252)	—	(1,252)	—	—	—	—	—	—	(1,252)
Net income attributable to owners of parent	—	—	5,523	—	5,523	—	—	—	—	—	—	5,523
Acquisition of treasury stock	—	—	—	(3)	(3)	—	—	—	—	—	—	(3)
Disposal of treasury stock	—	—	(0)	0	0	—	—	—	—	—	—	0
Sales of shares of parent held by consolidated subsidiaries	—	7	—	131	138	—	—	—	—	—	—	138
Change in equity of parent arising from transactions with non-controlling shareholders	—	158	—	—	158	—	—	—	—	—	—	158
Net changes of items other than stockholders' equity during year	—	—	—	—	—	279	(3)	363	639	46	(159)	526
Total change during year	—	165	4,271	128	4,564	279	(3)	363	639	46	(159)	5,090
BALANCE, 31 March 2018	12,090	5,667	151,236	(2,989)	166,004	41,696	(3,358)	(1,167)	37,171	203	—	203,378

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gains (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	Non-controlling interests	Total net assets
BALANCE, 1 April 2017	113,799	51,788	1,383,330	(29,339)	1,519,578	389,844	(31,580)	(14,402)	343,862	1,478	1,497	1,866,415
Change during year												
Cash dividends	—	—	(11,784)	—	(11,784)	—	—	—	—	—	—	(11,784)
Net income attributable to owners of parent	—	—	51,986	—	51,986	—	—	—	—	—	—	51,986
Acquisition of treasury stock	—	—	—	(28)	(28)	—	—	—	—	—	—	(28)
Disposal of treasury stock	—	—	(0)	0	0	—	—	—	—	—	—	0
Sales of shares of parent held by consolidated subsidiaries	—	66	—	1,233	1,299	—	—	—	—	—	—	1,299
Change in equity of parent arising from transactions with non-controlling shareholders	—	1,487	—	—	1,487	—	—	—	—	—	—	1,487
Net changes of items other than stockholders' equity during year	—	—	—	—	—	2,626	(28)	3,417	6,015	433	(1,497)	4,951
Total change during year	—	1,553	40,202	1,205	42,960	2,626	(28)	3,417	6,015	433	(1,497)	47,911
BALANCE, 31 March 2018	113,799	53,341	1,423,532	(28,134)	1,562,538	392,470	(31,608)	(10,985)	349,877	1,911	—	1,914,326

See accompanying notes.

Consolidated Statements of Cash Flows

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥8,065	¥12,659	\$75,913
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:			
Depreciation	2,064	2,215	19,428
Impairment losses	181	65	1,704
Gain on bargain purchase	—	(4,340)	—
(Gain) loss on step acquisitions	—	251	—
Gain on revision of defined benefit plans	—	(864)	—
Increase (decrease) in allowance for doubtful accounts	354	(1,623)	3,332
Increase (decrease) in provision for contingent losses	(62)	(9)	(584)
Increase (decrease) in accrued bonuses for directors and corporate auditors	0	1	0
(Increase) decrease in net defined benefit asset	329	130	3,097
Increase (decrease) in net defined benefit liability	(33)	(327)	(311)
Increase (decrease) in retirement benefits for directors and corporate auditors	(1)	(3)	(9)
Increase (decrease) in provision for losses on reimbursement of dormant deposits	(118)	68	(1,111)
Interest income	(31,267)	(31,863)	(294,305)
Interest expenses	1,255	1,486	11,813
Investment securities (gains) losses, net	(774)	(138)	(7,285)
(Increase) decrease in money held in trust	(160)	2	(1,506)
Foreign exchange (gains) losses, net	877	(30)	8,255
(Gains) losses on disposal of premises and equipment	37	145	348
Net (increase) decrease in loans and bills discounted	(47,909)	67,426	(450,951)
Net increase (decrease) in deposits	23,861	54,736	224,595
Net increase (decrease) in negotiable certificates of deposit	(15,139)	(24,716)	(142,498)
Net increase (decrease) in borrowed money	(500)	8,758	(4,706)
Net (increase) decrease in due from banks, excluding the Bank of Japan	(1)	11,954	(10)
Net (increase) decrease in call loans and others	(1,426)	21,056	(13,423)
Net increase (decrease) in call money and others	(3,272)	4,483	(30,798)
Net increase (decrease) in payables under securities lending transactions	3,004	1,130	28,276
Net (increase) decrease in foreign exchange assets	(624)	(164)	(5,874)
Net increase (decrease) in foreign exchange liabilities	(12)	19	(113)
Interest received	31,910	33,082	300,358
Interest paid	(1,354)	(1,742)	(12,745)
Other, net	(24,285)	(28,685)	(228,586)
Sub-total	(55,000)	125,162	(517,696)
Income taxes paid	(1,638)	(4,541)	(15,418)
Income taxes refunded	635	1	5,977
Net cash provided by (used in) operating activities	(56,003)	120,622	(527,137)
Cash flows from investing activities:			
Acquisition of securities	(996,635)	(587,093)	(9,380,977)
Proceeds from sale of securities	43,760	40,619	411,898
Proceeds from redemption of securities	997,608	515,930	9,390,136
Increase of money held in trust	(3,000)	—	(28,238)
Acquisition of premises and equipment	(1,828)	(1,689)	(17,206)
Proceeds from sale of premises and equipment	75	149	706
Payment for retirement of premises and equipment	(63)	(155)	(593)
Acquisition of intangible assets	(353)	(523)	(3,323)
Payment for asset retirement obligations	(30)	(82)	(283)
Payment for acquisition of shares of subsidiaries resulting in change in scope of consolidation (Note3)	—	(1,982)	—
Net cash provided by (used in) investing activities	39,534	(34,826)	372,120

Consolidated Statements of Cash Flows (Continued)

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows from financing activities:			
Decrease in subordinated borrowings	—	(10,000)	—
Repayments of lease obligations	(487)	(489)	(4,584)
Cash dividends paid	(1,252)	(1,246)	(11,784)
Dividends paid to non-controlling interests	(0)	(6)	(0)
Payment for acquisition of treasury stock	(3)	(4)	(28)
Proceeds from sale of treasury stock	0	0	0
Payment for acquisition of shares of subsidiaries that do not result in change in scope of consolidation	(2)	—	(19)
Proceeds from sale of shares of parent held by subsidiaries	145	—	1,364
Net cash used in financing activities	(1,599)	(11,745)	(15,051)
Effect of exchange rate changes on cash and cash equivalents	14	16	132
Net increase (decrease) in cash and cash equivalents	(18,054)	74,067	(169,936)
Cash and cash equivalents at beginning of year	426,581	352,514	4,015,258
Cash and cash equivalents at end of year (Note 3)	¥408,527	¥426,581	\$3,845,322

See accompanying notes.

Notes to Consolidated Financial Statements

The Bank of Iwate, Ltd. and its consolidated subsidiaries
Years ended 31 March 2018 and 2017

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 2018, which was ¥106.24 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 subsidiaries. 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.

A non-consolidated 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.

There are no investments in affiliates that are accounted for by the equity method.

A non-consolidated 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 unconsolidated subsidiaries and affiliated companies, and (d) all other securities that are not classified in any of the above categories (“available-for-sale securities”).

(a) Trading account securities — National government bonds held for trading purpose are presented as trading account securities. Trading account securities are stated at fair value (cost of securities sold is calculated using the moving-average method). 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 (excluding leased assets)

Premises and equipment are stated at cost less accumulated depreciation. The Bank depreciates its premises and equipment under the declining-balance method over their estimated useful lives. Depreciation of buildings acquired on and after 1 April 1998 (excluding installed facilities) and installed facilities and structures acquired on and after 1 April 2016 by the Bank is computed under the straight-line method. Estimated useful lives are as follows:

Buildings: 3-30 years

Equipment and furniture: 2-20 years

Consolidated subsidiaries depreciate their premises and equipment primarily under the declining-balance method over their estimated useful lives.

(2) Intangible assets (excluding leased assets)

The Bank and its consolidated subsidiaries (the “Group”) amortize the 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 Group, 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 Group is computed by the same method used for owned assets.

Allowance for doubtful accounts

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 allowance for doubtful accounts 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.

The allowance for doubtful accounts recorded in consolidated subsidiaries is calculated as follows:

General reserves are provided at an amount deemed necessary considering the historical ratio of loan losses. Specific reserves for doubtful borrowers are provided at an amount expected to be uncollectable, considering collectability on an individual basis.

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 also 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, which is determined as the amortization period within a range of estimated remaining service year of the eligible employees at the time the actuarial differences occur.

The consolidated subsidiaries adopt 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 subsidiaries 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 financial period. The accounts for that period, therefore, do not reflect such appropriations. See Note 30.

Amounts per share

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

Consumption taxes

National and local consumption taxes are accounted for with the tax exclusion method.

Accounting standards which have not been applicable yet

“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No.29, 30 March 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, 30 March 2018)

(1) Overview

They are comprehensive standards on revenue recognition. Revenue will be recognized based on the following 5 steps.

Step 1: Identify contracts with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Application date

The Group will apply these accounting standards from the beginning of the fiscal year ending 31 March 2022.

(3) Effects of the application of the standards

The Group is currently assessing the effects of these standards.

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 2018 and 2017, 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
	2018	2017	2018
Cash and due from banks	¥408,997	¥427,050	\$3,849,746
Less: Deposits in other banks other than the Bank of Japan	(470)	(469)	(4,424)
Cash and cash equivalents	¥408,527	¥426,581	\$3,845,322

(2) Breakdown of assets and liabilities of companies newly consolidated through acquisition of shares

The breakdown of assets and liabilities at the time of commencing the consolidation of three subsidiaries, Iwagin Lease Data, Iwagin DC Card and Iwagin Credit Service, through acquisition of their shares, and their acquisition cost and expenditure on acquisition (net) were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Assets			
Liabilities	—	¥22,321	—
Non-controlling interests	—	(13,108)	—
Gain on bargain purchase	—	(1,394)	—
Acquisition cost of shares	—	(4,340)	—
Amount evaluated by the equity method until acquisition	—	3,479	—
Loss on step acquisition	—	(455)	—
Cash and cash equivalents	—	251	—
Less: Expenditure on acquisition, net	—	(1,293)	—
	—	¥1,982	—

(3) Details of major non-monetary transactions

Transactions accompanied with making Iwagin DC Card and Iwagin Credit Service the Bank's wholly owned subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Increase in capital surplus due to share exchange	—	¥691	—
Decrease in treasury stock due to share exchange	—	718	—

4. SECURITIES

Securities held by the Group at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
National government bonds	¥326,976	¥399,266	\$3,077,711
Local government bonds	331,192	317,940	3,117,395
Corporate bonds	301,860	325,054	2,841,303
Corporate stocks	53,131	49,825	500,104
Other securities	285,649	252,634	2,688,713
	¥1,298,808	¥1,344,719	\$12,225,226

The securities placed under unsecured lending agreements, which borrowers have the right to sell or pledge in the amount of ¥87,000 million (\$818,901 thousand) and ¥97,000 million at 31 March 2018 and 2017 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 2018 and 2017:

(a) Held-to-maturity debt securities

	Millions of yen				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2018:	¥37,368	¥41,627	¥4,259	¥4,260	¥(1)
At 31 March 2017:	¥36,576	¥40,806	¥4,230	¥4,231	¥(1)
	Thousands of U.S. dollars				
	Book value	Fair value	Difference	Gain	Loss
At 31 March 2018:	\$351,732	\$391,820	\$40,088	\$40,098	\$(10)

(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 2018:					
Corporate stocks	¥24,449	¥51,918	¥27,469	¥27,848	¥(379)
Bonds	900,081	927,467	27,386	27,713	(327)
Other	271,797	276,373	4,576	7,855	(3,279)
	¥1,196,327	¥1,255,758	¥59,431	¥63,416	¥(3,985)
At 31 March 2017:					
Corporate stocks	¥25,288	¥48,612	¥23,324	¥23,506	¥(182)
Bonds	977,212	1,009,200	31,988	32,873	(885)
Other	241,449	245,051	3,602	6,755	(3,153)
	¥1,243,949	¥1,302,863	¥58,914	¥63,134	¥(4,220)
	Thousands of U.S. dollars				
	Acquisition cost	Book value	Difference	Gain	Loss
At 31 March 2018:					
Corporate stocks	\$230,130	\$488,686	\$258,556	\$262,123	\$(3,567)
Bonds	8,472,148	8,729,923	257,775	260,853	(3,078)
Other	2,558,330	2,601,402	43,072	73,936	(30,864)
	\$11,260,608	\$11,820,011	\$559,403	\$596,912	\$(37,509)

B. For the year ended 31 March 2018, there were no sales of held-to-maturity debt securities. For the year ended 31 March 2017, cost of sales, total sales and related loss of held-to-maturity debt securities amounted to ¥100 million, ¥97 million and ¥3 million, respectively. Based on the investment standard in consolidated subsidiaries, they were sold since a significant deterioration was seen in the issuer's credit standing.

Total sales of available-for-sale securities sold in the years ended 31 March 2018 and 2017 amounted to ¥43,759 million (\$411,888 thousand) and ¥40,521 million, respectively. The related gains and losses amounted to ¥2,560 million (\$24,096 thousand) and ¥60 million (\$565 thousand) in 2018, and ¥1,738 million and ¥59 million in 2017, respectively.

C. There were no available-for-sale securities written down for the years ended 31 March 2018 and 2017.

D. Net unrealized holding gains on available-for-sale securities on the consolidated balance sheets at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized holding gains before deferred tax on:			
Available-for-sale securities (Note)	¥59,432	¥58,983	\$559,413
Deferred tax assets	—	(45)	—
Deferred tax liabilities	(17,736)	(17,521)	(166,943)
Net unrealized holding gains before interests adjustment	41,696	41,417	392,470
Amount equivalent to non-controlling interests	—	(0)	—
Net unrealized holding gains on available-for-sale securities	¥41,696	¥41,417	\$392,470

Note: The amount of ¥2 million (\$19 thousand) and ¥71 million, which is net unrealized holding gains before deferred tax on available-for-sale securities that are component assets of investment limited partnerships classified as securities for which it is extremely difficult to determine the fair values, was included in the balance at 31 March 2018 and 2017, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Shares	¥20	¥20	\$188
Investments	916	613	8,622

5. MONEY HELD IN TRUST

Money held in trust at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Money held in trust for trading purposes:			
Carrying amount	¥7,982	¥4,982	\$75,132
Realized gains included in earnings	—	—	—

6. FINANCIAL INSTRUMENTS

(1) Overview

a. Policy for financial instruments

The Group provides financial services, mainly focusing on banking businesses such as deposit taking, grant of loans, trading of securities and investment in securities, as well as financial services including lease operation and credit card operation.

For its main operations, the Group 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 tend to be affected by interest rate fluctuations, and are exposed to risks stemming 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, but not for speculative purposes.

b. Types of financial instruments and related risks

The financial assets of the Bank consist 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 individuals, followed by local governments, real estate industries and leasing - more or less all kinds of industries - and manufacturing industries.

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 account 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, 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 Bank 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 Bank fails to raise funds owing to market shrinkage and is obliged to enter into unusual unfavorable transactions.

Regarding derivative transactions, the Bank enters into interest rate swap contracts in terms of ALM control and adopt hedge accounting to them as hedging instruments for interest rate risks on loans and bonds as hedged items. The Bank 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.

c. Monitoring of credit risks

In accordance with the internal policies of the Bank 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

Bank 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 reported to the credit risk committee on a quarterly basis. 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 on a monthly basis to the ALM committee using gap analysis or interest rate sensitivity analysis such as BPV and VaR. Derivative instruments such as interest rate swap contracts to hedge interest rate risks are used in terms of ALM.

(Foreign currency exchange risks)

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

(Price fluctuation risks)

In accordance with the internal policies of the Bank on managing market related risks, the risks arising from fluctuation of market price of investment securities are controlled through a daily VaR based on certain holding periods and confidence interval by confirming that the quantities of its risk fall under the 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 policies 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 is 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)

The Bank employs the variance-covariance method (confidence interval of 99%, observation period of 1 year) in calculating VaR of deposits, loans receivable and securities (investments in bond, investments in stock, shares held for policy reasons, investments in trust). The holding period used as a parameter for the calculation is set as 6 months for deposits, loans receivable and shares held for policy reasons, and 3 months for investments in stock and investments in trust.

The volume of market risk, which is supposed to be estimated losses, at the end of the year ended 31 March 2018 was ¥20,010 million (\$188,347 thousand).

For securities, the Bank 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.

e. Monitoring of liquidity risks

The Bank adequately manages its liquidity risks based on various internal quantitative standards prescribed in liquidity risks 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 2018 and 2017 were as follows.

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
	Carrying amounts	Fair value	Carrying amounts	Fair value	Carrying amounts	Fair value
Assets:						
Cash and due from banks	¥408,997	¥408,997	¥427,050	¥427,050	\$3,849,746	\$3,849,746
Monetary claims bought	4,005	4,024	2,457	2,486	37,698	37,877
Money held in trust	7,982	7,982	4,982	4,982	75,132	75,132
Securities						
Held-to-maturity debt securities	34,686	38,926	35,304	39,505	326,487	366,397
Available-for-sale securities	1,255,758	1,255,758	1,302,863	1,302,863	11,820,011	11,820,011
Loans and bills discounted	1,752,659		1,704,750		16,497,167	
Allowance for doubtful accounts	(8,901)		(8,725)		(83,782)	
	1,743,758	1,747,582	1,696,025	1,700,818	16,413,385	16,449,379
Liabilities:						
Deposits	3,280,121	3,280,252	3,271,398	3,271,593	30,874,633	30,875,866
Call money and bills sold	2,337	2,337	5,610	5,610	21,997	21,997
Payables under securities lending transactions	4,134	4,134	1,130	1,130	38,912	38,912
Borrowed money	13,602	13,603	14,102	14,105	128,031	128,040
Corporate bonds with stock acquisition rights	10,624	10,619	11,219	11,309	100,000	99,953
Derivative transactions:						
Derivative instruments not qualifying for hedge accounting	182	182	56	56	1,713	1,713
Derivative instruments qualifying for hedge accounting	(4,826)	(8,200)	5,053	1,679	(45,426)	(77,184)

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

a. Cash and due from banks

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

b. Monetary claims bought

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

c. Money held in trust

For the securities that are invested as part of trust assets in 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 either quoted market prices or prices provided by the financial institutions that the Group 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, etc. The fair values of investments in trust are based on published net asset value. 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 allowance for doubtful accounts 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 and bills sold, and payables under securities lending transactions

Call money and bills sold, and payables under securities lending transactions 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 2018 and 2017:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Available-for-sale securities	¥8,364	¥6,552	\$78,728
Monetary claims bought	272	394	2,560

(Note 3) Expected collections of assets and payments of liabilities with maturities at 31 March 2018 and 2017 were as follows:

	Millions of yen					
	2018					
	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)	¥384,041	¥—	¥—	¥—	¥—	¥—
Monetary claims bought	1,323	—	—	—	—	2,954
Securities						
Held-to-maturity debt securities	10,301	2,430	—	—	1,983	19,972
Mainly consists of the following:						
National bonds	10,000	—	—	—	1,983	19,972
Corporate bonds	300	305	—	—	—	—
Available-for-sale securities	175,851	330,054	145,173	74,659	363,722	73,535
Mainly consists of the following:						
National bonds	77,547	118,347	14,701	10,686	21,215	52,525
Local government bonds	6,842	30,651	7,388	30,671	245,597	10,043
Corporate bonds	54,724	109,879	82,701	8,848	33,234	4,557
Loans and bills discounted	292,186	420,680	296,541	147,202	131,637	274,173
Deposits	3,160,552	111,678	6,532	278	1,081	—
Call money and bills sold	2,337	—	—	—	—	—
Payables under securities lending transactions	4,134	—	—	—	—	—
Borrowed money (*2)	4,762	85	—	—	—	—
	Millions of yen					
	2017					
	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)	¥404,081	¥—	¥—	¥—	¥—	¥—
Monetary claims bought	1,185	—	—	—	—	1,666
Securities						
Held-to-maturity debt securities	500	12,545	307	—	1,982	19,970
Mainly consists of the following:						
National bonds	500	10,001	—	—	1,982	19,970
Corporate bonds	—	300	307	—	—	—
Available-for-sale securities	180,531	321,616	237,928	67,854	332,501	83,356
Mainly consists of the following:						
National bonds	74,753	135,989	71,294	9,612	21,526	53,639
Local government bonds	3,971	13,956	29,219	24,370	226,246	20,178
Corporate bonds	83,483	115,678	90,120	14,515	13,046	3,209
Loans and bills discounted	297,018	416,641	286,572	141,729	133,677	253,624
Deposits	3,138,796	124,078	7,110	169	1,245	—
Call money and bills sold	5,610	—	—	—	—	—
Payables under securities lending transactions	1,130	—	—	—	—	—
Borrowed money (*2)	4,945	385	—	—	—	—

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 interest-bearing borrowed money.

Thousands of U.S. dollars						
2018						
	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	\$3,614,844	\$—	\$—	\$—	\$—	\$—
Monetary claims bought	12,453	—	—	—	—	27,805
Securities						
Held-to-maturity debt securities	96,960	22,873	—	—	18,665	187,989
Mainly consists of the following:						
National bonds	94,127	—	—	—	18,665	187,989
Corporate bonds	2,824	2,871	—	—	—	—
Available-for-sale securities	1,655,224	3,106,683	1,366,463	702,739	3,423,588	692,159
Mainly consists of the following:						
National bonds	729,923	1,113,959	138,375	100,584	199,689	494,400
Local government bonds	64,401	288,507	69,541	288,695	2,311,720	94,531
Corporate bonds	515,098	1,034,253	778,436	83,283	312,820	42,893
Loans and bills discounted	2,750,245	3,959,714	2,791,237	1,385,561	1,239,053	2,580,695
Deposits	29,749,172	1,051,186	61,483	2,617	10,175	—
Call money and bills sold	21,997	—	—	—	—	—
Payables under securities lending transactions	38,912	—	—	—	—	—
Borrowed money	44,823	800	—	—	—	—

Derivatives

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

a. Derivative instruments not qualifying for hedge accounting

Notional amounts, fair values, and unrealized gains (losses) for the years ended 31 March 2018 and 2017 were as follows:

(Currency-related transactions)

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Notional amounts	Unrealized gains Fair value	Unrealized (losses)	Notional amounts	Unrealized gains Fair value	Unrealized (losses)	Notional amounts	Unrealized gains Fair value	Unrealized (losses)
Forward foreign exchange:									
Sell	14,529	196	196	¥6,027	¥54	¥54	136,756	1,845	1,845
Buy	384	(14)	(14)	573	2	2	3,614	(132)	(132)

Note: Transactions in the above table are revalued at fair value. Unrealized gains (losses) are included in the consolidated statements of income.

(Earthquake derivatives)

	Millions of yen						Thousands of U.S. dollars		
	2018			2017			2018		
	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)	Notional amounts	Fair value	Unrealized gains (losses)
Earthquake derivatives:									
Sell	705	(10)	—	—	—	—	6,636	(94)	—
Buy	705	10	—	—	—	—	6,636	94	—

Note: For transactions in the above table, acquisition costs are regarded as fair value as it is extremely difficult to determine the fair appraised value.

b. Derivative instruments qualifying for hedge accounting

Notional amounts and fair values for the years ended 31 March 2018 and 2017 were as follows:

(Interest-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Interest rate swap:						
Receive floating / Pay fixed rate (Deferral method)	¥40,915	¥(4,826)	¥41,885	¥(4,811)	\$385,119	\$(45,426)
Receive floating / Pay fixed rate (Exceptional method)	22,430	(3,374)	22,526	(3,374)	211,126	(31,758)

(Currency-related transactions)

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
	Notional amounts	Fair value	Notional amounts	Fair value	Notional amounts	Fair value
Currency swap:						
(Deferral method)	—	—	¥81,000	¥9,864	—	—

7. LOANS AND BILLS DISCOUNTED

Loans and bills discounted at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
	Bills discounted	¥4,782	¥3,330
Loans on notes	67,749	75,354	637,698
Loans on deeds	1,493,615	1,453,321	14,058,876
Overdrafts	186,513	172,745	1,755,582
	<u>¥1,752,659</u>	<u>¥1,704,750</u>	<u>\$16,497,167</u>

Bills discounted are accounted for as financial transactions in accordance with JICPA Industry Audit Committee Report No. 24. The Group has rights to sell or pledge commercial bills discounted and foreign bills of exchanges bought without restrictions. The total

face value at 31 March 2018 and 2017 was ¥4,781 million (\$45,002 thousand) and ¥3,329 million, respectively.

The Group is required to disclose loans to customers who meet specific criteria in accordance with the Banking Law. Doubtful loans at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Loans to borrowers under bankruptcy proceedings	¥853	¥398	2018 \$8,029
Past due loans	29,345	30,365	276,214
Loans past due three months or more	26	3	245
Restructured loans, including loans to borrowers financially assisted by the Bank	7,695	8,077	72,430
	<u>¥37,919</u>	<u>¥38,843</u>	<u>\$356,918</u>

8. PLEDGED ASSETS

At 31 March 2018, deposits of ¥42,482 million (\$399,868 thousand), payables under securities lending transactions of ¥4,134 million (\$38,912 thousand) and borrowed money of ¥13,162 million (\$123,889 thousand) were secured by a pledge of securities in the amount of ¥102,353 million (\$963,413 thousand) and guarantee money deposits in the amount of ¥71 million (\$668 thousand). At 31 March 2017, deposits of ¥55,534 million and, call money and bills sold of ¥5,610 million, payables under securities lending transactions of ¥1,130 million, borrowed money of ¥13,300 million were secured by a pledge of securities in the amount of ¥103,243 million and guarantee money deposits in the amount of ¥72 million. In addition to the above-mentioned assets pledged as collateral, the Group provided securities of ¥1,506 million (\$14,175 thousand) and ¥29,683 million, and other assets in the amount of ¥34,225 million (\$322,148 thousand) and ¥9,798 million, respectively, as collateral for transactions such as exchange settlement transactions at 31 March 2018 and 2017.

Other assets include cash collateral paid for financial instruments, guarantee deposits and lease deposits in the amount of ¥8,370 million (\$78,784 thousand) and ¥8,430 million, ¥90 million (\$847 thousand) and ¥57 million, and ¥193 million (\$1,817 thousand) and ¥193 million at 31 March 2018 and 2017, respectively.

9. COMMITMENT LINE AGREEMENTS

Commitment line agreements are agreements to lend to customers to a prescribed amount when they apply for borrowing, unless violation of the condition of the agreement exists. The amount of unused commitment line related to such agreements at 31 March 2018 and 2017 amounted to ¥707,700 million (\$6,661,333 thousand) and ¥704,265 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 ¥673,027 million (\$6,334,968 thousand) and ¥667,893 million at 31 March 2018 and 2017, 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 Group 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 Group 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 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Accrued income	¥3,558	¥3,521	\$33,490
Other	56,469	41,258	531,523
	<u>¥60,027</u>	<u>¥44,779</u>	<u>\$565,013</u>

11. PREMISES AND EQUIPMENT

Premises and equipment at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Land	¥8,884	¥8,939	\$83,622
Buildings	35,046	34,160	329,876
Equipment	8,365	8,350	78,737
Leased assets	1,213	1,214	11,417
Other	956	850	8,998
	<u>54,464</u>	<u>53,513</u>	<u>512,650</u>
Accumulated depreciation	37,155	36,606	349,727
	<u>¥17,309</u>	<u>¥16,907</u>	<u>\$162,923</u>

To conform with the Companies Law of Japan, deferred gains on sale of real estate in the amount of ¥922 million (\$8,678 thousand) and ¥932 million at 31 March 2018 and 2017, respectively, were deducted from the acquisition cost of premises and equipment.

12. INTANGIBLE ASSETS

Intangible assets at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Software	¥1,082	¥1,213	\$10,184
Leased assets	94	303	885
Other	65	40	612
	<u>¥1,241</u>	<u>¥1,556</u>	<u>\$11,681</u>

13. DEPOSITS

Deposits at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Current deposits	¥54,341	¥56,063	\$511,493
Ordinary deposits	1,792,480	1,670,039	16,871,988
Deposits at notice	1,758	2,896	16,547
Time deposits	1,157,586	1,150,184	10,895,953
Other deposits	70,610	173,731	664,627
Negotiable certificates of deposit	203,346	218,485	1,914,025
	<u>¥3,280,121</u>	<u>¥3,271,398</u>	<u>\$30,874,633</u>

14. CORPORATE BONDS WITH STOCK ACQUISITION RIGHTS

Corporate bonds with stock acquisition rights at 31 March 2018 and 2017 were summarized as follows:

Name	Issued	Millions of Yen		Thousands of U.S. Dollars	Coupon Rate (%)	Secured or Unsecured	Due
		2018	2017	2018			
Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars	25 July 2013	¥10,624	¥11,219	\$100,000	Non-interest	Unsecured	25 July 2018

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

Type of stock involved	Zero coupon convertible bond-type bonds with stock acquisition rights due 2018 payable in U.S. dollars
Issue price of stock acquisition rights	Common stock
Issue price of stock (Yen / U.S. Dollars)	Gratis
Total amount of issue (Millions of Yen / Thousands of U.S. Dollars)	¥5,284 (\$49.74)
Total amount of stock acquisition rights exercised	¥10,624 (\$100,000)
Percentage of stock acquisition right granted	—
Exercise period of stock acquisition rights	100%
	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 2018 announced by the Bank.

3. Annual maturities of corporate bonds with stock acquisition rights at 31 March 2018 were as follows:

Year ending 31 March	Thousands of U.S.	
	Millions of yen	dollars
2019	¥10,624	\$100,000
2020	—	—
2021	—	—
2022	—	—
2023 and thereafter	—	—

15. OTHER LIABILITIES

Other liabilities at 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of
	2018	2017	U.S. dollars
Accrued income taxes	¥1,927	¥250	\$18,138
Accrued expenses	2,588	2,415	24,360
Unearned income	468	600	4,406
Lease obligations	2,058	2,470	19,371
Other	14,909	24,098	140,333
	¥21,950	¥29,833	\$206,608

16. CONTINGENT LIABILITIES, ACCEPTANCES AND GUARANTEES

All contingent liabilities including letters of credit, acceptances and guarantees are reflected in acceptances and guarantees. As a contra account, customers' liabilities for acceptances and guarantees are shown on the asset side, which represent the Group'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 ¥2,518 million (\$23,701 thousand) in 2018 and ¥2,160 million in 2017.

17. EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

The Group has adopted funded and unfunded defined benefit plans to prepare for the employees' retirement benefits. In addition, as of 1 April 2016, the Bank transferred part of the defined benefit plans (excluding the portion for vested pensioners in a waiting period and current pensioners) to defined contribution plans.

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
	2018	2017	2018
Balance at beginning of year	¥25,644	¥28,469	\$241,378
Service costs (including the amount of employee contributions)	673	680	6,335
Interest costs	107	108	1,007
Actuarial differences	219	570	2,061
Retirement benefits paid	(1,129)	(1,392)	(10,627)
Decrease due to transfer to defined contribution plans	—	(3,096)	—
Increase due to change in scope of consolidation	—	305	—
Balance at end of year	¥25,514	¥25,644	\$240,154

Note: Since the consolidated subsidiaries, which adopt the simplified method, are insignificant, the net defined benefit liability, retirement benefit expenses and retirement benefits paid are included in the above accounts. All retirement benefit expenses are included in service costs.

(ii) Change in plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at beginning of year	¥28,015	¥28,209	\$263,695
Expected return on plan assets	582	585	5,479
Actuarial differences	97	(317)	913
Employer contributions	114	219	1,073
Employee contributions	53	55	499
Retirement benefits paid	(748)	(736)	(7,041)
Balance at end of year	¥28,113	¥28,015	\$264,618

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded projected benefit obligation	¥25,187	¥25,317	\$237,076
Plan assets	(28,113)	(28,015)	(264,618)
	(2,926)	(2,698)	(27,542)
Unfunded projected benefit obligation	327	327	3,078
Net liability (asset) recognized in consolidated balance sheets	¥(2,599)	¥(2,371)	\$(24,464)
Net defined benefit liability	1,944	1,709	18,298
Net defined benefit asset	(4,543)	(4,080)	(42,762)
Net liability (asset) recognized in consolidated balance sheets	¥(2,599)	¥(2,371)	\$(24,464)

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
	2018	2017	2018
Service costs (excluding the amount of employee contributions)	¥620	¥625	\$ 5,836
Interest costs	107	108	1,007
Expected return on plan assets	(582)	(585)	(5,479)
Amortization of actuarial differences	645	531	6,071
Retirement benefit expenses	¥790	¥679	\$ 7,435

Notes: 1. The retirement benefit expenses of the consolidated subsidiaries adopting the simplified method are included in service costs.

2. Other than the above, a gain on revision of defined benefit plans in the amount of ¥864 million is recorded, resulting from the partial transfer of the Bank's retirement benefit plans to defined contribution plans for the year ended 31 March 2017.

(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
	2018	2017	2018
Actuarial differences	¥523	¥74	\$4,923
Total	¥523	¥74	\$4,923

Note: Actuarial differences for the year ended 31 March 2017 include reclassification adjustment in the amount of ¥430 million due to the partial transfer of the Bank's retirement benefit plans to retirement contribution plans.

(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
	2018	2017	2018
Unrecognized actuarial differences	¥ (1,677)	¥ (2,200)	\$(15,785)
Total	¥ (1,677)	¥ (2,200)	\$(15,785)

(vii) Plan assets

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

	2018	2017
Bonds	53%	65%
Equities	29%	16%
General account	15%	16%
Cash and deposits	3%	2%
Other	0%	1%
Total	100%	100%

Retirement benefit trusts set up for defined benefit pension plans account for 19% and 19% of total plan assets for the years ended 31 March 2018 and 2017, respectively. In addition, retirement benefit trusts set up for the lump-sum retirement benefit plans account for 22% and 23% of total plan assets for the years ended 31 March 2018 and 2017, 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 expected rate of return for various categories of the plan assets.

(viii) Basis for calculation of actuarial assumptions

The basis for calculation of actuarial assumptions (presented as a weighted-average rate for discount rate and long-term expected rate of return on plan asset) at 31 March 2018 and 2017 was as follows:

	2018	2017
Discount rate	0.4%	0.4%
Long-term expected rate of return on plan assets	2.0%	2.0%
Expected salary increase rate in defined benefit plans	3.9%	3.9%
Expected salary increase rate in lump-sum retirement benefit plans	7.4%	7.4%

The contribution made by the Bank to defined contribution plans was ¥126 million (\$1,186 thousand) and ¥126 million for the year ended 31 March 2018 and 2017, respectively.

The amount of plan assets transferred to the defined contribution plans resulting from the transfer of its portion from retirement benefit plans to such plans was ¥1,802 million (\$16,962 thousand) and the transfer is expected to be completed in four years.

The remaining transfer of plan assets as of 31 March 2018 in the amount of ¥836 million (\$7,869 thousand) is included in accounts payable – other under other liabilities.

18. 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 30.6% and 30.6% for the years ended 31 March 2018 and 2017, respectively.

Significant components of the Group's deferred tax assets and liabilities at 31 March 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S.
	2018	2017	dollars 2018
Deferred tax assets:			
Allowance for doubtful accounts	¥2,755	¥2,463	\$25,932
Net defined benefit liability	2,844	2,576	26,770
Accumulated depreciation	1,119	1,115	10,533
Securities	567	579	5,337
Deferred hedge	1,467	1,466	13,808
Other	1,492	1,628	14,043
Subtotal	10,244	9,827	96,423
Valuation allowance	(2,240)	(2,179)	(21,084)
Total deferred tax assets	8,004	7,648	75,339
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(17,838)	(17,643)	(167,903)
Deferred gains on sale of real estate	(422)	(433)	(3,972)
Other	(4)	(0)	(38)
Total deferred tax liabilities	(18,264)	(18,076)	(171,913)
Net deferred tax liabilities	¥ (10,260)	¥ (10,428)	\$(96,574)

The following summarizes the significant difference between the statutory tax rate and the Bank's effective tax rate for the years ended 31 March 2018 and 2017.

	2018	2017
Statutory tax rate	30.6%	30.6%
Non-deductible expenses	0.4	0.2
Non-taxable income	(1.0)	(2.5)
Per capita inhabitant taxes	0.5	0.3
Valuation allowance	0.8	0.8
Gain on bargain purchase	—	(10.5)
Loss on step acquisition	—	0.6
Other, net	0.3	0.2
Effective tax rate	31.6%	19.7%

19. 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 a 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 a 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 591 thousand shares and 623 thousand shares at 31 March 2018 and 2017, respectively.

20. STOCK OPTIONS

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 ¥203 million (\$1,911 thousand) and ¥157 million at 31 March 2018 and 2017, respectively.

Share-based compensation expenses which were accounted for as general and administrative expenses for the years ended 31 March 2018 and 2017 amounted to ¥46 million (\$433 thousand) and ¥49 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	2016 Stock Option Plan
Title and number of grantees	Directors of the Bank: 9	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	Common stock: 12,100 shares
Grant date	24 July 2013	24 July 2014	23 July 2015	25 July 2016
Condition for vesting	Not applicable	Not applicable	Not applicable	Not applicable
Requisite service period	Not applicable	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	From 26 July 2016 to 25 July 2046

2017 Stock Option
Plan

Title and number of grantees	Directors of the Bank: 9
Number of stock options by type of shares	Common stock: 11,100 shares
Grant date	26 July 2017
Condition for vesting	Not applicable
Requisite service period	Not applicable
Exercise period	From 27 July 2017 to 26 July 2047

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 2018. 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	2016 Stock Option Plan
Before vesting (shares):				
At 31 March 2017	9,000	7,800	6,900	12,100
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
Outstanding	9,000	7,800	6,900	12,100
After vesting (shares):				
At 31 March 2017	—	—	—	—
Vested	—	—	—	—
Exercised	—	—	—	—
Forfeited	—	—	—	—
Outstanding	—	—	—	—

2017 Stock Option Plan

Before vesting (shares):	
At 31 March 2017	—
Granted	11,100
Forfeited	—
Vested	—
Outstanding	11,100
After vesting (shares):	
At 31 March 2017	—
Vested	—
Exercised	—
Forfeited	—
Outstanding	—

(ii) Price information

	2013 Stock Option	2014 Stock Option	2015 Stock Option	2016 Stock Option
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average exercise price	¥— (\$—)	¥— (\$—)	¥— (\$—)	¥— (\$—)
Fair value at the grant	¥4,119 (\$38.77)	¥4,437 (\$41.76)	¥5,287 (\$49.76)	¥4,032 (\$37.95)
2017 Stock Option				
Exercise price	¥1 (\$0.01)			
Average exercise price	¥— (\$—)			
Fair value at the grant	¥4,178 (\$39.33)			

3. Valuation method for fair value of stock options

The valuation methods for fair value of stock options granted in the year ended 31 March 2018 were as follows:

(a) The valuation method: Black-Scholes formula

(b) Major basic numerical values and valuation method

2017 Stock Option Plan	
Stock price volatility (*1)	28.0%
Expected years to expiration (*2)	2.5 years
Expected dividends (*3)	¥70 (\$0.66) per share
Risk-free interest rate (*4)	(0.10)%

Notes:*1. Stock price volatility was calculated based on the actual stock prices from 19 January 2015 to 17 July 2017.

*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 2017.

*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.

21. OTHER OPERATING INCOME AND EXPENSES

Other operating income and expenses for the years ended 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other operating income:			
Gain on sale of foreign bills of exchange	¥—	¥1	\$—
Gain on trading account securities transactions	0	1	0
Gain on sale of bonds	242	546	2,278
Gain on financial instruments	25	—	236
Other	4,135	3,194	38,921
	<u>¥4,402</u>	<u>¥3,742</u>	<u>\$41,435</u>
	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other operating expenses:			
Loss on sale of foreign bills of exchange	¥152	¥—	\$1,431
Loss on sales of bonds	4	18	38
Loss on redemption of bonds	1,726	1,538	16,246
Loss on financial instruments	—	—	—
Other	3,640	2,737	34,262
	<u>¥5,522</u>	<u>¥4,293</u>	<u>\$51,977</u>

22. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the years ended 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Salaries and allowances	¥11,762	¥11,739	\$ 110,712
Fringe benefits and welfare	3,069	3,050	28,887
Retirement benefit expenses	918	805	8,641
Depreciation for premises and equipment	2,033	2,193	19,136
Rental expenses	817	814	7,690
Taxes other than income taxes	1,571	1,487	14,787
Deposit insurance premium	1,068	1,212	10,053
Business outsourcing expenses	2,691	2,645	25,329
Other expenses	4,179	4,095	39,336
	<u>¥28,108</u>	<u>¥28,040</u>	<u>\$ 264,571</u>

23. OTHER INCOME AND EXPENSES

Other income and expenses for the years ended 31 March 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Other income:			
Gain on sale of stocks and other securities	¥2,318	¥1,192	\$21,819
Gain on disposal of premises and equipment	48	60	452
Gain on revision of defined benefit plans	—	864	—
Gain on bargain purchase	—	4,340	—
Other	931	664	8,763
	<u>¥3,297</u>	<u>¥7,120</u>	<u>\$31,034</u>
Other expenses:			
Provision of allowance for doubtful accounts	¥ 598	¥453	\$5,629
Loss on disposal of premises and equipment	85	205	800
Loss on devaluation of stocks and other securities	0	—	0
Impairment losses	181	65	1,703
Loss on transfer of receivables	31	213	292
Loss on step acquisitions	—	251	—
Other	259	508	2,438
	<u>¥1,154</u>	<u>¥1,695</u>	<u>\$10,862</u>

24. LEASE TRANSACTIONS

A. Finance leases

(a) As lessee

(1) Finance leases that transfer the ownership

(i) Details of leased assets

Premises and equipment:

Not applicable

Intangible assets:

Mainly consists 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 consists of equipment for the branch operating system

Intangible assets:

Mainly consists 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 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of	Average interest
	2018	2017	U.S. dollars	rate (%)
			2018	2018
Current portion of lease obligations	¥915	¥849	\$8,612	2.43%
Lease obligations (excluding current portion)	1,143	1,621	10,759	2.96%
	<u>¥2,058</u>	<u>¥2,470</u>	<u>\$19,371</u>	

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

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

Year ending 31 March	Millions of	Thousands of
	yen	U.S. dollars
	2018	2018
2019	¥915	\$8,612
2020	618	5,817
2021	258	2,428
2022	153	1,440
2023 and thereafter	114	1,074

Year ending 31 March	Millions of yen
	<u>2017</u>
2018	¥849
2019	810
2020	522
2021	170
2022 and thereafter	119

B. Operating leases

(a) As lessee

There were no future lease payments under non-cancelable operating leases at 31 March 2018 and 2017.

(b) As lessor

Future lease receivables under non-cancelable operating leases at 31 March 2018 were ¥340 million (\$3,200 thousand) including ¥42 million (\$395 thousand) due within one year.

Future lease receivables under non-cancelable operating leases at 31 March 2017 were ¥301 million including ¥41 million due within one year.

25. COMPREHENSIVE INCOME

Reclassification adjustments and tax effect amounts of other comprehensive income (losses) for the years ended 31 March 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S.
	2018	2017	dollars 2018
Net unrealized holding gains (losses) on available-for-sale securities:			
Amount for the year	¥1,656	¥ (6,631)	\$15,587
Reclassification adjustment	(1,207)	(1,758)	(11,361)
Amount before tax effect	449	(8,389)	4,226
Tax effect amount	(170)	2,620	(1,600)
Net unrealized holding gains (losses) on available-for-sale securities	279	(5,769)	2,626
Net unrealized gains (losses) on hedging derivatives:			
Amount for the year	(562)	431	(5,290)
Reclassification adjustment	557	601	5,243
Amount before tax effect	(5)	1,032	(47)
Tax effect amount	2	(313)	19
Net unrealized gains (losses) on hedging derivatives	(3)	719	(28)
Remeasurements of defined benefit plans:			
Amount for the year	(122)	(887)	(1,148)
Reclassification adjustment	645	961	6,071
Amount before tax effect	523	74	4,923
Tax effect amount	(160)	(24)	(1,506)
Remeasurements of defined benefit plans	363	50	3,417
Share of other comprehensive losses of affiliates accounted for by the equity method:			
Amount for the year	—	—	—
Reclassification adjustment	—	(12)	—
Amount before tax effect	—	(12)	—
Tax effect amount	—	—	—
Share of other comprehensive losses of affiliates accounted for by the equity method	—	(12)	—
Total other comprehensive income (losses)	¥ 639	¥ (5,012)	\$6,015

26. PER SHARE DATA

Amounts per share at March 31 2018 and 2017 and for the years then ended were as follows:

	Yen		U.S. dollars
	2018	2017	2018
Net assets per share	¥11,346.27	¥11,075.22	\$106.80
Net income per share	308.70	567.99	2.91
Diluted net income per share	276.91	509.82	2.61

Amounts per share were calculated based on the following:

	Millions of yen or thousands of shares		Thousands of U.S. dollars
	2018	2017	2018
Net assets per share:			
Total net assets	¥203,378	¥198,288	\$1,914,326
Amount to be deducted from total net assets	203	316	1,911
Stock acquisition rights	203	157	1,911
Non-controlling interests	—	159	—
Net assets at the end of fiscal year attributed to common stock	203,175	197,972	1,912,415
Number of shares of common stock at the end of fiscal year used in computing net assets per share attributed to common stock	17,907	17,875	
Net income per share:			
Net income attributable to owners of parent	5,523	10,152	51,986
Net income attributable to owners of parent attributed to common stock	5,523	10,152	51,986
Average number of shares of common stock during the year	17,893	17,874	
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share	2,054	2,040	
Convertible bond-type bonds with stock acquisition rights	2,011	2,006	
Compensation-type stock option	43	34	

27. BUSINESS COMBINATION

Transactions under common control

Iwagin Lease Data Co., Ltd. (“Iwagin Lease Data”), which is a consolidated subsidiary of the Bank, acquired its shares on 29 September 2017.

(1) Overview of the business combination

a. Name and business description of the company subject to the business combination

Name of the company subject to the business combination	Business description
Iwagin Lease Data Co., Ltd.	Leasing and computerized accounting services

b. Date of the business combination

29 September 2017

c. Legal form of the business combination

Acquisition by a consolidated subsidiary of its shares

d. Name of the company subsequent to the business combination

There was no change to the name of the company.

e. Other matters

Iwagin Lease Data acquired its shares held by non-controlling interests for the purpose of strengthening the Group’s management. As a result, the Bank’s ratio of voting rights in Iwagin Lease Data became 100%.

(2) Overview of accounting treatment

Based on “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, 13 September 2013) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, 13 September 2013), the acquisition by the consolidated subsidiary of its shares was accounted for as a transaction with non-controlling interests among the transactions under common control.

(3) Matters regarding the acquisition by the consolidated subsidiary of its shares

Acquisition cost and the breakdown of respective considerations

Considerations	Cash and due from banks	Millions of yen	Thousands of U.S. dollars
Acquisition cost		¥2	\$19

(4) Matters regarding the change in equity of the Bank arising from transactions with non-controlling interests

a. Factor behind the change in capital surplus

The acquisition cost of the consolidated subsidiary’s shares acquired from non-controlling interests was lower than the amount of the decrease in non-controlling interests due to the acquisition.

b. The amount of capital surplus increased from the transaction with non-controlling interests

¥158 million (\$1,487 thousand)

28. SEGMENT INFORMATION

(1) Reportable segment information

Although the Group conducts businesses other than the commercial banking business, such as the leasing business, reportable segment information was omitted for the years ended 31 March 2018 and 2017, since the Group's performance in other businesses were immaterial and the commercial banking business was the only reportable segment of the Group.

(2) Other segment-related information

a. Information by services

Information by services for the years ended 31 March 2018 and 2017 was as follows:

		2018			
		Millions of yen			
		Banking	Investment in securities	Other	Total
Ordinary income from external customers		¥17,816	¥15,964	¥13,389	¥47,169

		2017			
		Millions of yen			
		Banking	Investment in securities	Other	Total
Ordinary income from external customers		¥18,310	¥15,239	¥12,318	¥45,867

		2018			
		Thousands of U.S. dollars			
		Banking	Investment in securities	Other	Total
Ordinary income from external customers		\$167,696	\$150,263	\$126,026	\$443,985

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 2018 and 2017 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 2018 and 2017 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 2018 and 2017, 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

Although the Group conducts businesses other than the commercial banking business, such as the leasing business, information on impairment of fixed assets for each reportable segment was omitted for the years ended 31 March 2018 and 2017, since the Group's performance in other businesses were immaterial and the commercial banking business was the only reportable segment of the Group.

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 2018 and 2017.

f. Information on gain on negative goodwill for each reportable segment

There is no information to be reported on gain on negative goodwill for the year ended 31 March 2018.

Although the Group conducts businesses other than the commercial banking business, such as the leasing business, information on gain on negative goodwill for each reportable segment was omitted for the year ended 31 March 2017, since the Group's performance in other businesses were immaterial and the commercial banking business was the only reportable segment of the Group.

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 2018

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2018
Executive officer and close family members	Mizuhiko Yoshida	Corporate Auditor of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥23 million (\$216 thousand)

For the year ended 31 March 2017

Category	Corporate/ Individual name	Business	Voting rights (%)	Relation to the related party	Type of transaction	Amount of transaction	Account	Balance at 31 March 2017
Executive officer and close family members	Mizuhiko Yoshida	Corporate Auditor of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥25 million
	Satoshi Kikuchi	Close family member of a Director of the Bank	—	Creditor	Term loan	—	Loans and bills discounted	¥11 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 2018 and 2017.

(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 2018 and 2017.

30. SUBSEQUENT EVENTS

(1) Concern in collectability or delay in collection of claims

Taiyo Sangyo Co., Ltd., one of the Bank's customers, has filed a petition to commence civil rehabilitation proceedings to the Tokyo District Court on 9 July 2018. Consequently, there is a concern that the claims against Taiyo Sangyo Co., Ltd. may become uncollectable or the collection of such receivable will be delayed.

a. Overview of the respective customer

Name of the company	Taiyo Sangyo Co., Ltd.
Head office	5-1, Nonoda, Ofunatocho, Ofunato, Iwate
Representative name	Akira Matsuoka
Common stock	¥100 million (\$941 thousand)
Business description	Manufacturing and sales of fresh fish, frozen fish and processed food

b. The nature and the amount of the claims against the respective customer (as at 9 July 2018)

Loans	¥2,801 million (\$26,365 thousand)
Customers' liabilities for acceptances and guarantees	¥35 million (\$329 thousand)
Lease receivables	¥60 million (\$565 thousand)
Total	¥2,896 million (\$27,259 thousand)

c. The effect of this subsequent event to the Bank's operating results

Among the claims listed above, specific reserves have been provided for the portion which is not covered by collateral or provision, amounting to approximately ¥1,881 million (\$17,705 thousand) during the first quarter ending 30 June 2018.

(2) Cash dividends

On 22 June 2018, the shareholders of the Bank authorized the following appropriations of retained earnings at 31 March 2018:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥35 (\$0.33) per share for year-end)	¥627	\$5,902



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 subsidiaries, which comprise the consolidated balance sheets as at 31 March, 2018 and 2017, 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 misstatement, 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 subsidiaries as at 31 March, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 30 to the consolidated financial statements. Taiyo Sangyo Co., Ltd., one of the Bank's customers, has filed a petition to commence civil rehabilitation proceedings to the Tokyo District Court on 9 July 2018. Our opinion is not modified in respect of this matter.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March, 2018 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, 2018
Tokyo, Japan

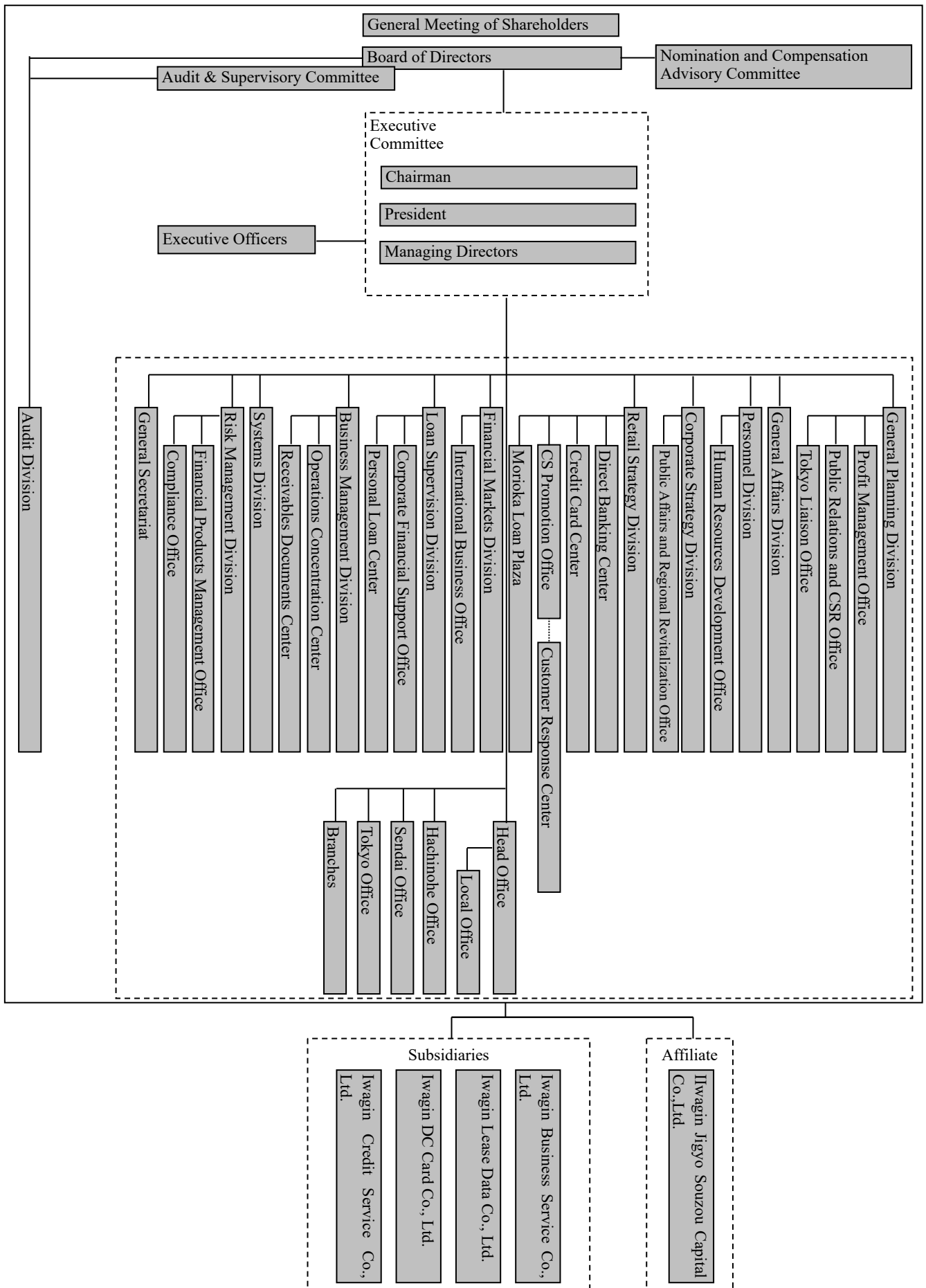
KPMG AZSA LLC

Corporate Profile

• Board of Directors (As of July 1, 2018)

<i>Chairman</i> Masahiro Takahashi	<i>Directors</i> Hiroschi Miura (Outside Director)	<i>Directors serving as Audit & Supervisory Committee Members</i> Yuji Chiba (Standing)	<i>Executive Officers</i> Katsuhiko Kawamura
<i>President</i> Sachio Taguchi	Atsushi Takahashi (Outside Director)	Shinobu Obara (Outside Director)	Kensei Ishikawa
<i>Managing Directors</i> Shigeki Miura Mikio Kikuchi Hiroaki Takahashi Motomu Sato Yasushi Sasaki	Fumio Ube (Outside Director)	Mizuhiko Yoshida (Outside Director) Etsuko Sugawara (Outside Director)	Yasutaka Kakiki Yasuhiro Sasaki Shinji Niisato Toru Iwayama

• Organization (As of July 1, 2018)



• 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	100%	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 Jigyo Souzou 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 86th 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.

